WASHINGTON REAL ESTATE INVESTMENT TRUST
Form 10-K/A
March 12, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For fiscal year ended December 31, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
COMMISSION FILE NO. 1-6622

WASHINGTON REAL ESTATE INVESTMENT TRUST

(Exact name of registrant as specified in its charter)

MARYLAND	**53-0261100**
(State of incorporation)	**(IRS Employer Identification Number)**

6110 EXECUTIVE BOULEVARD, SUITE 800, ROCKVILLE, MARYLAND 20852
(Address of principal executive office) (Zip code)
Registrant s telephone number, including area code: (301) 984-9400

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

Title of Each Class	**Name of exchange on which registered**
Shares of Beneficial Interest	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES x NO ¨

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

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

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ¨ NO ¨

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

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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

As of June 30, 2009, the aggregate market value of such shares held by non-affiliates of the registrant was approximately $1,293,242,069 (based on the closing price of the stock on June 30, 2009).

As of February 25, 2010, 59,818,318 common shares were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our definitive Proxy Statement relating to the 2010 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission, are incorporated by reference in Part III, Items 10-14 of this Amendment No. 1 to the Annual Report on Form 10-K as indicated herein.

EXPLANATORY NOTE

This Amendment No. 1 to the Annual Report on Form 10-K (Amended 10-K) of Washington Real Estate Investment Trust (we or WRIT) amends our Annual Report on Form 10-K for the year ended December 31, 2009 that was filed with the Securities and Exchange Commission (SEC) on February 26, 2010 (Original 10-K). This Amended 10-K does not reflect a change in our results of operations or financial position as reported in the Original 10-K. Instead, this Amended 10-K is filed solely to correct a typographical error that resulted in the independent registered public accounting firm s report included in Part II, Item 8 excluding the following words from the third paragraph of the financial statement opinion. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein. This Amended 10-K corrects the audit report to properly include these words at the end of the third paragraph of the financial statement opinion. Except as described above, no other amendments are being made to the Original 10-K. This Amended 10-K does not reflect events occurring after the Original 10-K or modify or update the disclosure contained therein in any way other than as required to reflect the amendment discussed above. Pursuant to Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended, the complete text of Item 8, as amended, is repeated in this Amended 10-K.

This Amended 10-K consists solely of the preceding cover page, this explanatory note, Item 8, the signature page, and the consent and certifications required to be filed as exhibits under Item 15 to this Amended 10-K.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data begin on the following page.

MANAGEMENT S REPORT ON

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Washington Real Estate Investment Trust (the Trust) is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal controls over financial reporting. The Trust s internal control system over financial reporting is a process designed under the supervision of the Trust s principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions.

In connection with the preparation of the Trust s annual consolidated financial statements, management has undertaken an assessment of the effectiveness of the Trust s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework). Management s assessment included an evaluation of the design of the Trust s internal control over financial reporting and testing of the operational effectiveness of those controls.

Based on this assessment, management has concluded that as of December 31, 2009, the Trust s internal control over financial reporting was effective at a reasonable assurance level regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Ernst & Young LLP, the independent registered public accounting firm that audited the Trust s consolidated financial statements included in this report, have issued an unqualified opinion on the effectiveness of the Trust s internal control over financial reporting, a copy of which appears on the next page of this annual report.

Report of Independent Registered Public Accounting Firm

The Board of Trustees and Shareholders of

Washington Real Estate Investment Trust

We have audited Washington Real Estate Investment Trust and Subsidiaries internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Washington Real Estate Investment Trust s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Washington Real Estate Investment Trust and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Washington Real Estate Investment Trust and Subsidiaries as of December 31, 2009 and 2008 and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2009 of Washington Real Estate Investment Trust and Subsidiaries and our report dated February 26, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia

February 26, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Trustees and Shareholders of

Washington Real Estate Investment Trust

We have audited the accompanying consolidated balance sheets of Washington Real Estate Investment Trust and Subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedule listed in the Index at Item 15(A). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Washington Real Estate Investment Trust and Subsidiaries at December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Washington Real Estate Investment Trust and Subsidiaries internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia

February 26, 2010

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2009 AND 2008

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	December 31, 2009	December 31, 2008[1]
Assets		
Land	$ 412,137	$ 410,833
Income producing property	1,899,378	1,854,008
	2,311,515	2,264,841
Accumulated depreciation and amortization	(474,171)	(394,902)
Net income producing property	1,837,344	1,869,939
Development in progress	25,031	23,732
Total real estate held for investment, net	1,862,375	1,893,671
Investment in real estate sold or held for sale, net	3,841	26,734
Cash and cash equivalents	11,203	11,874
Restricted cash	19,170	18,823
Rents and other receivables, net of allowance for doubtful accounts of $6,455 and $6,122, respectively	50,525	44,675
Prepaid expenses and other assets	97,815	112,284
Other assets related to properties sold or held for sale	296	1,346
Total assets	$ 2,045,225	$ 2,109,407
Liabilities		
Notes payable	$ 688,912	$ 890,679
Mortgage notes payable	405,451	421,286
Lines of credit	128,000	67,000
Accounts payable and other liabilities	52,649	70,538
Advance rents	11,211	8,926
Tenant security deposits	9,854	10,084
Other liabilities related to properties sold or held for sale	85	469
Total liabilities	1,296,162	1,468,982
Equity		
Shareholders equity		
Shares of beneficial interest; $0.01 par value; 100,000 shares authorized:		
59,811 and 52,434 shares issued and outstanding, respectively	599	526
Additional paid in capital	944,825	777,375
Distributions in excess of net income	(198,412)	(138,936)
Accumulated other comprehensive income (loss)	(1,757)	(2,335)
Total shareholders equity	745,255	636,630
Noncontrolling interests in subsidiaries	3,808	3,795
Total equity	749,063	640,425
Total liabilities and shareholders equity	$ 2,045,225	$ 2,109,407

(1) As adjusted (see Current Report on Form 8-K filed July 10, 2009 and note 3 to the consolidated financial statements)

See accompanying notes to the financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008, AND 2007

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	2009	2008	2007
Revenue			
Real estate rental revenue	$ 306,929	$ 278,691	$ 248,899
Expenses			
Utilities	21,484	19,288	16,383
Real estate taxes	32,734	27,950	21,691
Repairs and maintenance	12,064	11,003	9,147
Property administration	9,807	9,855	7,060
Property management	7,628	7,830	7,045
Operating services and common area maintenance	16,581	14,151	13,057
Other real estate expenses	4,275	3,422	2,976
Depreciation and amortization	94,042	85,659	68,364
General and administrative	13,906	12,110	14,882
	212,521	191,268	160,605
Real estate operating income	94,408	87,423	88,294
Other income (expense)			
Interest expense	(75,001)	(75,041)	(66,336)
Other income	1,205	1,073	1,875
Gain (loss) on extinguishment of debt, net	5,336	(5,583)	
Gain from non-disposal activities	73	17	1,303
	(68,387)	(79,534)	(63,158)
Income from continuing operations	26,021	7,889	25,136
Discontinued operations:			
Income from operations of properties sold or held for sale	1,579	4,129	7,510
Gain on sale of real estate	13,348	15,275	25,022
Net income	40,948	27,293	57,668
Less: Net income attributable to noncontrolling interests in subsidiaries	(203)	(211)	(217)
Net income attributable to the controlling interests	$ 40,745	$ 27,082	$ 57,451
Basic net income attributable to the controlling interests per share			
Continuing operations	$ 0.45	$ 0.15	$ 0.54
Discontinued operations, including gain on sale of real estate	0.26	0.40	0.71
Net income attributable to the controlling interests per share	$ 0.71	$ 0.55	$ 1.25
Diluted net income attributable to the controlling interests per share			
Continuing operations	$ 0.45	$ 0.15	$ 0.53
Discontinued operations, including gain on sale of real estate	0.26	0.40	0.71
Net income attributable to the controlling interests per share	$ 0.71	$ 0.55	$ 1.24

Weighted average shares outstanding	basic		56,894		49,138		45,911
Weighted average shares outstanding	diluted		56,968		49,217		46,049
Dividends declared and paid per share		$	1.73	$	1.72	$	1.68

See accompanying notes to the financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(IN THOUSANDS)

	Shares	Shares of Beneficial Interest at Par Value	Additional Paid in Capital	Distributions in Excess of Net Income Attributable to the Controlling Interests	Accumulated Other Comprehensive Income	Total Shareholders Equity	Noncontrolling Interests in Subsidiaries	Total Equity
Balance, December 31, 2006	45,042	$ 451	$ 509,326	$ (59,855)	$	$ 449,922	$ 1,739	$ 451,661
Net income attributable to the controlling interests				57,451		57,451		57,451
Net income attributable to noncontrolling interests							217	217
Distributions to noncontrolling interests							(156)	(156)
Issuance of units to noncontrolling interest holder							1,976	1,976
Dividends				(78,050)		(78,050)		(78,050)
Equity offering, net of issuance costs	1,600	16	57,745			57,761		57,761
Equity component of convertible notes, net of issuance costs			12,435			12,435		12,435
Share options exercised	13		313			313		313
Share grants, net of share grant amortization and forfeitures	27	1	2,707			2,708		2,708
Balance, December 31, 2007	46,682	468	582,526	(80,454)		502,540	3,776	506,316

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(IN THOUSANDS)

	Shares	Shares of Beneficial Interest at Par Value	Additional Paid in Capital	Distributions in Excess of Net Income Attributable to the Controlling Interests	Accumulated Other Comprehensive Income	Total Shareholders Equity	Noncontrolling Interests in Subsidiaries	Total Equity
Balance, December 31, 2007	46,682	468	582,526	(80,454)		502,540	3,776	506,316
Comprehensive income:								
Net income attributable to the controlling interests				27,082		27,082		27,082
Net income attributable to noncontrolling interests							211	211
Change in fair value of interest rate hedge					(2,335)	(2,335)		(2,335)
Total comprehensive income						24,747	211	24,958
Distributions to noncontrolling interests							(192)	(192)
Dividends				(85,564)		(85,564)		(85,564)
Equity offerings, net of issuance costs	5,466	55	184,878			184,933		184,933
Shares issued under Dividend Reinvestment Program	125	1	4,102			4,103		4,103
Share options exercised	120	1	2,642			2,643		2,643
Share grants, net of share grant amortization and forfeitures	41	1	3,227			3,228		3,228
Balance, December 31, 2008	52,434	526	777,375	(138,936)	(2,335)	636,630	3,795	640,425

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(IN THOUSANDS)

	Shares	Shares of Beneficial Interest at Par Value	Additional Paid in Capital	Distributions in Excess of Net Income Attributable to the Controlling Interests	Accumulated Other Comprehensive Income	Total Shareholders Equity	Noncontrolling Interests in Subsidiaries	Total Equity
Balance, December 31, 2008	52,434	526	777,375	(138,936)	(2,335)	636,630	3,795	640,425
Comprehensive income:								
Net income attributable to the controlling interests				40,745		40,745		40,745
Net income attributable to noncontrolling interests							203	203
Change in fair value of interest rate hedge					578	578		578
Total comprehensive income						41,323	203	41,526
Distributions to noncontrolling interests							(190)	(190)
Dividends				(100,221)		(100,221)		(100,221)
Equity offerings, net of issuance costs	7,240	72	160,843			160,915		160,915
Shares issued under Dividend Reinvestment Program	88	1	2,478			2,479		2,479
Share options exercised	3		45			45		45
Share grants, net of share grant amortization and forfeitures	46		4,084			4,084		4,084
Balance, December 31, 2009	59,811	$ 599	$ 944,825	$ (198,412)	$ (1,757)	$ 745,255	$ 3,808	$ 749,063

See accompanying notes to the financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(IN THOUSANDS)

	2009	2008	2007
Cash flows from operating activities			
Net income	$ 40,948	$ 27,293	$ 57,668
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Gain on sale of real estate	(13,348)	(15,275)	(25,022)
Depreciation and amortization, including amounts in discontinued operations	94,447	86,898	71,024
Provision for losses on accounts receivable	6,889	4,346	2,011
Amortization of share grants, net	3,085	3,228	2,707
Amortization of debt premiums, discounts and related financing costs	6,957	7,669	7,042
Loss (gain) on extinguishment of debt, net	(5,336)	5,583	
Changes in operating other assets	(14,576)	(13,648)	(14,319)
Changes in operating other liabilities	(16,165)	(8,979)	15,366
Net cash provided by operating activities	102,901	97,115	116,477
Cash flows from investing activities			
Real estate acquisitions, net *	(19,828)	(168,230)	(294,166)
Capital improvements to real estate	(27,337)	(37,272)	(41,122)
Development in progress	(2,135)	(15,509)	(66,996)
Net cash received for sale of real estate	36,842	40,231	56,344
Non-real estate capital improvements	(351)	(642)	(3,200)
Net cash used in investing activities	(12,809)	(181,422)	(349,140)
Cash flows from financing activities			
Line of credit borrowings	214,500	165,000	258,200
Line of credit repayments	(153,500)	(290,500)	(126,700)
Dividends paid	(100,221)	(85,564)	(78,050)
Distributions to noncontrolling interests	(190)	(192)	(156)
Proceeds from equity offerings under dividend reinvestment program	2,479	4,103	
Proceeds from mortgage notes payable	37,500	81,029	
Principal payments mortgage notes payable	(54,030)	(3,488)	(10,797)
Proceeds from debt offering		100,000	150,000
Financing costs	(847)	(1,924)	(5,144)
Net proceeds from equity offerings	160,915	184,933	57,761
Notes payable repayments, including penalties for early extinguishment	(197,414)	(81,344)	
Net proceeds from exercise of share options	45	2,643	313
Net cash provided by (used in) financing activities	(90,763)	74,696	245,427
Net increase (decrease) in cash and cash equivalents	(671)	(9,611)	12,764
Cash and cash equivalents at beginning of year	11,874	21,485	8,721
Cash and cash equivalents at end of year	$ 11,203	$ 11,874	$ 21,485
Supplemental disclosure of cash flow information:			
Cash paid for interest, net of amounts capitalized	$ 69,292	$ 68,616	$ 57,499

* See note 3 to the consolidated financial statements for the supplemental discussion of non-cash investing and financing activities, including the assumption of mortgage debt in conjunction with some of our real estate acquisitions.

