

Edgar Filing: CLARCOR INC - Form 10-Q

CLARCOR INC
Form 10-Q
June 20, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q
QUARTERLY REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the quarter ended May 31, 2008

REGISTRANT: CLARCOR Inc. (Delaware)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended May 31, 2008

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 1-11024
CLARCOR Inc.

(Exact name of registrant as specified in its charter)

DELAWARE

36-0922490

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

840 Crescent Centre Drive, Suite 600, Franklin, Tennessee 37067

(Address of principal executive offices)

Registrant's telephone number, including area code 615-771-3100

No Change

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of May 31, 2008, 50,748,193 common shares with a par value of \$1 per share were outstanding.

Part I Item 1

CLARCOR Inc.
 CONSOLIDATED CONDENSED BALANCE SHEETS
 (Dollars in thousands)

	May 31, 2008 (unaudited)	December 1, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 47,159	\$ 36,059
Restricted cash	514	1,055
Short-term investments	13,864	4,884
Accounts receivable, less allowance for losses of \$12,572 for 2008 and \$11,143 for 2007	194,008	166,912
Inventories:		
Raw materials	58,670	49,722
Work in process	32,655	18,973
Finished products	71,203	67,151
Total inventories	162,528	135,846
Prepaid expenses and other current assets	10,352	6,968
Deferred income taxes	20,294	20,196
Total current assets	448,719	371,920
Plant assets at cost, less accumulated depreciation	435,377 (240,869)	398,350 (229,138)
	194,508	169,212
Goodwill	223,380	124,718
Acquired intangibles, less accumulated amortization	97,554	53,209
Pension assets	8,799	8,341
Deferred income taxes	294	294
Other noncurrent assets	15,762	11,441
Total assets	\$ 989,016	\$ 739,135
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	\$ 131	\$ 94
Accounts payable	76,613	53,523
Accrued salaries, wages and commissions	10,459	11,945
Compensated absences	7,510	7,484
Accrued insurance liabilities	13,747	11,412
Other accrued liabilities	33,937	25,255

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Income taxes	4,963	4,458
Total current liabilities	147,360	114,171
Long-term debt, less current portion	117,474	17,329
Postretirement health care benefits	826	947
Long-term pension liabilities	16,369	15,104
Deferred income taxes	40,570	25,485
Customer deposits	14,110	
Other long-term liabilities	8,518	5,792
Minority interests	3,824	4,577
Total liabilities	349,051	183,405
Contingencies		
	SHAREHOLDERS EQUITY	
Capital stock	50,748	49,219
Capital in excess of par value	46,160	
Accumulated other comprehensive earnings	9,764	5,912
Retained earnings	533,293	500,599
Total shareholders equity	639,965	555,730
Total liabilities and shareholders equity	\$ 989,016	\$ 739,135

See Notes to Consolidated Condensed Financial Statements

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CLARCOR Inc.
CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS
(Dollars in thousands except per share data)
(Unaudited)

	Quarter ended		Six Months Ended	
	May 31, 2008	June 2, 2007	May 31, 2008	June 2, 2007
Net sales	\$ 267,137	\$ 235,125	\$ 517,318	\$ 444,655
Cost of sales	181,526	164,356	355,152	312,906
 Gross profit	 85,611	 70,769	 162,166	 131,749
Selling and administrative expenses	48,153	39,269	96,969	76,668
 Operating profit	 37,458	 31,500	 65,197	 55,081
 Other income (expense):				
Interest expense	(72)	(259)	(3,638)	(495)
Interest income	432	295	701	969
Other, net	(177)	(69)	(389)	(246)
	183	(33)	(3,326)	228
 Earnings before income taxes and minority interests	 37,641	 31,467	 61,871	 55,309
Provision for income taxes	12,903	10,461	20,844	17,879
 Earnings before minority interests	 24,738	 21,006	 41,027	 37,430
Minority interests in earnings of subsidiaries	(104)	(77)	(244)	(128)
 Net earnings	 \$ 24,634	 \$ 20,929	 \$ 40,783	 \$ 37,302
 Net earnings per common share:				
Basic	\$ 0.49	\$ 0.41	\$ 0.80	\$ 0.73
Diluted	\$ 0.48	\$ 0.41	\$ 0.80	\$ 0.73

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Average number of common shares
outstanding:

Basic	50,752,765	50,459,481	50,682,871	50,801,230
Diluted	51,272,388	50,950,931	51,125,712	51,355,724
Dividends paid per share	\$ 0.0800	\$ 0.0725	\$ 0.1600	\$ 0.1450

See Notes to Consolidated Condensed Financial Statements

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CLARCOR Inc.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Six Months Ended	
	May 31, 2008	June 2, 2007
Cash flows from operating activities:		
Net earnings	\$ 40,783	\$ 37,302
Depreciation	13,259	10,965
Amortization	2,779	1,380
Loss on interest rate agreement	1,337	
Stock-based compensation expense	3,713	2,053
Excess tax benefit from stock-based compensation	(2,289)	(2,047)
Changes in short-term investments	(8,980)	32,195
Changes in assets and liabilities, excluding short-term investments	(3,776)	(1,215)
Other, net	297	743
Net cash provided by operating activities	47,123	81,376
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(75,073)	(12,254)
Additions to plant assets	(17,412)	(18,557)
Investment in affiliate	(2,000)	
Other, net	56	163
Net cash used in investing activities	(94,429)	(30,648)
Cash flows from financing activities:		
Net proceeds under line of credit	100,000	
Payment of long-term debt	(7,327)	(4,779)
Sale of capital stock under stock option and employee purchase plans	7,825	3,282
Purchase of treasury stock	(37,260)	(49,334)
Excess tax benefits from stock-based compensation	2,289	2,047
Cash dividends paid	(8,183)	(7,389)
Net cash provided by / (used in) financing activities	57,344	(56,173)
Net effect of exchange rate changes on cash	1,062	470

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Net change in cash and cash equivalents	11,100	(4,975)
Cash and cash equivalents, beginning of period	36,059	29,051
Cash and cash equivalents, end of period	\$ 47,159	\$ 24,076
Cash paid during the period for:		
Interest	\$ 1,642	\$ 383
Income taxes	\$ 17,821	\$ 15,716

See Notes to Consolidated Condensed Financial Statements

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CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited)

1. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated condensed balance sheet as of May 31, 2008, the consolidated condensed statements of earnings and the consolidated condensed statements of cash flows for the periods ended May 31, 2008, and June 2, 2007, have been prepared by the Company without audit. The financial statements have been prepared on the same basis as those in the Company's Annual Report on Form 10-K for the fiscal year ended December 1, 2007 (2007 Form 10-K). The December 1, 2007 consolidated balance sheet data was derived from the Company's year-end audited financial statements as presented in the 2007 Form 10-K but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows have been made. The results of operations for the period ended May 31, 2008, are not necessarily indicative of the operating results for the full year.

2. BUSINESS ACQUISITIONS

Effective May 1, 2008, the Company acquired a 30% preferred equity share in BioProcess Technologies, Inc. (BPT), a Rhode Island based manufacturer of industrial waste water and water reuse filtration systems, for approximately \$4,000; \$2,000 in cash with the remaining \$2,000 to be paid by December 31, 2009. Under the terms of the agreement with BPT, the Company will have the right, but not the obligation, to acquire additional ownership shares and eventually complete ownership of the company over several years at a price based on, among other factors, BPT's operating income. The investment is being accounted for under the equity method.

On December 3, 2007, the Company acquired Perry Equipment Corporation (Peco), a privately-owned manufacturer of engineered filtration products and technologies used in a wide array of industries, including oil and natural gas, refining, power generation, petrochemical, food and beverage, electronics, polymers and pulp and paper. Peco is based in Mineral Wells, Texas with operations in Mexico, Canada, the United Kingdom, Italy, Romania, Malaysia and China. Peco was merged with the Company's Facet operations with the combined headquarters based in Mineral Wells. Peco was acquired to expand the Company's product offerings, technology, filtration solutions and customer base in the growing oil and natural gas industries. Its results are included as part of the Company's Industrial/Environmental Filtration segment since the date of acquisition. The purchase price was approximately \$146,216 excluding cash acquired and including acquisition costs. The Company issued 2,137,797 shares of CLARCOR common stock with a value of approximately \$71,954 and paid the remaining purchase price with cash on hand and approximately \$80,000 of cash borrowed under the Company's revolving credit agreement.

A preliminary allocation of the initial purchase price for the acquisition has been made to major categories of assets and liabilities based on available information and is currently subject to change. The \$97,890 excess of the initial purchase price over the preliminary estimated fair value of the net tangible and identifiable intangible assets acquired was recorded as goodwill. Other acquired intangibles will be amortized over a straight-line basis according to their useful lives. The estimated amounts recognized and their respective lives are shown in the following table.

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited) Continued

2. BUSINESS ACQUISITIONS (Continued)

Identifiable Intangible Asset	Value	Estimated Useful Life
Trade names	\$ 11,800	Indefinite
Non-compete agreements	800	2 years
Customer relationships	14,200	15 years
Developed technology	20,300	16 years
Total fair value	\$ 47,100	

The Company expects to finalize the purchase price allocation during fiscal 2008. The allocation will be completed when the Company finishes its appraisal of the assets acquired (which includes completing an assessment of the liabilities assumed) and finalizes the estimates associated with deferred taxes and other costs related to the acquisition. The actual allocation of the final purchase price and the resulting effect on income from operations will likely differ from the unaudited pro forma amounts included herein.

Following is a condensed balance sheet based on the current assessment of fair values of the assets acquired and liabilities assumed.

Cash	\$ 11,448
Accounts receivable, less allowance for losses	18,556
Inventory, net	15,220
Prepaid expenses and current assets	2,949
Current deferred tax assets	875
Plant assets	20,011
Goodwill	97,890
Trademarks and trade names	11,800
Other acquired intangibles	35,300
Other noncurrent assets	1,013
Total assets acquired	215,062
Current notes payable	(7,411)
Accounts payable and accrued liabilities	(31,476)
Long-term deferred tax liabilities	(17,031)
Long-term liabilities	(1,480)
Net assets acquired	157,664
Less cash acquired	(11,448)
Assets acquired, net of cash	\$ 146,216

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For its fiscal year ended May 31, 2007, Peco had sales of approximately \$102,000 and operating profit of approximately \$12,500.

The following unaudited pro forma information summarizes the results of operations and the condensed consolidated balance sheet for the period indicated as if the Peco acquisition had been completed as of the beginning of fiscal 2007. The pro forma information gives effect to actual operating results prior to the acquisition, adjusted to include the estimated pro forma effect of interest expense, depreciation, amortization of intangibles, income taxes and the additional Company shares issued. These pro forma amounts are based on a preliminary

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CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited) Continued

2. BUSINESS ACQUISITIONS (Continued)

allocation of the purchase price to estimates of the fair values of the assets acquired and liabilities assumed. The pro forma amounts include the Company's preliminary determination of purchase accounting adjustments based upon available information and certain assumptions that the Company believes are reasonable. The unaudited pro forma results do not include the impact of any revenues, costs or other operating synergies and non-recurring charges expected to result from the acquisition. In addition, management has performed an initial review of the respective accounting policies and has determined that conforming Peco's policies to the Company's policies, where applicable, creates no significant differences that impact the unaudited pro forma amounts shown below. The pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisition had occurred as of the beginning of the period presented or that may be obtained in the future.

	Quarter Ended June 2, 2007	Six Months Ended June 2, 2007
Net sales	\$ 267,565	\$ 577,263
Operating profit	36,649	72,155
Net earnings	24,116	44,606
Diluted earnings per share	\$ 0.45	\$ 0.84
As of November 30, 2007		
Current assets	\$ 413,704	
Plant assets	189,813	
Goodwill	222,608	
Other acquired intangibles	100,309	
Other noncurrent assets	21,533	
Total assets	\$ 947,967	
Current liabilities	\$ 146,089	
Long-term debt	97,373	
Other long-term liabilities	70,335	
Shareholders' equity	634,170	
Total liabilities and shareholders' equity	\$ 947,967	

Also in December 2007, the Company purchased a distributor of engineered filtration products in Canada for approximately \$1,402 including acquisition costs. Of the purchase price, \$811 was paid at closing and the remaining \$591 will be paid over the next four years. A preliminary allocation of the purchase price for the acquisition has been made to major categories of assets and liabilities. The \$698 excess of the purchase price over the preliminary estimated fair value of the net tangible and identifiable intangible assets acquired was recorded as goodwill. The business is included in the Industrial/Environmental Filtration segment from the date of acquisition and is not material to the results of the Company.

On March 5, 2007, the Company acquired an 80% ownership share in Sinfa SA, a manufacturer of automotive and heavy-duty engine filters based in Casablanca, Morocco, for approximately \$5,556 in cash including acquisition expenses, net of cash received, plus debt of approximately \$6 million which the Company paid after the acquisition date. The business is included in the Engine/Mobile Filtration segment from the date of acquisition. The acquisition is not material to the results of the Company.

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited) Continued

2. BUSINESS ACQUISITIONS (Continued)

As part of the purchase agreement, the Company and the minority owners each have an option to require the purchase of the remaining 20% ownership share by the Company after December 31, 2012. As of May 31, 2008, the purchase price for such 20% ownership share is estimated to be \$1 million based on the formula in the purchase agreement. Any change in the estimated purchase price for the remaining ownership share will be recorded through net earnings. During February 2007, the Company acquired a synthetic fibers filtration business from Newton Tool & Mfg. Company, Inc., a privately-owned engineering and machining company based in Swedesboro, New Jersey, for \$6,603 in cash, including acquisition expenses. The synthetic fibers filtration business, including all of the related production equipment, was moved into the Company's operations in Houston, Texas, and Shelby, North Carolina. The business is included in the Industrial/Environmental Filtration segment from the date of acquisition.

An allocation of the purchase price for the acquisition was made to major categories of assets and liabilities. The \$715 excess of the purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired was recorded as goodwill. Other acquired intangibles included non-compete agreements valued at \$100 and customer relationships valued at \$2,100, which are being amortized on a straight-line basis over three years and thirteen years, respectively. The acquisition is not material to the results of the Company.

3. STOCK-BASED COMPENSATION

The Company applies the provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment, which establishes the accounting for stock-based awards. Under this method, stock-based employee compensation cost is recognized using the fair-value based method for all awards granted on or after the date of adoption. The Company issues stock option awards and restricted share unit awards to employees and issues stock option awards and restricted stock to non-employee directors under its stock-based incentive plans. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. Compensation cost related to restricted share units is recorded based on the market price of the Company's common stock on the grant date. The key provisions of the Company's stock-based incentive plans are described in Note O of the Company's consolidated financial statements included in the 2007 Form 10-K.

The Company recorded pretax compensation expense related to stock options of \$1,293 and \$2,775 and related tax benefits of \$445 and \$955 for the quarter and six months ended May 31, 2008, respectively. For the quarter and six months ended June 2, 2007, the Company recorded pretax compensation expense related to stock options of \$872 and \$1,510 and related tax benefits of \$290 and \$502, respectively. The Company also recorded \$412 and \$938 in pretax compensation expense related to its restricted share units for the quarter and six months ended May 31, 2008, respectively, and \$271 and \$543 for the quarter and six months ended June 2, 2007, respectively. The tax benefits associated with tax deductions that exceed the amount of compensation expense recognized in the financial statements related to stock-based compensation were \$1,323 and \$2,289 for the quarter and six months ended May 31, 2008, respectively, and \$224 and \$2,047 for the quarter and six months ended June 2, 2007, respectively.

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited) Continued

3. STOCK-BASED COMPENSATION (Continued)Stock Options

The following table summarizes the activity for the six months ended May 31, 2008, with respect to non-qualified stock options granted under the Company's incentive plans.

	Shares Granted under Incentive Plans	Weighted Average Exercise Price
Outstanding at beginning of year	3,191,598	\$ 23.79
Granted	477,900	36.38
Exercised	(431,325)	21.72
Surrendered	(16,224)	33.65
Outstanding at May 31, 2008	3,221,949	\$ 25.88
Options exercisable at May 31, 2008	2,513,683	\$ 23.21

The total intrinsic value of options exercised during the six months ended May 31, 2008, and June 2, 2007, was \$7,001 and \$5,880, respectively. The weighted average fair value per option at the date of grant for options granted during the six months ended May 31, 2008 and June 2, 2007, was \$9.37 and \$9.32, respectively.

The following table summarizes information about the Company's outstanding and exercisable options at May 31, 2008.

