S&T BANCORP INC
Form 8-K
October 18, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

October 15, 2018
Date of Report (Date of earliest event reported)

S&T BANCORP, INC
(Exact name of registrant as specified in its charter)

Pennsylvania	0-12508	25-1434426
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

800 Philadelphia Street, Indiana,	15701

PA (Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (800) 325-2265

(Former name or former address, if changed since last report)
(Not applicable)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (See General Instruction A.2. below):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communication pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communication pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Item 2.02 - Results of Operations and Financial Condition

On October 18, 2018, S&T Bancorp, Inc. announced by press release its earnings for the three and nine months ended September 30, 2018. A copy of the press release is attached hereto as Exhibit 99.1. The information contained in this Report on Form 8-K furnished pursuant to Item 2.02, including Exhibit 99.1, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section, nor shall such information be deemed incorporated by reference in any filing under the Securities Exchange Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing.

Item 8.01 – Other Events

The Board of Directors of S&T declared a $0.27 per share cash dividend at its regular meeting held October 15, 2018. A copy of the press release is attached hereto as Exhibit 99.2. This is an increase of 23%, or $0.05 per share, compared to a dividend of $0.22 per share declared in the same period last year. The dividend is payable November 15, 2018 to shareholders of record on November 1, 2018.

This information in this Form 8-K and the exhibits attached to this Form 8-K contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally relate to our financial condition, results of operations, plans, objectives, outlook for earnings, revenues, expenses, capital and liquidity levels and ratios, asset levels, asset quality, financial position, and other matters regarding or affecting S&T and its future business and operations. Forward looking statements are typically identified by words or phrases such as “will likely result”, “expect”, “anticipate”, “estimate”, “forecast”, “project”, “intend”, “ believe”, “ “strategy”, “trend”, “plan”, “outlook”, “outcome”, “continue”, “remain”, “potential”, “opportunity”, “believe”, “comfortable”, “position”, “maintain”, “sustain”, “seek”, “achieve” and variations of such words and similar expressions, or future or conditio verbs such as will, would, should, could or may. Although we believe the assumptions upon which these forward-looking statements are based are reasonable, any of these assumptions could prove to be inaccurate and the forward-looking statements based on these assumptions could be incorrect. The matters discussed in these forward-looking statements are subject to various risks, uncertainties and other factors that could cause actual results and trends to differ materially from those made, projected, or implied in or by the forward-looking statements depending on a variety of uncertainties or other factors described in our Annual Report on Form 10-K for the year ended December 31, 2017 and other filings with the SEC. Many of these factors, as well as other factors, are described in our filings with the SEC. Forward-looking statements are based on beliefs and assumptions using information available at the time the statements are made. We caution you not to unduly rely on forward-looking statements because the assumptions, beliefs, expectations and projections about future events may, and often do, differ materially from actual results. Any forward-looking statement speaks only as to the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect developments occurring after the statement is made.

Item 9.01 – Financial Statements and Exhibits

(d) Exhibits. The exhibit listed on the Exhibit Index accompanying this Form 8-K is filed herewith.

(99.1) Press Release

(99.2) Dividend Release

SIGNATURES

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

	S&T Bancorp, Inc.
	/s/ Mark Kochvar
	Mark Kochvar
October 18, 2018	Senior Executive Vice President,
	Chief Financial Officer

e:10pt;">Acquisition costs
254

322

308

1,971

General and administrative
4,164

4,049

7,770

7,751

55,488

50,698

111,155

101,196

Real estate operating income
21,289

20,986

42,121

39,692

Other income (expense)

Interest expense
(15,533
)

(16,865
)

(31,428
)

(33,758
)
Other income
252

310

496

616

(15,281
)

(16,555

)

(30,932
)

(33,142
)
Income from continuing operations
6,008

4,431

11,189

6,550

Discontinued operations:

Income from operations of properties sold or held for sale
—

3,298

—

5,867

Income tax expense
—

(1,173
)

—

(1,173
)

Net income
6,008

6,556

11,189

11,244

Less: Net income attributable to noncontrolling interests in subsidiaries
—

(34
)

—

(57
)
Net income attributable to the controlling interests
$
6,008

$
6,522

$
11,189

$
11,187

Basic net income (loss) attributable to the controlling interests per share:

Continuing operations
$
0.09

$
0.07

$
0.16

$
0.10

Discontinued operations
—

0.03

—

0.07

Net income attributable to the controlling interests per share
$
0.09

$
0.10

$
0.16

$
0.17

Diluted net income (loss) attributable to the controlling interests per share:

Continuing operations
$

0.09

$
0.07

$
0.16

$
0.10

Discontinued operations
—

0.03

—

0.07

Net income attributable to the controlling interests per share
$
0.09

$
0.10

$
0.16

$
0.17

Weighted average shares outstanding – basic
66,241

65,954

66,218

65,920

Weighted average shares outstanding – diluted
66,380

65,989

66,354

65,948

Dividends declared per share
$
0.4338

$
0.4338

$
0.8676

$
0.8676

See accompanying notes to the financial statements.

WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(IN THOUSANDS)
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	$6,008	$6,556	$11,189	$11,244
Other comprehensive income:				
Change in fair value of interest rate hedge	—	421	—	833
Comprehensive income	6,008	6,977	11,189	12,077
Less: Net income attributable to noncontrolling interests	—	(34)	—	(57)
Comprehensive income attributable to the controlling interests	$6,008	$6,943	$11,189	$12,020

See accompanying notes to the financial statements.

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WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
(IN THOUSANDS)
(UNAUDITED)

	Shares Outstanding	Shares of Beneficial Interest at Par Value	Additional Paid in Capital	Distributions in Excess of Net Income Attributable to the Controlling Interests	Total Shareholders' Equity	Noncontrolling Interests in Subsidiaries	Total Equity
Balance, December 31, 2011	66,265	$ 662	$1,138,478	$ (280,096)	$ 859,044	$ 3,788	$862,832
Net income attributable to the controlling interests	—	—	—	11,189	11,189	—	11,189
Distributions to noncontrolling interests	—	—	—	—	—	(14)	(14)
Contributions from noncontrolling interest	—	—	—	—	—	102	102
Dividends	—	—	—	(57,807)	(57,807)	—	(57,807)
Shares issued under Dividend Reinvestment Program	55	—	1,345	—	1,345	—	1,345
Share options exercised	1	—	23	—	23	—	23
Share grants, net of share grant amortization and forfeitures	—	—	2,545	—	2,545	—	2,545
Balance, June 30, 2012	66,321	$ 662	$1,142,391	$ (326,714)	$ 816,339	$ 3,876	$820,215

See accompanying notes to the financial statements.