See accompanying notes to the financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

NOTE 1: NATURE OF BUSINESS

Washington Real Estate Investment Trust (We or WRIT), a Maryland real estate investment trust, is a self-administered, self-managed equity real estate investment trust, successor to a trust organized in 1960. Our business consists of the ownership and development of income-producing real estate properties in the greater Washington Metro region. We own a diversified portfolio of office buildings, medical office buildings, industrial/flex centers, multifamily buildings and retail centers.

Federal Income Taxes

We believe that we qualify as a real estate investment trust (REIT) under Sections 856-860 of the Internal Revenue Code and intend to continue to qualify as such. To maintain our status as a REIT, we are required to distribute 90% of our ordinary taxable income to our shareholders. When selling properties, we have the option of (a) reinvesting the sale price of properties sold, allowing for a deferral of income taxes on the sale, (b) paying out capital gains to the shareholders with no tax to WRIT or (c) treating the capital gains as having been distributed to the shareholders, paying the tax on the gain deemed distributed and allocating the tax paid as a credit to the shareholders. In May 2009, we sold a multifamily property, Avondale, for a gain of $6.7 million. In July 2009, we sold an industrial property, Tech 100 Industrial Park, and an office property, Brandywine Center, for gains of $4.1 million and $1.0 million, respectively. In November 2009, we sold an industrial property, Crossroads Distribution Center, for a gain of $1.5 million. In June 2008, we sold two industrial properties, Sullyfield Center and The Earhart Building, for a gain of $15.3 million. The gains from the sales were paid out to the shareholders.

Generally, no provisions for income taxes are necessary except for taxes on undistributed REIT taxable income and taxes on the income generated by our taxable REIT subsidiaries (TRS). A TRS is subject to corporate federal and state income tax on its taxable income at regular statutory rates. Certain of our taxable REIT subsidiaries have net operating loss carryforwards available of approximately $5.3 million. These carryforwards begin to expire in 2028. We have considered estimated future taxable income and have determined that a full valuation allowance for our net deferred tax assets is appropriate. There were no income tax provisions or material deferred income tax items for our TRS for the years ended December 31, 2009, 2008 and 2007.

The following is a breakdown of the taxable percentage of our dividends for 2009, 2008 and 2007, respectively (unaudited):

	Ordinary Income	Return of Capital	Unrecaptured Section 1250 Gain	Capital Gain
2009	75%	17%	7%	1%
2008	60%	18%	6%	16%
2007	90%	10%	0%	0%

NOTE 2: ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the accounts of WRIT and its majority owned subsidiaries, after eliminating all intercompany transactions.

New Accounting Pronouncements

In June 2009, the FASB issued FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principals, a Replacement of FASB Statement No. 162* (FASB Accounting Standards Codification section 105-10-65). This statement establishes the Codification as the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. The Codification is the culmination of a project to organize and simplify authoritative GAAP literature by reorganizing the various and dispersed GAAP pronouncements within a consistent structure. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The issuance of this statement and the Codification does not change GAAP and does not have any impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (FASB Accounting Standards Codification section 805-10-65), a revision of SFAS No. 141. This statement changes the accounting for acquisitions by specifically eliminating the step acquisition model, changing the recognition of contingent consideration from being recognized when it was probable to being recognized at the time of acquisition, disallowing the capitalization of pre-acquisition and transaction costs, and delaying when restructuring related to acquisitions can be recognized. Our adoption of the standard for the fiscal year beginning January 1, 2009 resulted in a $0.8 million increase in general and administrative expense, as previously capitalized pre-acquisition costs were expensed as a period cost.

In March 2008 the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133* (FASB Accounting Standards Codification section 815-10-65). This statement requires entities to provide greater transparency about how and why an entity uses derivative instruments, and how derivative instruments and related hedged items affect an entity s financial position, results of operations, and cash flows. To meet these objectives, this statement requires (a) qualitative disclosures about objectives for using derivatives by primary underlying risk exposure and by purpose or strategy, (b) information about the volume of derivative activity, (c) tabular disclosures about balance sheet location and gross fair value amounts of derivative instruments, income statement and other comprehensive income location and amounts of gains and losses on derivative instruments by type of contract, and (d) disclosures about credit risk-related contingent features in derivative agreements. We adopted this statement effective for the fiscal year beginning January 1, 2009. This statement required us to provide expanded disclosures of our interest rate hedge contract and to present certain disclosures in tabular format (See note 2 to the consolidated financial statements).

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements* (FASB Accounting Standards Codification section 820-10-65). This statement defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. On February 12, 2007, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FASB Accounting Standards Codification section 820-10-65), which amends FASB Statement No. 157 to delay the effective date for all non-financial assets and non-financial liabilities, except for those that are recognized or disclosed at fair value in the financial statements on a recurring basis (i.e. at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. We do not have significant assets or liabilities recorded at fair value on a recurring basis, and therefore the adoption of this statement for non-financial assets and non-financial liabilities on January 1, 2009 did not have a material impact on our financial statements. However, starting in 2009 we apply FASB Statement No. 157 as a part of our fair value allocation to any properties acquired.

In May 2009, the FASB issued FASB Statement No. 165, *Subsequent Events* (FASB Accounting Standards Codification section 855-10-65). This statement requires disclosure of the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued. We adopted this statement effective for the quarter ending June 30, 2009. The required disclosure is in note 16 to the consolidated financial statements.

Revenue Recognition

We lease multifamily properties under operating leases with terms of generally one year or less. We lease commercial properties (our office, medical office, retail and industrial segments) under operating leases with average terms of three to seven years. We recognize rental income and rental abatements from our multifamily and commercial leases when earned on a straight-line basis over the lease term. Recognition of rental income commences when control of the facility has been given to the tenant. We record a provision for losses on accounts receivable equal to the estimated uncollectible amounts. We base this estimate on our historical experience and a review of the current status of our receivables. We recognize percentage rents, which represent additional rents based on gross tenant sales, when tenants sales exceed specified thresholds.

We recognize sales of real estate at closing only when sufficient down payments have been obtained, possession and other attributes of ownership have been transferred to the buyer and we have no significant continuing involvement.

We recognize cost reimbursement income from pass-through expenses on an accrual basis over the periods in which the expenses were incurred. Pass-through expenses are comprised of real estate taxes, operating expenses and common area maintenance costs which are reimbursed by tenants in accordance with specific allowable costs per tenant lease agreements.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable primarily represents amounts accrued and unpaid from tenants in accordance with the terms of the respective leases, subject to our revenue recognition policy. We review receivables monthly and establish reserves when, in the opinion of management, collection of the receivable is doubtful. We establish reserves for tenants whose rent payment history or financial condition casts doubt upon the tenants ability to perform under their lease obligations. When we deem the collection of a receivable to be doubtful in the same quarter that we established the receivable, then we recognize the allowance for that receivable as an offset to real estate revenues. When we deem a receivable that was initially established in a prior quarter to be doubtful, then we recognize the allowance as an operating expense. In addition to rents due currently, accounts receivable include amounts representing minimal rental income accrued on a straight-line basis to be paid by tenants over the remaining term of their respective leases.

We include notes receivable balances of $8.5 million and $8.6 million as of December 31, 2009 and 2008, respectively, in our accounts receivable balances.

Noncontrolling Interests in Subsidiaries

We entered into an operating partnership agreement with a member of the entity that previously owned Northern Virginia Industrial Park in conjunction with the acquisition of this property in May 1998. This resulted in a noncontrolling ownership interest in this property based upon defined company ownership units at the date of purchase. The operating partnership agreement was amended and restated in 2002 resulting in a reduced noncontrolling ownership percentage interest. We account for this activity by applying the noncontrolling owner s percentage ownership interest to the net income of the property and reporting such amount in our net income attributable to noncontrolling interests.

In August 2007 we acquired a 0.8 acre parcel of land located at 4661 Kenmore Avenue, Alexandria, Virginia for future medical office development. The acquisition was funded by issuing operating partnership units in our operating partnership, which is a consolidated subsidiary of WRIT. This resulted in a noncontrolling ownership interest in this property based upon defined company operating partnership units at the date of purchase.

Net income attributable to noncontrolling interests was $202,700, $211,000 and $216,900 for the years ended December 31, 2009, 2008 and 2007, respectively. None of the income from noncontrolling interests is attributable to discontinued operations or accumulated other comprehensive income. Quarterly distributions are made to the noncontrolling owners equal to the quarterly dividend per share for each operating partnership unit.

Income attributable to the controlling interests from continuing operations was $25.8 million, $7.7 million and $24.9 million for the years ended December 31, 2009, 2008 and 2007, respectively.

The operating partnership units could have a dilutive impact on our earnings per share calculation. They are not dilutive for the years ended December 31, 2009, 2008 and 2007, and are not included in our earnings per share calculations.

Deferred Financing Costs

External costs associated with the issuance or assumption of mortgages, notes payable and fees associated with the lines of credit are capitalized and amortized using the effective interest rate method or the straight-line method which approximates the effective interest rate method over the term of the related debt. As of December 31, 2009 and 2008 deferred financing costs of $18.1 million and $21.3 million, respectively, net of accumulated amortization of $10.3 million and $9.0 million, were included in prepaid expenses and other assets on the balance sheets. The amortization is included in interest expense in the accompanying statements of income. The amortization of debt costs included in interest expense totaled $3.1 million, $3.6 million and $3.5 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Deferred Leasing Costs

We capitalize and amortize costs associated with the successful negotiation of leases, both external commissions and internal direct costs, on a straight-line basis over the terms of the respective leases. If an applicable lease terminates prior to the expiration of its initial lease term, we write off the carrying amount of the costs to amortization expense. As of December 31, 2009 and 2008, we included deferred leasing costs of $33.1 million and $31.0 million, respectively, net of accumulated amortization of $11.7 million and $10.2 million, in prepaid expenses and other assets on the balance sheets. The amortization of deferred leasing costs included in amortization expense for properties classified as continuing operations totaled $4.8 million, $3.6 million and $2.9 million for the years ended December 31, 2009, 2008 and 2007, respectively.

We capitalize and amortize against revenue leasing incentives associated with the successful negotiation of leases on a straight-line basis over the terms of the respective leases. If an applicable lease terminates prior to the expiration of its initial lease term, we write off the carrying amount of the costs as a reduction of revenue. As of December 31, 2009 and 2008, we included deferred leasing incentives of $12.2 million and $11.8 million, respectively, net of accumulated amortization of $1.6 million and $0.5 million, in prepaid expenses and other assets on the balance sheets. The amortization of deferred leasing incentives included as a reduction of revenue for properties classified as continuing operations totaled $1.2 million, $0.4 million and $0.1 million, for the years ended December 31, 2009, 2008 and 2007, respectively.

Real Estate and Depreciation

We depreciate buildings on a straight-line basis over estimated useful lives ranging from 28 to 50 years. We capitalize all capital improvement expenditures associated with replacements, improvements or major repairs to real property that extend its useful life and depreciate them using the straight-line method over their estimated useful lives ranging from 3 to 30 years. We also capitalize costs incurred in connection with our development projects, including capitalizing interest and other internal costs during periods in which qualifying expenditures have been made and activities necessary to get the development projects ready for their intended use are in progress. In addition, we capitalize tenant leasehold improvements when certain criteria are met, including when we supervise construction and will own the improvements. We depreciate all tenant improvements over the shorter of the useful life of the improvements or the term of the related tenant lease. Real estate depreciation expense from continuing operations for the years ended December 31, 2009, 2008 and 2007 was $75.8 million, $68.5 million and $55.0 million, respectively. We charge maintenance and repair costs that do not extend an asset s life to expense as incurred.

We capitalize interest costs incurred on borrowing obligations while qualifying assets are being readied for their intended use. Total interest expense capitalized to real estate assets related to development and major renovation activities was $1.4 million, $2.3 million and $6.7 million for the years ended December 31, 2009, 2008 and 2007, respectively. We amortize capitalized interest over the useful life of the related underlying assets upon those assets being placed into service.