Range of Exercise Prices	Number	Options Outstanding			Options Exercisable		
		Weighted Average Exercise Price	Weighted Average Remaining Life in Years	Number	Weighted Average Exercise Price	Weighted Average Remaining Life in Years	
\$8.97 - \$9.75	204,874	\$ 9.14	1.68	204,874	\$ 9.14	1.68	
\$11.50 - \$13.75	171,800	13.16	3.34	171,800	13.16	3.34	
\$16.01 - \$22.80	917,898	20.53	4.37	917,898	20.53	4.37	
\$25.89 - \$38.23	1,927,377	31.34	7.34	1,219,111	29.01	6.33	
	3,221,949	\$25.88	5.92	2,513,683	\$23.21	5.03	

At May 31, 2008, the aggregate intrinsic value of options outstanding and exercisable was \$56,510 and \$50,799, respectively.

Restricted Share Unit Awards

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During the six months ended May 31, 2008 and June 2, 2007, the Company granted 25,989 and 26,200 restricted units of Company common stock with a fair value of \$36.48 and \$33.75, respectively, per unit. Compensation expense related to restricted stock unit awards totaled \$412 and \$938 for the quarter and six months ended May 31, 2008, respectively, and \$271 and \$543 for the quarter and six months ended June 2, 2007, respectively.

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CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited) Continued

4. EARNINGS PER SHARE AND TREASURY STOCK TRANSACTIONS

Diluted earnings per share reflect the impact of outstanding stock options and restricted share units as if exercised during the periods presented using the treasury stock method. The following table provides a reconciliation of the numerators and denominators utilized in the calculation of basic and diluted earnings per share.

	Quarter Ended		Six Months Ended	
	May 31, 2008	June 2, 2007	May 31, 2008	June 2, 2007
Weighted average number of common shares outstanding	50,752,765	50,459,481	50,682,871	50,801,230
Dilutive effect of stock-based arrangements	519,623	491,450	442,841	554,494
Weighted average number of diluted common shares outstanding	51,272,388	50,950,931	51,125,712	51,355,724
Net earnings	\$ 24,634	\$ 20,929	\$ 40,783	\$ 37,302
Basic earnings per share amount	\$ 0.49	\$ 0.41	\$ 0.80	\$ 0.73
Diluted earnings per share amount	\$ 0.48	\$ 0.41	\$ 0.80	\$ 0.73

Options with exercise prices greater than the average market price of the common shares during the respective quarter and six-month periods were not included in the computation of diluted earnings per share. No options were excluded for the quarter ended May 31, 2008. For the six months ended May 31, 2008, 5,325 options with a weighted average exercise price of \$38.23 were excluded from the computation. For the quarter and six months ended June 2, 2007, 451,700 options with a weighted average exercise price of \$33.98 were excluded from the computation.

For the six months ended May 31, 2008, exercises of stock options added \$8,911 to capital in excess of par value. During the quarter ended May 31, 2008, the Company did not repurchase any shares of its common stock under its \$250 million stock repurchase program. For the six months ended May 31, 2008, the Company repurchased and retired 1,000,000 shares of common stock for \$37,260. As of May 31, 2008, \$187,210 remains available for purchase under this program. During the quarter and six months ended June 2, 2007, the Company repurchased and retired 1,550,000 shares of common stock for \$49,334.

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited) Continued

5. COMPREHENSIVE EARNINGS

The Company's total comprehensive earnings and its components are as follows:

	Quarter Ended		Six Months Ended	
	May 31, 2008	June 2, 2007	May 31, 2008	June 2, 2007
Net earnings	\$ 24,634	\$ 20,929	\$ 40,783	\$ 37,302
Other comprehensive earnings, net of tax:				
Foreign currency translation adjustments	2,412	557	3,852	832
Total comprehensive earnings	\$ 27,046	\$ 21,486	\$ 44,635	\$ 38,134

The components of the ending balances of accumulated other comprehensive earnings are as follows:

	May 31, 2008	December 1, 2007
Pension liability, net of \$3,656 tax	\$ (6,994)	\$ (6,994)
Translation adjustments, net of \$155 tax	16,758	12,906
Accumulated other comprehensive loss	\$ 9,764	\$ 5,912

6. FAIR VALUE MEASUREMENT

Effective, December 2, 2007, the Company adopted the required provisions of SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP) and expands disclosures about fair value measurements. These provisions relate to the Company's financial assets and liabilities.

On February 12, 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. 157-2, which deferred the effective date for certain portions of SFAS No. 157 related to nonrecurring measurements of nonfinancial assets and liabilities. That provision of SFAS No. 157 will be effective for the Company's fiscal year 2009.

The Company measures certain assets and liabilities at fair value as discussed throughout the footnotes to its quarterly and annual financial statements. Assets or liabilities that have recurring measurements are shown below:

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited) Continued

6. FAIR VALUE MEASUREMENT (Continued)

Description	May 31, 2008	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments	\$ 13,864	\$ 13,864	\$	\$
Restricted trust (part of noncurrent assets)	1,883	1,883		
Interest rate agreement (part of long-term liabilities)	(1,337)		(1,337)	
Net	\$ 14,410	\$ 15,747	\$ (1,337)	\$

The Company's short-term investments consist of money market funds which are actively traded. The restricted trust, which is used to fund certain payments under its non-qualified U.S. pension plan, consists of actively traded equity and bond funds. The interest rate agreement's fair value was determined based on the present value of expected future cash flows using discount rates appropriate with the risks involved.

7. LONG-TERM DEBT AND INTEREST RATE AGREEMENT

On December 18, 2007, the Company entered into a five-year multicurrency revolving credit agreement with a group of financial institutions under which it may borrow up to \$250,000 under a selection of currencies and rate formulas. The interest rate is based upon either a defined Base Rate or the London Interbank Offered Rate (LIBOR) plus or minus applicable margins. Commitment fees, letter of credit fees and other fees are payable as provided in the credit agreement. At May 31, 2008, long-term debt included \$100,000 outstanding on the line of credit.

On January 2, 2008, the Company entered into a fixed rate interest swap agreement to manage its interest rate exposure on certain amounts outstanding under the \$250,000 revolving credit agreement. The interest rate agreement provides for the Company to pay a 3.93% fixed interest rate plus applicable margin on a notional amount of \$100,000 and expires January 1, 2010. Under the agreement the Company will receive interest at floating rates based on LIBOR. Unrealized gains and losses and periodic settlement payments are recorded in interest expense in the statement of earnings and as a component of cash flows from operations in the statement of cash flows. For the quarter and six months ended May 31, 2008, a \$1,116 gain and \$1,337 loss were recorded, respectively, related to the interest rate agreement.

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited) Continued

8. ACQUIRED INTANGIBLES

The following table reconciles the activity for goodwill by reporting unit for the six months ended May 31, 2008.

	Engine/ Mobile Filtration	Industrial/ Environmental Filtration	Packaging	Total
Balance at December 1, 2007	\$ 24,185	\$ 100,533	\$	\$ 124,718
Acquisitions	14	98,588		98,602
Currency translation adjustments	(2)	62		60
Balance at May 31, 2008	\$ 24,197	\$ 199,183	\$	\$ 223,380

The following table summarizes acquired intangibles by reporting unit. Other acquired intangibles includes parts manufacturer regulatory approvals, proprietary technology, patents and noncompete agreements.

	Engine/ Mobile Filtration	Industrial/ Environmental Filtration	Packaging	Total
Balance at May 31, 2008:				
Trademarks, gross	\$ 954	\$ 40,957	\$	\$ 41,911
Less accumulated amortization	21	255		276
Trademarks, net	\$ 933	\$ 40,702	\$	\$ 41,635
Customer relationships, gross	\$ 2,175	\$ 32,977	\$	\$ 35,152
Less accumulated amortization	1,027	4,738		5,765
Customer relationships, net	\$ 1,148	\$ 28,239	\$	\$ 29,387
Other acquired intangibles, gross	\$ 243	\$ 33,883	\$	\$ 34,126
Less accumulated amortization	233	7,361		7,594
Other acquired intangibles, net	\$ 10	\$ 26,522	\$	\$ 26,532

Amortization expense is estimated to be \$4,874 in 2008, \$4,892 in 2009, \$4,347 in 2010, \$4,182 in 2011 and \$4,166 in 2012.

9. GUARANTEES AND WARRANTIES

The Company has provided letters of credit totaling approximately \$24,462 to various government agencies, primarily related to industrial revenue bonds, and to insurance companies and other entities in support of its obligations. The Company believes that no payments will be required resulting from these accommodation obligations.

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited) Continued

9. GUARANTEES AND WARRANTIES (Continued)

In the ordinary course of business, the Company also provides routine indemnifications and other guarantees whose terms range in duration and are often not explicitly defined. The Company does not believe these will have a material impact on the results of operations or financial condition of the Company.

Warranties are recorded as a liability on the balance sheet and as charges to current expense for estimated normal warranty costs and, if applicable, for specific performance issues known to exist on products already sold. The expenses estimated to be incurred are provided at the time of sale and adjusted as needed, based primarily upon experience.

Changes in the Company's warranty accrual during the six months ended May 31, 2008, are as follows:

Balance at December 1, 2007	\$ 1,485
Business acquisitions	1,617
Accruals for warranties issued during the period	379
Accruals related to pre-existing warranties	84
Settlements made during the period	(602)
Other adjustments, including currency translation	40
Balance at May 31, 2008, included in other accrued liabilities	\$ 3,003

10. RETIREMENT BENEFITS

The Company provides various retirement benefits, including defined benefit plans and postretirement health care plans covering certain current and retired employees in the U.S. and abroad. Components of net periodic benefit cost and company contributions for these plans were as follows:

	Quarter Ended		Six Months Ended	
	May 31, 2008	June 2, 2007	May 31, 2008	June 2, 2007
Pension Benefits:				
Components of net periodic benefit cost:				
Service cost	\$ 650	\$ 725	\$ 1,300	\$ 1,449
Interest cost	2,129	1,794	4,258	3,586
Expected return on plan assets	(2,604)	(2,145)	(5,207)	(4,288)
Amortization of unrecognized:				
Prior service cost	41	44	82	88
Net actuarial loss	42	301	84	603
Net periodic benefit cost	\$ 258	\$ 719	\$ 517	\$ 1,438
Cash contributions	\$ 319	\$ 120	\$ 645	\$ 228

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited) Continued

10. RETIREMENT BENEFITS (Continued)

	Quarter Ended		Six Months Ended	
	May 31, 2008	June 2, 2007	May 31, 2008	June 2, 2007
Postretirement Healthcare Benefits:				
Components of net periodic benefit cost:				
Service cost	\$	\$	\$	\$
Interest cost	15	18	30	36
Amortization of unrecognized:				
Prior service cost	(31)	(31)	(62)	(62)
Net actuarial gain	(33)	(32)	(66)	(64)
Net periodic benefit income	\$ (49)	\$ (45)	\$ (98)	\$ (90)
Cash contributions	\$ 53	\$ 70	\$ 106	\$ 140

The Company's policy is to contribute to its qualified U.S. and non-U.S. pension plans at least the minimum amount required by applicable laws and regulations, to contribute to its non-qualified plan when required for benefit payments and to contribute to its postretirement benefit plan an amount equal to the benefit payments. The minimum required contribution to one of the Company's qualified U.S. pension plans for fiscal 2008 is expected to be approximately \$1 million. The Company, from time to time, makes contributions in excess of the minimum amount required as economic conditions warrant. The Company has not determined whether it will make any voluntary contributions to its U.S. qualified plans in 2008; however, it does expect to fund \$277 to the U.S. non-qualified plan, \$769 to the non-U.S. plan and \$213 for the postretirement benefit plan to pay benefits during 2008.

In addition to the plan assets related to its qualified plans, the Company has funded approximately \$1,883 and \$1,044 at May 31, 2008 and November 30, 2007, respectively, in a restricted trust for its non-qualified plan. This trust is included in other noncurrent assets in the Consolidated Balance Sheets. The Company contributed \$1,000 to this trust in the second quarter of 2008.

11. INCOME TAXES

The Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN 48) at the beginning of fiscal 2008. As a result, the Company recognized a \$67 increase in the net liability for unrecognized tax benefits, which was recorded as a decrease to retained earnings.

The liability for the gross unrecognized tax benefits was \$1,932 at May 31, 2008 and \$1,650 at December 2, 2007 after the adjustment to the beginning balance of retained earnings upon adoption of FIN 48. The net increase in the liability since the date of adoption resulted primarily from changes in unrecognized tax benefits related to tax

positions that arose during the first six months of 2008.

At May 31, 2008, the amount of unrecognized tax benefit that would impact the effective tax rate if recognized, was \$1,488. The Company recognizes interest and penalties related to

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited) Continued

11. INCOME TAXES (Continued)

unrecognized tax benefits in income tax expense. As of May 31, 2008, the Company had \$413 accrued for the payment of interest and penalties. The Company expects its tax reserve to decrease by approximately \$700 over the next twelve months due to statute expirations and settlements with taxing authorities.

The Company is regularly audited by federal, state and foreign tax authorities. The IRS has completed its audits of the Company's U.S. income tax returns through fiscal 2005. With few exceptions, the Company is no longer subject to income tax examinations by state or foreign tax jurisdictions for years prior to fiscal 2002.

12. CONTINGENCIES

The Company is involved in legal actions arising in the normal course of business. Additionally, the Company is party to various proceedings relating to environmental issues. The U.S. Environmental Protection Agency (EPA) and/or other responsible state agencies have designated the Company as a potentially responsible party (PRP), along with other companies, in remedial activities for the cleanup of waste sites under the federal Superfund statute.

Although it is not certain what future environmental claims, if any, may be asserted, the Company currently believes that its potential liability for known environmental matters does not exceed its present accrual of \$50. However, environmental and related remediation costs are difficult to quantify for a number of reasons, including the number of parties involved, the difficulty in determining the extent of the contamination at issue, the difficulty in determining the nature and extent of contamination, the length of time remediation may require, the complexity of the environmental regulation and the continuing advancement of remediation technology. Applicable federal law may impose joint and several liability on each PRP for the cleanup.

It is the opinion of management, after consultation with legal counsel, that additional liabilities, if any, resulting from these legal or environmental issues, are not expected to have a material adverse effect on the Company's financial condition or consolidated results of operations.

In the event of a change in control of the Company, termination benefits are likely to be required for certain executive officers and other key employees.

13. RESTRUCTURING CHARGES

The Company began a restructuring program focused on the heating, ventilating and air conditioning (HVAC) filter manufacturing operations within its Industrial/Environmental Filtration segment in July 2006. As an ongoing part of this program, the Company discontinued production at an HVAC filter manufacturing plant in Davenport, Iowa during the second quarter 2008. The Company accrued \$145 for restructuring charges. Employee termination costs were \$73 which has largely been paid. Minimal additional charges related to contract termination costs and facilities consolidation costs will be recognized when the Company exits a lease related to that facility.

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited) Continued

14. INSURANCE CLAIMS

During the second quarter of 2008, four of the Company's facilities in three states were damaged in weather-related incidents resulting in \$750 of expense recorded in cost of sales. The Engine/Mobile Filtration segment incurred \$250 of cost. The other \$500 is part of the Industrial/Environmental Filtration segment. At this time, the Company has not determined the extent of loss of property, inventory or business interruption. However, the Company believes any losses exceeding the amount of the deductibles will be covered by insurance.

15. SEGMENT DATA

The Company operates in three principal product segments: Engine/Mobile Filtration, Industrial/Environmental Filtration and Packaging. The segment data for the quarter and six months ended May 31, 2008, and June 2, 2007, respectively, are shown below. Net sales represent sales to unaffiliated customers as reported in the consolidated condensed statements of earnings. Intersegment sales were not material.

	Quarter Ended		Six Months Ended	
	May 31, 2008	June 2, 2007	May 31, 2008	June 2, 2007
Net sales:				
Engine/Mobile Filtration	\$ 108,658	\$ 108,504	\$ 213,767	\$ 205,200
Industrial/Environmental Filtration	139,326	106,185	265,748	202,424
Packaging	19,153	20,436	37,803	37,031
	\$ 267,137	\$ 235,125	\$ 517,318	\$ 444,655
Operating profit:				
Engine/Mobile Filtration	\$ 24,450	\$ 24,445	\$ 46,792	\$ 44,722
Industrial/Environmental Filtration	11,444	5,498	15,729	8,372
Packaging	1,564	1,557	2,676	1,987
	37,458	31,500	65,197	55,081
Other income (expense)	183	(33)	(3,326)	228
Earnings before income taxes and minority earnings	\$ 37,641	\$ 31,467	\$ 61,871	\$ 55,309
Identifiable assets:				
Engine/Mobile Filtration			\$ 260,133	\$ 265,367
Industrial/Environmental Filtration			640,490	395,403
Packaging			42,138	44,269
Corporate			46,255	22,035
			\$ 989,016	\$ 727,074

CLARCOR Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

(Unaudited) Continued

16. RECENT ACCOUNTING PRONOUNCEMENTS

In March 2008, the FASB issued SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities. This standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance and cash flows. SFAS No. 161 will affect the Company's derivatives presentation in its consolidated financial statements in fiscal year 2009.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations and SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements. The standards will affect the Company's accounting for businesses acquired after December 1, 2009 and presentation of minority interests in its consolidated financial statements in fiscal year 2010.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 123(R). This statement's requirement to recognize the overfunded or underfunded status of defined benefit postretirement plans as an asset or liability in the statement of financial position and to recognize changes in the funded status in comprehensive income was effective for the Company's fiscal year 2007. SFAS No. 158 also requires measurement of the funded status of a plan as of the date of the statement of financial position. The provisions regarding the change in the measurement date are effective for the Company's fiscal year 2009.