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WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	Six Months Ended June 30, 2012	2011
Cash flows from operating activities		
Net income	$11,189	$11,244
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, including amounts in discontinued operations	51,585	50,708
Provision for losses on accounts receivable	2,013	2,138
Real estate impairment	—	599
Amortization of share grants, net	2,763	2,745
Amortization of debt premiums, discounts and related financing costs	1,885	1,616
Changes in operating other assets	(4,609)	(12,840)
Changes in operating other liabilities	2,294	3,764
Net cash provided by operating activities	67,120	59,974
Cash flows from investing activities		
Real estate acquisitions, net	(52,142)	(126,870)
Net cash received for sale of real estate	—	58,117
Capital improvements to real estate	(21,525)	(10,399)
Development in progress	(2,218)	(11,802)
Non-real estate capital improvements	(415)	(231)
Net cash used in investing activities	(76,300)	(91,185)
Cash flows from financing activities		
Line of credit borrowings, net	122,000	145,000
Dividends paid	(57,807)	(57,386)
Net contributions from (distributions to) noncontrolling interests	88	(107)
Financing costs	(1,967)	—
Proceeds from dividend reinvestment program	1,345	2,644
Principal payments – mortgage notes payable	(2,900)	(2,047)
Notes payable repayments	(50,000)	(93,862)
Net proceeds from exercise of share options	23	1,088
Net cash provided by and (used in) financing activities	10,782	(4,670)
Net increase (decrease) in cash and cash equivalents	1,602	(35,881)
Cash and cash equivalents at beginning of year	12,765	78,767
Cash and cash equivalents at end of period	$14,367	$42,886
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	$29,995	$32,941

See accompanying notes to the financial statements.

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WASHINGTON REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012
(UNAUDITED)

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, 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 sales proceeds 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.

Generally, and subject to our ongoing qualification as a REIT, 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’s”). Our TRS’s are subject to corporate federal and state income tax on their taxable income at regular statutory rates. During the quarter ended June 30, 2012, we recorded $0.2 million in income tax expense related to temporary differences in the timing of the recognition of revenue, amortization and depreciation in our TRS's. We included this expense in general and administrative expenses on our consolidated statements of income.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Significant Accounting Policies

We have prepared our consolidated financial statements using the accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2011.

New Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") ASU No. 2011-04, Fair Value Measurement, which requires new disclosures about fair value measurements. Specifically, additional disclosures are required regarding significant unobservable inputs used for Level 3 fair value measurements, a company's valuation process, transfers between Levels 1 and 2, and hierarchy classifications for items whose fair value is not recorded on the balance sheet, but disclosed in the notes. For WRIT, the primary impact of this ASU was to require disclosure of the hierarchy classifications (Level 1, 2 or 3) for our disclosures of the fair values of financial instruments in our notes to the consolidated financial statements. We adopted this ASU on January 1, 2012.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income, which requires the presentation of comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This ASU eliminates the option of presenting the components of other comprehensive income as part of the statement of changes in shareholders' equity. This ASU is effective for fiscal years (including interim periods) beginning after December 15, 2011. We adopted this ASU on January 1, 2012 with the presentation of a separate statement of comprehensive income.

Principles of Consolidation and Basis of Presentation

The accompanying unaudited consolidated financial statements include the consolidated accounts of WRIT, its majority-owned subsidiaries and entities in which WRIT has a controlling interest, including where WRIT has been determined to be a primary beneficiary of a variable interest entity (“VIE”). All intercompany balances and transactions have been eliminated in consolidation.

We have prepared the accompanying unaudited financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made are adequate to make the information presented not misleading. In addition, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for the periods presented have been included. These unaudited financial statements should be read in conjunction with the financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2011.

Within these notes to the financial statements, we refer to the three months ended June 30, 2012 and June 30, 2011 as the “2012 Quarter” and the “2011 Quarter”, respectively, and the six months ended June 30, 2012 and June 30, 2011 as the “2012 Period” and the “2011 Period”, respectively.

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

During the 2012 Quarter, we identified certain immaterial classification errors in our consolidated statements of income and have determined that in this Quarterly Report on Form 10-Q and future periodic reports we will correct these reclassification errors by including within the subtotal “real estate operating income” impairment charges and acquisition costs, which had previously been included in “other income (expense).” These reclassifications totaled $18.1 million, $1.2 million, $0.8 million for the years ended December 31, 2011, 2010 and 2009, $0.1 million and $1.6 million for the three months ended March 31, 2012 and 2011, and $0.3 million and $2.0 million for the three and six months ended June 30, 2011, respectively. These reclassifications will decrease “real estate operating income” and will increase “other income (expense)” by an equal and offsetting amount. As a result, these reclassifications will not change income from continuing operations, net income, cash flows or any other operating measure for the periods affected.

In addition, certain prior year amounts have also been reclassified to conform to the current year presentation due to the reclassification of certain properties as discontinued operations (see note 3 to the consolidated financial statements).

NOTE 3: REAL ESTATE

Acquisition

We acquired the following property during the 2012 Period:

Acquisition Date	Property Name	Property Type	Rentable Square Feet	Contract Purchase Price (in thousands)
June 21, 2012	Fairgate at Ballston	Office	147,000	$52,250

The results of operations from the acquired property are included in the consolidated statements of income as of its acquisition date and are immaterial for the nine days that we owned the property during the 2012 Period. The difference in the contract purchase price and the cash paid for the acquisition per the consolidated statements of cash flows is due to credits received at settlement totaling $0.1 million.

Variable Interest Entities

On June 15, 2011, we executed a joint venture operating agreement with a real estate development company to develop a mid-rise multifamily property at 650 North Glebe Road in Arlington, Virginia. We estimate the total cost of the project to be $45.0 million, with approximately 70% of the project financed with debt. WRIT is the 90% owner of the joint venture, and will have management and leasing responsibilities when the project is completed and stabilized (defined as 90% of the residential units leased). The real estate development company owns 10% of the joint venture and is responsible for the development and construction of the property. The joint venture currently expects to complete this development project during the third quarter of 2014.

On November 23, 2011, we executed a joint venture operating agreement with a real estate development company to develop a high-rise multifamily property at 1219 First Street in Alexandria, Virginia. We estimate the total cost of the project to be $95.3 million, with approximately 70% of the project financed with debt. WRIT is the 95% owner of the joint venture and will have management and leasing responsibilities when the project is completed and stabilized. The real estate development company owns 5% of the joint venture and is responsible for the development and construction of the property. The joint venture currently expects to complete this development project during the fourth quarter of 2014.