We recognize impairment losses on long-lived assets used in operations and held for sale, development assets or land held for future development, if indicators of impairment are present and the net undiscounted cash flows estimated to be generated by those assets are less than the assets carrying amount and estimated undiscounted cash flows associated with future development expenditures. If such carrying amount is in excess of the estimated cash flows from the operation and disposal of the property, we would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to the estimated fair value. The estimated fair value would be calculated in accordance with current GAAP fair value provisions. During 2009 and 2008, we expensed $0.1 million and $0.6 million, respectively, included in general and administrative expenses, related to development projects no longer considered probable. There were no property impairments recognized during the year ended December 31, 2007.

We record real estate acquisitions as business combinations in accordance with GAAP. We record acquired or assumed assets, including physical assets and in-place leases, and liabilities, based on their fair values. We record goodwill when the purchase price exceeds the fair value of the assets and liabilities acquired. We determine the estimated fair values of the assets and liabilities in accordance with current GAAP fair value provisions. We determine the fair values of acquired buildings on an as-if-vacant basis considering a variety of factors, including the physical condition and quality of the buildings, estimated rental and absorption rates, estimated future cash flows and valuation assumptions consistent with current market conditions. We allocate the as-if-vacant fair value to land, building and tenant improvements based on property tax assessments and other relevant information obtained in connection with the acquisition of the property.

The fair value of in-place leases consists of the following components (a) the estimated cost to us to replace the leases, including foregone rents during the period of finding a new tenant and foregone recovery of tenant pass-throughs (referred to as absorption cost), (b) the estimated cost of tenant improvements, and other direct costs associated with obtaining a new tenant (referred to as tenant origination cost); (c) estimated leasing commissions associated with obtaining a new tenant (referred to as leasing commissions); (d) the above/at/below market cash flow of the leases, determined by comparing the projected cash flows of the leases in place to projected cash flows of comparable market-rate leases (referred to as net lease intangible); and (e) the value, if any, of customer relationships, determined based on our evaluation of the specific characteristics of each tenant s lease and our overall relationship with the tenant (referred to as customer relationship value). We have attributed no value to customer relationship value as of December 31, 2009 and 2008.

We discount the amounts used to calculate net lease intangibles using an interest rate which reflects the risks associated with the leases acquired. We include tenant origination costs in income producing property on our balance sheet and amortize the tenant origination costs as depreciation expense on a straight-line basis over the remaining life of the underlying leases. We classify leasing commissions and absorption costs as other assets and amortize leasing commissions and absorption costs as amortization expense on a straight-line basis over the remaining life of the underlying leases. We classify net lease intangible assets as other assets and amortize net lease intangible assets on a straight-line basis as a decrease to real estate rental revenue over the remaining term of the underlying leases. We classify net lease intangible liabilities as other liabilities and amortize net lease intangible liabilities on a straight-line basis as an increase to real estate rental revenue over the remaining term of the underlying leases. Should a tenant terminate its lease, we write off the unamortized portion of the tenant origination cost, leasing commissions, absorption costs and net lease intangible associated with that lease.

Balances, net of accumulated depreciation or amortization, as appropriate, of the components of the fair value of in-place leases at December 31, 2009 and 2008 are as follows (in millions):

	December 31,					
	2009			2008		
	Gross Carrying Value	Accumulated Amortization	Net	Gross Carrying Value	Accumulated Amortization	Net
Tenant origination costs	$ 39.8	$ 20.8	$ 19.0	$ 40.9	$ 16.1	$ 24.8
Leasing commissions/absorption costs	$ 49.6	$ 22.7	$ 26.9	$ 50.7	$ 16.3	$ 34.4
Net lease intangible assets	$ 9.7	$ 6.4	$ 3.3	$ 9.8	$ 5.4	$ 4.4
Net lease intangible liabilities	$ 32.2	$ 14.7	$ 17.5	$ 33.0	$ 10.3	$ 22.7
Below-market ground lease intangible asset	$ 12.1	$ 0.4	$ 11.7	$ 12.1	$ 0.2	$ 11.9

Amortization of these components combined was $9.4 million, $11.2 million and $9.0 million for the years ended December 31, 2009, 2008 and 2007, respectively. Amortization of these components combined over the next five years is projected to be $7.2 million, $5.2 million, $4.0 million, $3.6 million and $3.5 million for the years ending December 31, 2010, 2011, 2012, 2013 and 2014, respectively. No value had been assigned to customer relationship value at December 31, 2009 or 2008.

Discontinued Operations

We classify properties as held for sale when they meet the necessary criteria, which include: (a) senior management commits to and actively embarks upon a plan to sell the assets, (b) the sale is expected to be completed within one year under terms usual and customary for such sales and (c) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Depreciation on these properties is discontinued, but operating revenues, operating expenses and interest expense continue to be recognized until the date of sale.

Revenues and expenses of properties that are either sold or classified as held for sale are presented as discontinued operations for all periods presented in the consolidated statements of income. Interest on debt that can be identified as specifically attributed to these properties is included in discontinued operations. We do not have significant continuing involvement in the operations of any of our disposed properties.

Cash and Cash Equivalents

Cash and cash equivalents include investments readily convertible to known amounts of cash with original maturities of 90 days or less.

Restricted Cash

Restricted cash at December 31, 2009 and December 31, 2008 consisted of $19.2 million and $18.8 million, respectively, in funds escrowed for tenant security deposits, real estate tax, insurance and mortgage escrows and escrow deposits required by lenders on certain of our properties to be used for future building renovations or tenant improvements.

Assets and Liabilities Measured at Fair Value

For assets and liabilities measured at fair value on a recurring basis, quantitative disclosures about the fair value measurements are required to be disclosed separately for each major category of assets and liabilities. The only assets or liabilities we had at December 31, 2009 and 2008 that are recorded at fair value on a recurring basis are the assets held in the Supplemental Executive Retirement Program (SERP) and the interest rate hedge contracts. We base the valuations related to these items on assumptions derived from significant other observable inputs and accordingly these valuations fall into Level 2 in the fair value hierarchy. The fair values of these assets and liabilities at December 31, 2009 and 2008 are as follows (in millions):

	December 31, 2009				December 31, 2008			
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:								
SERP	$ 1.1	$	$ 1.1	$	$ 0.6	$	$ 0.6	$
Liabilities:								
Derivatives	$ 1.8	$	$ 1.8	$	$ 2.3	$	$ 2.3	$

Derivative Instruments

In February 2008, we entered into an interest rate swap with a notional amount of $100 million that qualifies as a cash flow hedge. In May 2009, we entered into a forward interest rate swap with a notional amount of $100 million that qualifies as a cash flow hedge (see note 6 to the consolidated financial statements for further details). We enter into interest rate swaps to manage our exposure to variable rate interest risk. We do not purchase derivatives for speculation. Our cash flow hedges are recorded at fair value. We record the effective portion of changes in fair value of cash flow hedges in other comprehensive income. We record the ineffective portion of changes in fair value of cash flow hedges in earnings in the period affected. We assess the effectiveness of our cash flow hedges both at inception and on an ongoing basis. We deemed the hedges to be effective for the years ended December 31, 2009 and 2008, as applicable.

The fair value and balance sheet locations of the interest rate swaps as of December 31, 2009 and 2008, are as follows (in millions):

	December 31, 2009 Fair Value	**December 31, 2008 Fair Value**
Accounts payable and other liabilities	$ 1.8	$ 2.3

The interest rate swaps have been effective since inception. The gain or loss on the effective swaps is recognized in other comprehensive income, as follows (in millions):

	Years Ended December 31,	
	2009 Fair Value	**2008 Fair Value**
Change in other comprehensive income (loss)	$ 0.5	$ (2.3)

Derivative instruments expose us to credit risk in the event of non-performance by the counterparty under the terms of the interest rate hedge agreement. We believe that we minimize our credit risk on these transactions by dealing with major, creditworthy financial institutions. As part of our on-going control procedures, we monitor the credit ratings of counterparties and our exposure to any single entity, thus minimizing our credit risk concentration.

Stock Based Compensation

We currently maintain equity based compensation plans for trustees, officers and employees and previously also maintained option plans for trustees, officers and employees.

We recognized compensation expense for time-based share units ratably over the period from the service inception date through the vesting period based on the fair market value of the shares on the date of grant. We initially measure compensation expense for restricted performance-based share units at fair value at the grant date as payouts are probable, and we remeasure compensation expense at subsequent reporting dates until all of the award s key terms and conditions are known and a vesting has occurred. We amortize such performance-based share units to expense over the performance period. However, we measure compensation expense for performance-based share units with market conditions based on the grant date fair value, as determined using a Monte Carlo simulation, and we amortize the expense ratably over the requisite service period, regardless of whether the market conditions are achieved and the awards ultimately vest. Compensation expense for the trustee grants which fully vest immediately, is fully recognized upon issuance based upon the fair market value of the shares on the date of grant.

We previously issued stock options to officers, non-officer key employees and trustees. We last issued stock options to officers in 2002, to non-officer key employees in 2003 and to trustees in 2004. We issued all stock options prior to the adoption of SFAS No. 123(R) and accounted for the stock options in accordance with APB No. 25, whereby if options are priced at fair market value or above at the date of grant and if other requirements are met then the plans are considered fixed and no compensation expense is recognized. Accordingly, we have recognized no compensation cost for stock options.

Earnings per Common Share

We determine Basic earnings per share using the two-class method as our unvested restricted share awards have non-forfeitable rights to dividends, and are therefore considered participating securities. We compute basic earnings per share by dividing net income attributable to the controlling interest less the allocation of undistributed earnings to unvested restricted share awards and units by the weighted-average number of common shares outstanding for the period.

We also determine Diluted earnings per share under the two-class method with respect to the unvested restricted share awards. We further evaluate any other potentially dilutive securities at the end of the period and adjust the basic earnings per share calculation for the impact of those securities that are dilutive. Our dilutive earnings per share calculation includes the dilutive impact of employee stock options based on the treasury stock method and our performance share units under the contingently issuable method. The dilutive earnings per share calculation also considers our operating partnership units and 3.875% convertible notes under the if-converted method. The operating partnership units and 3.875% convertible notes were anti-dilutive for the years ended December 31, 2009, 2008 and 2007.

The following table sets forth the computation of basic and diluted earnings per share (amounts in thousands; except per share data):

	Year Ended December 31, 2009		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings:			
Income from continuing operations	$ 26,021	56,894	$ 0.46
Less: Net income attributable to noncontrolling interests	(203)	56,894	(0.01)
Allocation of undistributed earnings to unvested restricted share awards and units	(111)	56,894	
Adjusted income from continuing operations attributable to the controlling interests	25,707	56,894	0.45
Income from discontinued operations, including gain on sale of real estate	14,927	56,894	0.26
Adjusted net income attributable to the controlling interests	40,634	56,894	0.71
Effect of dilutive securities:			
Employee stock options and performance share units		74	
Diluted earnings:			
Adjusted income from continuing operations attributable to the controlling interests	25,707	56,968	0.45
Income from discontinued operations, including gain on sale of real estate	14,927	56,968	0.26
Adjusted net income attributable to the controlling interests	$ 40,634	56,968	$ 0.71

	Year Ended December 31, 2008		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings:			
Income from continuing operations	$ 7,889	49,138	$ 0.16
Less: Net income attributable to noncontrolling interests	(211)	49,138	(0.01)
Allocation of undistributed earnings to unvested restricted share awards and units	(98)	49,138	
Adjusted income from continuing operations attributable to the controlling interests	7,580	49,138	0.15
Income from discontinued operations, including gain on sale of real estate	19,404	49,138	0.40
Adjusted net income attributable to the controlling interests	26,984	49,138	0.55
Effect of dilutive securities:			
Employee stock options and performance share units		79	
Diluted earnings:			
Adjusted income from continuing operations attributable to the controlling interests	7,580	49,217	0.15
Income from discontinued operations, including gain on sale of real estate	19,404	49,217	0.40
Adjusted net income attributable to the controlling interests	$ 26,984	49,217	$ 0.55

	Year Ended December 31, 2007		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings:			
Income from continuing operations	$ 25,136	45,911	$ 0.55
Less: Net income attributable to noncontrolling interests	(217)	45,911	
Allocation of undistributed earnings to unvested restricted share awards and units	(256)	45,911	(0.01)
Adjusted income from continuing operations attributable to the controlling interests	24,663	45,911	$ 0.54
Income from discontinued operations, including gain on sale of real estate	32,532	45,911	0.71
Adjusted net income attributable to the controlling interests	57,195	45,911	1.25
Effect of dilutive securities:			
Employee stock options and performance share units		138	
Diluted earnings:			
Adjusted income from continuing operations attributable to the controlling interests	24,663	46,049	0.53
Income from discontinued operations, including gain on sale of real estate	32,532	46,049	0.71
Adjusted net income attributable to the controlling interests	$ 57,195	46,049	$ 1.24

Accounting for Uncertainty in Income Taxes

We can recognize a tax benefit only if it is more likely than not that a particular tax position will be sustained upon examination or audit. To the extent that the more likely than not standard has been satisfied, the benefit associated with a tax position is measured as the largest amount that is greater than 50% likely of being recognized upon settlement.