Part I Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information presented in this discussion should be read in conjunction with other financial information provided in the Consolidated Condensed Financial Statements and Notes thereto. Except as otherwise set forth herein, references to particular years refer to the applicable fiscal year of the Company. The analysis of operating results focuses on the Company's three reportable business segments: Engine/Mobile Filtration, Industrial/Environmental Filtration and Packaging. The Engine/Mobile Filtration segment sells filtration products used on engines and in mobile equipment applications, including trucks, automobiles, buses, locomotives, and marine, construction, industrial, mining and agricultural equipment. The Company's Industrial/Environmental Filtration segment centers on the manufacture and marketing of filtration products used in industrial and commercial processes and in buildings and infrastructures of various types. The segment's products include liquid process filtration products, engineered filtration products and technologies and air filtration products and systems used to maintain high interior air quality and to control exterior pollution. The Packaging segment manufactures and markets consumer and industrial packaging products. The Company's products are manufactured and sold throughout the world.

EXECUTIVE SUMMARY

Management Discussion Snapshot
(Dollars in Thousands)

	Second Quarter Ended			Six Months Ended		
	May 31, 2008	June 2, 2007	% Change	May 31, 2008	June 2, 2007	% Change
Net Sales	\$267,137	\$235,125	13.6%	\$ 517,318	\$444,655	16.3%
Operating Profit	37,458	31,500	18.9%	65,197	55,081	18.4%
Operating Margin	14.0%	13.4%	0.6 pts.	12.6%	12.4%	0.2 pts.
Other Income/(Expense)	183	(33)	654.5%	(3,326)	228	1558.8%
Provision for Income Taxes	12,903	10,461	23.3%	20,844	17,879	16.6%
Net Earnings	24,634	20,929	17.7%	40,783	37,302	9.3%
Diluted Earnings per Share	\$ 0.48	\$ 0.41	17.1%	\$ 0.80	\$ 0.73	9.6%

The Company reported record sales, operating profit, net earnings and diluted earnings per share for the second quarter of 2008. Sales of \$267,137,000 for the second quarter of 2008 were 13.6% higher than \$235,125,000 reported for second quarter 2007. Operating profit of \$37,458,000 grew 18.9% from second quarter 2007 while operating margins improved from 13.4% to 14.0%. Net earnings of \$24,634,000 and diluted earnings per share of \$0.48 were 17.7% and 17.1% higher, respectively, from the comparable 2007 quarter. Increasing commodity prices, particularly for energy related products and certain metals, affected the Company's domestic sales growth and manufacturing costs during the quarter. However, the year-over-year improvement reflected strong demand for systems and filter cartridges for natural gas exploration and transmission, aviation fuel and defense sectors, sand control filters used in off-shore oil drilling and specialty industrial filtration products. Fluctuations in foreign currencies increased dollar-denominated sales and profits in the 2008 quarter by approximately \$6 million and \$1 million, respectively, compared to increases of approximately \$4 million and \$500,000 for the 2007 second quarter.

At the beginning of fiscal year 2008, the Company acquired Perry Equipment Corporation (Peco), a privately-owned manufacturer of engineered filtration products and technologies used in a wide

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

array of industries, including oil and natural gas, refining, power generation, petrochemical, food and beverage, electronics, polymers and pulp and paper. The Peco acquisition added approximately \$29.8 million of sales and \$4 million of operating profit in 2008's second quarter. For the six months ended May 31, 2008, Peco contributed approximately \$56.4 million of sales and \$4.2 million of operating profit.

Peco is based in Mineral Wells, Texas with operations in Mexico, Canada, the United Kingdom, Italy, Romania, Malaysia and China. Peco was merged with the Company's Facet operations with the combined headquarters based in Mineral Wells. Peco was acquired to expand the Company's product offerings, technology, filtration solutions and customer base in the growing oil and natural gas industry. Its results are included as part of the Company's Industrial/Environmental Filtration segment since the date of its acquisition. The purchase price was approximately \$157,664,000 including acquisition costs and \$11,448,000 of cash acquired. The Company issued 2,137,797 shares of CLARCOR common stock with a value of approximately \$71,954,000 and paid the remaining purchase price with cash on hand and approximately \$80,000,000 of cash borrowed under the Company's revolving credit agreement. The transaction, including the impact of purchase accounting adjustments, is expected to be accretive to the Company's fiscal 2008 earnings.

Effective May 1, 2008, the Company acquired a 30% preferred equity share in BioProcess Technologies, Inc. (BPT), a Rhode Island based manufacturer of industrial waste water and water reuse filtration systems, for approximately \$4 million, payable \$2 million in cash with the remaining \$2 million to be paid by December 31, 2009. Under the terms of the agreement with BPT, the Company has the right, but not the obligation, to acquire additional ownership shares and eventually complete ownership of the company over several years at a price based on, among other factors, BPT's operating income. The investment is being accounted for under the equity method. The Company's share of BPT's earnings since the acquisition date was immaterial.

For the 2008 six-month period, the Company reported sales of \$517,318,000, an increase of 16.3% from sales of \$444,655,000 in 2007. Operating profit increased 18.4% to \$65,197,000 from \$55,081,000 in the 2007 period with margins improving slightly to 12.6% from 12.4%. Net earnings and diluted earnings per share increased 9.3% and 9.6%, respectively. Fluctuations in foreign currencies increased sales and profits in the 2008 six-month period by approximately \$11 million and \$1.6 million, respectively. For the 2007 six-month period, fluctuations in foreign currencies increased sales and profits by approximately \$5.8 million and \$620,000, respectively.

RESULTS OF OPERATIONS

SALES

The Engine/Mobile Filtration segment's 2008 second quarter sales of \$108,658,000 were relatively unchanged from \$108,504,000 in the 2007 comparable quarter. Heavy-duty aftermarket engine filter sales were affected by a continued decline in domestic over-the-road truck mileage. International growth, particularly in Australia, China, Mexico, South Africa and Morocco, offset a decrease in heavy-duty filter sales in the United States. Sales of filters for railroad locomotive applications in 2008 were unchanged from the second quarter in 2007 and are expected to be relatively unchanged from prior year levels for the remainder of the 2008 fiscal year. The Segment has implemented price increases for its products in response to rising raw material costs, particularly with respect to steel, filtration media, and oil-based raw materials, and energy costs and continues to evaluate further price increases as costs continue to rise. Approximately \$2 million of

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

the sales increase was due to the weakening of the U.S. dollar during the current quarter compared to the year ago quarter.

For the six-month period, Engine/Mobile Filtration segment sales of \$213,767,000 grew 4.2% from 2007 six-month sales of \$205,200,000. A slower second quarter 2008, mostly due to a softening in hauled truck tonnage in North America, partially offset a stronger first quarter of 2008. Further softening of the U.S. economy, however, may impact the remainder of fiscal 2008. Fluctuations in foreign currencies contributed approximately \$4 million to sales for this segment in the first half of 2008 compared to the first half of 2007.

The Company's Industrial/Environmental Filtration segment recorded a 31.2% increase in sales to \$139,326,000 for the 2008 second quarter from \$106,185,000 for the 2007 second quarter. This included \$29.8 million of sales during the 2008 second quarter from the Peco acquisition. There were significant differences across product end-markets. Sales to industrial filter end markets grew by over 80% while sales to environmental end markets declined by 6% in the 2008 second quarter compared to the second quarter of 2007. Sales of filters used for heating, ventilating and air conditioning (HVAC) decreased 8% in the second quarter of 2008 compared to the second quarter of 2007. Filter sales for oil exploration and off-shore oil and gas drilling and sales of filters for aerospace and specialty metal applications increased by 25%. Second quarter 2008 sales at Peco grew by over 13% compared to first quarter sales and the run rate for sales in the second quarter was nearly \$120 million annually. The Company expects that increased oil and natural gas exploration and drilling will continue to drive the demand for Peco's products, as well as other filter products used in these industries. Sales growth was also strong for aviation fuel and waste water filter applications which grew by 10% in the 2008 second quarter compared to the second quarter of 2007. Dust collector systems and replacement cartridges grew by 7% during this year's second quarter compared to 2007. The weakening of the U.S. dollar during the current quarter compared to 2007 contributed approximately \$4 million to sales for the second quarter of 2008. The weakening of the U.S. dollar during the 2007 second quarter compared to that of the 2006 second quarter contributed approximately \$2.4 million to sales.

Lower HVAC filter sales were due in part to a continued softening in industrial, commercial and residential applications driven by economic weakness in certain housing and manufacturing sectors, particularly in automotive and lower-tier automotive parts manufacturing. The Company expects HVAC filter sales for fiscal year 2008 to be down from 2007, although it does expect an improvement in operating margins as its HVAC restructuring program continues and better HVAC sales in the second half of 2008.

For the 2008 six-month period, the Industrial/Environmental Filtration segment sales of \$265,748,000 were 31.3% higher than \$202,424,000 of sales in the first half of 2007. The 2008 six-month sales figure included approximately \$56.4 million of sales due to the Peco acquisition. Foreign currency translation contributed approximately \$7 million to the six-month 2008 sales figures for this segment when compared to the first half of 2007. Based on current order demand and the sales backlog, the Company expects continued strong demand for process liquid filters, filters and filtration systems used in natural gas exploration and transmission, filters used by resin and fiber manufacturers, systems and filter cartridges for the aviation fuel and defense sectors, sand control filters used in off-shore oil and gas drilling and environmental filtration equipment.

The Packaging segment second quarter 2008 sales declined 6.3% to \$19,153,000 compared to \$20,436,000 in the second quarter of 2007. Six-month sales for 2008 were 2.1% higher at \$37,803,000 compared to \$37,031,000 for the 2007 comparable period. Sales were impacted in

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, Continued

2008 by slower growth in the segment's customers' sales of their products, particularly in the confectionary and tobacco markets where customers experienced a slower sales buildup in their new product introductions than they had expected, resulting in reduced shipments to these customers. Based on current sales orders, however, the Company expects to see stronger growth in the second half of this fiscal year with stronger operating margins. The Compensation Committee took into account relative to the President and Chief Executive Officer were the Company's (i) completion of a \$600 million acquisition of a portfolio of 14 office properties aggregating 3.5 million square feet in September 2004; (ii) consummation of the Company's debut public offering of \$525 million of unsecured notes in September 2004; (iii) consummation of public offerings of perpetual preferred shares and Common Shares for aggregate net proceeds of \$392.2 million; (iv) redemption of a series of convertible preferred shares; (v) receipt of investment grade ratings; (vi) development and leasing of Cira Centre, a 29-story office property adjacent to Amtrak's 30th Street Station in Philadelphia, scheduled for occupancy in the fourth quarter of 2005; (vii) the Company's leasing and development activity; and (viii) operational performance, including tenant retention, tenant satisfaction levels and operating expense controls. The Committee also assessed the President and Chief Executive Officer's role in positioning the Company for additional growth. The Committee did not weight or prioritize these various factors and exercised discretion in its compensation decisions. With respect to other executive officers, the Committee undertook a similar analysis, taking into account peer company data, specific contributions and activities of individual executives and the recommendations of the President and Chief Executive Officer.

The Compensation Committee has required that a minimum of 25% of the year-end bonus for each executive must be taken in Common Shares (or Common Share equivalents under the Company's deferred compensation plan). Additionally, executives generally have the ability to take all or a portion of the balance of the year-end bonus in excess of 25% in Common Shares (or Common Share equivalents under the Company's deferred compensation plan) at a 15% discount to the market price of the Common Shares, with the additional shares

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acquired by virtue of the discount subject to vesting over a two-year period. As part of the authorization of 2004 year-end bonuses, the Compensation Committee provided that any executive who, at the time of award of the year-end bonuses, met the share ownership requirements applicable to him or her, as set forth in the Company's *Corporate Governance Principles*, was not required to take any portion of his or her year-end bonus in Common Shares (or Common Share equivalents) and is entitled to the 15% discount on any shares or share equivalents taken.

In each of February 2003, March 2004 and February 2005, the Committee authorized the award of restricted Common Shares to Company executives, with such shares subject to vesting in five equal annual installments, commencing on the first day of the January following the award date. Amounts awarded to the Named Executive Officers in these years are shown in the Summary Compensation Table.

IRS Limits on Deductibility of Compensation. Section 162(m) of the Internal Revenue Code limits the Company's tax deduction each year for compensation to each of the President and Chief Executive Officer and the four other highest paid executive officers to \$1 million. Section 162(m), however, allows a deduction without regard to amount for payments of performance based compensation which includes most share option and other incentive arrangements, the material terms of which have been approved by shareholders. Awards issued under the Company's Amended and Restated 1997 Long-Term Incentive Plan satisfy the requirements of Section 162(m) if the awards qualify as performance-based compensation. Options under this plan that have an exercise price equal to grant date fair market value and that vest based solely on continued employment qualify as performance-based compensation. However, options exercisable for a total of 1,499,524 Common Shares awarded to Messrs. Nichols, Sr. and Sweeney do not qualify as performance-based compensation because the options were awarded subject to shareholder approval. Similarly, the restricted Common Shares awarded to the Named Executive Officers in 2005, 2004 and 2003 do not qualify as performance-based compensation because the restrictions applicable to the shares lapse based solely on continued employment. The Company believes that because it qualifies as a REIT under the Code and is not subject to Federal income taxes, the payment of compensation that does not satisfy the requirements of Section 162(m) would not have a material adverse financial consequence to the Company provided it distributes 100% of its taxable income.

Severance Policy. In February 2005, the Compensation Committee and the non-management Trustees approved a policy regarding severance agreements with senior executives of the Company. The full text of the policy is attached to this Proxy Statement as Appendix B. Under the policy, the Company will generally submit to shareholders for approval any future severance arrangements with the Company's most senior executives that exceed 2.99 times an amount based on the executive's salary and bonus. The policy applies to cash separation benefits that directly relate to salary and bonus and extraordinary benefits that are not of a type available to other groups of Company employees. The policy excludes from the limitation specified benefits, including amounts earned by an executive prior to termination of employment and accelerated vesting of and the value associated with restricted shares, options and other long-term incentives awarded prior to termination of the executive's employment. The Board has reserved the right to modify or terminate the policy at any time in its discretion.

This report is made by the undersigned members of the Compensation Committee:

Charles P. Pizzi (Chair)
Walter D. Alessio
Michael J. Joyce

[Back to Contents](#)**SECURITIES OWNERSHIP****Security Ownership of Certain Beneficial Owners and Management**

The following table sets forth information as of March 15, 2005 regarding the beneficial ownership of Common Shares (and Common Shares for which Class A Units of Brandywine Operating Partnership, L.P. (Operating Partnership) may be exchanged) by each Trustee, by each Named Executive Officer, by all Trustees and executive officers as a group, and by each person known to the Company to be the beneficial owner of more than 5% of the outstanding Common Shares. Except as indicated below, to the Company's knowledge, all of such Common Shares are owned directly, and the indicated person has sole voting and investment power.

Name and Business Address of Beneficial Owner (1)	Number of Common Shares	Percentage of Common Shares (2)
Cohen & Steers Capital Management, Inc. (3)	7,585,119	13.56%
Gerard H. Sweeney (4)	1,690,972	2.96%
Donald E. Axinn (5)	912,980	1.61%
D. Pike Aloian (6)	6,042	*
Walter D. Alessio (7)	7,346	*
Anthony A. Nichols, Sr. (8)	536,831	*
Charles P. Pizzi (9)	4,761	*
Michael J. Joyce (10)	996	*
Wyche Fowler (11)	747	*
Brad A. Molotsky (12)	75,235	*
Anthony S. Rimikis (13)	79,173	*
Christopher P. Marr (14)	33,691	*
George D. Sowa (15)	48,550	*
All Trustees and Executive Officers as a Group (17 persons)	3,500,657	6.17%

*Less than one percent.