We have determined that the 650 North Glebe Road and 1219 First Street joint ventures are variable interest entities ("VIE's") primarily based on the fact that the equity investment at risk is not sufficient to permit either entity to finance its activities without additional financial support. We expect that 70% of the total development costs will be financed through debt. We have also determined that WRIT is the primary beneficiary of each VIE due to the fact that WRIT is providing 90% to 95% of the equity contributions and will manage each property after stabilization.

We include the joint venture land acquisitions on our consolidated balance sheets in held for development. As of June 30, 2012 and December 31, 2011, the land and capitalized development costs are as follows (in millions):

	June 30, 2012	December 31, 2011
650 North Glebe	$14.5	$13.4
1219 First Street	$16.0	$14.4

As of June 30, 2012 and December 31, 2011, the accounts payable and accrued liabilities related to the joint ventures are as follows (in millions):

	June 30, 2012	December 31, 2011
650 North Glebe	$0.3	$0.1
1219 First Street	$0.4	$0.2

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 the criteria specified by GAAP. 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 had no properties classified as sold or held for sale as of June 30, 2012.

We sold or classified as held for sale the following properties during 2011:

Disposition Date	Property Name	Property Type	Rentable Square Feet	Contract Purchase Price (In millions)
Various [1]	Industrial Portfolio[1]	Industrial/Office	3,092,000	$350.9
April 5, 2011	Dulles Station, Phase I	Office	180,000	58.8
		Total 2011	3,272,000	$409.7

(1) The Industrial Portfolio consists of every property in our industrial segment and two office properties (the Crescent and Albemarle Point). On September 2, 2011 we closed on the sale of industrial properties (8880 Gorman Road, Dulles South IV, Fullerton Business Center, Hampton Overlook, Alban Business Center, Pickett Industrial Park, Northern Virginia Industrial Park I, 270 Technology Park, Fullerton Industrial Center, Sully Square, 9950 Business Parkway, Hampton South and 8900 Telegraph Road) and two office properties (Crescent and Albemarle Point). On October 3, 2011, we closed on the sale of Northern Virginia Industrial Park II. On November 2, 2011, we closed on the sale of 6100 Columbia Park Road and Dulles Business Park I and II.

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

	Quarter Ended June 30,		Period Ended June 30,	
	2012	2011	2012	2011
Revenues	$—	$8,931	$—	$19,014
Property expenses	—	(2,468)	—	(5,796)
Real estate impairment	—	—	—	(599)
Depreciation and amortization	—	(2,933)	—	(6,287)
Interest expense	—	(232)	—	(465)
Income from operations of properties sold or held for sale	$—	$3,298	$—	$5,867
Less: Net income attributable to noncontrolling interests in subsidiaries	—	(34)	—	(57)
Income from operations of properties sold or held for sale attributable to the controlling interests	$—	$3,264	$—	$5,810

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

		Quarter Ended June 30,		Period Ended June 30,	
Property	Segment	2012	2011	2012	2011
Industrial Portfolio	Industrial/Office	$—	$3,308	$—	$6,335
Dulles Station, Phase I	Office	—	(10)	—	(468)
		$—	$3,298	$—	$5,867

The operating loss for Dulles Station I for the 2011 Period includes a $0.6 million impairment charge to reflect the property's fair value less any selling costs based on its contract sales price.

NOTE 4: UNSECURED LINES OF CREDIT PAYABLE

During the 2012 Quarter, we executed an amended and restated credit agreement for our Credit Facility No. 1 to expand the facility from $75.0 million to $100.0 million, with an accordion feature that allows us to increase the facility to $200.0 million, subject to additional lender commitments. The amended and restated facility matures June 2015, with a one-year extension option, and bears interest at a rate of LIBOR plus a margin of 107.5 basis points.

During the 2012 Quarter, we entered into an amended and restated credit agreement for our $400.0 million unsecured line of credit ("Credit Facility No. 2") to extend the maturity date of the facility to July 2016 , with a one-year extension option, and lower the interest rate to LIBOR plus a margin of 107.5 basis points.

The amounts of these lines of credit unused and available at June 30, 2012 are as follows (in millions):

	Credit Facility No. 1	Credit Facility No. 2
Committed capacity	$100.0	$400.0
Borrowings outstanding	(74.0)	(147.0)
Letters of credit issued	(0.8)	—
Unused and available	$25.2	$253.0

We executed borrowings and repayments on the unsecured lines of credit during the 2012 Quarter as follows (in millions):

	Credit Facility No. 1	Credit Facility No. 2
Balance at March 31, 2012	$74.0	$35.0
Borrowings	—	117.0
Repayments	—	(5.0)
Balance at June 30, 2012	$74.0	$147.0

NOTE 5: NOTES PAYABLE

We repaid our $50.0 million of 5.05% unsecured notes on their due date of May 1, 2012 using borrowings on our unsecured lines of credit.

NOTE 6: STOCK BASED COMPENSATION

WRIT maintains short-term ("STIP") and long-term ("LTIP") incentive plans that provide for stock-based awards to officers and non-officer employees. Stock based awards are provided to officers and non-officer employees, as well as trustees, under the Washington Real Estate Investment Trust 2007 Omnibus Long-Term Incentive Plan which allows for awards in the form 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.

Total Compensation Expense

Total compensation expense recognized in the consolidated financial statements for all outstanding share based awards, was as follows (in millions):

	Quarter Ended June 30,		Period Ended June 30,	
	2012	2011	2012	2011
Stock-based compensation expense	$1.3	$1.5	$2.7	$2.8

Restricted Share Awards

The total fair values of share grants vested was as follows (in millions):

	Quarter Ended June 30,		Period Ended June 30,	
	2012	2011	2012	2011
Fair value of share grants vested	$—	$—	$0.3	$0.3

The total unvested restricted share awards at June 30, 2012 was 313,500 shares, which had a weighted average grant date fair value of $28.40 per share.

As of June 30, 2012, the total compensation cost related to non-vested restricted share awards was $4.2 million, which we expect to recognize as compensation expense over a weighted average period of 24 months.