We are subject to U.S. federal income tax as well as income tax of the states of Maryland and Virginia, and the District of Columbia. However, as a REIT, we generally are not subject to income tax on our net income distributed as dividends to our shareholders.

Tax returns filed for 2006 through 2009 tax years are subject to examination by taxing authorities. We classify interest and penalties related to uncertain tax positions, if any, in our financial statements as a component of general and administrative expense.

Use of Estimates in the Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Other Comprehensive Income (Loss)

We recorded other comprehensive loss of $1.8 million and $2.3 million as of December 31, 2009 and 2008, respectively, to account for the changes in valuation of the interest rate swaps.

NOTE 3: REAL ESTATE INVESTMENTS

Continuing Operations

Our real estate investment portfolio, at cost, consists of properties located in Maryland, Washington, D.C. and Virginia as follows (in thousands):

	December 31,	
	2009	**2008**
Office	$ 1,024,938	$ 1,011,722
Medical office	394,804	367,651
Retail	267,932	266,897
Multifamily	319,375	316,837
Industrial/flex	304,466	301,734
	$ 2,311,515	$ 2,264,841

The amounts above reflect properties classified as continuing operations, which means they are to be held and used in rental operations (income producing property).

We have several properties in development. In the office segment, Dulles Station, Phase II remains in development. In the medical office segment, we have land under development at 4661 Kenmore Avenue. The cost of our real estate portfolio in development as of December 31, 2009 and 2008 is illustrated below (in thousands):

	December 31,	
	2009	**2008**
Office	$ 19,442	$ 18,453
Medical office	5,153	4,815
Retail	371	239
Multifamily	65	225
Industrial/flex		
	$ 25,031	$ 23,732

Our results of operations are dependent on the overall economic health of our markets, tenants and the specific segments in which we own properties. These segments include general purpose office, medical office, retail, multifamily and industrial. All segments are affected by external economic factors, such as inflation, consumer confidence, unemployment rates, etc. as well as changing tenant and consumer requirements. Because the properties are located in the Washington metro region, the Company is subject to a concentration of credit risk related to these properties.

As of December 31, 2009 no single property or tenant accounted for more than 10% of total assets or total real estate rental revenue.

Properties we acquired during the years ending December 31, 2009, 2008 and 2007 are as follows:

Acquisition Date	Property	Type	Rentable Square Feet (unaudited)	Contract Purchase Price (In thousands)
August 13, 2009	Lansdowne Medical Office Building	Medical Office	87,000	$ 19,900
		Total 2009	87,000	$ 19,900
February 22, 2008	6100 Columbia Park Road	Industrial/Flex	150,000	$ 11,200
May 21, 2008	Sterling Medical Office Building	Medical Office	36,000	6,500
September 3, 2008	Kenmore Apartments (374 units)	Multifamily	270,000	58,300
December 2, 2008	2445 M Street	Office	290,000	181,400
		Total 2008	746,000	$ 257,400
February 8, 2007	270 Technology Park	Industrial/Flex	157,000	$ 26,500
March 1, 2007	Monument II	Office	205,000	78,200
March 9, 2007	2440 M Street	Medical Office	110,000	50,000
June 1, 2007	Woodholme Medical Office Building	Medical Office	125,000	30,800
June 1, 2007	Woodholme Center	Office	73,000	18,200
June 1, 2007	Ashburn Farm Office Park	Medical Office	75,000	23,000
August 16, 2007	CentreMed I & II	Medical Office	52,000	15,300
August 30, 2007	4661 Kenmore Avenue	Land for Development	n/a	3,750
December 4, 2007	2000 M Street	Office	227,000	73,500
		Total 2007	1,024,000	$ 319,250

As discussed in note 2 to the consolidated financial statements, we record the acquired physical assets (land, building and tenant improvements), in-place leases (absorption, tenant origination costs, leasing commissions, and net lease intangible assets/liabilities), and any other liabilities at their fair values. Our sole 2009 acquisition, Lansdowne Medical Office Building, was vacant as of the acquisition date, so we did not acquire any absorption costs, leasing commissions, tenant origination costs or net intangible lease assets/liabilities during 2009.

We have allocated the total purchase price of the above acquisitions as follows (in millions):

	Allocation of Purchase Price 2009	2008	2007
Land	$ 1.3	$ 80.8	$ 43.0
Buildings	18.6	140.1	258.6
Tenant origination costs		10.4	11.8
Leasing commissions/absorption costs		18.2	17.7
Net lease intangible assets		1.8	0.4
Net lease intangible liabilities		(10.4)	(10.5)
Furniture, fixtures & equipment		1.0	
Discount on assumed mortgage		10.1	
Total*	$ 19.9	$ 252.0	$ 321.0

* Additional settlement costs, closing costs and adjustments are included in the basis for 2008 and 2007.

A note receivable with a fair value of $7.3 million was acquired in conjunction with 2445 M Street and is recorded separately as a note receivable in accounts receivable and other assets on the consolidated balance sheets.

The difference in total 2008 contract purchase price of properties acquired of $257.4 million and the acquisition cost per the consolidated statements of cash flows of $168.2 million is primarily the $101.9 million mortgage note assumed, offset by cash escrow accounts acquired totaling $11.4 million, both related to the 2445 M Street purchase. The remaining difference of $1.3 million is for additional settlement costs, closing costs and non-cash adjustments on all 2008 acquisitions. The difference in total 2007 contract purchase price of properties acquired of $319.3 million and the acquisition cost per the consolidated statements of cash flows of $294.2 million is the $26.8 million in mortgages assumed on the acquisitions of Woodholme Medical Office Building, Woodholme Center and Ashburn Farm Office Park, offset by $1.7 million for additional settlement costs, closing costs and adjustments on all acquisitions.

Discontinued Operations

We dispose of assets (sometimes using tax-deferred exchanges) that no longer meet our long-term strategy or return objectives and where market conditions for sale are favorable. The proceeds from the sales may be reinvested into other properties, used to fund development operations or to support other corporate needs, or distributed to our shareholders. Properties are considered held for sale when they meet specified criteria (see note 2 Discontinued Operations). Depreciation on these properties is discontinued at that time, but operating revenues, other operating expenses and interest continue to be recognized until the date of sale. We have one property classified as held for sale at December 31, 2009 and five as held for sale at December 31, 2008, as follows (in thousands):

	December 31, 2009	December 31, 2008
Office property	$	$ 3,050
Multifamily property		17,227
Industrial/Flex properties	4,915	17,796
Total	$ 4,915	$ 38,073
Less accumulated depreciation	(1,074)	(11,339)
	$ 3,841	$ 26,734

Properties that were sold or classified as held for sale during the three years ending December 31, 2009 are as follows:

Disposition Date	Property	Type	Rentable Square Feet (unaudited)	Contract Sales Price (in thousands)	Gain on Sale (in thousands)
May 13, 2009	Avondale	Multifamily	170,000	$ 19,800	$ 6,700
July 23, 2009	Tech 100 Industrial Park	Industrial	166,000	10,500	4,100
July 31, 2009	Brandywine Center	Office	35,000	3,300	1,000
November 13, 2009	Crossroads Distribution Center	Industrial	85,000	4,400	1,500
	Charleston Business Center	Industrial	85,000	Held for sale	n/a
		Total 2009	541,000	$ 38,000	$ 13,300
June 6, 2008	Sullyfield Center/The Earhart Building	Industrial	336,000	$ 41,100	$ 15,300
		Total 2008	336,000	$ 41,100	$ 15,300
September 26, 2007	Maryland Trade Center I & II	Office	342,000	$ 58,000	$ 25,000
		Total 2007	342,000	$ 58,000	$ 25,000

Charleston Business Center, an industrial property, met the criteria necessary for classification as held for sale as of March 31, 2009. Senior management has committed to, and actively embarked upon, a plan to sell this asset and the sale is expected to be completed within one year under terms usual and customary for such sales, with no indications that the plan will be significantly altered or abandoned. Depreciation on this property has been discontinued as of the date it was classified as held for sale, but operating revenues and expenses continue to be recognized until the date of sale. Under GAAP, revenues and expenses of properties that are classified as held for sale are treated as discontinued operations for all periods presented in the consolidated statements of income.

Operating results of the properties classified as discontinued operations are summarized as follows (in thousands):

	Operating Income For the Year Ending December 31, 2009	2008	2007
Revenues	$ 3,346	$ 8,496	$ 16,111
Property expenses	(1,362)	(3,128)	(5,940)
Depreciation and amortization	(405)	(1,239)	(2,661)
	$ 1,579	$ 4,129	$ 7,510

Operating income by each property classified as discontinued operations is summarized below (in thousands):

Property	Segment	Operating Income For the Year Ending December 31, 2009	2008	2007
Maryland Trade Center I & II	Office	$	$	$ 2,474
Sullyfield Center	Industrial		1,070	1,492
The Earhart Building	Industrial		421	754
Avondale	Multifamily	392	861	784
Charleston Business Center	Industrial	688	718	710
Tech 100 Industrial Park	Industrial	261	668	807
Brandywine Center	Office	85	192	195
Crossroads Distribution Center	Industrial	153	199	294
		$ 1,579	$ 4,129	$ 7,510

NOTE 4: MORTAGE NOTES PAYABLE

	December 31, 2009	2008
On September 27, 1999, we executed a $50.0 million mortgage note payable secured by Munson Hill Towers, Country Club Towers, Roosevelt Towers, Park Adams Apartments and the Ashby of McLean. The mortgage bore interest at 7.14% per annum and interest only was payable monthly until October 1, 2009, at which time all unpaid principal and interest would have been payable in full. On July 1, 2009, we prepaid this mortgage note payable in its entirety without any prepayment penalties.	$	$ 50,000
On October 9, 2003, we assumed a $36.1 million mortgage note payable and a $13.7 million mortgage note payable as partial consideration for our acquisition of Prosperity Medical Center. The mortgages bear interest at 5.36% per annum and 5.34% per annum respectively. Principal and interest are payable monthly until May 1, 2013, at which time all unpaid principal and interest are payable in full.	44,975	45,811
On August 12, 2004, we assumed a $10.1 million mortgage note payable with an estimated fair value* of $11.2 million, as partial consideration for our acquisition of Shady Grove Medical Village II. The mortgage bears interest at 6.98% per annum. Principal and interest are payable monthly until December 1, 2011, at which time all unpaid principal and interest are payable in full.	9,688	9,992

On December 22, 2004, we assumed a $15.6 million mortgage note payable with an estimated fair value* of $17.8 million, and a $3.9 million mortgage note payable with an estimated fair value* of $4.2 million as partial consideration for our acquisition of Dulles Business Park. The mortgages bear interest at 7.09% per annum and 5.94% per annum, respectively. Principal and interest are payable monthly until August 10, 2012, at which time all unpaid principal and interest are payable in full.	18,969	19,610
On March 23, 2005, we assumed a $24.3 million mortgage note payable with an estimated fair value* of $25.0 million as partial consideration for our acquisition of Frederick Crossing. The mortgage bears interest at 5.95% per annum. Principal and interest are payable monthly until January 1, 2013, at which time all unpaid principal and interest are payable in full.	22,798	23,304
On April 13, 2006, we assumed a $5.7 million mortgage note payable as partial consideration for the acquisition of 9707 Medical Center Drive. The mortgage bears interest at 5.32% per annum. Principal and interest are payable monthly until July 1, 2028, at which time all unpaid principal and interest are payable in full.	5,121	5,278
On June 22, 2006, we assumed a $4.9 million mortgage note payable as partial consideration for the acquisition of Plumtree Medical Center. The mortgage bears interest at 5.68% per annum. Principal and interest are payable monthly until March 11, 2013, at which time all unpaid principal and interest are payable in full.	4,601	4,684
On July 12, 2006, we assumed an $8.8 million mortgage note payable as partial consideration for the acquisition of 15005 Shady Grove Road. The mortgage bears interest at 5.73% per annum. Principal and interest are payable monthly until March 11, 2013, at which time all unpaid principal and interest are payable in full.	8,313	8,468
On August 25, 2006, we assumed a $34.2 million mortgage note payable as partial consideration for the acquisition of 20-50 West Gude Drive. The mortgage bears interest at 5.86% per annum. Principal and interest are payable monthly until February 11, 2013, at which time all unpaid principal and interest are payable in full.	32,170	32,815
On August 25, 2006, we assumed a $23.1 million mortgage note payable as partial consideration for the acquisition of The Crescent and The Ridges. The mortgage bears interest at 5.82%** per annum. Principal and interest are payable monthly until August 11, 2033** at which time all unpaid principal and interest are payable in full. The note may be repaid without penalty on August 11, 2010.	21,888	22,277
On June 1, 2007, we assumed a $21.2 million mortgage note payable as partial consideration for the acquisition of Woodholme Medical Office Building. The mortgage bears interest at 5.29% per annum. Principal and interest are payable monthly until November 1, 2015, at which time all unpaid principal and interest are payable in full.	20,599	20,897
On June 1, 2007, we assumed a $3.1 million mortgage note payable and a $3.0 million mortgage note payable as partial consideration for our acquisition of the Ashburn Farm Office Park. The mortgages bear interest at 5.56% per annum and 5.69% per annum, respectively. Principal and interest are payable monthly until May 31, 2025 and July 31, 2023, respectively, at which time all unpaid principal and interest are payable in full.	5,073	5,291
On May 29, 2008, we executed three mortgage notes payable totaling $81.0 million secured by 3801 Connecticut Avenue, Walker House and Bethesda Hill. The mortgages bear interest at 5.71% per annum and interest only is payable monthly until May 31, 2016, at which time all unpaid principal and interest are payable in full.	81,029	81,029
On December 2, 2008, we assumed a $101.9 million mortgage note payable with an estimated fair value* of $91.7 million as partial consideration for the acquisition of 2445 M Street. The mortgage bears interest at 5.62% per annum. Interest is payable monthly until January 6, 2017, at which time all unpaid principal and interest are payable in full.	93,084	91,830
On February 2, 2009, we executed a $37.5 million mortgage note payable secured by Kenmore Apartments. The mortgage bears interest at 5.37% per annum. Principal and interest are payable monthly until March 1, 2019, at which time all unpaid principal and interest are payable in full.	37,143	
	$ 405,451	$ 421,286