- (1) Unless indicated otherwise, the business address of each person listed is 401 Plymouth Road, Plymouth Meeting, Pennsylvania 19462.
- (2) Assumes that all Class A Units eligible for redemption held by each named person or entity are redeemed for Common Shares. The total number of Common Shares outstanding used in calculating the percentage of Common Shares assumes that none of the Class A Units eligible for redemption held by other named persons or entities are redeemed for Common Shares.
- (3) Based on Amendment No. 7 to a Schedule 13G filed with the Securities and Exchange Commission on February 14, 2005 by Cohen & Steers, Inc. and Cohen & Steers Capital Management, Inc. Cohen & Steers and Cohen & Steers Capital Management, Inc. has a business address at 757 Third Avenue, New York, New York 10017.
- (4) Includes (a) 555,816 Common Shares and (b) 1,135,156 Common Shares issuable upon the exercise of options that are currently exercisable or that become exercisable within 60 days of March 15, 2005. Does not include 61,104 Common Share equivalents credited to Mr. Sweeney's account in the EDCP as of March 15, 2005.
- (5) Includes (a) 996 common shares, (b) 100,000 Common Shares issuable upon the exercise of options that are currently exercisable and (c) 811,984 Common Shares issuable upon redemption of Class A Units. Mr. Axinn has a business address at 131 Jericho Turnpike, Jericho, NY 11743.

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- (6) Mr. Aloian has a business address at 1251 Avenue of the Americas, 44th Floor, New York, New York 10020.
- (7) Mr. D Alessio has a business address at 1600 Market Street, Philadelphia, Pennsylvania 19103.
- (8) Includes (a) 287,393 Common Shares and (b) 249,438 Common Shares issuable upon exercise of options that are currently exercisable or that become exercisable within 60 days of March 15, 2005. Does not include 6,717 Common Share equivalents credited to Mr. Nichols account in the EDCP as of March 15, 2005.
- (9) Mr. Pizzi has a business address at 2801 Hunting Park Avenue, Philadelphia, Pennsylvania 19129.
- (10) Mr. Joyce has a residence at 19 Wood Ibis, Hilton Head Island, South Carolina 29928.
- (11) Mr. Fowler has a business address at 701 A Street, N.E., Washington, D.C. 20002.
- (12) Includes (a) 34,198 Common Shares and (b) 41,037 Common Shares issuable upon the exercise of options that become exercisable within 60 days of March 15, 2005. Does not include 21,617 Common Share equivalents credited to Mr. Molotsky s account in the EDCP as of March 15, 2005.
- (13) Includes (a) 38,136 Common Shares and (b) 41,037 Common Shares issuable upon the exercise of options that become exercisable within 60 days of March 15, 2005. Does not include 19,023 Common Share equivalents credited to Mr. Rimikis account in the EDCP as of March 15, 2005.
- (14) Does not include 7,118 Common Share equivalents credited to Mr. Marr s account in the EDCP as of March 15, 2005.
- (15) Includes (a) 25,919 Common Shares and (b) 22,631 Common Shares issuable upon the exercise of options that become exercisable within 60 days of March 15, 2005. Does not include 13,716 Common Share equivalents credited to Mr. Sowa s account in the EDCP as of March 15, 2005.

[Back to Contents](#)**SHARE PERFORMANCE GRAPH**

The Securities and Exchange Commission requires the Company to present a chart comparing the cumulative total shareholder return on the Common Shares with the cumulative total shareholder return of (i) a broad equity index and (ii) a published industry or peer group index. The following chart compares the cumulative total shareholder return for the Common Shares with the cumulative shareholder return of companies on (i) the S&P 500 Index and (ii) the NAREIT ALL-REIT Total Return Index as provided by NAREIT for the period beginning December 31, 1999 and ending December 31, 2004.

The Company, S&P 500 Index and NAREIT All-REIT Index

Company / Index	Dec. 1999	Dec. 2000	Dec. 2001	Dec. 2002	Dec. 2003	Dec. 2004
BRANDYWINE REALTY TRUST	100	137.09	151.60	169.82	223.66	261.50
S&P 500 INDEX	100	90.90	80.09	62.39	80.29	89.03
NAREIT INDEX	100	125.89	145.40	152.99	211.85	276.27

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REPORT OF THE AUDIT COMMITTEE

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Trustees. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls. The Company's independent registered public accounting firm is responsible for expressing an opinion on the conformity of the Company's audited financial statements with accounting principles generally accepted in the United States.

In fulfilling its oversight responsibilities, the Audit Committee has reviewed the Company's audited financial statements for the year ended December 31, 2004, and discussed them with management and the independent registered public accounting firm, including the following aspects of the financial statements: (i) the quality, not just the acceptability, of their accounting principles; (ii) the reasonableness of the significant judgments reflected in the financial statements; and (iii) the clarity of their disclosures. The Audit Committee has discussed with the Company's independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended. The Audit Committee has also received the written disclosures and the letters from the Company's independent registered public accounting firm required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees. The Audit Committee has discussed with the independent registered public accounting firm their independence from the Company and its management. In addition, the Audit Committee has considered whether the provision of non-audit services by the independent registered public accounting firm to the Company is compatible with maintaining the independence of the independent registered public accounting firm.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Trustees that our audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2004. The Audit Committee's recommendation was accepted by the Board of Trustees.

This report is made by the undersigned members of the Audit Committee.

D. Pike Aloian (Chair)
Michael J. Joyce
Charles P. Pizzi

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PROPOSAL 2: RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2005. PricewaterhouseCoopers LLP was first engaged as our independent registered public accounting firm in June 2003 and has audited our financial statements for fiscal 2002, 2003 and 2004. Ratification of the appointment of PricewaterhouseCoopers LLP requires the affirmative vote of a majority of the votes cast on the matter.

Although shareholder ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm is not required by our bylaws or otherwise, our Board has decided to afford our shareholders the opportunity to express their opinions on the matter of our independent registered public accounting firm. Even if the selection is ratified, the Audit Committee in its discretion may select a different independent registered public accounting firm at any time if it determines that such a change would be in the best interests of the Company and its shareholders. If our shareholders do not ratify the appointment, the Audit Committee will take that fact into consideration, together with such other facts as it deems relevant, in determining its next selection of an independent registered public accounting firm.

Representatives of PricewaterhouseCoopers LLP will be present at the Meeting to make any statement they may desire and to respond to questions from shareholders.

The Board of Trustees unanimously recommends a vote FOR Proposal 2 to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for fiscal 2005.

Fees to Independent Registered Public Accounting Firm

Audit Fees. Audit fees for 2004 were \$1,212,000 in aggregate which includes: (i) recurring audit and quarterly review fees of \$565,000 for the Company and its operating partnership (which became a public registrant during 2004), (ii) audit fees of \$378,000 in connection with the re-audits of the Company and the audits of its operating partnership for the years 2003, 2002 and 2001 and (iii) fees of \$269,000 for comfort letters, consents and assistance with documents filed with the SEC in connection with the Company's 2004 acquisition of the Rubenstein portfolio of properties, common and preferred share issuances by the Company and a public debt offering by its operating partnership.

Audit Fees for 2003 were \$411,000 in aggregate which includes: (i) recurring audit and quarterly review fees of \$360,000 for the Company and (ii) fees of \$51,000 for comfort letters, consents and assistance with documents filed with the SEC in connection with common and preferred share issuances by the Company.

Audit-Related Fees. The Company did not pay PricewaterhouseCoopers LLP fees for audit-related services in 2004 or 2003.

Tax Fees. The Company did not pay PricewaterhouseCoopers LLP fees for tax services in 2004 or 2003.

All Other Fees. The Company did not pay other fees to PricewaterhouseCoopers LLP for services provided to the Company in 2004 or 2003.

Pre-Approval Policy. All services provided by PricewaterhouseCoopers LLP were pre-approved by the Audit Committee, which concluded that the provision of such services by PricewaterhouseCoopers LLP was compatible with the maintenance of that firm's independence in the conduct of its auditing functions. The Audit Committee has adopted a pre-approved policy for services provided by the independent registered public accounting firm. Under the policy, the Audit Committee has pre-approved the provision by the independent registered public accounting firm of services that fall within specified categories (such as statutory audits or financial audit work for subsidiaries, services associated with SEC registration statements and consultations by management as to accounting interpretations) but only up to specified dollar amounts. Any services that exceed the pre-approved dollar limits, or any services that fall outside of the general pre-approved categories, require specific pre-approval by the Audit

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Committee. If the Audit Committee delegates pre-approval authority to one or more of its members, the member would be required to report any pre-approval decisions to the Audit Committee at its next meeting.

We have been advised by PricewaterhouseCoopers LLP that neither the firm, nor any member of the firm, has any financial interest, direct or indirect, in any capacity in the Company or its subsidiaries.

Former Auditors

On May 23, 2002, the Company appointed KPMG LLP (KPMG) as its independent public accountants. On June 19, 2003, the Company informed KPMG that they would be dismissed effective as of June 19, 2003. The appointment of KPMG occurred on the same day as the dismissal of Arthur Andersen LLP as the Company s independent public accountants.

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

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

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

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

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**PROPOSAL 3: APPROVAL OF AMENDMENT AND RESTATEMENT OF
AMENDED AND RESTATED 1997 LONG-TERM INCENTIVE PLAN**

The Brandywine Realty Trust 1997 Long-Term Incentive Plan was originally approved by our shareholders in May 1997 and was subsequently amended and restated upon the approval of our shareholders in May 1998 (as amended and restated, the Incentive Plan).

Our Board of Trustees has adopted, subject to shareholder approval, an amendment and restatement of the Incentive Plan increasing the number of Common Shares reserved and available for award under the Incentive Plan to 6,600,000, representing an increase of 1,600,000 Common Shares over the 5,000,000 Common Shares previously authorized for award under the Incentive Plan. The limit in the Incentive Plan that restricts the number of Common Shares that may be awarded to any individual would also be increased to 4,500,000 from 3,000,000. The Company intends to register the 1,600,000 Common Share increase on Form S-8 under the Securities Act of 1933, as amended, as soon as practicable after receiving shareholder approval of the increase. Of the 1,600,000 Common Shares that would be added to availability under the Incentive Plan if Proposal 3 is approved by shareholders, a minimum of 500,000 of such Common Shares would be reserved solely for Awards (defined below) in the form of Options and Share Appreciation Rights. The amendment and restatement of the Incentive Plan would also provide that a Share Appreciation Right, Long-Term Performance Award or Performance Unit that is settled in cash or payable solely in cash does not reduce the number of Common Shares available under the Incentive Plan.

The Incentive Plan provides that Awards may not be made under the Incentive Plan on or after the tenth (10th) anniversary of the latest date of shareholder approval of the Incentive Plan, or any amendment of the Incentive Plan. Approval of Proposal 3 at the Meeting will extend this date from May 15, 2008 to May 2, 2015.

The amendment and restatement of the Incentive Plan would also modify the definition of Change of Control in the Incentive Plan to provide that a Change of Control would include, in addition to the existing categories of events that constitute a Change of Control, a change in the composition of the Board over a period of twenty four (24) months or less such that a majority of the Board ceases to be comprised of individuals who either: (a) have been board members continuously since the beginning of such period or (b) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (a) who were still in office at the time such election or nomination was approved by the Board. Upon a Change of Control, unvested Awards under the Incentive Plan would generally vest.

The following is a brief summary of the Incentive Plan, as amended by this Proposal, and is qualified in all respects by the specific language of the full text of the amended and restated Incentive Plan, a copy of which is attached as Appendix C to this Proxy Statement.

As of March 15, 2005, there were approximately 2,007,730 Common Shares subject to outstanding Awards (consisting of 318,785 unvested Restricted Shares, 18,803 Long-Term Performance Awards and 1,670,142 Options with a weighted average exercise price of \$27.29) and approximately 1,143,039 Common Shares remained available for future Awards under the Incentive Plan. Whether or not the proposed amendment and restatement of the Incentive Plan is approved by shareholders at the Meeting, Awards may continue to be made under the Incentive Plan until the remaining authorized Common Share availability is depleted or until expiration of the Incentive Plan.

**SUMMARY OF THE PROVISIONS OF THE BRANDYWINE REALTY TRUST 1997
LONG-TERM INCENTIVE PLAN, AS AMENDED AND RESTATED**

Purpose

The Incentive Plan is intended to provide the Company flexibility to adapt the compensation of key employees and Trustees in a changing business environment. The Incentive Plan permits the granting of any or all of the following types of awards (Awards): (i) Options, including Non-Qualified and Incentive Stock Options; (ii) Share Appreciation Rights; (iii) Restricted Shares; (iv) Long-Term Performance Awards; (v) Performance Shares; and (vi) Performance Units.

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Participants

Trustees, officers and other employees of the Company or its subsidiaries are eligible to receive Awards under the Incentive Plan. However, Trustees who are not employees of the Company or any of its subsidiaries are not eligible to receive Incentive Stock Options. As of March 15, 2005, approximately 300 persons were eligible to participate in the Incentive Plan, including 18 officers, seven non-employee Trustees and other employees of the Company.

Administration

The Incentive Plan is administered by the Board of Trustees or by a committee of the Board, currently the Compensation Committee (the Committee). The Committee selects those persons eligible to receive Awards from time to time and determines the type, terms and conditions of Awards. The Committee has the authority to interpret the provisions of the Incentive Plan. The Board may, subject to the applicable rules of the New York Stock Exchange, amend, alter or discontinue the Incentive Plan at any time, but no such amendment, alteration or discontinuation may impair the rights of a participant with respect to an Award which has been made under the Incentive Plan without such participant's consent.

Shares Subject to Plan

The maximum number of Common Shares that currently may be made the subject of Awards under the Incentive Plan is 5,000,000. If the proposed amendment to the Incentive Plan is approved by shareholders, the maximum number of Common Shares subject to the Incentive Plan will increase by 1,600,000 to 6,600,000. As indicated above, of the 1,600,000 Common Shares that would be added to availability under the Incentive Plan if Proposal 3 is approved by shareholders, a minimum of 500,000 of such Common Shares would be reserved solely for Awards in the form of Options (Non-Qualified Stock Options or Incentive Stock Options) and Share Appreciation Rights granted with an exercise price or base price (as applicable) that is not less than the market price of a Common Share on the date of grant. The Common Shares available for award would not be reduced if an Award is settled in cash or payable solely in cash. In the event of any merger, reorganization, consolidation, recapitalization, share dividend or other change in the Company's structure affecting the Common Shares, the Committee will adjust accordingly the number, type and issuer of Common Shares reserved for issuance under the Incentive Plan, the number and option price of Common Shares subject to outstanding Options granted under the Incentive Plan and the number and price of Common Shares subject to other Awards made under the Incentive Plan. In addition, the Common Shares related to the unexercised or undistributed portion of any terminated, canceled, expired or forfeited Award will also be made available for distribution in connection with future Awards. If the proposed amendment to the Incentive Plan is approved by shareholders, the current limitation in the Incentive Plan that no individual may receive over the term of the Incentive Plan Awards for more than an aggregate of 3,000,000 Common Shares will be changed to provide that no individual may be granted over the term of the Incentive Plan Options or Share Appreciation Rights exercisable for more than an aggregate of 4,500,000 Common Shares.

Awards

Options. The Incentive Plan permits the Committee to grant to any participant Non-Qualified Stock Options and, to participants who are also employees, Incentive Stock Options (collectively, Options). The per Share exercise price of an Option is determined by the Committee; however, the exercise price per Share purchasable under an Incentive Stock Option may not be less than 100% of the fair market value of the Shares at the time of grant (and not less than 110% in the case of an Incentive Stock Option granted to a participant who, at the time the Option is granted, owns more than 10% of the voting power of all classes of equity of the Company (a 10% Owner)). The provisions of Option Awards need not be the same with respect to each participant.

Subject to the limitations of the Incentive Plan, each Option is exercisable at such time or times and in the installments determined by the Committee. No Option may be exercisable more than ten years after the date it is granted. An Incentive Stock Option granted to a 10% Owner may not have a term of more than five years. Incentive Stock Options are subject to additional restrictions imposed by the Internal Revenue Code. Under the Incentive Plan, as amended by Proposal 3, Options would be non-transferable by the participant other than by will or by the laws of descent and distribution or pursuant to a qualified domestic relations order unless the Committee

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otherwise provides. In the discretion of the Committee, the purchase price for Common Shares acquired pursuant to the exercise of an Option may be paid in cash or Common Shares. In addition, the Committee may require that all or part of the Common Shares to be issued pursuant to exercise of an Option take the form of Restricted Shares. The Committee may also agree to cooperate in a cashless exercise of an Option, which will be effected by the participant delivering to a securities broker instructions to sell a sufficient number of Common Shares to cover the costs and expenses associated therewith.

Share Appreciation Rights. The Incentive Plan permits the grant of Share Appreciation Rights either alone or in connection with the grant of Options. A Share Appreciation Right or the applicable portion thereof granted in connection with a given Option generally will terminate and no longer be exercisable upon the termination or exercise of the related Option. A Share Appreciation Right entitles the participant to receive, upon exercise, an amount in cash and/or Shares equal in value to the excess of the fair market value of one Share over the exercise price per Share specified in the Share Appreciation Right or related Option, multiplied by the number of Shares for which the Share Appreciation Right is exercised. The Committee determines the recipients of Share Appreciation Rights, the number of Shares in respect of which Share Appreciation Rights are awarded and the time or times within which Share Appreciation Rights may be awarded. The provisions of Share Appreciation Rights need not be the same with respect to each participant. The Committee has the right to determine the form of payment upon exercise of a Share Appreciation Right.