NOTE 7: FAIR VALUE DISCLOSURES

Financial 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, as follows:

Level 1: Quoted Prices in Active Markets for Identical Assets

Level 2: Significant Other Observable Inputs

Level 3: Significant Unobservable Inputs

The only assets or liabilities we had at June 30, 2012 and December 31, 2011 that are recorded at fair value on a recurring basis are the assets held in the Supplemental Executive Retirement Program (“SERP”). We base the valuations related to this item on assumptions derived from significant other observable inputs and accordingly these valuations fall into Level 2 in the fair value hierarchy. The fair value of these assets at June 30, 2012 and December 31, 2011 is as follows (in millions):

	June 30, 2012				December 31, 2011			
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Assets:								
SERP	$2.1	$—	$2.1	$—	$1.7	$—	$1.7	$—

Financial Assets and Liabilities Not Measured at Fair Value

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 June 30, 2012 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 June 30, 2012.

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents and restricted cash include 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 (Level 1 inputs).

Notes Receivable

We acquired a note receivable ("2445 M Street note") in 2008 with the purchase of 2445 M Street. We estimate the fair value of the 2445 M Street note based on a discounted cash flow methodology using market discount rates (Level 3 inputs).

Debt

Mortgage notes payable consist of instruments in which certain of our real estate assets are used for collateral. We estimate the fair value of the mortgage notes payable by discounting the contractual cash flows at a rate equal to the relevant treasury rates (with respect to the timing of each cash flow) plus credit spreads estimated through independent comparisons to real estate assets or loans with similar characteristics. 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. We estimate the market value based on a comparison of the spreads of the advances to market given the adjustable base rate. We estimate the fair value of the notes payable by discounting the contractual cash flows at a rate equal to the relevant treasury rates (with respect to the timing of each cash flow) plus credit spreads derived using the relevant securities' market prices. We classify these fair value measurements as Level 3 as we use significant unobservable inputs and management judgment due to the absence of quoted market prices.

	June 30, 2012		December 31, 2011	
(in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$14,367	$14,367	$12,765	$12,765
Restricted cash	$19,853	$19,853	$19,424	$19,424
2445 M Street note receivable	$6,481	$7,540	$6,975	$7,721
Mortgage notes payable	$425,268	$459,277	$427,710	$463,238
Lines of credit payable	$221,000	$221,000	$99,000	$99,000
Notes payable	$607,653	$660,803	$657,470	$713,797

NOTE 8: 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 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 diluted earnings per share calculation includes the dilutive impact of employee stock options based on the treasury stock method and our incentive share awards with performance or market conditions under the contingently issuable method. The diluted earnings per share calculation also considers our operating partnership units and 3.875% convertible notes under the if-converted method. The 3.875% convertible notes, which were repaid in full during the third quarter of 2011, were anti-dilutive for the reporting periods during which they were outstanding.

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

	Quarter Ended June 30,		Period Ended June 30,	
	2012	2011	2012	2011
Numerator:				
Income from continuing operations	$6,008	$4,431	$11,189	$6,550
Allocation of undistributed earnings to unvested restricted share awards	(176)	(26)	(363)	(49)
Adjusted income from continuing operations attributable to the controlling interests	5,832	4,405	$10,826	$6,501
Income from discontinued operations, including gain on sale of real estate, net of taxes	—	2,125	—	4,694
Net income attributable to noncontrolling interests	—	(34)	—	$(57)
Allocation of undistributed earnings to unvested restricted share awards	—	(12)	—	(34)
Adjusted income from discontinuing operations attributable to the controlling interests	—	2,079	$—	$4,603
Adjusted net income attributable to the controlling interests	$5,832	$6,484	$10,826	$11,104
Denominator:				
Weighted average shares outstanding – basic	66,241	65,954	66,218	65,920
Effect of dilutive securities:				
Operating partnership units	117	—	117	—
Employee stock options and restricted share awards	22	35	19	28
Weighted average shares outstanding – diluted	66,380	65,989	66,354	65,948
Earnings per common share, basic:				
Continuing operations	$0.09	$0.07	$0.16	$0.10
Discontinued operations	$—	$0.03	$—	$0.07
	$0.09	$0.10	$0.16	$0.17
Earnings per common share, diluted:				
Continuing operations	$0.09	$0.07	$0.16	$0.10
Discontinued operations	$—	$0.03	$—	$0.07
	$0.09	$0.10	$0.16	$0.17

NOTE 9: SEGMENT INFORMATION

We have four reportable segments: office, medical office, retail and multifamily. 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 individuals and families throughout the Washington metropolitan area.

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 tables present revenues and net operating income for the 2012 and 2011 Quarters and Periods from these segments, and reconciles net operating income of reportable segments to net income as reported (in thousands):

	Quarter Ended June 30, 2012					
	Office	Medical Office	Retail	Multifamily	Corporate and Other	Consolidated
Real estate rental revenue	$38,426	$11,285	$13,970	$13,096	$—	$76,777
Real estate expenses	13,570	3,781	3,030	5,098	—	25,479
Net operating income	$24,856	$7,504	$10,940	$7,998	$—	$51,298
Depreciation and amortization						(25,591)
General and administrative						(4,164)
Interest expense						(15,533)
Acquisition costs						(254)
Other income						252
Net income						6,008
Less: Net income attributable to noncontrolling interests						—
Net income attributable to the controlling interests						$6,008
Capital expenditures	$7,278	$1,148	$1,154	$1,486	$205	$11,271
Total assets	$1,158,617	$343,557	$360,012	$245,947	$45,538	$2,153,671

	Quarter Ended June 30, 2011						
	Office	Medical Office	Retail	Multifamily	Industrial/Flex	Corporate and Other	Consolidated
Real estate rental revenue	$35,219	$11,519	$12,237	$ 12,709	$ —	$—	$71,684
Real estate expenses	11,902	3,421	3,619	4,859	—	—	23,801
Net operating income	$23,317	$8,098	$8,618	$ 7,850	$ —	$—	$47,883
Depreciation and amortization							(22,526)
General and administrative							(4,049)
Interest expense							(16,865)
Acquisition costs							(322)
Other income							310
Discontinued operations:							
Income tax expense							(1,173)
Income from discontinued operations							3,298
Net income							6,556
Less: Net income attributable to noncontrolling interests							(34)
Net income attributable to the controlling interests							$6,522
Capital expenditures	$3,367	$1,288	$1,030	$ 766	$ 258	$126	$6,835
Total assets	$991,238	$352,242	$308,655	$ 236,358	$ 223,536	$75,147	$2,187,176

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	Period Ended June 30, 2012					
	Office	Medical Office	Retail	Multifamily	Corporate and Other	Consolidated
Real estate rental revenue	$77,056	$22,712	$27,415	$26,093	$—	$153,276
Real estate expenses	27,464	7,526	6,472	10,030	—	51,492
Net operating income	$49,592	$15,186	$20,943	$16,063	$—	$101,784
Depreciation and amortization						(51,585)
General and administrative						(7,770)
Interest expense						(31,428)
Acquisition costs						(308)
Other income						496
Net income						11,189
Less: Net income attributable to noncontrolling interests						—
Net income attributable to the controlling interests						$11,189
Capital expenditures	$15,018	$2,621	$1,414	$2,472	$415	$21,940