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* *The fair value of the mortgage notes payable was estimated upon acquisition by WRIT based upon market information and data, such as dealer quotes for instruments with similar terms and maturities. There is no notation when the fair value at the inception of the mortgage is the same as the carrying value.*

** *If the loan is not repaid on August 11, 2010, from and after August 11, 2010, the interest rate adjusts to one of the following rates: (i) the greater of (A) 10.82% or (B) the Treasury Rate (determined as of August 11, 2010, and defined as the yield calculated using linear interpolation approximating the period from August 11, 2010 to August 11, 2033 on the basis of Federal Reserve Stat. Release H.15-Selected Interest Rates under the heading U.S. Governmental Security/Treasury Constant Maturities) plus 5%; or (ii) if the Note is an asset of an entity formed for purposes of securitization and pursuant thereto securities rated by a rating agency have been issued, then the rate will equal: the greater of (A) 7.82% or (B) the Treasury Rate plus 2%. Due to the probability that the mortgage will not be paid off on August 11, 2010, the date reflected in the future maturities schedule is August 11, 2033.*

Total carrying amount of the above mortgaged properties was $645.2 million and $666.0 million at December 31, 2009 and 2008, respectively. Scheduled principal payments during the five years subsequent to December 31, 2009 and thereafter are as follows (in thousands):

	Principal Payments
2010	$ 4,510
2011	13,788
2012	21,823
2013	107,123
2014	2,038
Thereafter	263,579
	412,861
Net discounts/premiums	(7,410)
Total	$ 405,451

NOTE 5: UNSECURED LINES OF CREDIT PAYABLE

As of December 31, 2009, we maintained a $75.0 million unsecured line of credit maturing in June 2011 (Credit Facility No. 1) and a $262.0 million unsecured line of credit maturing in November 2010 (Credit Facility No. 2).

Credit Facility No. 1

We had $28.0 million outstanding as of December 31, 2009 related to Credit Facility No. 1, and $1.4 million in letters of credit issued, with $45.6 million unused and available for subsequent acquisitions, capital improvements or general corporate purposes. We had no balance outstanding under this facility at December 31, 2008. During 2009, we borrowed $64.5 million to fund repurchases of convertible debt, fund the acquisition Lansdowne Medical Office Building and pay dividends. We repaid 36.5 million using proceeds from the May 2009 equity offering, equity issued under our sales agency financing agreement and property sales.

Borrowings under the facility bear interest at our option of LIBOR plus a spread based on the credit rating on our publicly issued debt or the higher of SunTrust Bank s prime rate and the Federal Funds Rate in effect plus 0.5%. The interest rate spread is currently 42.5 basis points. All outstanding advances are due and payable upon maturity in June 2011. Interest only payments are due and payable generally on a monthly basis. For the years ended December 31, 2009, 2008 and 2007, we recognized interest expense (excluding facility fees) of $40,300, $1,603,900 and $807,200, respectively, representing an average interest rate of 0.70%, 5.16% and 5.52%, respectively.

In addition, we pay a facility fee based on the credit rating of our publicly issued debt which currently equals 0.15% per annum of the $75.0 million committed capacity, without regard to usage. Rates and fees may be adjusted up or down based on changes in our senior unsecured credit ratings. For the years ended December 31, 2009, 2008 and 2007, we incurred facility fees of $114,100, $103,800 and $53,700, respectively.

Credit Facility No. 2

We had $100.0 million outstanding as of December 31, 2009 related to Credit Facility No. 2, and $0.9 million in letters of credit issued, with $161.1 million unused and available for subsequent acquisitions, capital improvements or general corporate purposes. $67.0 million was outstanding under this facility at December 31, 2008. During 2009, we borrowed $150.0 million to fund the repurchases of convertible debt, prepay a mortgage note payable and prepay the $100.0 million term loan. We repaid $117.0 million using proceeds from the May 2009 equity offering, equity issued under our sales agency financing agreement and property sales.

Advances under this agreement bear interest at our option of LIBOR plus a spread based on the credit rating of our publicly issued debt or the higher of Wells Fargo Bank s prime rate and the Federal Funds Rate in effect plus 0.5%. The interest rate spread is currently 42.5 basis points. However, the interest rate on the $100.0 million in borrowings used to prepay the term loan is effectively fixed by interest rate swaps (see note 6 to the consolidated financial statements). An interest rate swap currently fixes the interest rate at 3.375% (2.95% plus the 42.5 basis point spread) through February 19, 2010. When a forward interest rate swap becomes effective on February 20, 2010, we anticipate that the interest rate on the $100.0 million borrowing will be 2.525% (2.10% plus 42.5 basis points) through the forward interest rate swap s maturity date of November 1, 2011. All outstanding advances are due and payable upon maturity in November 2010. Interest only payments are due and payable generally on a monthly basis. For the years ended December 31, 2009, 2008 and 2007, we recognized interest expense (excluding facility fees) of $513,500, $3,049,000 and $4,579,000 representing an average interest rate of 1.81%, 4.94% and 5.77%, respectively.

Currently, Credit Facility No. 2 requires us to pay the lender a facility fee on the total commitment of 0.15% per annum. These fees are payable quarterly. For the years ended December 31, 2009, 2008 and 2007, we incurred facility fees of $396,900, $393,400 and $304,200, respectively.

Credit Facility No. 3

Credit Facility No. 3 was a $70.0 million line of credit that was terminated on June 29, 2007 and replaced by Credit Facility No. 1. At December 31, 2006, $28.0 million was outstanding under this facility, which was repaid during the first quarter of 2007 with proceeds from the $150 million 3.875% convertible notes issued in January 2007. Advances under this agreement bore interest at LIBOR plus a spread based on the credit rating on our publicly issued debt. Interest only payments were due and payable on a monthly basis. For the year ended December 31, 2007, we recognized interest expense (excluding facility fees) of $96,400, representing an average interest rate of 5.90% per annum.

From July 2005 through June 2007, Credit Facility No. 3 required us to pay the lender an annual facility fee on the total commitment of 0.15%, per annum. These fees were payable quarterly. For the year ended December 31, 2007, we incurred facility fees of $52,800.

Credit Facility No. 1 and No. 2 contain certain financial and non-financial covenants, all of which we have met as of December 31, 2009.

Information related to revolving credit facilities is as follows (in thousands):

	2009	**2008**	**2007**
Total revolving credit facilities at December 31	$ 337,000	$ 337,000	$ 275,000
Borrowings outstanding at December 31	128,000	67,000	192,500
Weighted average daily borrowings during the year	33,656	91,262	95,642
Maximum daily borrowings during the year	128,000	192,500	192,500
Weighted average interest rate during the year	1.62%	5.01%	5.73%
Weighted average interest rate at December 31	2.79%	1.48%	5.41%

NOTE 6: NOTES PAYABLE

On February 20, 1998, we issued $50.0 million of 7.25% unsecured notes due February 25, 2028 at 98.653% to yield approximately 7.36%.

On March 17, 2003, we issued $60.0 million of 5.125% unsecured notes due March 2013. The notes bear an effective interest rate of 5.23%. Our total proceeds, net of underwriting fees, were $59.1 million. We used portions of the proceeds of these notes to repay advances on our lines of credit and to fund general corporate purposes.

On December 11, 2003, we issued $100.0 million of 5.25% unsecured notes due January 2014. The notes bear an effective interest rate of 5.34%. Our total proceeds, net of underwriting fees, were $99.3 million. We used portions of the proceeds of these notes to repay advances on our lines of credit.

On April 26, 2005, we issued $50.0 million of 5.05% unsecured notes due May 1, 2012 and $50.0 million of 5.35% unsecured notes due May 1, 2015, at effective yields of 5.064% and 5.359% respectively. The net proceeds from the sale of the notes of $99.1 million were used to repay borrowings under our lines of credit totaling $90.5 million and the remainder was used for general corporate purposes.

On October 6, 2005, we issued an additional $100.0 million of the series of 5.35% unsecured notes due May 1, 2015, at an effective yield of 5.49%. $93.5 million of the $98.1 million net proceeds from the sale of these notes was used to repay borrowings under our lines of credit and the remainder was used to fund general corporate purposes.

On June 6, 2006, we issued $100.0 million of 5.95% unsecured notes due June 15, 2011 at 99.951% of par, resulting in an effective interest rate of 5.96%. Our total proceeds, net of underwriting fees, were $99.4 million. We used the proceeds of these notes to repay advances on one of our lines of credit.

On July 26, 2006, we issued an additional $50.0 million of the series of 5.95% unsecured notes due June 15, 2011 at 100.127% of par, resulting in an effective yield of 5.92%. Our total proceeds, net of underwriting fees, were $50.2 million. We used the proceeds of these notes to repay borrowings under our lines of credit and to fund general corporate purposes.

On September 11, 2006, we issued $100.0 million of 3.875% convertible notes due September 15, 2026. On September 22, 2006, we issued an additional $10.0 million of the 3.875% convertible notes due September 15, 2026, upon the exercise by the underwriter of an over-allotment option granted by WRIT. The notes were issued at 99.5% of par. Our total proceeds, net of underwriting fees, were $106.7 million. We used the proceeds of these notes to repay borrowings under our lines of credit and to fund general corporate purposes.

On January 22, 2007, we issued an additional $135.0 million of the 3.875% convertible notes due September 15, 2026. On January 30, 2007, we issued an additional $15.0 million of the 3.875% convertible notes due September 15, 2026, upon the exercise by the underwriter of an over-allotment option granted by WRIT. The notes were issued at 100.5% of par. Our total proceeds, net of underwriting fees, were $146.0 million. We used the proceeds of these notes to fund the acquisition of 270 Technology Park and a portion of the acquisition of Monument II, to repay borrowings under our lines of credit and to fund general corporate purposes.

We recorded the 3.875% convertible notes in the consolidated balance sheets as notes payable less a component of the total debt, representing the conversion feature, which is bifurcated and recorded in equity. As a result, as of the inception of the 3.875% convertible notes, we classified $21.0 million of the 3.875% convertible notes original carrying amount into shareholders equity. We accrete to interest expense the resulting discount on the debt over the expected life of the debt. The effective rate on the 3.875% convertible notes after bifurcating the equity component reflects our nonconvertible debt borrowing rate at the inception of the 3.875% convertible notes, which was 5.875%.

The convertible notes are convertible into our common shares at the option of the holder, under specific circumstances or on or after July 15, 2026, at an initial exchange rate of 20.090 common shares per $1,000 principal amount of notes. This is equivalent to an initial conversion price of $49.78 per common share, which represents a 22% premium over the $40.80 closing price of our common shares at the time the September 2006 transaction was priced and a 21% premium over the $41.17 closing price of our common shares at the time the January 2007 transaction was priced. Holders may convert their notes into our common shares prior to the maturity date based on the applicable conversion rate during any fiscal quarter if the closing price of our common shares for at least 20 trading days in the 30 consecutive trading day period ending on the last trading day of the immediate preceding fiscal quarter is more than 130% of the conversion price per common share on the last day of such preceding fiscal quarter. The initial conversion rate is subject to adjustment in certain circumstances including an adjustment to the rate if the quarterly dividend rate to common shareholders is in excess of $0.4125 per share. In addition, the conversion rate will be adjusted if we make distributions of cash or other consideration by us or any of our subsidiaries in respect of a tender offer or exchange offer for our common shares, to the extent such cash and the value of any such other consideration per common share validly tendered or exchanged exceeds the closing price of our common shares as defined in the note offering. Upon an exchange of notes, we will settle any amounts up to the principal amount of the notes in cash and the remaining exchange value, if any, will be settled, at our option, in cash, common shares or a combination thereof. The convertible notes could have a dilutive impact on our earnings per share calculation in the future. However, these convertible notes are not dilutive for the years ended December 31, 2009, 2008 and 2007, and are not included in our earnings per share calculations.