Restricted Shares. Restricted Shares may be issued either alone or in addition to other Awards granted under the Incentive Plan. The Committee determines the recipients of Restricted Shares, the number of Restricted Shares to be awarded, the price (if any) to be paid by such recipient, the time or times within which such Awards may be subject to forfeiture, and all other conditions of the Award. The provisions of Restricted Share Awards need not be the same with respect to each participant. Although certificate(s) issued to a recipient by the Company representing Restricted Shares may be held in custody by the Company until the restrictions thereon have elapsed, a recipient of the Restricted Shares has, with respect to such Shares, all of the rights of a shareholder of the Company, including the right to vote the Shares, and the right to receive any cash dividends or distributions. The Committee, at the time an Award is made, may permit or require the payment of cash dividends or distributions to be deferred and reinvested in additional Restricted Shares. During the restriction period set by the Committee, the participant is not permitted to transfer or encumber Restricted Shares; the Committee may, however provide for the lapse of such restrictions in installments and may accelerate or waive such restrictions in whole or in part.

Long-Term Performance Awards. The Incentive Plan permits the Committee to grant to any participant Long-Term Performance Awards. The Committee determines in advance the nature, length and starting date of the performance period for each Long-Term Performance Award and determines the performance objectives to be used in valuing Long-Term Performance Awards and the extent to which such Long-Term Performance Awards have been earned. Performance objectives may vary from participant to participant and between groups of participants. In the event of special or unusual events or circumstances affecting the application of one or more performance objectives to a Long-Term Performance Award, the Committee may revise the performance objectives and/or underlying factors and criteria applicable to the Long-Term Performance Awards affected. Long Term Performance Awards may be denominated in dollars or in Shares, and to the extent that the relevant measure of performance is met, payments may be made in the form of cash or Shares, including Restricted Shares, either in a lump sum payment or in annual installments commencing as soon as practicable after the end of the relevant performance period. Unless otherwise provided in a Long Term Performance Award agreement, if a participant terminates service with the Company during a performance period because of death, disability or retirement, the participant will be entitled to a payment with respect to each outstanding Long-Term Performance Award at the end of the applicable performance period based upon the participant's performance for the portion of such performance period ending on the date of termination and pro-rated for the portion of the performance period during which the participant was employed by the Company or served on the Board, as determined by the Committee.

Performance Shares. The Committee determines the persons to whom Performance Shares will be granted and the times and the number of such Performance Shares that will be granted. Performance Shares are Awards of the right to receive Shares at the end of a specified period upon the attainment of performance goals specified by the Committee at the time of grant. The provisions of the Performance Shares need not be the same with respect to each participant. Performance Shares generally are forfeited if the participant terminates service with the Company during the performance period for any reason other than death, disability or retirement. Unless otherwise provided

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in a Performance Share agreement, in the event of death, disability or retirement, the participant or the participant's estate, as the case may be, will be entitled to receive, at the expiration of the performance period, a percentage of Performance Shares that is equal to the percentage of the performance period that had elapsed as of the date of death or date on which such disability or retirement commenced, provided that the Committee determines that the applicable performance goals have been met.

Performance Units. The Committee determines the persons to whom Performance Units will be granted and the times and the number of such Performance Units that will be granted. Performance Units are Awards of the right to receive a fixed dollar amount, payable in cash, at the end of a specified period upon the attainment of performance goals specified by the Committee at the time of the grant. The provisions of Performance Unit Awards need not be the same with respect to each participant. Performance Units generally are forfeited if the participant terminates employment with the Company during the performance period for any reason other than death, disability or retirement. Unless otherwise provided in a Performance Unit agreement, in the event of death, disability or retirement, the participant or his or her estate will be entitled to receive, at the expiration of the performance period, cash for a percentage of his or her Performance Units equal to the percentage of the performance period that elapsed at the time of death or commencement of disability or retirement, provided that the Committee determines that the applicable performance goals have been met.

Change of Control

In the event of a Change of Control (as defined below), the Committee may, in its discretion, cause all outstanding Options to become vested immediately, all restrictions and conditions on other Awards to terminate immediately, and Common Share certificates or cash, as the case may be, to be issued or paid in respect of Awards.

A Change of Control under the Incentive Plan means: (i) the acquisition in one or more transactions by any person (including any group acting in concert) of beneficial ownership of 25% or more of the combined voting power of the Company's then outstanding voting securities (the Voting Securities), excluding Voting Securities acquired directly from the Company (but such Voting Securities shall be included in the calculation of the total number of Voting Securities then outstanding); (ii) approval by shareholders of the Company of (A) a merger, reorganization or consolidation involving the Company if the shareholders of the Company immediately before such merger, reorganization or consolidation do not or will not own directly or indirectly immediately following such merger, reorganization or consolidation more than fifty percent (50%) of the combined voting power of the outstanding voting securities of the entity resulting from or surviving such merger, reorganization or consolidation in substantially the same proportion as their ownership of the Voting Securities outstanding immediately before such merger, reorganization or consolidation or (B) a liquidation or dissolution of the Company or (C) an agreement for the sale or other disposition of all or substantially all of the assets of the Company; or (iii) acceptance by shareholders of the Company securities in a share exchange if the shareholders of the Company immediately before such share exchange do not or will not own directly or indirectly immediately following such share exchange more than fifty percent (50%) of the combined voting power of the outstanding voting securities of the entity resulting from or surviving such share exchange in substantially the same proportion as their ownership of the Voting Securities outstanding immediately before such share exchange. If Proposal 3 is approved, a Change of Control would also include a change in the composition of the Board over a period of twenty four (24) months or less such that a majority of the Board ceases to be comprised of individuals who either: (a) have been board members continuously since the beginning of such period or (b) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (a) who were still in office at the time such election or nomination was approved by the Board.

Status of Plan

The Incentive Plan is intended to constitute an unfunded plan for incentive and deferred compensation. The Incentive Plan states that with respect to any payments not yet made to a participant by the Company, nothing contained in the Incentive Plan gives any participant any rights that are greater than those of a general creditor of the Company.

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Certain Federal Income Tax Consequences

The following discussion, as it relates to certain federal income tax consequences of the Incentive Plan, does not purport to address all of the tax consequences that may be applicable to any particular participant or to the Company. In addition, such discussion does not address foreign, state or local taxes, nor does it address federal taxes other than federal income tax. Such discussion is based upon applicable statutes, regulations, case law, administrative interpretations and judicial decisions in effect as of the date of this Proxy Statement.

Options. If a participant has held Common Shares acquired upon exercise of an Incentive Stock Option for at least two years after the date of grant and for at least one year after the date of exercise, upon disposition of those Common Shares by the participant, the difference, if any, between the sales price of the Common Shares and the exercise price of the Option will be treated as long-term capital gain or loss. If the participant does not satisfy these holding period requirements, a disqualifying disposition occurs and the participant will recognize ordinary income in the year of the disposition of the Common Shares in an amount equal to the excess of the fair market value of the Common Shares at the time the Option was exercised over the exercise price of the Option. The balance of gain realized, if any, will be long-term or short-term capital gain, depending upon whether or not the Common Shares were sold more than one year after the Option was exercised. If the participant sells the Common Shares prior to the satisfaction of the holding period requirements but at a price below the fair market value of the Common Shares at the time the Option was exercised, the amount of ordinary income will be limited to the amount realized on the sale in excess of the exercise price of the Option. The Company and its subsidiaries will generally be allowed a deduction to the extent the participant recognizes ordinary income.

In general, a participant to whom a Non-Qualified Stock Option is granted will recognize no income when the Option is granted. Upon exercise of a Non-Qualified Stock Option, the participant will recognize ordinary income equal to the excess of the fair market value of the Common Shares on the date of exercise over the exercise price of the Option unless the Common Shares received are Restricted Shares, in which case, unless the exercising participant elects to recognize such income, the income recognition is deferred until the restrictions lapse or the Restricted Shares becomes transferable. The Company generally will be entitled to a compensation deduction in the same amount and at the same time as the participant recognizes ordinary income and will comply with applicable withholding requirements with respect to such compensation.

There are no tax consequences to a participant or to the Company if an Option lapses before it is exercised or forfeited.

Restricted Shares. Unless the participant elects to recognize income at the time of an Award of Restricted Shares, a participant will not recognize taxable income until the Shares are no longer subject to a substantial risk of forfeiture or become transferable. In either event, the participant's recognized income will equal the excess of the fair market value of such Shares at grant if an election is made, or at the time the restrictions lapse or are removed, over any amount paid for such Shares (the Bargain Element). The Company will generally be entitled to a deduction in the same amount and in the same year as the recipient of Restricted Shares has income. The Company will comply with all applicable withholding requirements with respect to such income.

The aforementioned election allows the participant to recognize the Bargain Element as income in the year of the Award by making an election with the Internal Revenue Service within 30 days after the Award is made. Dividends or distributions received by a participant on Restricted Shares during the restriction period are taxable to the participant as ordinary compensation income and will be deductible by the Company unless the aforementioned election is made, rendering dividends or distributions taxable as dividends and nondeductible.

Share Appreciation Rights, Long-Term Performance Awards, Performance Shares and Performance Units. Upon exercise of a Share Appreciation Right, the participant will recognize ordinary income in an amount equal to the cash or the fair market value of the Shares received on the exercise date. At the time a Long-Term Performance Award is paid, or at the end of a performance period in the case of Performance Shares and Performance Units, the participant will recognize taxable income in an amount equal to the amount of cash or the fair market value of Common Shares received. The Company will generally be entitled to a compensation deduction in the same amount and at the same time that the participant holding a Share Appreciation Right, Longer Term Performance Award, Performance Share or Performance Unit recognizes ordinary income, and will comply with applicable withholding

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requirements with respect to such compensation. If Restricted Shares are used in payment of a Long-Term Performance Award, the participant's federal income tax consequences will be as described above for Restricted Shares.

Benefits Under the Incentive Plan

Because persons to whom Awards may be made are to be determined from time to time by the Compensation Committee in its discretion, it is not possible at this time to indicate the number, name or positions of persons who will receive future Awards or the nature and terms of future Awards.

On March 22, 2005, the closing sale price of a Common Share as reported on the New York Stock Exchange was \$28.36.

The Company believes that the Awards that have been granted under the Incentive Plan have been and will continue to be granted to individuals who possess a capacity to contribute significantly to our success.

The Board of Trustees unanimously recommends a vote FOR the adoption of the amendment and restatement of the Amended and Restated 1997 Long-Term Incentive Plan.

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OTHER INFORMATION

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers, Trustees and persons who own more than 10% of the Common Shares to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, Trustees and greater than 10% shareholders are required by regulation to furnish the Company with copies of all Section 16(a) forms they file. Based solely on review of the copies of such forms furnished to the Company, or written representations that no Annual Statements of Beneficial Ownership of Securities on Form 5 were required to be filed, the Company believes that during the year ended December 31, 2004, its officers, Trustees and greater than 10% shareholders complied with all applicable Section 16(a) filing requirements.

Other Business

The Company knows of no business which will be presented at the Meeting other than as set forth in this Proxy Statement. However, if other matters should properly come before the Meeting, it is the intention of the persons named in the enclosed proxy to vote in accordance with their best judgment on such matters.

Expenses of Solicitation

The expense of solicitation of proxies on behalf of the Trustees, including printing and postage, will be paid by the Company. Request will be made of brokerage houses and other custodians, nominees and fiduciaries to forward the solicitation material, at the expense of the Company, to the beneficial owners of Common Shares held of record by such persons. In addition to being solicited through the mails, proxies may also be solicited personally or by telephone by Trustees and officers of the Company. In addition, the Company has employed D. F. King & Co., Inc. to solicit proxies for the Meeting. The Company has agreed to pay \$4,500 plus out-of-pocket expenses of D. F. King & Co., Inc., for these services.

Shareholder Proposals for the 2006 Annual Meeting of Shareholders

Shareholders are entitled to present proposals for action at a forthcoming meeting if they comply with the requirements of the proxy rules promulgated by the Securities and Exchange Commission. Proposals of shareholders of the Company intended to be presented for consideration at the Company's 2006 Annual Meeting of Shareholders must be received by the Company no later than December 2, 2005 in order to be included in the proxy statement and form of proxy related to that meeting.

If a shareholder intends to timely submit a proposal at the 2006 Annual Meeting, which is not required to be included by the Company in the proxy statement and form of proxy relating to that meeting, the shareholder must provide the Company with notice of the proposal no later than February 15, 2006. If such shareholder fails to do so, or if such shareholder fails to give timely notice of his intention to solicit proxies, the proxy holders will be allowed to use their discretionary voting authority when the proposal is raised at the 2006 Annual Meeting.

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APPENDIX A

AUDIT COMMITTEE CHARTER

BRANDYWINE REALTY TRUST

Purpose

The Audit Committee (the "Committee") of Brandywine Realty Trust (the "Company") shall assist the Board of Trustees (the "Board") of the Company in overseeing (1) the integrity of the Company's financial statements; (2) the Company's compliance with legal and regulatory requirements; (3) the independence and qualifications of the Company's independent auditors; and (4) the performance of the Company's internal audit function and independent auditors. The Committee also prepares the report required by the Securities and Exchange Commission (the "SEC") to be included in the Company's annual proxy statement.

Composition and Term

The Committee shall be comprised of at least three trustees, each of whom shall be independent, as such term is defined in the Corporate Governance Principles of the Board. Each Committee member shall be financially literate. The term "financial literacy" shall mean familiarity with the Company's financial statements, including its balance sheet, income statement and cash flow statement, and general knowledge of key business and financial risks and related controls or control processes. At least one member of the Committee shall have accounting or related financial management expertise, which shall mean a background in finance, accounting or auditing, acquired through past employment experience, professional training, or other comparable experience. Additionally, a trustee may not serve simultaneously on the audit committees of more than three (3) public companies without prior approval of a majority of the Board.

The members of the Committee shall be appointed for a one year term by the Board annually upon the recommendation of the Corporate Governance Committee of the Board. Should any member of the Committee cease to be independent, such member shall immediately resign his or her membership on the Committee.

Compensation of Committee Members

Members of the Committee shall not receive any compensation from the Company other than trustees' fees (including equity-based awards), which may include amounts paid to trustees for service on committees and as chairs of committees of the Board.

Relationship with Independent Auditor

The Committee shall have sole authority to select (subject to ratification of such selection by the Company's shareholders if ratification is determined by the Board to be necessary or desirable) and to replace the Company's independent auditor, and to approve all audit and non-audit services (to the extent non-audit services are allowed by law) with the independent auditor, as well as all engagement fees and terms with respect thereto. The Committee may consult with Company management regarding the foregoing, but the Committee's sole authority with respect thereto shall not be delegated. The Committee shall be directly responsible for oversight of the work performed by any public accounting firm (including the resolution of disagreements between any such accounting firm and Company management regarding financial reporting) for the purpose of preparing or issuing an audit report or related work, and such accounting firms shall report directly to the Committee.

Outside Advisors

The Committee shall have the authority, without Board approval, to the extent that it deems appropriate, to obtain advice and assistance from outside legal, accounting or other advisors.

Meetings

The Committee shall meet at such times and from time to time as it deems to be appropriate, but not less frequently than quarterly. The Committee shall report to the Board at the first board meeting following each such Committee

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meeting. A majority of the members of the Committee shall constitute a quorum for the transaction of business. Approval by a majority of the members present at a meeting at which a quorum is present shall constitute approval by the Committee. The Committee may also act by unanimous written consent without a meeting.

The Company's independent auditor and internal auditor, if any, shall attend at least two of the Committee's meetings each year. The Committee may request members of management or others (including the Company's investment bankers or financial analysts who follow the Company) to attend meetings and to provide pertinent information as necessary. The Committee shall meet with Company management (including the chief financial officer), the internal auditors (or other personnel responsible for the internal audit function) and with the Company's independent auditors in separate private sessions as often as may be deemed necessary or appropriate but not less than two times per year.

Duties and Responsibilities

The duties of the Committee shall include the following:

At least annually, obtain and review a report by the Company's independent auditor describing: (1) the firm's internal quality-control procedures; (2) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm; (3) any steps taken to deal with such issues; and (4) (to assess the auditor's independence) all relationships between the auditor and the Company. Based in part on its review of this report, the Committee shall evaluate the qualifications, performance and independence of the independent auditor, and such evaluation shall include a specific review of the lead partner of the independent auditor. In making its evaluation, the Committee may take into account the opinions of Company management and the Company's internal auditor (or other personnel responsible for the internal audit function). The Committee shall present its conclusions with regard to the independent auditor to the full Board.

