

BRANDYWINE REALTY TRUST  
Form 10-Q  
July 25, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended June 30, 2016

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number

001-9106 (Brandywine Realty Trust)

000-24407 (Brandywine Operating Partnership, L.P.)

Brandywine Realty Trust

Brandywine Operating Partnership, L.P.

(Exact name of registrant as specified in its charter)

MARYLAND (Brandywine Realty Trust)	23-2413352
DELAWARE (Brandywine Operating Partnership L.P.)	23-2862640
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Edgar Filing: BRANDYWINE REALTY TRUST - Form 10-Q

555 East Lancaster Avenue

Radnor, Pennsylvania

(Address of principal executive offices)

19087

(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Brandywine Realty Trust Yes  No

Brandywine Operating Partnership, L.P. Yes  No

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

Brandywine Realty Trust Yes  No

Brandywine Operating Partnership, L.P. Yes  No

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

Brandywine Realty Trust:

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Brandywine Operating Partnership, L.P.:

Large accelerated filer  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 Exchange Act).

Brandywine Realty Trust Yes  No

Brandywine Operating Partnership, L.P. Yes  No

A total of 175,105,974 Common Shares of Beneficial Interest, par value \$0.01 per share of Brandywine Realty Trust, were outstanding as of July 22, 2016.



## EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 2016 of Brandywine Realty Trust (the “Parent Company”) and Brandywine Operating Partnership L.P. (the “Operating Partnership”). The Parent Company is a Maryland real estate investment trust, or REIT, that owns its assets and conducts its operations through the Operating Partnership, a Delaware limited partnership, and subsidiaries of the Operating Partnership. The Parent Company, the Operating Partnership and their consolidated subsidiaries are collectively referred to in this report as the “Company”. In addition, as used in this report, terms such as “we”, “us”, and “our” may refer to the Company, the Parent Company, or the Operating Partnership.

The Parent Company is the sole general partner of the Operating Partnership and, as of June 30, 2016, owned a 99.1% interest in the Operating Partnership. The remaining 0.9% interest consists of common units of limited partnership interest issued by the Operating Partnership to third parties in exchange for contributions of properties to the Operating Partnership. As the sole general partner of the Operating Partnership, the Parent Company has full and complete authority over the Operating Partnership’s day-to-day operations and management.

Management operates the Parent Company and the Operating Partnership as one enterprise. The management of the Parent Company consists of the same members as the management of the Operating Partnership.

As general partner with control of the Operating Partnership, the Parent Company consolidates the Operating Partnership for financial reporting purposes, and the Parent Company does not have significant assets other than its investment in the Operating Partnership. Therefore, the assets and liabilities of the Parent Company and the Operating Partnership are the same on their respective financial statements. The separate discussions of the Parent Company and the Operating Partnership in this report should be read in conjunction with each other to understand the results of the Company’s operations on a consolidated basis and how management operates the Company.

The Company believes that combining the quarterly reports on Form 10-Q of the Parent Company and the Operating Partnership into a single report will result in the following benefits:

- facilitate a better understanding by the investors of the Parent Company and the Operating Partnership by enabling them to view the business as a whole in the same manner as management views and operates the business;
- remove duplicative disclosures and provide a more straightforward presentation in light of the fact that a substantial portion of the disclosure applies to both the Parent Company and the Operating Partnership; and
- create time and cost efficiencies through the preparation of one combined report instead of two separate reports.

There are few differences between the Parent Company and the Operating Partnership, which are reflected in the footnote disclosures in this report. The Company believes it is important to understand the differences between the Parent Company and the Operating Partnership in the context of how these entities operate as an interrelated consolidated company. The Parent Company is a REIT, whose only material asset is its ownership of partnership interests of the Operating Partnership. As a result, the Parent Company does not conduct business itself, other than acting as the sole general partner of the Operating Partnership, issuing equity from time to time and guaranteeing the debt obligations of the Operating Partnership. The Operating Partnership holds substantially all the assets of the Company and directly or indirectly holds the ownership interests in the Company’s Real Estate Ventures. The Operating Partnership conducts the operations of the Company’s business and is structured as a partnership with no publicly traded equity. Except for net proceeds from equity issuances by the Parent Company, which are contributed to the Operating Partnership in exchange for partnership units, the Operating Partnership generates the capital required by the Company’s business through the Operating Partnership’s operations, by the Operating Partnership’s incurrence of indebtedness (directly and through subsidiaries) and through the issuance of partnership units of the Operating Partnership or equity interests in subsidiaries of the Operating Partnership.