	Period Ended June 30, 2011						
	Office	Medical Office	Retail	Multifamily	Industrial/Flex	Corporate and Other	Consolidated
Real estate rental revenue	$68,652	$22,650	$24,384	$ 25,202	$ —	$—	$140,888
Real estate expenses	23,114	7,090	7,161	9,687	—	—	47,052
Net operating income	$45,538	$15,560	$17,223	$ 15,515	$ —	$—	$93,836
Depreciation and amortization							(44,422)
General and administrative							(7,751)
Interest expense							(33,758)
Acquisition costs							(1,971)
Other income							616
Discontinued operations:							
Income tax expense							(1,173)
Income from discontinued operations							5,867
Net income							11,244
Less: Net income attributable to noncontrolling interests							(57)
Net income attributable to the controlling interests							$11,187
Capital expenditures	$5,833	$1,957	$1,471	$ 641	$ 497	$231	$10,630

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ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and the notes thereto appearing in Item 1 of this report and the more detailed information contained in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission on February 27, 2012.

We refer to the three months ended June 30, 2012 and June 30, 2011 as the "2012 Quarter" and the "2011 Quarter", respectively, and the six months ended June 30, 2012 and June 30, 2011 as the "2012 Period" and the "2011 Period", respectively.

Forward-Looking Statements

This Form 10-Q contains forward-looking statements which involve risks and uncertainties. Forward-looking statements include statements in this report preceded by, followed by or that include the words "believe," "expect," "intend," "anticipate," "potential," "project," "will" and other similar expressions. We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for these statements. The following important factors, in addition to those discussed elsewhere in this Form 10-Q, could affect our future results and could cause those results to differ materially from those expressed in the forward-looking statements: (a) the effects of changes in Federal government spending; (b) the economic health of the greater Washington metro region, or other markets we may enter; (c) the timing and pricing of lease transactions; (d) the effect of the recent credit and financial market conditions; (e) the availability and cost of capital; (f) fluctuations in interest rates; (g) the economic health of our tenants; (h) the supply of competing properties; (i) consumer confidence; (j) unemployment rates; (k) consumer tastes and preferences; (l) our future capital requirements; (m) inflation; (n) compliance with applicable laws, including those concerning the environment and access by persons with disabilities; (o) governmental or regulatory actions and initiatives; (p) changes in general economic and business conditions; (q) terrorist attacks or actions; (r) acts of war; (s) weather conditions; (t) the effects of changes in capital available to the technology and biotechnology sectors of the economy, and (u) other factors discussed under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission on February 27, 2012 and our subsequent Quarterly Reports on Form 10-Q. We undertake no obligation to update our forward-looking statements or risk factors to reflect new information, future events, or otherwise.

General

Introductory Matters

We provide our Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") in addition to the accompanying consolidated financial statements and notes to assist readers in understanding our results of operations and financial condition. We organize the MD&A as follows:

- Overview. Discussion of our business, operating results, investment activity and capital requirements, and summary of our significant transactions to provide context for the remainder of MD&A.
- Results of Operations. Discussion of our financial results comparing the 2012 Quarter to the 2011 Quarter and the 2012 Period to the 2011 Period.
- Liquidity and Capital Resources. Discussion of our financial condition and analysis of changes in our capital structure and cash flows.
- Critical Accounting Policies and Estimates. Descriptions of accounting policies that reflect significant judgments and estimates used in the preparation of our consolidated financial statements.

When evaluating our financial condition and operating performance, we focus on the following financial and non-financial indicators:

- Net operating income ("NOI"), calculated as real estate rental revenue less real estate expenses excluding depreciation and amortization, interest expense and general and administrative expenses. NOI is a non-GAAP supplemental measure to net income.
- Funds From Operations ("FFO"), calculated as set forth below under the caption "Funds from Operations." FFO is a non-GAAP supplemental measure to net income.
- Occupancy, calculated as occupied square footage as a percentage of total square footage as of the last day of that period.

- Leased percentage, calculated as the percentage of physical net rentable area leased for our commercial segments and percentage of apartments leased for our multifamily segment.

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- Rental rates.
- Leasing activity, including new leases, renewals and expirations.

For purposes of evaluating comparative operating performance, we categorize our properties as “same-store”, “non-same-store” or discontinued operations. A “same-store” property is one that was owned for the entirety of the periods being evaluated, is stabilized from an occupancy standpoint and is included in continuing operations. We consider newly constructed properties to be stabilized when they achieve 90% occupancy. A “non-same-store” property is one that was acquired or placed into service and not at 90% occupancy during either of the periods being evaluated and is included in continuing operations. Results for properties sold or held for sale during any of the periods evaluated are classified as discontinued operations.

Overview

Business

Our revenues are derived primarily from the ownership and operation of income-producing properties in the greater Washington metro region. As of June 30, 2012, we owned a diversified portfolio of 72 properties, totaling approximately 8.7 million square feet of commercial space and 2,540 multifamily units, and land held for development. These 72 properties consisted of 27 office properties, 18 medical office properties, 16 retail centers and 11 multifamily properties.

Operating Results

Our results of operations were as follows (in thousands):

	2012 Quarter	2011 Quarter	$ Change	% Change
Real estate rental revenue	$76,777	$71,684	$5,093	7.1 %
NOI [(1)]	$51,298	$47,883	$3,415	7.1 %
Net income attributable to the controlling interests	$6,008	$6,522	$(514)	(7.9)%
FFO [(2)]	$31,599	$33,154	$(1,555)	(4.7)%

(1) See page 24 of the MD&A for reconciliations of NOI to net income.
(2) See page 39 of the MD&A for reconciliations of FFO to net income.

The increases in real estate rental revenue and NOI are due to acquisitions made during 2011 and 2012. NOI for the same-store portfolio decreased by $0.8 million primarily due to lower occupancy in the office and medical office segments. The lower occupancy reflects continued difficulties in leasing vacant office space. For the Washington metro region, overall office vacancy was 12.6% for the 2012 Quarter, up from 12.1% one year ago, according to Delta Associates/Transwestern Commercial Services ("Delta"). We expect real estate market conditions to remain challenging for the remainder of 2012, as, according to Delta, uncertainty over the Federal budget and the broader economic climate is causing hesitancy among tenants and dampening leasing activity.