On or after September 20, 2011, we may redeem the convertible notes at a redemption price equal to the principal amount of the convertible notes plus any accrued and unpaid interest, if any, up to, but excluding, the purchase date. In addition, on September 15, 2011, September 15, 2016 and September 15, 2021 or following the occurrence of certain change in control transactions prior to September 15, 2011, holders of these notes may require us to repurchase the convertible notes for an amount equal to the principal amount of the convertible notes plus any accrued and unpaid interest thereon.

During 2009, we repurchased $109.7 million of the convertible notes at an average of 87.9% of par, resulting in a net gain on extinguishment of debt of $6.8 million, net of unamortized debt costs and debt discounts. During 2008, we repurchased $16.0 million of the convertible notes at 75.0% of par, resulting in a net gain on extinguishment of debt of $2.9 million, net of unamortized debt costs and debt discounts. No repurchases were made during 2007. As of December 31, 2009 and 2008, the amount outstanding on the convertible notes was $134.3 million and $244.0 million, respectively.

The interest expense recognized relating to the contractual interest coupon and relating to the amortization of the discount was as follows (in millions):

	Years Ended December 31,		
	2009	2008	2007
Contractual interest coupon	$ 6.6	$ 10.1	$ 9.7
Amortization of the discount	$ 2.9	$ 4.3	$ 3.9

The carrying amount of the equity component as of December 31, 2009 and 2008 is $21.0 million. The net carrying amount of the principal is as follows (in thousands):

	December 31,	
	2009	2008
Principal, gross	$ 134,328	$ 244,000
Unamortized discount	(4,307)	(12,047)
Principal, net	$ 130,021	$ 231,953

The remaining discount is being amortized through September, 2011, on the effective interest method.

During the first quarter of 2008, we repaid the $60 million outstanding principal balance under our 6.74% 10-year Mandatory Par Put Remarketed Securities (MOPPRS) notes. The total aggregate consideration paid to repurchase the notes was $70.8 million, which amount included the $8.7 million remarketing option value paid to the remarketing dealer and accrued interest paid to the holders. The loss on extinguishment of debt was $8.4 million, net of unamortized loan premium costs, upon settlement of these securities.

On February 21, 2008, we entered into a $100 million unsecured term loan (the Term Loan) with Wells Fargo Bank, National Association. The Term Loan had a maturity date of February 19, 2010 and bore interest at our option of LIBOR plus 1.50% or Wells Fargo s prime rate.

On May 7, 2009, we entered into an agreement to modify the Term Loan with Wells Fargo, National Association to extend the maturity date from February 19, 2010 to November 1, 2011. This agreement also increased the interest rate on the Term Loan from LIBOR plus 1.50% to LIBOR plus 2.75%. To hedge our exposure to interest rate fluctuations on the Term Loan, we previously had entered into an interest rate swap on a notional amount of $100 million through the original maturity date of February 19, 2010. This interest rate swap had the effect of fixing the LIBOR portion of the interest rate on the term loan at 2.95% through February 2010. The interest rate after the agreement to extend the maturity date, taking into account the swap, was 5.70% (2.95% plus 275 basis points). On May 6, 2009, we entered into a forward interest rate swap on a notional amount of $100 million for the period from February 20, 2010 through the maturity date of November 1, 2011. This forward interest rate swap had the effect of fixing the LIBOR portion of the interest rate on the term loan at 2.10% from February 20, 2010 through November 1, 2011. The interest rate for that time period, taking into account the forward interest rate swap, would have been 4.85% (2.10% plus 275 basis points). The forward interest rate swap agreement is scheduled to settle contemporaneously with the maturity of the loan. These swaps qualify as cash flow hedges as discussed in note 2 to the consolidated financial statements.

On December 1, 2009, we prepaid the $100 million unsecured term loan using proceeds from our unsecured line of credit (see note 5 to the consolidated financial statements), incurring a loss on extinguishment of debt of $1.5 million. The interest rate swaps discussed in the preceding paragraph are now used to fix the current interest rate on the $100.0 million borrowing on our unsecured lines of credit at 3.375% (2.95% plus the 42.5 basis point spread on our unsecured lines of credit). When the forward interest rate swap becomes effective on February 20, 2010, we anticipate that the interest rate on the $100.0 million borrowing will be 2.525% (2.10% plus 42.5 basis points) through the forward interest rate swap s maturity date of November 1, 2011.

The following is a summary of our unsecured note and term loan borrowings (in thousands):

	December 31, 2009	December 31, 2008
5.70% term loan due 2011	$	$ 100,000
5.95% notes due 2011	150,000	150,000
5.05% notes due 2012	50,000	50,000
5.125% notes due 2013	60,000	60,000
5.25% notes due 2014	100,000	100,000
5.35% notes due 2015	150,000	150,000
3.875% notes due 2026	134,328	244,000
7.25% notes due 2028	50,000	50,000
Discount on notes issued	(5,435)	(13,352)
Premium on notes issued	19	31
Total	$ 688,912	$ 890,679

The required principal payments excluding the effects of note discounts or premium for the remaining years subsequent to December 31, 2009 are as follows (in thousands):

2010	$
2011[1]	284,328
2012	50,000
2013	60,000
2014	100,000
Thereafter	200,000
	$ 694,328

(1) We reflect the 3.875% convertible notes as maturing in 2011 on this schedule due to the fact that we may redeem them at a redemption price equal to the principal amount of the notes plus any accrued and unpaid interest, if any, up to, but excluding, the purchase date on or after September 20, 2011. In addition, on September 15, 2011, September 15, 2016 and September 15, 2021 or following the occurrence of certain change in control transactions prior to September 15, 2011, holders of these notes may require us to repurchase the notes for an amount equal to the principal amount of the notes plus any accrued and unpaid interest thereon.

Interest on these notes is payable semi-annually. These notes contain certain financial and non-financial covenants, all of which we have met as of December 31, 2009.

The covenants under our line of credit agreements require us to insure our properties against loss or damage in amounts customarily maintained by similar businesses or as they may be required by applicable law. The covenants for the notes require us to keep all of our insurable properties insured against loss or damage at least equal to their then full insurable value. We have an insurance policy which has no terrorism exclusion, except for non-certified nuclear, chemical and biological acts of terrorism. Our financial condition and results of operations are subject to the risks associated with acts of terrorism and the potential for uninsured losses as the result of any such acts. Effective November 26, 2002, under this existing coverage, any losses caused by certified acts of terrorism would be partially reimbursed by the United States under a formula established by federal law. Under this formula the United States pays 85% of covered terrorism losses exceeding the statutorily established deductible paid by the insurance provider, and insurers pay 10% until aggregate insured losses from all insurers reach $100 billion in a calendar year. If the aggregate amount of insured losses under this program exceeds $100 billion during the applicable period for all insured and insurers combined, then each insurance provider will not be liable for payment of any amount which exceeds the aggregate amount of $100 billion. On December 26, 2007, the Terrorism Risk Insurance Program Reauthorization Act of 2007 was signed into law and extends the program through December 31, 2014.

NOTE 7: SHARE OPTIONS AND GRANTS

2007 Plan

In March 2007, the WRIT Board of Trustees adopted, and in July 2007 WRIT shareholders approved, the Washington Real Estate Investment Trust 2007 Omnibus Long-Term Incentive Plan (2007 Plan). This plan replaced the Share Grant Plan, which expired on December 15, 2007, as well as the 2001 Stock Option Plan and Stock Option Plan for Trustees. The shares and options granted pursuant to the above plans are not affected by the adoption of the 2007 Plan. However, if an award under the Share Grant Plan is forfeited or an award of options granted under the Option Plans expires without being exercised, the shares covered by those awards will not be available for issuance under the 2007 Plan.

The 2007 Plan provides for the award to WRIT s trustees, officers and non-officer employees of restricted shares, restricted share units, options and other awards up to an aggregate of 2,000,000 shares over the ten year period in which the plan will be in effect. Restricted share units are converted into shares of our stock upon full vesting through the issuance of new shares. If an award under the 2007 Plan of restricted shares or restricted share units is forfeited or an award of options or any other rights granted under the 2007 Plan expires without being exercised, the shares covered by any such award would again become available for issuance under new awards.

Elected deferrals of short term incentive awards by officers are converted into restricted share units which vest immediately on the grant date and WRIT will match 25% of the deferred short term incentive in restricted share units, which vest at the end of three years. Dividends on these restricted share units are paid in the form of restricted share units valued based on the market value of WRIT s stock on the date dividends are paid. We granted 876 and 4,783 restricted share units to officers in 2008 and 2007, respectively, pursuant to elective short term incentive deferrals. During 2008, we granted 263 restricted share units on dividends. In 2009, we granted 458 restricted share units on dividends.

Total compensation expense recognized in the consolidated financial statements for all share based awards, including share grants, restricted share units and performance share units, in each of the three years ending 2009 was (in millions):

	Stock-based Compensation Expense
2007[(1)]	$ 2.7
2008[(1)]	$ 2.2
2009[(1)]	$ 2.0

(1) 2007 included $0.6 million related to the accelerated vesting of prior CEO share grant awards as required by FASB ASC 505-50 and 718-10 (formerly FAS 123(R), *Share Based Payments*). 2009 and 2008 included $0.1 million and $0.2 million, respectively, related to the accelerated vesting of departing Chief Financial Officer share grant and restricted unit awards.

Options

The previous Option Plans provided for the grant of qualified and non-qualified options. Options granted under the plans were granted with exercise prices equal to the market price on the date of grant, vested 50% after year one and 50% after year two and expire ten years following the date of grant. Options granted to trustees were granted with exercise prices equal to the market price on the date of grant and were fully vested on the grant date. As discussed in note 2 to the consolidated financial statements, we accounted for option awards in accordance with APB No. 25, and we have recognized no compensation cost for stock options. The last option awards to officers were in 2002, to non-officer key employees in 2003 and to trustees in 2004. The following chart details the previously issued and currently outstanding and exercisable stock options:

	2009		2008		2007	
	Shares	Wtd Avg Ex Price	Shares	Wtd Avg Ex Price	Shares	Wtd Avg Ex Price
Outstanding at January 1	317,000	$ 25.31	438,000	$ 24.40	451,000	$ 24.42
Granted						
Exercised	(2,750)	$ 16.34	(119,000)	$ 22.12	(13,000)	$ 25.07
Expired/Forfeited			(2,000)	$ 17.59		
Outstanding at December 31	314,250	$ 25.39	317,000	$ 25.31	438,000	$ 24.40
Exercisable at December 31	314,250	$ 25.39	317,000	$ 25.31	438,000	$ 24.40

The 314,250 options outstanding at December 31, 2009, all of which are exercisable, have exercise prices between $21.34 and $33.09, with a weighted-average exercise price of $25.39 and a weighted average remaining contractual life of 2.5 years. The aggregate intrinsic value of outstanding exercisable shares at December 31, 2009 was $0.7 million. The aggregate intrinsic value of options exercised was minimal in 2009 and $1.1 million and $0.1 million in 2008 and 2007, respectively. There were no options forfeited in 2009.

Share Grants, Restricted Share Units and Performance Share Units

We previously maintained a Share Grant Plan for officers, trustees and other members of management. In 2004 and 2005, we granted awards to officers and other members of management in the form of restricted shares. We valued the awards based on the fair market value at the date of grant. Shares vest ratably over a five year period from the date of grant.

Beginning in 2005, we changed annual long-term incentive compensation for trustees from options of 2,000 shares plus 400 restricted shares to $30,000 in restricted shares. In May 2007, we increased the value of the restricted shares awarded to trustees to $55,000. These shares vest immediately and are restricted from sale for the period of the trustee s service.

The 2007 Plan provides for the granting of restricted share units and performance share units to officers and other members of management, based upon various percentages of their salaries and their positions with WRIT. For officers, one-third of the award is in the form of restricted share units that vest 20% per year based upon continued employment and two-thirds of the award is in the form of performance share units subject to performance and market conditions. For other members of management, 100% of the award is in the form of restricted share units awarded based on one-year performance targets that vest ratably over five years from the grant date.

With respect to the officer performance share units that are subject to performance conditions, awards are based on three-year cumulative performance targets, for which targets will be set annually based on benchmarks with minimum and maximum payout thresholds. As the three-year cumulative performance targets are set independently each year, the grant date does not occur until all such targets are set and all of the significant terms of the award are known. Because payouts are probable, we estimate the compensation expense at each reporting period based on the current fair market value of the probable award, until the vesting occurs and as progress towards meeting target is known. We recognize the expense for such performance-based share units ratably over the three-year period with cumulative catch-up adjustments recorded in the current period. With respect to the officer performance share units that are subject to market conditions, awards are based on a cumulative three-year market target which is set at the beginning of the three-year period. We recognize compensation expense ratably over the three-year service period, based on the grant date fair value, as determined using a Monte Carlo simulation, and regardless of whether the market conditions are achieved and the awards ultimately vest. All performance share units awarded based on achievement of respective performance or market conditions cliff vest at the end of the three-year period. The program provides that participants who terminate prior to the end of the three-year performance period forfeit their entire portion of the award.

The following are tables of activity for the years ended December 31, 2009, 2008 and 2007 related to our share grants, restricted share units, and performance share units.