The equity and non-controlling interests in the Parent Company and the Operating Partnership's equity are the main areas of difference between the consolidated financial statements of the Parent Company and the Operating Partnership. The common units of limited partnership interest in the Operating Partnership are accounted for as partners' equity in the Operating Partnership's financial statements while the common units of limited partnership interests held by parties other than the Parent Company are presented as non-controlling interests in the Parent Company's financial statements. The differences between the Parent Company and the Operating Partnership's equity relate to the differences in the equity issued at the Parent Company and Operating Partnership levels.

To help investors understand the significant differences between the Parent Company and the Operating Partnership, this report presents the following as separate notes or sections for each of the Parent Company and the Operating Partnership:

- Consolidated Financial Statements; and
- Notes to the Parent Company's and Operating Partnership's Equity.

This report also includes separate Item 4. (Controls and Procedures) disclosures and separate Exhibit 31 and 32 certifications for each of the Parent Company and the Operating Partnership in order to establish that the Chief Executive Officer and the Chief Financial Officer of each entity have made the requisite certifications and that the Parent Company and Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. § 1350.

In order to highlight the differences between the Parent Company and the Operating Partnership, the separate sections in this report for the Parent Company and the Operating Partnership specifically refer to the Parent Company and the Operating Partnership. In the sections that combine disclosures of the Parent Company and the Operating Partnership, this report refers to such disclosures as those of the Company. Although the Operating Partnership is generally the entity that directly or indirectly enters into contracts and real estate ventures and holds assets and incurs debt, reference to the Company is appropriate because the business is one enterprise and the Parent Company operates the business through the Operating Partnership.

TABLE OF CONTENTS

	Page
<b><u>PART I — FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements</u></b>	
Brandywine Realty Trust	
<u>Financial Statements of Brandywine Realty Trust</u>	5
<u>Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015</u>	5
<u>Consolidated Statements of Operations for the three and six-month periods ended June 30, 2016 and 2015</u>	6
<u>Consolidated Statements of Comprehensive Income for the three and six-month periods ended June 30, 2016 and 2015</u>	7
<u>Consolidated Statements of Beneficiaries' Equity for the six-month periods ended June 30, 2016 and 2015</u>	8
<u>Consolidated Statements of Cash Flows for the six-month periods ended June 30, 2016 and 2015</u>	10
Brandywine Operating Partnership, L.P.	
<u>Financial Statements of Brandywine Operating Partnership, L.P.</u>	12
<u>Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015</u>	12
<u>Consolidated Statements of Operations for the three and six-month periods ended June 30, 2016 and 2015</u>	13
<u>Consolidated Statements of Comprehensive Income for the three and six-month periods ended June 30, 2016 and 2015</u>	14
<u>Consolidated Statements of Partners' Equity for the six-month periods ended June 30, 2016 and 2015</u>	15
<u>Consolidated Statements of Cash Flows for the six-month periods ended June 30, 2016 and 2015</u>	17
<u>Notes to Unaudited Consolidated Financial Statements</u>	19
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	38
<b><u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u></b>	62
<b><u>Item 4. Controls and Procedures</u></b>	63
<b><u>PART II — OTHER INFORMATION</u></b>	64

<u>Item 1. Legal Proceedings</u>	64
<u>Item 1A. Risk Factors</u>	64
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	64
<u>Item 3. Defaults Upon Senior Securities</u>	64
<u>Item 4. Mine Safety Disclosures</u>	64
<u>Item 5. Other Information</u>	64
<u>Item 6. Exhibits</u>	65
<u>Signatures</u>	66
<u>Index to Exhibits</u>	68
Filing Format	

This combined Form 10-Q is being filed separately by Brandywine Realty Trust and Brandywine Operating Partnership, L.P.