Capital Requirements

As of June 30, 2012, our unsecured lines of credit had $221.0 million in borrowings outstanding and $0.8 million in letters of credit issued, leaving a remaining borrowing capacity of $278.2 million.

During the 2012 Quarter, we executed an amended and restated credit agreement for our Credit Facility No. 1 to expand the facility from $75.0 million to $100.0 million, with an accordion feature that allows us to increase the facility to $200.0 million, subject to additional lender commitments. The amended and restated facility matures June 2015, with a one-year extension option, and bears interest at a rate of LIBOR plus a margin of 107.5 basis points.

During the 2012 Quarter, we entered into an amended and restated credit agreement for our $400.0 million unsecured line of credit (“Credit Facility No. 2”) to extend the maturity date of the facility to July 2016, with a one-year extension option, and lower the interest rate to LIBOR plus a margin of 107.5 basis points.

We repaid our $50.0 million of 5.05% unsecured notes on their maturity date of May 1, 2012 using borrowings on our unsecured lines of credit. Subsequent to the end of the 2012 Quarter, we prepaid $21.4 million of mortgage notes payable without penalty on August 1, 2012 using borrowings on our unsecured lines of credit.

Significant Transactions

We summarize below our significant transactions during the 2012 and 2011 Periods:

2012 Period

- The acquisition of an office building for $52.3 million, adding approximately 147,000 square feet. We incurred $0.2 million in acquisition costs related to this transaction.
- The execution of an amended and restated credit agreement for our Credit Facility No. 1 to expand the facility from $75.0 million to $100.0 million, with an accordion feature that allows us to increase the facility to $200.0 million, subject to additional lender commitments. The amended and restated facility matures June 2015, with a one-year extension option, and bears interest at a rate of LIBOR plus a margin of 107.5 basis points.
- The execution of an amended and restated credit agreement for Credit Facility No. 2, our $400.0 million unsecured line of credit, to extend the maturity date of the facility to July 2016 , with a one-year extension option, and lower the interest rate to LIBOR plus a margin of 107.5 basis points.
- The execution of new leases for 0.5 million square feet of commercial space (excluding first generation leases at recently-built properties and properties sold or held for sale), with an average rental rate increase of 12.5% over expiring leases.

2011 Period

- The disposition of Dulles Station I, a 180,000 square foot office building in Herndon, Virginia, for a contract sales price of $58.8 million.
- The acquisition of two office buildings for $127.3 million, adding approximately 314,000 square feet. We incurred $1.6 million in acquisition costs related to these purchase transactions.
- The acquisition of approximately 37,000 square feet of land in Arlington, Virginia for $11.8 million through a consolidated joint venture of which WRIT is a 90% owner. The joint venture intends to develop a mid-rise apartment community on this land.
- The execution of new leases for 0.8 million square feet of commercial space (excluding first generation leases at recently-built properties), with an average rental rate increase of 5.4% from expiring leases.

Results of Operations

The discussion that follows is based on our consolidated results of operations for the 2012 and 2011 Quarters and Periods. The ability to compare one period to another may be significantly affected by acquisitions completed and dispositions made during those periods. To provide more insight into our operating results, we divide our discussion into two main sections:

- Consolidated Results of Operations: Overview analysis of results on a consolidated basis.
- Net Operating Income (“NOI”): Detailed analysis of same-store and non-same-store NOI results by segment.

Consolidated Results of Operations

Real Estate Rental Revenue

Real estate rental revenue for properties classified as continuing operations is summarized as follows (all data in thousands except percentage amounts):

	Quarter Ended June 30,				Period Ended June 30,			
			Change				Change	
	2012	2011	$	%	2012	2011	$	%
Minimum base rent	$67,357	$62,846	$4,511	7.2 %	$134,597	$124,369	$10,228	8.2 %
Recoveries from tenants	7,478	6,687	791	11.8 %	14,460	12,866	1,594	12.4 %
Provisions for doubtful accounts	(1,486)	(717)	(769)	107.3 %	(2,560)	(2,141)	(419)	19.6 %
Lease termination fees	42	44	(2)	(4.5)%	326	112	214	191.1 %
Parking and other tenant charges	3,386	2,824	562	19.9 %	6,453	5,682	771	13.6 %
	$76,777	$71,684	$5,093	7.1 %	$153,276	$140,888	$12,388	8.8 %

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Minimum Base Rent: Minimum base rent increased by $4.5 million in the 2012 Quarter primarily due to acquisitions ($5.1 million) and higher rental rates ($1.1 million) at same-store properties, partially offset by lower occupancy ($1.5 million) at same-store properties.

Minimum base rent increased by $10.2 million in the 2012 Period primarily due to acquisitions ($10.6 million) and higher rental rates ($2.0 million) at same-store properties, partially offset by lower occupancy ($1.9 million) at same-store properties.

Recoveries from Tenants: Recoveries from tenants increased by $0.8 million in the 2012 Quarter primarily due to acquisitions.

Recoveries from tenants increased by $1.6 million in the 2012 Period primarily due to acquisitions ($2.0 million) and higher reimbursements for real estate taxes ($0.3 million) from same-store properties, partially offset by lower operating expense reimbursements ($0.6 million) from same-store properties.

Provisions for Doubtful Accounts: Provisions for doubtful accounts increased by $0.8 million in the 2012 Quarter due to higher provisions across the portfolio, particularly in the office ($0.3 million) and retail ($0.3 million) segments.

Provisions for doubtful accounts increased by $0.4 million in the 2012 Period due to higher provisions in the office ($0.1 million) and retail ($0.4 million) segments, offset by lower provisions in the medical office segment ($0.1 million).

Lease Termination Fees: Lease termination fees were flat in the 2012 Quarter and increased by $0.2 million in the 2012 Period, primarily in the office segment.

Parking and Other Tenant Charges: Parking and other tenant charges increased by $0.6 million in the 2012 Quarter primarily due to acquisitions ($0.2 million), as well as higher percentage rent ($0.2 million) and parking income ($0.1 million) from same-store properties.

Parking and other tenant charges increased by $0.8 million in the 2012 Period primarily due to acquisitions ($0.5 million) and higher parking income ($0.2 million) from same-store properties.

A summary of occupancy for properties classified as continuing operations by segment follows:

	As of June 30,		
	2012	2011	Change
Office	85.8 %	88.2 %	(2.4)%
Medical Office	86.4 %	87.3 %	(0.9)%
Retail	93.3 %	92.0 %	1.3 %
Multifamily	94.8 %	95.6 %	(0.8)%
Total	89.3 %	90.5 %	(1.2)%

Occupancy represents occupied square footage indicated as a percentage of total square footage as of the last day of that period.