Review and discuss with the independent auditor the proposed scope of services of the independent auditor for each fiscal year, including a review of the independent auditor's audit procedures and risk assessment process in establishing the scope of the services, proposed fees, and the reports to be rendered.

Review and discuss all reports required by law or regulation to be provided to the Committee by the independent auditor and Company management, including a report from the independent auditor of (1) all critical accounting policies and practices used by the Company; (2) all alternative treatments of financial information within generally accepted accounting principles that have been discussed by the independent auditor with Company management, ramifications of the use of such alternative treatments, and the treatment preferred by the independent auditors; and (3) other material written communications between the independent auditors and Company management, such as any management letter or schedule of unadjusted differences.

Review and discuss with Company management and the independent auditor such accounting policies (and changes therein) of the Company, including any financial reporting issues which could have a material impact on the Company's financial statements (including but not limited to the use of alternative GAAP methods and off-balance sheet structures), as are deemed appropriate for review by the Committee prior to any interim or year-end filings with the SEC or other regulators.

Review and discuss with Company management the effect of accounting and regulatory initiatives on the financial statements of the Company.

Meet to review and discuss with Company management and the independent auditor the Company's annual audited financial statements and quarterly financial statements, including the Company's disclosures under Management's Discussion and Analysis of Financial Conditions and Results of Operations, and recommend to the Board whether the audited financial statements shall be included in the Company's Form 10-K.

Review and discuss with Company management earnings press releases, including the use of pro-forma or adjusted non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies.

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Discuss with Company management the Company's major financial risk exposures and steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.

Review management's annual report on the Company's internal control over financial reporting and the independent auditor's attestation report on management's assessment of the Company's internal control over financial reporting.

Adopt guidelines for the Company's hiring of employees of the Company's independent auditor who were previously engaged on the Company's account.

Make recommendations to the Board as to:

Whether, in order to assure continuing auditor independence, there should be regular rotation of the independent auditor.

The advisability of having the independent auditor make specified studies and reports as to auditing matters, accounting procedures, tax or other matters.

Review and discuss with Company management the appointment and replacement of the senior internal auditing executive.

Review and discuss with Company management, the independent auditor and the Company's internal auditor (or other personnel responsible for the internal audit function):

The management recommendation letter on accounting procedures and internal controls prepared by the independent auditor, and any other reports and Company management's responses concerning such reports;

Any material accounting issues identified by management, the Company's internal auditor, if any, or the independent auditor;

Any related party transactions;

Other matters required to be communicated by the independent auditor to the Committee under generally accepted auditing standards, as amended; and

Establish procedures for (1) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal auditing controls, or auditing matters, and (2) submission by employees of the Company of concerns regarding questionable accounting or auditing matters, with due concerns for confidentiality and anonymity of the source.

Meet annually with general counsel, and outside counsel when appropriate, to review legal and regulatory matters, if any, that could have a material impact on the Company's financial statements.

Make a periodic, but not less than annual, self-assessment of the Committee, including a review of this charter, using assessment tools available through third parties or developed internally.

The Committee shall also undertake such additional activities within the scope of its primary function as the Committee from time to time determines.

Limitation of Audit Committee's Role

The Audit Committee does not plan or conduct audits, nor does it determine that the Company's financial statements and disclosures are complete, accurate and in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibility of Company management and the independent auditor.

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APPENDIX B

POLICY REGARDING SEVERANCE AGREEMENTS WITH SENIOR EXECUTIVES

BRANDYWINE REALTY TRUST

Overview

The Board of Trustees (the Board) of Brandywine Realty Trust (the Company) desires to attract, retain and motivate qualified executives to lead the Company and promote the interests of the Company's shareholders. In furtherance of this objective, the Board has delegated to its Compensation Committee the authority to determine the compensation of the Company's senior executives. The Compensation Committee is comprised solely of independent non-employee members of the Board.

The Compensation Committee seeks to set executive compensation at levels that are sufficiently competitive so that the Company may attract, retain and motivate high quality executives to contribute to the Company's success. The Compensation Committee believes that severance arrangements can form a key component of the compensation packages for the Company's senior executives, protecting them from an unexpected change in circumstances and allowing them to assess objectively transactions that could potentially impact their job security.

Recognizing the importance of severance arrangements to the Company and its shareholders, the Compensation Committee and the non-management Trustees adopted the following policy for shareholder approval of certain severance arrangements.

Policy

The Company will submit for approval by holders of its common shares any Future Severance Arrangement with a Senior Executive Officer of the Company that would provide for Severance Benefits that exceed 2.99 times the sum of the Senior Executive Officer's Salary and Bonus (the Policy). The Company may, however, agree to provide Severance Benefits conditioned on a subsequent favorable shareholder vote of such agreement.

Policy Effective Date

The Policy shall become effective on February 15, 2005 (the Effective Date).

Senior Executive Officers

The Senior Executive Officers subject to the Policy shall be employees of the Company holding the office of Chief Executive Officer, President, Chief Financial Officer or Senior Vice President.

Severance Agreements

For the purposes of the Policy, a Future Severance Arrangement shall mean an employment agreement, a retirement agreement or a change in control agreement containing severance provisions with a Senior Executive Officer entered into with the Senior Executive Officer after the Effective Date; provided, however that a Future Severance Arrangement shall not include any agreement entered into with an individual who at the time of the effectiveness of such agreement was not a Senior Executive Officer, even if that individual later becomes a Senior Executive Officer. Any agreement entered into with a Senior Executive Officer prior to the Effective Date is not a Future Severance Agreement even if the agreement is renewed or amended after the Effective Date.

Salary and Bonus

Salary and Bonus subject to the Policy means the sum of (i) the greater of a Senior Executive Officer's base annual salary in effect (a) on the date of the termination of employment of the Senior Executive Officer or (b) for the fiscal year immediately preceding the fiscal year in which such employment termination occurs plus (ii) the greater of the Senior Executive Officer's (x) targeted annual bonus for the year in which the Senior Executive Officer's employment terminates or (y) the annual bonus paid or payable to the Senior Executive Officer for the fiscal year immediately preceding the fiscal year in which such employment termination occurs.

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Severance Benefits

Severance Benefits subject to the Policy mean cash separation benefits that directly relate to salary and bonus and extraordinary benefits that are not of a type available to groups of employees other than Senior Executive Officers upon termination of employment. Notwithstanding the foregoing, the following are not Severance Benefits and are not limited by the Policy:

Amounts earned or accrued for services prior to termination (such as earned but unpaid salary, pro rata bonus or unused vacation pay).

Retirement benefits earned or accrued under qualified and non-qualified retirement plans or deferred compensation plans.

Amounts payable for the uncompleted term of an employment agreement.

The value of benefits provided under programs generally applicable to Company's employees.

Accelerated vesting of restricted shares, options to acquire shares, share appreciation rights or other long term equity or cash incentives, or the value or payment on account of any shares, options, rights or other incentives awarded prior to the executive's termination of employment.

The value of the continued use of a corporate office or administrative support.

Any benefit or payment required by law.

Amounts paid following termination of employment for consulting services on market terms.

Amounts paid for post-termination covenants (such as a covenant not to compete).

Tax gross-up payments made in connection with severance benefits, including gross-up payments under Internal Revenue Code Section 280G.

Vote Required

A Future Severance Agreement subject to shareholder approval under the Policy will be deemed to have been approved if it receives the affirmative vote of a majority of all votes cast on the matter by holders of common shares.

Reservation of Rights

The Board reserves the right to modify or terminate the Policy at any time in its discretion. All interpretations of the policy by the Board or the Compensation Committee shall be final.

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APPENDIX C

BRANDYWINE REALTY TRUST
AMENDED AND RESTATED 1997 LONG-TERM INCENTIVE PLAN
(As amended effective May 2, 2005)

SECTION 1. Purpose; Definitions. The purpose of the Brandywine Realty Trust 1997 Long-Term Incentive Plan (the Plan) is to offer to certain employees and trustees of Brandywine Realty Trust (the Company), organized as a Maryland real estate investment trust, and its subsidiaries, equity interests in the Company, options to acquire equity interests in the Company, and other performance-based incentive awards, thereby attracting, retaining and motivating such persons, and strengthening the mutuality of interests between such persons and the Company's shareholders. The Plan was originally adopted effective May 12, 1997 and has been amended with shareholder approval effective May 15, 1998 and May 2, 2005.

For purposes of the Plan, the following initially capitalized words and phrases shall be defined as set forth below, unless the context clearly requires a different meaning:

- a. **Affiliate** means, with respect to a person or entity, a person that directly or indirectly controls, or is controlled by, or is under common control with such person or entity.
- b. **Board** means the Board of Trustees of the Company, as constituted from time to time.
- c. **Cause** occurs when the Participant, as determined by the Board:
 - (i) has engaged in any type of disloyalty to the Company, including without limitation, fraud, embezzlement, theft, or dishonesty in the course of his employment or engagement, or has otherwise breached any fiduciary duty owed to the Company;
 - (ii) has been convicted of a felony;
 - (iii) has disclosed trade secrets or confidential information of the Company; or
 - (iv) has breached any agreement with or duty to the Company in respect of confidentiality, non-disclosure, non-competition or otherwise.
- d. **Change of Control** means:
 - (i) the acquisition in one or more transactions by any Person (as the term person is used for purposes of Sections 13(d) or 14(d) of the Exchange Act) of Beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of twenty-five percent (25%) or more of the combined voting power of the Company's then outstanding voting securities (the Voting Securities), provided that for purposes of this clause (i) Voting Securities acquired directly from the Company by any Person shall be excluded from the determination of such Person's Beneficial ownership of Voting Securities (but such Voting Securities shall be included in the calculation of the total number of Voting Securities then outstanding); or
 - (ii) approval by shareholders of the Company of:
 - (A) a merger, reorganization or consolidation involving the Company if the shareholders of the Company immediately before such merger, reorganization or consolidation do not or will not own directly or indirectly immediately following such merger, reorganization or consolidation, more than fifty percent (50%) of the combined voting power of the outstanding voting securities of the company resulting from or surviving such merger, reorganization or consolidation in substantially the same proportion as their ownership of the Voting Securities outstanding immediately before such merger, reorganization or consolidation; or
 - (B) a complete liquidation or dissolution of the Company; or

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(C) an agreement for the sale or other disposition of all or substantially all of the assets of the Company; or

(iii) acceptance by shareholders of the Company of shares in a share exchange if the shareholders of the Company immediately before such share exchange do not or will not own directly or indirectly immediately following such share exchange more than fifty percent (50%) of the combined voting power of the outstanding voting securities of the entity resulting from or surviving such share exchange in substantially the same proportion as their ownership of the Voting Securities outstanding immediately before such share exchange; or

(iv) a change in the composition of the Board over a period of twenty four (24) months or less such that a majority of the Board members ceases to be comprised of individuals who either: (i) have been board members continuously since the beginning of such period; or (ii) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (i) who were still in office at the time such election or nomination was approved by the Board.

e. Code means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto.

f. Committee shall mean the Committee appointed by the Board in accordance with Section 2 of the Plan, if one is appointed, in which event in connection with this Plan, the Committee shall possess all of the power and authority of, and shall be authorized to take any and all actions required to be taken hereunder by, and make any and all determinations required to be taken hereunder by, the Board.

g. Disability shall mean a disability of an employee or a trustee which renders such employee or trustee unable to perform the full extent of his duties and responsibilities by reason of his illness or incapacity which would entitle that employee or trustee to receive Social Security Disability Income under the Social Security Act, as amended, and the regulations promulgated thereunder. Disabled shall mean having a Disability. The determination of whether a Participant is Disabled shall be made by the Board, whose determination shall be conclusive; provided that,

(i) if a Participant is bound by the terms of an employment agreement between the Participant and the Company, whether the Participant is Disabled for purposes of the Plan shall be determined in accordance with the procedures set forth in said employment agreement, if such procedures are therein provided; and

(ii) a Participant bound by such an employment agreement shall not be determined to be Disabled under the Plan any earlier than he would be determined to be disabled under his employment agreement.

h. Exchange Act means the Securities Exchange Act of 1934, as amended.

i. Fair Market Value means, as of any date: (i) the closing price of the Shares as reported on the principal nationally recognized stock exchange on which the Shares are traded on such date, or if no Share prices are reported on such date, the closing price of the Shares on the next preceding date on which there were reported Share prices; or (ii) if the Shares are not listed or admitted to unlisted trading privileges on a nationally recognized stock exchange, the closing price of the Shares as reported by The NASDAQ Market on such date, or if no Share prices are reported on such date, the closing price of the Shares on the next preceding date on which there were reported Share prices; or (3) if the Shares are not listed or admitted to unlisted trading privileges on a nationally recognized stock exchange or traded on The NASDAQ Market, then the Fair Market Value shall be determined by the Board acting in its discretion, which determination shall be conclusive.

j. Incentive Stock Option means any Option intended to be and designated as an Incentive Stock Option within the meaning of Section 422 of the Code.

k. Long-Term Performance Award or Long-Term Award means an award made pursuant to Section 8 hereof that is payable in cash and/or Shares (including Restricted Shares, Performance Shares and Performance Units) in accordance with the terms of the grant, based on Company, business unit and/or individual performance, in each case as determined by the Committee and as set forth in the grant letter.

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l. **Non-Employee Trustee** shall have the meaning set forth in Rule 16b-3(b)(3) promulgated by the Securities and Exchange Commission under the Exchange Act, or any successor definition adopted by the Securities and Exchange Commission (substituting the word trustee for director); provided, however, that the Board or the Committee may, in its sole discretion, substitute the definition of outside director provided in the regulations under Section 162(m) of the Code in place of the definition of Non-Employee Director contained in the Exchange Act.

m. **Non-Qualified Stock Option** means any Option that is not an Incentive Stock Option.

n. **Participant** means an employee or trustee of the Company or a Subsidiary to whom an award is granted pursuant to the Plan.

o. **Performance Share** means an award made pursuant to Section 9 hereof of the right to receive Shares at the end of a specified performance period.

p. **Performance Unit** means an award made pursuant to Section 10 hereof of the right to receive cash at the end of a specified performance period.

q. **Restricted Shares** means an award of Shares that is subject to restrictions pursuant to Section 7 hereof.

r. **Retirement** means termination of the employment of a Participant with the Company, an Affiliate (including parent) or a Subsidiary other than (i) a termination effected at the direction of the Company or parent (whether or not the Company effects such termination for Cause), (ii) termination on account of Disability, or (iii) termination on account of death. With respect to a trustee who is not also an employee of the Company, Retirement shall occur at such time as the individual ceases to be a trustee.

s. **Rules** means Section 16 of the Exchange Act and the regulations promulgated thereunder.

t. **SAR** means a share appreciation right granted under the Plan and described in Section 6 hereof.

u. **Securities Broker** means a registered securities broker acceptable to the Company who agrees to effect the cashless exercise of an Option pursuant to Section 5(k) hereof.

v. **Share** means a common share of beneficial interest, \$.01 par value per share, of the Company, subject to substitution or adjustment as provided in Section 3(c) hereof.

w. **Stock Option** or **Option** means any option to purchase Shares (including Restricted Shares, if the Committee so determines) granted pursuant to Section 5 hereof.

x. **Subsidiary** means, in respect of the Company or parent, a subsidiary company, whether now or hereafter existing, as defined in Sections 424(f) and (g) of the Code, and any other entity 50% or more of the economic interests in which are owned, directly or indirectly, by the Company.

y. **Trustee** means a member of the Board.

SECTION 2. Administration. The Plan shall be administered by the Board. The Board may at any time by a unanimous vote, with each member voting, appoint a Committee consisting of not less than two Trustees to administer the Plan on behalf of the Board, subject to such terms and conditions as the Board may prescribe, provided that each Committee member shall be a Non-Employee Trustee. Members of the Committee shall serve for such period of time as the Board may determine. Members of the Board or the Committee who are eligible for awards or have been granted awards may vote on any matters affecting the administration of the Plan or any awards pursuant to the Plan.

If a Committee is appointed, all references to actions to be taken by the Board in the administration of the Plan shall be construed as references to the Committee.

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From time to time the Board may increase the size of the Committee and appoint additional members thereto (provided such new members are Non-Employee Trustees), remove members (with or without Cause) and appoint new members in substitution therefor, fill vacancies however caused, or remove all members of the Committee and thereafter directly administer the Plan.