## PART I - FINANCIAL INFORMATION

## Item 1. — Financial Statements

## BRANDYWINE REALTY TRUST

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share information)

	June 30, 2016 (unaudited)	December 31, 2015
<b>ASSETS</b>		
Real estate investments:		
Operating properties	\$3,721,405	\$ 3,693,000
Accumulated depreciation	(877,236 )	(867,035 )
Operating real estate investments, net	2,844,169	2,825,965
Construction-in-progress	254,188	268,983
Land held for development	131,015	130,479
Total real estate investments, net	3,229,372	3,225,427
Assets held for sale, net	12,308	584,365
Cash and cash equivalents	265,597	56,694
Accounts receivable, net of allowance of \$2,221 and \$1,736 in 2016 and 2015, respectively	14,804	17,126
Accrued rent receivable, net of allowance of \$13,144 and \$14,442 in 2016 and 2015, respectively	138,981	145,092
Investment in Real Estate Ventures, equity method	272,148	241,004
Deferred costs, net of accumulated amortization of \$57,673 and \$67,899, respectively	94,373	101,419
Intangible assets, net	90,014	111,623
Other assets	63,591	71,761
Total assets	\$4,181,188	\$ 4,554,511
<b>LIABILITIES AND BENEFICIARIES' EQUITY</b>		
Mortgage notes payable, net	\$344,308	\$ 545,753
Unsecured term loans, net	247,933	247,800
Unsecured senior notes, net	1,442,380	1,591,164
Accounts payable and accrued expenses	91,425	99,856
Distributions payable	29,880	28,249
Deferred income, gains and rent	31,171	30,413
Acquired lease intangibles, net	21,413	25,655
Liabilities related to assets held for sale	11	2,151
Other liabilities	42,841	31,379
Total liabilities	\$2,251,362	\$ 2,602,420
Commitments and contingencies (See Note 13)		
Brandywine Realty Trust's Equity:		
Preferred Shares (shares authorized-20,000,000)		
6.90% Series E Preferred Shares, \$0.01 par value; issued and outstanding- 4,000,000 in 2016 and 2015	40	40

Edgar Filing: BRANDYWINE REALTY TRUST - Form 10-Q

Common Shares of Brandywine Realty Trust's beneficial interest, \$0.01 par value; shares authorized 400,000,000; 175,101,033 and 174,688,568 issued and outstanding in 2016 and 2015, respectively	1,751	1,747
Additional paid-in-capital	3,256,735	3,252,622
Deferred compensation payable in common shares	13,744	11,918
Common shares in grantor trust, 901,269 in 2016, 745,686 in 2015	(13,744 )	(11,918 )
Cumulative earnings	543,743	499,086
Accumulated other comprehensive loss	(17,769 )	(5,192 )
Cumulative distributions	(1,872,100)	(1,814,378 )
Total Brandywine Realty Trust's equity	1,912,400	1,933,925
Non-controlling interests	17,426	18,166
Total beneficiaries' equity	\$1,929,826	\$1,952,091
Total liabilities and beneficiaries' equity	\$4,181,188	\$4,554,511

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

## BRANDYWINE REALTY TRUST

## CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited, in thousands, except share and per share information)

	Three-month periods ended		Six-month periods ended	
	June 30, 2016	2015	June 30, 2016	2015
Revenue				
Rents	\$ 103,624	\$ 119,127	\$ 213,787	\$ 239,537
Tenant reimbursements	15,937	19,799	35,991	42,453
Termination fees	554	828	848	1,464
Third party management fees, labor reimbursement and leasing	6,208	4,659	11,443	8,531
Other	858	1,235	1,614	4,069
Total revenue	127,181	145,648	263,683	296,054
Operating expenses				
Property operating expenses	36,079	42,704	76,958	89,281
Real estate taxes	11,481	11,968	23,367	24,513
Third party management expenses	2,661	1,677	4,671	3,253
Depreciation and amortization	46,907	50,930	95,780	102,041
General and administrative expenses	6,076	6,791	15,196	15,427
Provision for impairment	5,679	782	13,069	2,508
Total operating expenses	108,883	114,852	229,041	237,023
Operating income	18,298	30,796	34,642	59,031
Other income (expense)				
Interest income	359	313	679	1,063
Interest expense	(19,829 )	(27,895 )	(43,520 )	(56,071 )
Interest expense - amortization of deferred financing costs	(644 )	(1,288 )	(1,418 )	(2,367 )
Interest expense - financing obligation	(242 )	(324 )	(523 )	(610 )
Equity in loss of Real Estate Ventures	(1,666 )	(873 )	(2,069 )	(742 )
Net gain (loss) on disposition of real estate	(727 )	1,571	114,729	10,590
Net gain from remeasurement of investments in Real Estate Ventures	-	758	-	758
Net gain on Real Estate Venture transactions	3,128	-	9,057	-
Loss on early extinguishment of debt	-	-	(66,590 )	-
Net income (loss)	(1,323 )	3,058	44,987	11,652
Net (income) loss attributable to non-controlling interests	22	(2 )	(367 )	(60 )
Net income (loss) attributable to Brandywine Realty Trust	(1,301 )	3,056	44,620	11,592
Distribution to preferred shareholders	(1,725 )	(1,725 )	(3,450 )	(3,450 )
Nonforfeitable dividends allocated to unvested restricted shareholders	(79 )	(76 )	(184 )	(177 )
	\$ (3,105 )	\$ 1,255	\$ 40,986	\$ 7,965