Share Grants

	2009		2008		2007	
	Shares	Wtd Avg Grant Fair Value	Shares	Wtd Avg Grant Fair Value	Shares	Wtd Avg Grant Fair Value
Vested at January 1	312,006	$ 29.21	271,650	$ 28.97	191,217	$ 27.17
Unvested at January 1	34,849	$ 35.04	62,530	$ 34.15	115,492	$ 33.16
Granted	14,427	$ 26.69	13,019	$ 26.05	27,571	$ 34.57
Vested during year	(47,283)	$ 32.59	(40,356)	$ 30.86	(80,433)	$ 32.85
Expired/Forfeited	(123)	$ 32.78	(344)	$ 32.70	(100)	$ 32.50
Unvested at December 31	1,870	$ 32.50	34,849	$ 35.04	62,530	$ 34.15
Vested at December 31	359,289	$ 29.66	312,006	$ 29.21	271,650	$ 28.97

The total fair value of shares vested during the years ending December 31, 2009, 2008 and 2007 is $1.1 million, $1.3 million and $2.9 million, respectively. As of December 31, 2009, the total compensation cost related to non-vested share awards not yet recognized was $36,300, which we expect to recognize over a weighted average period of 14 months.

Restricted Share Units

	2009		2008		2007	
	Shares	Wtd Avg Grant Fair Value	Shares	Wtd Avg Grant Fair Value	Shares	Wtd Avg Grant Fair Value
Vested at January 1	28,914	$ 35.00	8,154	$ 35.73		
Unvested at January 1	106,562	$ 30.63	80,831	$ 34.35	21,877	$ 39.54
Granted	88,414	$ 26.67	49,004	$ 26.16	67,355	$ 32.85
Vested during year	(34,942)	$ 32.24	(20,760)	$ 34.71	(8,154)	$ 35.73
Expired/Forfeited	(1,628)	$ 29.54	(2,513)	$ 33.97	(247)	$ 39.54
Unvested at December 31	158,406	$ 28.08	106,562	$ 30.63	80,831	$ 34.35
Vested at December 31	63,856	$ 33.49	28,914	$ 35.00	8,154	$ 35.73

The total fair value of restricted share units vested during the years ending December 31, 2009, 2008 and 2007 is $0.8 million, $0.7 million and $0.3 million, respectively. The value of unvested restricted share units at December 31, 2009 was $4.1 million, which we expect to recognize as compensation cost over a weighted average period of 42 months.

Performance Share Units

Performance Share Units with Performance Conditions:

	2009		2008		2007	
	Shares	Wtd Avg Grant Fair Value	Shares	Wtd Avg Grant Fair Value	Shares	Wtd Avg Grant Fair Value
Vested at January 1	43,000	$ 30.41		$		$
Unvested at January 1		$	43,000	$ 30.41		$
Granted	90,000	$ 22.81		$	43,000	$ 30.41
Vested during year	(36,600)	$ 17.15	(43,000)	$ 30.41		$
Expired/Forfeited		$		$		$
Unvested at December 31	53,400	$ 26.69		$	43,000	$ 30.41
Vested at December 31	79,600	$ 24.31	43,000	$ 30.41		$

Performance Share Units with Market Conditions:

	2009	
	Shares	Wtd Avg Grant Fair Value
Vested at January 1		$
Unvested at January 1		$
Granted	37,000	$ 20.15
Vested during year		$
Expired/Forfeited		$
Unvested at December 31	37,000	$ 20.15
Vested at December 31		$

The total fair value of performance share units vested during the years ending December 31, 2009, 2008 and 2007 is $0.9 million, $1.4 million and $0.0 million, respectively. As of December 31, 2009, the future expected expense related to performance share units with performance conditions, estimated based on the probable number of performance share units expected to vest under the current plan, totaled $2.2 million, which we expect to recognize as compensation cost over a weighted average period of 21 months. As of December 31, 2009, the future expected expense related to performance share units with market conditions, totaled $0.5 million, which we expect to recognize over a weighted average period of 24 months.

We determine the fair value of performance share units that contain market conditions included in the chart above using a binomial model employing a Monte Carlo method as of the grant date. The market condition performance measurement is the cumulative three-year average total shareholder return relative to a defined population of 25 peer companies. The model evaluates the awards for changing total shareholder return over the term of vesting, relative to the peer group, and uses random simulations that are based on past stock characteristics as well as income growth and other factors for WRIT and each of the peer companies. There were no performance share units with market conditions prior to 2009. The following are the average assumptions used to the value awards granted as of December 31, 2009 and their respective determined fair value:

	2009 Awards
Expected volatility	33.4%
Risk-free interest rate	1.5%
Expected life (from grant date)	3.0 years
Price of underlying stock at measurement date	$ 17.15
Performance share unit grant date fair value	$ 20.15

We based the expected volatility upon the historical volatility of our monthly share closing prices. We based the risk-free interest rate used on U.S. Treasury constant maturity bonds on the measurement date with a maturity equal to the market condition performance period. We based the expected term on the market condition performance period.

NOTE 8: OTHER BENEFIT PLANS

We have a Retirement Savings Plan (the 401K Plan), which permits all eligible employees to defer a portion of their compensation in accordance with the Internal Revenue Code. Under the 401K Plan, we may make discretionary contributions on behalf of eligible employees. In each of the years ended December 31, 2009, 2008 and 2007, we made contributions to the 401K plan of $0.4 million.

We have adopted a non-qualified deferred compensation plan for the officers and members of the Board of Trustees. The plan allows for a deferral of a percentage of annual cash compensation and trustee fees. The plan is unfunded and payments are to be made out of the general assets of WRIT. During 2008 the prior Chief Executive Officer received a lump sum distribution of the present value of his deferred compensation. The deferred compensation liability was $0.9 million and $0.8 million at December 31, 2009 and 2008, respectively.

We established a Supplemental Executive Retirement Plan (SERP) effective July 1, 2002 for the benefit of our prior Chief Executive Officer. Under this plan, upon the prior Chief Executive Officer s termination of employment from WRIT for any reason other than death, permanent and total disability, or discharge for cause, he is entitled to receive an annual benefit equal to his accrued benefit times his vested interest. We accounted for this plan in accordance with FASB ASC 715-30 (formerly SFAS No. 87, *Employers Accounting for Pensions)*, whereby we accrued benefit cost in an amount that resulted in an accrued balance at the end of the prior Chief Executive Officer s employment in June 2007 which was not less than the present value of the estimated benefit payments to be made. At December 31, 2009 the accrued benefit liability was $1.7 million. For the three years ended December 31, 2009, 2008 and 2007, we recognized current service cost of $124,000, $132,000 and $253,000, respectively. On December 31, 2006, we adopted the recognition and disclosure provisions of FASB ASC 715-20 (formerly SFAS No. 158, *Employer s Accounting for Defined Benefit Pension and Other Post Retirement Plans)*. FASB ASC 715-20 required us to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plan in the December 31, 2006 statement of financial position, with a corresponding adjustment to accumulated other comprehensive income, net of tax. Because the prior Chief Executive Officer s SERP is unfunded, the adoption of FASB ASC 715-20 did not have an effect on our consolidated financial condition at December 31, 2006, or for any prior period presented and it will not affect our operating results in future periods. We currently have an investment in corporate owned life insurance intended to meet the SERP benefit liability since the Chief Executive Officer s retirement. Benefit payments to the prior Chief Executive Officer began in 2008.

In November 2005, the Board of Trustees approved the establishment of a SERP for the benefit of the officers, other than the prior Chief Executive Officer. This is a defined contribution plan under which, upon a participant s termination of employment from WRIT for any reason other than death, discharge for cause or total and permanent disability, the participant will be entitled to receive a benefit equal to the participant s accrued benefit times the participant s vested interest. We account for this plan in accordance with FASB ASC 710-10 (formerly EITF 97-14, *Accounting for Deferred Compensation Arrangements Where Amounts Earned are Held in a Rabbi Trust and Invested)* and

FASB ASC 320-10 (formerly SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities)*, whereby the investments are reported at fair value, and unrealized holding gains and losses are included in earnings. For the years ended December 31, 2009, 2008 and 2007, we recognized current service cost of $280,000, $311,000 and $245,000, respectively.

NOTE 9: FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosures of estimated fair value were determined by management using available market information and established valuation methodologies, including discounted cash flow. Many of these estimates involve significant judgment. The estimated fair value disclosed may not necessarily be indicative of the amounts we could realize on disposition of the financial instruments. The use of different market assumptions or estimation methodologies could have an effect on the estimated fair value amounts. In addition, fair value estimates are made at a point in time and thus, estimates of fair value subsequent to December 31, 2009 may differ significantly from the amounts presented.

Below is a summary of significant methodologies used in estimating fair values and a schedule of fair values at December 31, 2009.

Cash and Cash Equivalents

Cash and cash equivalents includes cash and commercial paper with original maturities of less than 90 days, which are valued at the carrying value, which approximates fair value due to the short maturity of these instruments.

Notes Receivable

The fair value of the notes is estimated based on quotes for debt with similar terms and characteristics or a discounted cash flow methodology using market discount rates if reliable quotes are not available.

Derivatives

The company reports its interest rate swap at fair value in accordance with GAAP, and thus the carrying value is the fair value.

Mortgage Notes Payable

Mortgage notes payable consist of instruments in which certain of our real estate assets are used for collateral. The fair value of the mortgage notes payable is estimated based primarily upon lender quotes for instruments with similar terms and maturities.

Lines of Credit Payable

Lines of credit payable consist of bank facilities which we use for various purposes including working capital, acquisition funding or capital improvements. The lines of credit advances are priced at a specified rate plus a spread. The carrying value of the lines of credit payable is estimated to be market value given the adjustable rate of these borrowings.

Notes Payable

The fair value of these securities is estimated based primarily on lender quotes for securities with similar terms and characteristics.

	2009		2008	
(in thousands)	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Cash and cash equivalents, including restricted cash	$ 30,373	$ 30,373	$ 30,697	$ 30,697
2445 M Street note receivable	$ 7,157	$ 8,995	$ 7,331	$ 7,331
Interest rate hedge liability	$ 1,757	$ 1,757	$ 2,335	$ 2,335
Mortgage notes payable	$ 405,451	$ 406,982	$ 421,286	$ 408,089
Lines of credit payable	$ 128,000	$ 128,000	$ 67,000	$ 67,000
Notes payable	$ 688,912	$ 693,620	$ 890,679	$ 712,763

NOTE 10: RENTALS UNDER OPERATING LEASES

Non-cancelable commercial operating leases provide for minimum rental income from continuing operations during each of the next five years and thereafter as follows (in millions):

	Rental Income
2010	$ 203.9
2011	177.0
2012	150.9
2013	128.3
2014	98.7
Thereafter	177.8
	$ 936.6

Apartment leases are not included as the terms are generally for one year. Most of these commercial leases increase in future years based on agreed-upon percentages or in some instances, changes in the Consumer Price Index. Percentage rents from retail centers, based on a percentage of tenants gross sales, were $0.2 million, $0.4 million and $0.3 million in 2009, 2008 and 2007, respectively. Real estate tax, operating expense and common area maintenance reimbursement income from continuing operations was $36.6 million, $30.9 million and $24.9 million for the years ended December 31, 2009, 2008 and 2007, respectively.

NOTE 11: COMMITTMENTS AND CONTINGENCIES

Development Commitments

At December 31, 2009 and 2008, we had various contracts outstanding with third parties in connection with our ongoing development projects. Remaining contractual commitments for development projects at December 31, 2009 were $0.6 million.

Litigation

We are involved from time to time in various legal proceedings, lawsuits, examinations by various tax authorities and claims that have arisen in the ordinary course of business. Management believes that the resolution of such matters will not have a material adverse effect on our financial condition or results of operations.

Other

At December 31, 2009, we were contingently liable under unused letters of credit in the amounts of $885,000 and $815,000, related to our assumption of mortgage debt on Dulles Business Park and West Gude, respectively, to ensure the funding of certain tenant improvements and leasing commissions over the term of the debt. We were also contingently liable under unused letters of credit totaling $536,000 related to our development projects at Clayborne Apartments and Bennett Park, to ensure the complete installation of public improvements in accordance with the projects related site plans.

NOTE 12: SEGMENT INFORMATION

We have five reportable segments: office, medical office, retail, multifamily and industrial/flex properties. Office buildings provide office space for various types of businesses and professions. Medical office buildings provide offices and facilities for a variety of medical services. Retail centers are typically neighborhood grocery store or drug store anchored retail centers. Multifamily properties provide rental housing for families throughout the Washington metropolitan area. Industrial/flex centers are used for flex-office, warehousing, services and distribution type facilities.

Real estate rental revenue as a percentage of the total for each of the five reportable operating segments is as follows:

	Year Ended December 31,		
	2009	2008	2007
Office	44%	42%	41%
Medical office	15%	16%	15%
Retail	14%	15%	17%
Multifamily	15%	13%	13%
Industrial/Flex	12%	14%	14%

The percentage of total income producing real estate assets, at cost, for each of the five reportable operating segments is as follows:

	December 31, 2009	December 31, 2008
Office	44%	45%
Medical office	17%	16%
Retail	12%	12%
Multifamily	14%	14%
Industrial/Flex	13%	13%

The accounting policies of each of the segments are the same as those described in note 2 to the consolidated financial statements. We evaluate performance based upon operating income from the combined properties in each segment. Our reportable operating segments are consolidations of similar properties. GAAP requires that segment disclosures present the measure(s) used by the chief operating decision maker for purposes of assessing segments performance. Net operating income is a key measurement of our segment profit and loss. Net operating income is defined as segment real estate rental revenue less segment real estate expenses.