The Board shall have full authority to grant to eligible persons under Section 4: (i) Options, (ii) SARs, (iii) Restricted Shares, (iv) Long-Term Performance Awards, (v) Performance Shares and/or (vi) Performance Units. In particular, the Board shall have the authority:

- a. to select the persons to whom Options, SARs, Restricted Shares, Long-Term Performance Awards, Performance Shares and Performance Units may from time to time be granted hereunder;
- b. to determine whether and to what extent Incentive Stock Options, Non-Qualified Stock Options, SARs, Restricted Shares, Long-Term Performance Awards, Performance Shares and Performance Units, or any combination thereof, are to be granted hereunder;
- c. to determine the number of Shares, if any, to be covered by each such award granted hereunder;
- d. to determine the terms and conditions, not inconsistent with the terms of the Plan, of any award granted hereunder, including, but not limited to, the Share price and any restriction or limitation, any vesting provisions, or any vesting acceleration or forfeiture waiver regarding any Option or other award and/or the Shares relating thereto, or the length of the period following termination of employment of any Participant during which any Option or SAR may be exercised (which, in the case of an Incentive Stock Option, shall be no longer than one year in the case of the termination of employment of a Participant by reason of death or Disability, or three months in the case of the termination of employment of a Participant for any reason other than death or Disability), based on such factors as the Board shall determine, in its sole discretion;
- e. to determine whether and under what circumstances an Option may be exercised without a payment of cash under Section 5(k); and
- f. to determine whether, to what extent and under what circumstances Shares and other amounts payable with respect to an award under the Plan may be deferred either automatically or at the election of the Participant; and
- g. to make such arrangements with a Subsidiary for awards to be made to a Participant by such Subsidiary and for the transfer of Shares to such Subsidiary for the purpose of delivery to such Participant, as the Board may deem necessary or appropriate to further the purposes of the Plan.

The Board shall have the authority to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall, from time to time, deem advisable; to interpret the terms and provisions of the Plan and any award issued under the Plan (and any agreements relating thereto); to amend the terms of any agreement relating to any award issued under the Plan, provided that the Participant consents to such amendment; and to otherwise supervise the administration of the Plan. The Board may correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any award granted in the manner and to the extent it shall deem necessary to carry out the intent of the Plan.

All decisions made by the Board pursuant to the provisions of the Plan shall be final and binding on all persons, including the Company and Participants. No member of the Board shall be liable for any good faith determination, act or failure to act in connection with the Plan or any award made under the Plan.

SECTION 3. Shares Subject to the Plan.

- a. Shares Subject to the Plan. The Shares to be subject or related to awards under the Plan shall be authorized and unissued Shares of the Company or Shares previously issued and subsequently acquired by or on behalf of the Company. The maximum number of Shares available for awards under the Plan is 6,600,000. Of such Shares, (1) 6,100,000 shall be available for Non-Qualified Stock Options, Incentive Stock Options, Restricted Shares, SARS, Long-Term Performance Awards and/or Performance Shares; and (2) 500,000 shall be available

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solely for Non-Qualified Stock Options, Incentive Stock Options and SARS that meet the Specified Limitation described below in this Section 3(a) (such 500,000 Shares referred to in this clause (2) being hereinafter referred to as the Restricted Pool). The Company may reserve for the purposes of the Plan 6,600,000 Shares. If and to the extent that an SAR, Long-Term Performance Award or Performance Unit is settled in cash or payable solely in cash, such award shall not reduce the number of Shares subject to the Plan. No individual shall be granted, over the term of the Plan, Options or SARs exercisable for more than an aggregate of 4,500,000 Shares. In order for a Non-Qualified Stock Option or Incentive Stock Option to meet the Specified Limitation, it must have an exercise price per Share purchasable under the Option of not less than 100% of the Fair Market Value of the Share on the date of the grant, and in order for an SAR to meet the Specified Limitation, it must entitle the recipient to receive, upon exercise thereof, the excess of the Fair Market Value of the Share covered by the SAR on the date of exercise over the Fair Market Value of a Share on the date of the grant.

b. **Effect of the Expiration or Termination of Awards.** If and to the extent that an award made under the Plan expires, terminates or is canceled or forfeited for any reason, the number of Shares associated with the expired, terminated, canceled or forfeited portion of the award shall again become available for award under the Plan.

c. **Other Adjustment.** In the event of any merger, reorganization, consolidation, recapitalization, Share distribution or dividend, Share split or combination, or other change in entity structure affecting the Shares, such substitution or adjustment shall be made in the aggregate number, type and issuer of the securities reserved for issuance under the Plan, in the number and Option price of securities subject to outstanding Options granted under the Plan and in the number and price of securities subject to other awards made under the Plan, as may be determined to be appropriate by the Board in its sole discretion, provided that the number of securities subject to any award shall always be a whole number. The Board, in its sole discretion, shall make appropriate equitable anti-dilution adjustments to the number of then-outstanding SARs, and to the Fair Market Value upon which the value of such SARs is based.

SECTION 4. Eligibility. Trustees and other employees of the Company or its Subsidiaries are eligible to be granted awards under the Plan. Trustees and other employees who are not employees of the Company or of a Subsidiary that is a subsidiary as defined in Section 424(f) and (g) of the Code, are eligible to be granted awards under the Plan, but are not eligible to be granted Incentive Stock Options.

SECTION 5. Options. Options granted under the Plan may be of two types: (i) Incentive Stock Options or (ii) Non-Qualified Stock Options. Options may be granted alone, in addition to or in tandem with other awards granted under the Plan. Any Option granted under the Plan shall be in such form as the Board may from time to time approve.

The Board shall have the authority to grant any Participant eligible under Section 4 Incentive Stock Options, Non-Qualified Stock Options, or both types of Options (in each case with or without SARs). To the extent that any Option does not qualify as an Incentive Stock Option, it shall constitute a Non-Qualified Stock Option.

Options granted under the Plan shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Board shall deem appropriate; provided, however, that the provisions of Option awards need not be the same with respect to each Participant:

a. **Option Price.** The exercise price per Share purchasable under a Non-Qualified Stock Option shall be determined by the Board; provided that the exercise price per Share of an Option awarded under the Restricted Pool shall meet the Specified Limitation; and the exercise price per Share purchasable under an Incentive Stock Option shall be 100% of the Fair Market Value of the Share on the date of the grant. However, any Incentive Stock Option granted to any Participant who, at the time the Option is granted, owns more than 10% of the voting power of all classes of shares of the Company or of a Subsidiary that is a subsidiary company as defined in Section 424(f) and (g) of the Code, shall have an exercise price per Share of not less than 110% of Fair Market Value per Share on the date of the grant.

b. **Option Term.** The term of each Option shall be fixed by the Board, but no Option shall be exercisable more than ten years after the date the Option is granted. However, any Incentive Stock Option granted to any Participant who, at the time such Option is granted, owns more than 10% of the voting power of all classes of shares of the Company or of a Subsidiary that is a subsidiary company as defined in Section 424(f) and (g)

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of the Code, may not have a term of more than five years. No Option may be exercised by any person after expiration of the term of the Option.

c. **Exercisability.** Options shall vest and be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Board at the time of grant. If the Board provides, in its discretion, that any Option is exercisable only in installments, the Board may waive such installment exercise provisions at any time at or after grant, in whole or in part, based on such factors as the Board shall determine, in its sole discretion.

d. **Method of Exercise.** Subject to the exercise provisions under Section 5(c) and the termination provisions set forth in Sections 5(f) through (i), Options may be exercised in whole or in part at any time and from time to time during the term of the Option, by giving written notice of exercise to the Company specifying the number of Shares to be purchased. Such notice shall be accompanied by payment in full of the purchase price, either by certified or bank check, or such other instrument as the Board may accept. As determined by the Board, in its sole discretion, at or after grant, payment in full or in part of the exercise price of an Option may be made in the form of Shares that are not unvested Restricted Shares based on the Fair Market Value of the Shares on the date the Option is exercised; provided, however, that, in the case of an Incentive Stock Option, the right to make a payment in the form of already owned Shares may be authorized only at the time the Option is granted.

No Shares shall be issued upon exercise of an Option until full payment therefor has been made. A Participant shall not have the right to distributions or dividends or any other rights of a shareholder with respect to Shares subject to the Option until the Participant has given written notice of exercise, has paid in full for such Shares, and, if requested, has given the representation described in Section 13(a) hereof.

e. **Non-transferability of Options.** Unless otherwise determined by the Board, no Option shall be transferable by the Participant otherwise than by will or by the laws of descent and distribution and all Options shall be exercisable, during the Participant's lifetime, only by the Participant or, in the event of his Disability, by his personal representative.

f. **Termination by Reason of Death.** Subject to Section 5(i), if a Participant's service with the Company or any Subsidiary terminates by reason of death, any Option held by such Participant may thereafter be exercised, to the extent then exercisable or on such accelerated basis as the Board may determine at or after grant, by the legal representative of the estate or by the legatee of the Participant under the will of the Participant, for a period expiring (i) at such time as may be specified by the Board at or after the time of grant, or (ii) if not specified by the Board, then one year from the date of death, or (iii) if sooner than the applicable period specified under (i) or (ii) above, then upon the expiration of the stated term of such Option.

g. **Termination by Reason of Disability.** Subject to Section 5(i), if a Participant's service with the Company or any Subsidiary terminates by reason of Disability, any Option held by such Participant may thereafter be exercised by the Participant or his personal representative, to the extent it was exercisable at the time of termination, or on such accelerated basis as the Board may determine at or after grant, for a period expiring (i) at such time as may be specified by the Board at or after the time of grant, or (ii) if not specified by the Board, then six months from the date of termination of service, or (iii) if sooner than the applicable period specified under (i) or (ii) above, then upon the expiration of the stated term of such Option; provided, however, that if the Participant dies within such period, any unexercised Option held by such Participant shall, at the sole discretion of the Board, thereafter be exercisable to the extent to which it was exercisable at the time of death for a period of one (1) year from the date of such death (or such other period as may be specified by the Board) or until the expiration of the stated term of such Option, whichever period is shorter.

h. **Other Termination.** Subject to Section 5(i), if a Participant's service with the Company or any Subsidiary terminates for any reason other than death or Disability, any Option held by such Participant may thereafter be exercised by the Participant, to the extent it was exercisable at the time of such termination or on such accelerated basis as the Board may determine at or after the time of grant, for a period expiring (i) at such time as may be specified by the Board at or after the time of grant, or (ii) if not specified by the Board, then thirty (30) days from the date of termination of service, or (iii) if sooner than the applicable period specified under (i) or (ii) above, then upon the expiration of the stated term of such Option.

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i. **Change of Control.** In the event of a Change of Control, the Board may, in its sole discretion, cause all outstanding Options to immediately become fully exercisable.

j. **Incentive Stock Option Limitations.** To the extent required for incentive stock option status under Section 422 of the Code, the aggregate Fair Market Value (determined as of the time of grant) of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Participant during any calendar year under the Plan and/or any other plan of the Company or any Subsidiary shall not exceed \$100,000. For purposes of applying the foregoing limitation, Incentive Stock Options shall be taken into account in the order granted.

k. **Cashless Exercise.** The Company may, in the sole discretion of the Board, cooperate in a cashless exercise of an Option. The cashless exercise shall be effected by the Participant delivering to the Securities Broker instructions to sell a sufficient number of Shares to cover the costs and expenses associated therewith.

SECTION 6. Share Appreciation Rights.

a. **Grant.** SARs may be granted alone (Stand-Alone SARs) or in conjunction with all or part of any Option granted under the Plan (Tandem SARs). In the case of a Non-Qualified Stock Option, a Tandem SAR may be granted either at or after the time of the grant of such Option. In the case of an Incentive Stock Option, a Tandem SAR may be granted only at the time of the grant of such Option.

b. **Exercise.**

(i) **Tandem SARs.** A Tandem SAR or applicable portion thereof shall terminate and no longer be exercisable upon the termination or exercise of the related Option or portion thereof, except that, unless otherwise determined by the Board, in its sole discretion at the time of grant, a Tandem SAR granted with respect to less than the full number of Shares covered by a related Option shall be reduced only after such related Option is exercised or otherwise terminated with respect to the number of Shares not covered by the Tandem SAR.

A Tandem SAR may be exercised by a Participant by surrendering the applicable portion of the related Option, only at such time or times and to the extent that the Option to which such Tandem SAR relates shall be exercisable in accordance with the provisions of Section 5 and this Section 6. Options which have been so surrendered, in whole or in part, shall no longer be exercisable to the extent the related Tandem SARs have been exercised.

Upon the exercise of a Tandem SAR, a Participant shall be entitled to receive, upon surrender to the Company of all (or a portion) of an Option in exchange for cash and/or Shares, an amount equal to the excess of (A) the Fair Market Value, as of the date such Option (or such portion thereof) is surrendered, of the Shares covered by such Option (or such portion thereof) over (B) the aggregate exercise price of such Option (or such portion thereof).

Upon the exercise of a Tandem SAR, the Option or part thereof to which such Tandem SAR is related shall be deemed to have been exercised and (for the purpose of the limitation set forth in Section 3(a) of the Plan on the number of Shares available for awards under the Plan) the number of Shares available for awards under the Plan shall be reduced by the number of Shares, if any, issued upon such exercise; provided however, that if the Tandem SAR is from the Restricted Pool (as defined in Section 3(a) of the Plan), then the number of Shares available for awards under the Plan shall instead be reduced by the total number of Tandem SARs that are exercised and settled for Shares and not the number of Shares, if any, issued upon such exercise.

A Tandem SAR may be exercised only if and when the Fair Market Value of the Shares subject to the Option exceeds the exercise price of such Option.

(ii) **Stand-Alone SARs.** A Stand-Alone SAR may be exercised by a Participant giving notice of intent to exercise to the Company, provided that all or a portion of such Stand-Alone SAR shall have become vested and exercisable as of the date of exercise.

Upon the exercise of a Stand-Alone SAR, a Participant shall be entitled to receive, in either cash and/or Shares, as determined by the Board, an amount equal to the excess, if any, of (A) the Fair Market Value, as of the

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date such SAR (or portion of such SAR) is exercised, of the Shares covered by such SAR (or portion of such SAR) over (B) the Fair Market Value of the Shares covered by such SAR (or a portion of such SAR) as of the date such SAR (or a portion of such SAR) was granted.

For the purpose of the limitation set forth in Section 3(a) of the Plan on the number of Shares available for awards under the Plan, upon the exercise of a Stand-Alone SAR, the number of Shares available for awards under the Plan shall be reduced by the number of Shares, if any, issued under, and upon the exercise of, the Stand-Alone SAR; provided however, that if the Stand-Alone SAR is from the Restricted Pool (as defined in Section 3(a) of the Plan), then the number of Shares available for awards under the Plan shall instead be reduced by the total number of Stand-Alone SARs that are exercised and settled for Shares and not the number of Shares, if any, issued upon such exercise.

c. **Terms and Conditions.** SARs shall be subject to such terms and conditions, not inconsistent with the provisions of the Plan, as shall be determined from time to time by the Board, in its sole discretion; provided, however, that the provisions of SAR awards need not be the same with respect to each Participant. Such terms and conditions include the following:

(i) **Non-Transferability.** Unless otherwise determined by the Board, no SAR shall be transferable by the Participant otherwise than by will or by the laws of descent and distribution and all SARs shall be exercisable, during the Participant's lifetime, only by the Participant or, in the event of his Disability, by his personal representative.

(ii) **Term of SAR.** The term of each SAR shall be fixed by the Board, provided that the term of a Tandem SAR shall be determined by the terms of the applicable Option, and provided further that the term of a Stand-Alone SAR shall be ten (10) years, unless another term is specified by the Board.

(iii) **Exercisability.** SARs shall vest and be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Board at the time of grant, provided that the term of a Tandem SAR shall be determined by the terms of the applicable Option. A Participant shall not have any rights as a shareholder with respect to any SAR.

(iv) **Termination of Employment.** Unless otherwise specified in the terms of an award, SARs shall be subject to the terms of Sections 5(f)-(h) with respect to exercise upon termination of employment.

(v) **Change of Control.** In the event of a Change of Control, the Board may, in its sole discretion, cause all outstanding SARs to immediately become fully exercisable.

SECTION 7. Restricted Shares.

a. **Administration.** Restricted Shares may be issued either alone or in addition to other awards granted under the Plan. The Board shall determine the persons to whom, and the time or times at which, grants of Restricted Shares will be made, the number of Shares to be awarded, the price (if any) to be paid by the recipient of Restricted Shares, the time or times within which such awards may be subject to forfeiture, and all other conditions of the awards.

The Board may condition the vesting of Restricted Shares upon the attainment of specified performance goals or such other factors as the Board may determine, in its sole discretion, at the time of the award. The Board may award Restricted Shares that vest without regard to the attainment of specified performance goals.

The provisions of Restricted Share awards need not be the same with respect to each Participant.

b. **Awards and Certificates.** The prospective recipient of a Restricted Share award shall not have any rights with respect to such award, unless and until such recipient has executed an agreement evidencing the award and has delivered a fully executed copy thereof to the Company, and has otherwise complied with the applicable terms and conditions of such award. The purchase price for Restricted Shares may be zero.