A detailed discussion of occupancy by segment can be found in the NOI section.

Real Estate Expenses

Real estate expenses for properties classified as continuing operations are summarized as follows (all data in thousands except percentage amounts):

	Quarter Ended June 30,				Period Ended June 30,			
			Change				Change	
	2012	2011	$	%	2012	2011	$	%
Property operating expenses	$17,909	$17,179	$730	4.2 %	$36,087	$33,696	$2,391	7.1 %
Real estate taxes	7,570	6,622	948	14.3 %	15,405	13,356	2,049	15.3 %
	$25,479	$23,801	$1,678	7.1 %	$51,492	$47,052	$4,440	9.4 %

Real estate expenses as a percentage of revenue were 33.2% and 33.2% for the 2012 and 2011 Quarters, respectively, and 33.6% and 33.4% for the 2012 and 2011 Periods, respectively.

Property Operating Expenses: Property operating expenses include utilities, repairs and maintenance, property administration and management, operating services, common area maintenance, property insurance, bad debt and other operating expenses.
Property operating expenses increased by $0.7 million in the 2012 Quarter primarily due to properties acquired in 2011 and 2012 ($1.4 million), partially offset by lower write-offs of receivables ($0.6 million) and lower utilities expense ($0.2 million) at same-store properties.
Property operating expenses increased by $2.4 million in the 2012 Period primarily due to properties acquired in 2011 and 2012 ($3.0 million), partially offset by lower utilities expense ($0.7 million) at same-store properties.
Real Estate Taxes: Real estate taxes increased by $0.9 million in the 2012 Quarter primarily due to acquisitions ($0.6 million) and higher assessments ($0.3 million) on our same-store properties, primarily in the multifamily segment.
Real estate taxes increased by $2.0 million in the 2012 Period primarily due to acquisitions ($1.6 million) and higher assessments ($0.5 million) on our same-store properties.

Other Operating Expenses
Other operating expenses are summarized as follows (all data in thousands except percentage amounts):

	Quarter Ended June 30,				Period Ended June 30,			
			Change				Change	
	2012	2011	$	%	2012	2011	$	%
Depreciation and amortization	$25,591	$22,526	$3,065	13.6 %	$51,585	$44,422	$7,163	16.1 %
Interest expense	15,533	16,865	(1,332)	(7.9)%	31,428	33,758	(2,330)	(6.9)%
Acquisition costs	254	322	(68)	(21.1)%	308	1,971	(1,663)	(84.4)%
General and administrative	4,164	4,049	115	2.8 %	7,770	7,751	19	0.2 %
	$45,542	$43,762	$1,780	4.1 %	$91,091	$87,902	$3,189	3.6 %

Depreciation and Amortization: Depreciation and amortization expense increased by $3.1 million and $7.2 million in the 2012 Quarter and Period, respectively, primarily due to acquisitions.
Interest Expense: A summary of interest expense by debt type for the 2012 and 2011 Quarters and Periods appear below (in millions, except percentage amounts):

	Quarter Ended June 30,				Period Ended June 30,			
			Change				Change	
	2012	2011	$	%	2012	2011	$	%
Notes payable	8.6	10.3	(1.7)	(16.5)%	17.6	20.8	(3.2)	(15.4)%
Mortgages	6.4	5.6	0.8	14.3 %	13.0	11.2	1.8	16.1 %
Lines of credit/short-term note payable	0.9	1.1	(0.2)	(18.2)%	1.7	2.0	(0.3)	(15.0)%
Capitalized interest	(0.4)	(0.1)	(0.3)	300.0 %	(0.9)	(0.2)	(0.7)	350.0 %
Total	$15.5	$16.9	$(1.4)	(8.3)%	$31.4	$33.8	$(2.4)	(7.1)%

Acquisition Costs: Acquisition costs decreased by $0.1 million and $1.7 million in the 2012 Quarter and Period, respectively, due to the higher volume of acquisition activity during the 2011 Period.
General and Administrative Expense: General and administrative expense increased by $0.1 million in the 2012 Quarter primarily due to higher income tax expense ($0.2 million).
General and administrative expense increased by an immaterial amount in the 2012 Period.
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 we sold during 2011 are as follows:

Disposition Date	Property	Type	Rentable Square Feet	Contract Sales Price (In millions)
Various	Industrial Portfolio[1]	Office/Industrial	3,092,000	$350.9
April 5, 2011	Dulles Station, Phase I	Office	180,000	$58.8
		2011 Total	3,272,000	$409.7

(1) The Industrial Portfolio consists of every property in our industrial segment and two office properties (the Crescent and Albemarle Point). On September 2, 2011 we closed on the sale of industrial properties (8880 Gorman Road, Dulles South IV, Fullerton Business Center, Hampton Overlook, Alban Business Center, Pickett Industrial Park, Northern Virginia Industrial Park I, 270 Technology Park, Fullerton Industrial Center, Sully Square, 9950 Business Parkway, Hampton South and 8900 Telegraph Road) and two office properties (Crescent and Albemarle Point). On October 3, 2011, we closed on the sale of Northern Virginia Industrial Park II. On November 1, 2011, we closed on the sale of 6100 Columbia Park Road and Dulles Business Park I and II.

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

	Quarter Ended June 30,				Period Ended September 30,			
			Change				Change	
	2012	2011	$	%	2012	2011	$	%
Revenues	$—	$8,931	$(8,931)	(100.0)%	$—	$19,014	$(19,014)	(100.0)%
Property expenses	—	(2,468)	2,468	(100.0)%	—	(5,796)	5,796	(100.0)%
Real estate impairment	—	—	—	—%	—	(599)	599	—
Depreciation and amortization	—	(2,933)	2,933	(100.0)%	—	(6,287)	6,287	(100.0)%
Interest expense	—	(232)	232	(100.0)%	—	(465)	465	(100.0)%
Total	$—	$3,298	$(3,298)	(100.0)%	$—	$5,867	$(5,867)	(100.0)%

Net Operating Income

NOI is the primary performance measure we use to assess the results of our operations at the property level. We believe that NOI is useful as a performance measure because, when compared across periods, NOI reflects the impact on operations of trends in occupancy rates, rental rates and operating costs on an unleveraged basis, providing perspective not immediately apparent from net income. NOI excludes certain components from net income in order to provide results more closely related to a property's results of operations. For example, acquisition costs are incurred prior to obtaining properties, and interest expense and real estate impairments are not necessarily linked to the operating performance of a real estate asset. In addition, depreciation and amortization, because of historical cost accounting and useful life estimates, may distort operating performance at the property level. As a result of the foregoing, we provide NOI as a supplement to net income calculated in accordance with GAAP. NOI does not represent net income calculated in accordance with GAAP. As such, it should not be considered an alternative to net income as an indication of our operating performance. A reconciliation of NOI to net income follows.