Edgar Filing: BRANDYWINE REALTY TRUST - Form 10-Q

Net income (loss) attributable to Common Shareholders of Brandywine Realty Trust

Basic income (loss) per Common Share:

Continuing operations	\$ (0.02	)	\$ 0.01	\$ 0.23	\$ 0.04
-----------------------	----------	---	---------	---------	---------

Diluted income (loss) per Common Share:

Continuing operations	\$ (0.02	)	\$ 0.01	\$ 0.23	\$ 0.04
-----------------------	----------	---	---------	---------	---------

Basic weighted average shares outstanding	175,013,291	179,860,284	174,901,118	179,712,428
---	-------------	-------------	-------------	-------------

Diluted weighted average shares outstanding	175,013,291	180,538,887	175,823,970	180,599,265
---	-------------	-------------	-------------	-------------

Distributions declared per Common Share	\$ 0.16	\$ 0.15	\$ 0.31	\$ 0.30
---	---------	---------	---------	---------

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

## BRANDYWINE REALTY TRUST

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands)

	Three-month periods ended		Six-month periods ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income (loss)	\$(1,323)	\$3,058	\$44,987	\$11,652
Comprehensive gain (loss):				
Unrealized gain (loss) on derivative financial instruments	(3,813)	1,494	(13,218)	(1,169)
Reclassification of realized losses on derivative financial instruments to operations, net (1)	286	58	532	116
Total comprehensive gain (loss)	(3,527)	1,552	(12,686)	(1,053)
Comprehensive income (loss)	(4,850)	4,610	32,301	10,599
Comprehensive (gain) loss attributable to non-controlling interest	51	(15)	(258)	(51)
Comprehensive income (loss) attributable to Brandywine Realty Trust	\$(4,799)	\$4,595	\$32,043	\$10,548

(1) Amounts reclassified from comprehensive income to interest expense within the Consolidated Statements of Operations.

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

BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENTS OF BENEFICIARIES' EQUITY

For the six-month period ended June 30, 2016

(unaudited, in thousands, except number of shares)

Number of Preferred Shares	Par Value of Preferred Shares	Number of Common Shares	Number of Rabbi Trust/Deferred Compensation Shares	Common Shares of Brandywine Realty Trust's Beneficial Interest	Additional Paid-in Capital	Deferred Compensation Payable in Common Shares	Common Shares in Grantor Trust	Cumulative Earnings	Accumulated Other Comprehensive Loss	Cumulative Distributions	Non-Controlling Interest
4,000,000	\$40	174,688,568	745,686	\$1,747	\$3,252,622	\$11,918	\$(11,918)	\$499,086	\$(5,192)	\$(1,814,378)	\$18,160
								44,620			367
									(12,577)		(109)
											54
		55,303		1	874						(875)
		365,414		3	3,575			37			
		(8,252)	155,583		(46)	1,826	(1,826)				
					(290)						290
										(3,450)	

(54,272 ) (467

4,000,000 \$40 175,101,033 901,269 \$1,751 \$3,256,735 \$13,744 \$(13,744) \$543,743 \$(17,769) \$(1,872,100) \$17,42

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

8

---

BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENT OF BENEFICIARIES' EQUITY

For the six-month period ended June 30, 2015

(unaudited, in thousands, except number of shares)

	Number of Preferred Shares	Par Value of Preferred Shares	Number of Common Shares	Number of Rabbi Trust/Deferred Compensation Shares	Common Shares of Brandywine Realty Trust's Beneficial interest	Additional Paid-in Capital	Deferred Compensation Payable in Common Shares	Common Grantor Trust	Cumulative Earnings	Accumulated Other Comprehensive Income	Controlled Investments
BALANCE, December 31, 2014	4,000,000	\$40	179,293,160	384,536	\$1,793	\$3,314,693	\$6,219	\$(6,219)	\$529,487		