The following table presents revenues and net operating income for the years ended December 31, 2009, 2008 and 2007 from these segments, and reconciles net operating income of reportable segments to net income as reported (in thousands):

2009	Office	Medical Office	Retail	Multifamily	Industrial/ Flex	Corporate and Other	Consolidated
Real estate rental revenue	$ 136,457	$ 44,911	$ 41,821	$ 46,470	$ 37,270	$	$ 306,929
Real estate expenses	48,898	15,218	10,680	19,494	10,283		104,573
Net operating income	$ 87,559	$ 29,693	$ 31,141	$ 26,976	$ 26,987	$	$ 202,356
Depreciation and amortization							(94,042)
Interest expense							(75,001)
General and administrative							(13,906)
Other income							1,205
Gain on extinguishment of debt, net							5,336
Gain from non-disposal activities							73
Income from discontinued operations							1,579
Gain on sale of real estate							13,348
Net income							40,948
Less: Net income attributable to noncontrolling interests							(203)
Net income attributable to the controlling interests							$ 40,745
Capital expenditures	$ 14,200	$ 6,613	$ 1,270	$ 2,287	$ 2,967	$ 351	$ 27,688
Total assets	$ 926,433	$ 360,220	$ 225,548	$ 240,442	$ 251,986	$ 40,596	$ 2,045,225

	2008						
	Office	Medical Office	Retail	Multifamily	Industrial/ Flex	Corporate and Other	Consolidated
Real estate rental revenue	$ 118,293	$ 43,594	$ 40,987	$ 37,858	$ 37,959	$	$ 278,691
Real estate expenses	42,427	14,177	9,647	17,436	9,812		93,499
Net operating income	$ 75,866	$ 29,417	$ 31,340	$ 20,422	$ 28,147	$	$ 185,192
Depreciation and amortization							(85,659)
Interest expense							(75,041)
General and administrative							(12,110)
Other income							1,073
Loss on extinguishment of debt, net							(5,583)
Gain from non-disposal activities							17
Income from discontinued operations							4,129
Gain on sale of real estate							15,275
Net income							27,293
Less: Net income attributable to noncontrolling interests							(211)
Net income attributable to the controlling interests							$ 27,082
Capital expenditures	$ 15,594	$ 6,685	$ 3,075	$ 7,129	$ 4,789	$ 642	$ 37,914
Total assets	$ 952,112	$ 346,725	$ 230,917	$ 264,457	$ 268,689	$ 46,507	$ 2,109,407

	2007						
	Office	Medical Office	Retail	Multifamily	Industrial/ Flex	Corporate and Other	Consolidated
Real estate rental revenue	$ 101,987	$ 37,847	$ 41,512	$ 31,364	$ 36,189	$	$ 248,899
Real estate expenses	34,569	11,651	8,921	13,462	8,756		77,359
Net operating income	$ 67,418	$ 26,196	$ 32,591	$ 17,902	$ 27,433	$	$ 171,540
Depreciation and amortization							(68,364)
Interest expense							(66,336)
General and administrative							(14,882)
Other income							1,875
Gain from non-disposal activities							1,303
Income from discontinued operations							7,510
Gain on sale of real estate							25,022
Net income							57,668
Less: Net income attributable to noncontrolling interests							(217)
Net income attributable to the controlling interests							$ 57,451
Capital expenditures	$ 25,401	$ 4,639	$ 2,757	$ 3,578	$ 4,747	$ 3,200	$ 44,322
Total assets	$ 771,614	$ 345,202	$ 230,851	$ 209,448	$ 289,227	$ 50,676	$ 1,897,018

NOTE 13: SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table summarizes our financial data by quarter for 2009 and 2008 (in thousands, except for per share data):

	Quarter[1] [2]			
	First	**Second**	**Third**	**Fourth**
2009:				
Real estate rental revenue	$ 77,194	$ 76,262	$ 75,607	$ 77,866
Income from continuing operations	$ 10,199	$ 6,092	$ 4,229	$ 5,501
Net income	$ 10,900	$ 13,142	$ 9,603	$ 7,303
Net income attributable to the controlling interests	$ 10,851	$ 13,090	$ 9,550	$ 7,254
Income from continuing operations per share				
Basic	$ 0.19	$ 0.11	$ 0.07	$ 0.09
Diluted	$ 0.19	$ 0.11	$ 0.07	$ 0.09
Net income per share				
Basic	$ 0.20	$ 0.23	$ 0.16	$ 0.12
Diluted	$ 0.20	$ 0.23	$ 0.16	$ 0.12
2008:				
Real estate rental revenue	$ 68,489	$ 68,118	$ 69,798	$ 72,286
Income from continuing operations	$ (4,204)	$ 3,532	$ 3,945	$ 4,616
Net income	$ (2,667)	$ 20,003	$ 4,629	$ 5,328
Net income attributable to the controlling interests	$ (2,724)	$ 19,950	$ 4,581	$ 5,275
Income from continuing operations per share				
Basic	$ (0.09)	$ 0.07	$ 0.08	$ 0.09
Diluted	$ (0.09)	$ 0.07	$ 0.08	$ 0.09
Net income per share				
Basic	$ (0.06)	$ 0.42	$ 0.09	$ 0.10
Diluted	$ (0.06)	$ 0.41	$ 0.09	$ 0.10

(1) With regard to per share calculations, the sum of the quarterly results may not equal full year results due to rounding.

(2) The prior quarter results have been restated to conform to the current quarter presentation. Specifically, results related to properties sold or held for sale have been reclassified into discontinued operations.

NOTE 14: SHAREHOLDERS EQUITY

During the second quarter of 2008, we completed a public offering of 2.6 million common shares priced at $34.80 per share, raising $86.7 million in net proceeds. We used the net proceeds from the offering to repay borrowings under our lines of credit. During the fourth quarter of 2008, we completed a public offering of 1.725 million common shares priced at $35.00 per share, raising $57.6 million in net proceeds. We used the net proceeds from the offering to repay borrowings under our lines of credit and for general corporate purposes.

During the second quarter of 2009, we completed a public offering of 5.25 million common shares priced at $21.40 per share, raising $107.5 million in net proceeds. We used the net proceeds to repay a mortgage note payable, borrowings under our unsecured lines of credit and for general corporate purposes.

During the fourth quarter of 2009, we entered into a sales agency financing agreement with BNY Mellon Capital Markets, LLC relating to the issuance and sale of up to $250.0 million of the our common shares from time to time over a period of no more than 36 months, replacing a previous agreement made during the third quarter of 2008. Sales of our common shares are made at market prices prevailing at the time of sale. Net proceeds for the sale of common shares under this program are used for the repayment of borrowings under our lines of credit, acquisitions, and general corporate purposes. During 2009, we issued 2.0 million common shares at a weighted average price of $27.37 under this program, raising $53.8 million in net proceeds. During 2008, we issued 1.1 million common shares at a weighted average price of $36.15 under this program, raising $40.7 million in net proceeds.

We have a dividend reinvestment program, whereby shareholders may use their dividends and optional cash payments to purchase common shares. The common shares sold under this program may either be common shares issued by us or common shares purchased in the open market.

Net proceeds under this program are used for general corporate purposes. During 2009, we issued 88,460 common shares at a weighted average price of $28.34 per share, raising $2.5 million in net proceeds. During 2008, we issued 125,348 common shares at a weighted average price of $32.75 per share, raising $4.1 million in net proceeds.

NOTE 15: SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 26, 2010, the date of issuance for these consolidated financial statements and notes thereto.

SCHEDULE III

		Initial Cost (b)			Gross Amounts at Which Carried at December 31, 2009								
rties	Location	Land	Buildings and Improvements	Net Improvements (Retirements) since acquisition	Land	Buildings and Improvements	Total (c)	Accumulated Depreciation at December 31, 2009	Year of Construction	Date of Acquisition	Net Rentable Square Feet (e)	Units	Deprec Life
amily rties													
cticut e (a)	Washington, DC	$ 420,000	$ 2,678,000	$ 7,478,000	$ 420,000	$ 10,156,000	$ 10,576,000	$ 7,453,000	1951	Jan 1963	179,000	308	30 Y
velt s	Virginia	$ 336,000	$ 1,996,000	$ 8,685,000	$ 336,000	$ 10,681,000	$ 11,017,000	$ 5,831,000	1964	May 1965	170,000	191	40 Y
y Club s	Virginia	$ 299,000	$ 2,562,000	$ 12,993,000	$ 299,000	$ 15,555,000	$ 15,854,000	$ 7,307,000	1965	Jul 1969	163,000	227	35 Y
dams	Virginia	$ 287,000	$ 1,654,000	$ 8,041,000	$ 287,000	$ 9,695,000	$ 9,982,000	$ 6,009,000	1959	Jan 1969	173,000	200	35 Y
on Hill s	Virginia	$ 322,000	$ 3,337,000	$ 13,653,000	$ 322,000	$ 16,990,000	$ 17,312,000	$ 10,284,000	1963	Jan 1970	259,000	279	33 Y
shby at an	Virginia	$ 4,356,000	$ 17,102,000	$ 12,924,000	$ 4,356,000	$ 30,026,000	$ 34,382,000	$ 13,851,000	1982	Aug 1996	252,000	256	30 Y
r nents	Maryland	$ 2,851,000	$ 7,946,000	$ 6,147,000	$ 2,851,000	$ 14,093,000	$ 16,944,000	$ 6,667,000	1971/03	Mar 1996	159,000	212	30 Y
da Hill nents	Maryland	$ 3,900,000	$ 13,412,000	$ 11,217,000	$ 3,900,000	$ 24,629,000	$ 28,529,000	$ 9,862,000	1986	Nov 1997	226,000	195	30 Y
tt Park	Virginia	$ 2,861,000	$ 917,000	$ 78,007,000	$ 4,774,000	$ 77,011,000	$ 81,785,000	$ 8,823,000	2007	Feb 2001	268,000	224	28 Y
orne	Virginia	$ 269,000	0	$ 30,289,000	$ 699,000	$ 29,859,000	$ 30,558,000	$ 3,624,000	2008	Jun 2003	87,000	74	26 Y
enmore	Washington, DC	$ 28,222,000	$ 33,955,000	$ 324,000	$ 28,222,000	$ 34,279,000	$ 62,501,000	$ 1,708,000	1948	Sep 2008	270,000	374	30 Y
		$ 44,123,000	$ 85,559,000	$ 189,758,000	$ 46,466,000	$ 272,974,000	$ 319,440,000	$ 81,419,000			2,206,000	2,540	
ngs													
ylvania e	Washington, DC	$ 892,000	$ 3,481,000	$ 13,740,000	$ 892,000	$ 17,221,000	$ 18,113,000	$ 12,026,000	1960	May 1977	97,000		28 Y
nroe	Maryland	$ 840,000	$ 10,869,000	$ 20,350,000	$ 840,000	$ 31,219,000	$ 32,059,000	$ 20,323,000	1975	Aug 1979	210,000		41 Y
ng	Virginia	$ 4,102,000	$ 3,931,000	$ 4,928,000	$ 4,102,000	$ 8,859,000	$ 12,961,000	$ 3,563,000	1966	Jul 1992	76,000		50 Y
gton ng	Maryland	$ 1,180,000	$ 1,262,000	$ 2,097,000	$ 1,180,000	$ 3,359,000	$ 4,539,000	$ 1,597,000	1970	Nov 1993	46,000		50 Y
ratoga ng	Maryland	$ 1,464,000	$ 1,554,000	$ 2,949,000	$ 1,464,000	$ 4,503,000	$ 5,967,000	$ 2,344,000	1977	Nov 1993	58,000		50 Y
tive vard	Maryland	$ 4,621,000	$ 11,926,000	$ 9,944,000	$ 4,621,000	$ 21,870,000	$ 26,491,000	$ 12,072,000	1971	Jan 1995	198,000		30 Y
9th	Washington, DC	$ 7,803,000	$ 11,366,000	$ 4,168,000	$ 7,802,000	$ 15,535,000	$ 23,337,000	$ 7,636,000	1976	Nov 1995	102,000		30 Y
Vilson vard	Virginia	$ 6,661,000	$ 16,742,000	$ 11,191,000	$ 6,661,000	$ 27,933,000	$ 34,594,000	$ 10,862,000	1973	Oct 1997	166,000		30 Y
ark	Virginia	$ 12,049,000	$ 71,825,000	$ 30,546,000	$ 12,049,000	$ 102,371,000	$ 114,420,000	$ 41,644,000	1972/ 86/ 99	Nov 1997	523,000		30 Y
fferson	Maryland	$ 2,296,000	$ 12,188,000	$ 4,328,000	$ 2,296,000	$ 16,516,000	$ 18,812,000	$ 6,014,000	1985	May 1999	112,000		