2012 Quarter Compared to 2011 Quarter

The following tables of selected operating data provide the basis for our discussion of NOI in the 2012 Quarter compared to the 2011 Quarter. All amounts are in thousands except percentage amounts.

	Quarter Ended June 30,			
	2012	2011	$ Change	% Change
Real Estate Rental Revenue				
Same-store	$70,353	$71,545	$(1,192)	(1.7)%
Non-same-store (1)	6,424	139	6,285	4,521.6%
Total real estate rental revenue	$76,777	$71,684	$5,093	7.1%
Real Estate Expenses				
Same-store	$23,258	$23,647	$(389)	(1.6)%
Non-same-store (1)	2,221	154	2,067	1,342.2%
Total real estate expenses	$25,479	$23,801	$1,678	7.1%
NOI				
Same-store	$47,095	$47,898	$(803)	(1.7)%
Non-same-store (1)	4,203	(15)	4,218	(28,120.0)%
Total NOI	$51,298	$47,883	$3,415	7.1%
Reconciliation to Net Income				
NOI	$51,298	$47,883		
Depreciation and amortization	(25,591)	(22,526)		
General and administrative expenses	(4,164)	(4,049)		
Interest expense	(15,533)	(16,865)		
Other income	252	310		
Acquisition costs	(254)	(322)		
Discontinued operations:				
Income (loss) from operations of properties sold or held for sale (2)	—	3,298		
Income tax expense	—	(1,173)		
Net income	6,008	6,556		
Less: Net income attributable to noncontrolling interests	—	(34)		
Net income attributable to the controlling interests	$6,008	$6,522		

Occupancy	2012	2011
Same-store	89.3%	91.1%
Non-same-store (1)	88.7%	25.8%
Total	89.3%	90.5%

(1)Non-same-store properties include:
2012 Office acquisition – Fairgate at Ballston
2011 Office acquisitions – Braddock Metro Center and John Marshall II
2011 Retail acquisition – Olney Village Center
2009 Medical Office acquisition – Lansdowne Medical Office Building
(2)Discontinued operations include gains on disposals and income from operations for:
2011 held for sale and sold – Dulles Station, Phase I and the Industrial Portfolio

Real estate rental revenue from same-store properties decreased by $1.2 million in the 2012 Quarter primarily due to lower occupancy ($1.5 million) and higher reserves for uncollectible revenue ($0.8 million), partially offset by higher rental rates ($1.1 million).

Real estate expenses from same-store properties decreased by $0.4 million in the 2012 Quarter as lower write-offs of receivables ($0.6 million) and lower utilities expense ($0.2 million) were partially offset by higher real estate taxes ($0.3 million).

The decrease in same-store occupancy was the result of difficulties in leasing vacant space in the office segment. The increase in non-same-store occupancy reflects the acquisitions made during 2011. During the 2012 Quarter, 47.4% of the commercial square footage expiring was renewed as compared to 64.7% in the 2011 Quarter, excluding properties sold or classified as held for sale. During the 2012 Quarter, we executed new leases (excluding first generation leases at recently-built properties) for 247,439 commercial square feet at an average rental rate of $31.99 per square foot, an increase of 14.3%, with average tenant improvements and leasing commissions and incentives (including free rent) of $39.91 per square foot.

An analysis of NOI by segment follows.

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Office Segment:

	Quarter Ended June 30, 2012	2011	$ Change	% Change
Real Estate Rental Revenue				
Same-store	$33,543	$35,219	$(1,676)	(4.8)%
Non-same-store (1)	4,883	—	4,883	
Total real estate rental revenue	$38,426	$35,219	$3,207	9.1 %
Real Estate Expenses				
Same-store	$11,827	$11,902	$(75)	(0.6)%
Non-same-store (1)	1,743	—	1,743	
Total real estate expenses	$13,570	$11,902	$1,668	14.0 %
NOI				
Same-store	$21,716	$23,317	$(1,601)	(6.9)%
Non-same-store (1)	3,140	—	3,140	
Total NOI	$24,856	$23,317	$1,539	6.6 %

Occupancy	2012	2011
Same-store	84.7 %	88.2 %
Non-same-store (1)	91.9 %	
Total	85.8 %	88.2 %

(1) Non-same-store properties include:
2012 acquisition - Fairgate at Ballston
2011 acquisitions – Braddock Metro Center and John Marshall II

Real estate rental revenue from same-store properties decreased by $1.7 million in the 2012 Quarter primarily due to lower occupancy ($1.3 million), higher reserves for uncollectible revenue ($0.3 million) and lower reimbursements for operating expenses ($0.2 million), partially offset by higher rental rates ($0.3 million).

Real estate expenses from same-store properties decreased by $0.1 million primarily due to lower utilities ($0.3 million) partially offset by higher administrative costs ($0.1 million).

The decrease in same-store occupancy was primarily due to lower occupancy at 6110 Executive Boulevard, 7900 Westpark Drive and 1140 Connecticut Avenue. The non-same-store occupancy of 91.9% reflects high occupancy at Braddock Metro Center and John Marshall II, partially offset by Fairgate at Ballston, which was 82.0% occupied at the end of the 2012 Quarter. During the 2012 Quarter, 49.8% of the square footage that expired was renewed compared to 65.2% in the 2011 Quarter, excluding properties sold or classified as held for sale. During the 2012 Quarter, we executed new leases for 118,302 square feet of office space at an average rental rate of $38.88 per square foot, an increase of 19.5%, with average tenant improvements and leasing commissions and incentives (including free rent) of $60.30 per square foot.

Medical Office Segment:

	Quarter Ended June 30,			
	2012	2011	$ Change	% Change
Real Estate Rental Revenue				
Same-store	$11,026	$11,380	$(354)	(3.1)%
Non-same-store [1]	259	139	120	86.3%
Total real estate rental revenue	$11,285	$11,519	$(234)	(2.0)%
Real Estate Expenses				
Same-store	$3,612	$3,267	$345	10.6%
Non-same-store [1]	169	154	15	9.7%
Total real estate expenses	$3,781	$3,421	$360	10.5%
NOI				
Same-store	$7,414	$8,113		