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Each Participant receiving a Restricted Share award shall be issued a share certificate in respect of such Restricted Shares. Such certificate shall be registered in the name of such Participant, and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such award, substantially in the following form:

The transferability of this certificate and the shares represented hereby are subject to the terms and conditions (including forfeiture) of the Brandywine Realty Trust Amended and Restated 1997 Long-Term Incentive Plan, as amended, and an Agreement entered into between the registered owner and Brandywine Realty Trust. Copies of such Plan and Agreement are on file in the principal offices of Brandywine Realty Trust and will be made available to any Shareholder without charge upon request to the Secretary of the Company.

The Board may require that the share certificates evidencing Restricted Shares be held in custody by the Company until the restrictions thereon shall have lapsed, and that, as a condition of any Restricted Share award, the Participant shall have delivered to the Company a share power, endorsed in blank, relating to the Shares covered by such award.

c. **Restrictions and Conditions.** The Restricted Shares awarded pursuant to this Section 7 shall be subject to the following restrictions and conditions:

(i) During a period set by the Board commencing with the date of such award (the Restriction Period), the Participant shall not be permitted to sell, transfer, pledge, assign or otherwise encumber Restricted Shares awarded under the Plan. The Board, in its sole discretion, may provide for the lapse of such restrictions in installments and may accelerate or waive such restrictions in whole or in part, based on service, performance and/or such other factors or criteria as the Board may determine, in its sole discretion. The Board may, in its sole discretion, issue Restricted Shares under the Plan for which all restrictions are waived, including, but not limited to, Restricted Shares issued to Trustees as part or all of their Trustees' fees for any period.

(ii) Except as provided in this paragraph (ii) and Section 7(c)(i), once the Participant has been issued a certificate or certificates for Restricted Shares, the Participant shall have, with respect to the Restricted Shares, all of the rights of a shareholder of the Company, including the right to vote the Shares, and the right to receive any cash distributions or dividends. The Board, in its sole discretion, as determined at the time of award, may permit or require the payment of cash distributions or dividends to be deferred and, if the Board so determines, reinvested in additional Restricted Shares to the extent Shares are available under Section 3 of the Plan.

(iii) Subject to the applicable provisions of the award agreement and this Section 7, upon termination of a Participant's service with the Company for reasons other than death or Disability during the Restriction Period, all Restricted Shares still subject to restriction shall be forfeited by the Participant. Subject to the provisions of the Plan, the Board, in its sole discretion, may provide for the lapse of such restrictions in installments and may waive such restrictions, in whole or in part, at any time, based on such factors as the Board shall deem appropriate in its sole discretion. Unless otherwise provided in an award agreement, upon the death or Disability of a Participant during the Restriction Period, restrictions will lapse with respect to a percentage of the Restricted Shares awarded granted to the Participant that is equal to the percentage of the Restriction Period that has elapsed as of the date of death or the date on which such Disability commenced (as determined by the Board in its sole discretion), and a share certificate or share certificates representing such Shares, without bearing the restrictive legend described in Section 7(b), shall be delivered by the Company to the Participant or the Participant's estate, as the case may be, in exchange for the share certificate or share certificates that contain such restrictive legend.

(iv) In the event of hardship or other special circumstances of a Participant whose service with the Company is involuntarily terminated (other than for Cause), the Board may, in its sole discretion, waive in whole or in part any or all remaining restrictions with respect to such Participant's Restricted Shares, based on such factors as the Board may deem appropriate.

(v) If and when the Restriction Period expires without a prior forfeiture of the Restricted Shares subject to such Restriction Period, the certificates for such Shares, without bearing the restrictive legend described in Section 7(b), shall be promptly delivered by the Company to the Participant, in exchange for the share certificate or share certificates that contain such restrictive legend.

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(vi) In the event of a Change of Control, the Board, in its sole discretion, may cause all Restricted Shares remaining subject to forfeiture to immediately cease to be subject to forfeiture and a share certificate or shares certificates representing such Shares, without bearing the restrictive legend described in Section 7(b), shall be issued by the Company and delivered to the Participant, in exchange for the share certificate or share certificates that contain such restrictive legend.

SECTION 8. Long-Term Performance Awards.

a. **Awards and Administration.** Long-Term Performance Awards may be awarded either alone or in addition to other awards granted under the Plan. Prior to award of a Long-Term Performance Award, the Board shall determine the nature, length and starting date of the performance period (the performance period) for each Long-Term Performance Award. Performance periods may overlap and Participants may participate simultaneously with respect to Long-Term Performance Awards that are subject to different performance periods and/or different performance factors and criteria. Prior to award of a Long-Term Performance Award, the Board shall determine the performance objectives to be used in awarding Long-Term Performance Awards and determine the extent to which such Long-Term Performance Awards have been earned. Performance objectives may vary from Participant to Participant and between groups of Participants and shall be based upon such Company, business unit and/or individual performance factors and criteria as the Board may deem appropriate, including, but not limited to, earnings per Share or return on equity.

At the beginning of each performance period, the Board shall determine for each Long-Term Performance Award subject to such performance period the range of dollar values and/or number of Shares to be awarded to the Participant at the end of the performance period if and to the extent that the relevant measure(s) of performance for such Long-Term Performance Award is (are) met. Such dollar values or number of Shares may be fixed or may vary in accordance with such performance and/or other criteria as may be specified by the Board, in its sole discretion.

b. **Adjustment of Awards.** In the event of special or unusual events or circumstances affecting the application of one or more performance objectives to a Long-Term Performance Award, the Board may revise the performance objectives and/or underlying factors and criteria applicable to the Long-Term Performance Awards affected, to the extent deemed appropriate by the Board, in its sole discretion, to avoid unintended windfalls or hardship.

c. **Termination of Service.** Unless otherwise provided in the applicable award agreements, if a Participant terminates service with the Company during a performance period because of death, Disability or Retirement, such Participant (or his estate) shall be entitled to a payment with respect to each outstanding Long-Term Performance Award at the end of the applicable performance period:

(i) based, to the extent relevant under the terms of the award, upon the Participant's performance for the portion of such performance period ending on the date of termination and the performance of the applicable business unit(s) for the entire performance period, and

(ii) pro-rated, where deemed appropriate by the Board, for the portion of the performance period during which the Participant was employed by or served on the Board of the Company, all as determined by the Board, in its sole discretion.

However, the Board may provide for an earlier payment in settlement of such award in such amount and under such terms and conditions as the Board deems appropriate, in its sole discretion.

Except as otherwise determined by the Board, if a Participant terminates service with the Company during a performance period for any other reason, then such Participant shall not be entitled to any payment with respect to the Long-Term Performance Awards subject to such performance period, unless the Board shall otherwise determine, in its sole discretion.

In the event of a Change of Control, the Board may, in its sole discretion, cause all conditions applicable to a Long-Term Performance Award to immediately terminate and a share certificate or share certificates representing Shares subject to such award, or cash, as the case may be, to be issued and/or delivered to the Participant.

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d. **Form of Payment.** The earned portion of a Long-Term Performance Award may be paid currently or on a deferred basis, together with such interest or earnings equivalent as may be determined by the Board, in its sole discretion. Payment shall be made in the form of cash or whole Shares, including Restricted Shares, either in a lump sum payment or in annual installments commencing as soon as practicable after the end of the relevant performance period, all as the Board shall determine at or after grant. A Participant whose Long-Term Performance Award is payable in Shares or Restricted Shares shall not have any rights as a shareholder until such share certificate or share certificates have been issued to such Participant, and, if requested, the Participant has given the representation described in Section 13(a) hereof.

SECTION 9. Performance Shares.

a. **Awards and Administration.** The Board shall determine the persons to whom and the time or times at which Performance Shares shall be awarded, the number of Performance Shares to be awarded to any such person, the duration of the period (the performance period) during which, and the conditions under which, receipt of the Shares will be deferred, and the other terms and conditions of the award in addition to those set forth below.

The Board may condition the receipt of Shares pursuant to a Performance Share award upon the attainment of specified performance goals or such other factors or criteria as the Board shall determine, in its sole discretion.

The provisions of Performance Share awards need not be the same with respect to each Participant, and such awards to individual Participants need not be the same in subsequent years.

b. **Terms and Conditions.** Performance Shares awarded pursuant to this Section 9 shall be subject to the following terms and conditions and such other terms and conditions, not inconsistent with the terms of this Plan, as the Board shall deem desirable:

(i) **Conditions.** The Board, in its sole discretion, shall specify the performance period during which, and the conditions under which, the receipt of Shares covered by the Performance Share award will be deferred.

(ii) **Share Certificate.** At the expiration of the performance period, if the Board, in its sole discretion, determines that the conditions specified in the Performance Share agreement have been satisfied, a share certificate or share certificates evidencing the number of Shares covered by the Performance Share award shall be issued and delivered to the Participant. A Participant shall not be deemed to be the holder of Shares, or to have the rights of a holder of Shares, with respect to the Performance Shares unless and until a share certificate or share certificates evidencing such Shares are issued to such Participant. If, with respect to an award of Performance Shares, the Board determines after the expiration of the performance period that a Participant is not entitled to the entire number of Performance Shares represented by the award, then the Shares representing the portion of the award that is not paid to the Participant shall again become available for award under the Plan, subject to Section 3(b).

(iii) **Death, Disability or Retirement.** Subject to the provisions of the Plan, and unless otherwise provided in the Performance Share Agreement, if a Participant terminates service with the Company during a performance period because of death, Disability or Retirement, such Participant (or his estate) shall be entitled to receive, at the expiration of the performance period, a percentage of Performance Shares that is equal to the percentage of the performance period that had elapsed as of the date of termination, provided that the Board, in its sole discretion, determines that the conditions specified in the Performance Share agreement have been satisfied. In such event, a share certificate or share certificates evidencing such Shares shall be issued and delivered to the Participant or the Participant's estate, as the case may be.

(iv) **Termination of Service.** Unless otherwise determined by the Board at the time of grant, the Performance Shares will be forfeited upon a termination of service during the performance period for any reason other than death, Disability or Retirement.

(v) **Change of Control.** In the event of a Change of Control, the Board may, in its sole discretion, cause all conditions applicable to the Performance Shares to immediately terminate and a share

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certificate or share certificates evidencing Shares subject to the Share award to be issued and delivered to the Participant.

SECTION 10. Performance Units.

a. **Awards and Administration.** The Board shall determine the persons to whom and the time or times at which Performance Units shall be awarded, the number of Performance Units to be awarded to any such person, the duration of the period (the performance period) during which, and the conditions under which, a Participant's right to Performance Units will be vested, the ability of Participants to defer the receipt of payment of such Performance Units, and the other terms and conditions of the award in addition to those set forth below.

A Performance Unit shall have a fixed dollar value.

The Board may condition the vesting of Performance Units upon the attainment of specified performance goals or such other factors or criteria as the Board shall determine, in its sole discretion.

The provisions of Performance Unit awards need not be the same with respect to each Participant, and such awards to individual Participants need not be the same in subsequent years.

b. **Terms and Conditions.** Performance Units awarded pursuant to this Section 10 shall be subject to the following terms and conditions and such other terms and conditions, not inconsistent with the terms of this Plan, as the Board shall deem desirable:

(i) **Conditions.** The Board, in its sole discretion, shall specify the performance period during which, and the conditions under which, the Participant's right to Performance Units will be vested.

(ii) **Vesting.** At the expiration of the performance period, the Board, in its sole discretion, shall determine the extent to which the performance goals have been achieved, and the percentage of the Performance Units of each Participant that have vested.

(iii) **Death, Disability or Retirement.** Subject to the provisions of this Plan, and unless otherwise provided in the award agreement, if a Participant terminates service with the Company during a performance period because of death, Disability or Retirement, such Participant (or the Participant's estate) shall be entitled to receive, at the expiration of the performance period, a percentage of Performance Units that is equal to the percentage of the performance period that had elapsed as of the date of termination, provided that the Board, in its sole discretion, determines that the conditions specified in the Performance Unit agreement have been satisfied, and payment thereof shall be made to the Participant or the Participant's estate, as the case may be.

(iv) **Termination of Service.** Unless otherwise determined by the Board at the time of grant, the Performance Units will be forfeited upon a termination of service during the performance period for any reason other than death, Disability or Retirement.

(v) **Change of Control.** In the event of a Change of Control, the Board may, in its sole discretion, cause all conditions applicable to Performance Units to immediately terminate and cash representing the full amount of such award to be paid to the Participant.

SECTION 11. Amendments and Termination. The Board may amend, alter or discontinue the Plan at any time, but no amendment, alteration or discontinuation shall be made which would impair the rights of a Participant with respect to an Option, SAR, Restricted Share, Long-Term Performance Award, Performance Share or Performance Unit which has been granted under the Plan, without the Participant's consent, or which, without the approval of such amendment within one year (365 days) of its adoption by the Board, by a majority of the votes cast at a duly held shareholder meeting at which a quorum representing a majority of the Company's outstanding voting shares is present (either in person or by proxy) (Shareholder Approval), would:

- a. except as expressly provided in the Plan, increase the total number of Shares reserved for the purposes of the Plan;
- b. change the persons or class of persons eligible to participate in the Plan; or

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- c. extend the maximum Option term under Section 5(b) of the Plan.

Except as permitted by Section 3(c), the Board shall not, without Shareholder Approval, amend a previously granted Option or grant a new Option in substitution for a previously granted Option, if such amended or substituted Option would have an exercise price that is lower than the original Option.

Subject to the above provisions, the Board shall have broad authority to amend the Plan to take into account changes in applicable tax laws and accounting rules, as well as other developments.

SECTION 12. Unfunded Status of Plan. The Plan is intended to constitute an unfunded plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company. In its sole discretion, the Board may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Shares or payments in lieu of Shares or with respect to awards hereunder.

SECTION 13. General Provisions.

- a. The Board may require each person acquiring Shares or a Share-based award under the Plan to represent to and agree with the Company in writing that the Participant is acquiring the Shares or Share-based award for investment purposes and without a view to distribution thereof and as to such other matters as the Board believes are appropriate to ensure compliance with applicable Federal and state securities laws. The certificate evidencing such award and any securities issued pursuant thereto may include any legend which the Board deems appropriate to reflect any restrictions on transfer and compliance with securities laws.

All certificates for Shares or other securities delivered under the Plan shall be subject to such share transfer orders and other restrictions as the Board may deem advisable under the rules, regulations, and other requirements of the Securities Act of 1933, as amended, the Exchange Act, any stock exchange upon which the Shares are then listed, and any other applicable Federal or state securities laws, and the Board may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

- b. Nothing contained in the Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to shareholder approval if such approval is required by law or any stock exchange upon which the Shares are then listed; and such arrangements may be either generally applicable or applicable only in specific cases.

- c. The adoption of the Plan shall not confer upon any employee of the Company or a Subsidiary any right to continued employment with the Company or such Subsidiary, nor shall it interfere in any way with the right of the Company or such Subsidiary to terminate the employment of any of its employees at any time.

- d. No later than the date as of which an amount first becomes includable in the gross income of the Participant for Federal income tax purposes with respect to any award under the Plan, the Participant shall pay to the Company, or make arrangements satisfactory to the Board regarding the payment, of any Federal, state or local taxes of any kind required by law to be withheld with respect to such amount. Unless otherwise determined by the Board, the minimum required withholding obligations may be settled with Shares, including Shares that are part of the award that gives rise to the withholding requirement. The obligations of the Company under the Plan shall be conditional on such payment or arrangements and the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the Participant.

- e. At the time of grant of an award under the Plan, the Board may provide that the Shares received as a result of such grant shall be subject to a right of first refusal, pursuant to which the Participant shall be required to offer to the Company any Shares that the Participant wishes to sell, with the price being the then Fair Market Value of the Shares, subject to such other terms and conditions as the Board may specify at the time of grant.

- f. The Board shall establish such procedures as it deems appropriate for a Participant to designate a beneficiary to whom any amounts payable in the event of the Participant's death are to be paid.

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g. The Plan and all awards made and actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Maryland.

SECTION 14. Effective Date of Plan. This Plan shall become effective on the date that it is adopted by the Board; provided, however, that it shall not be an Incentive Stock Option Plan if it is not approved, within one year (365 days) of its adoption by the Board, by a majority of the votes cast at a duly held shareholder meeting at which a quorum representing a majority of Company's outstanding voting shares is present, either in person or by proxy. The Board may make awards hereunder prior to approval of the Plan; provided, however, that any and all Incentive Stock Options so awarded automatically shall be converted into Non-Qualified Stock Options if the Plan is not approved by shareholders within 365 days of its adoption.

SECTION 15. Term of Plan. No Option, SAR, Restricted Share, Long-Term Performance Award, Performance Share or Performance Unit shall be granted pursuant to the Plan on or after the tenth (10th) anniversary of the latest date of shareholder approval of either the Plan or an amendment to the Plan, but awards granted prior to such tenth (10th) anniversary may extend beyond that date.

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