

BRANDYWINE REALTY TRUST

Form 10-Q

November 02, 2012

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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 September 30, 2012

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 (I.R.S. Employer
Incorporation or organization) Identification No.)

555 East Lancaster Avenue
Radnor, Pennsylvania 19087
(Address of principal executive offices) (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

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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 143,443,501 Common Shares of Beneficial Interest, par value \$0.01 per share of Brandywine Realty Trust, were outstanding as of October 26, 2012.

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended September 30, 2012 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, terms such as “we”, “us”, or “our” used in this report 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 September 30, 2012, owned a 98.2% interest in the Operating Partnership. The remaining 1.8% 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.

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.

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. These members are officers of both the Parent Company and of the Operating Partnership.

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 the 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 public 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 direct or indirect incurrence of indebtedness or 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;
- Parent Company’s and Operating Partnership’s Equity; and

Liquidity and Capital Resources in the Management's Discussion and Analysis of Financial Condition and Results of Operations.

This report also includes separate Item 4. (Controls and Procedures) disclosures and separate Exhibit 31 and 32 certifications for

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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 debt, reference to the Company is appropriate because the business is one enterprise and the Parent Company operates the business through 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.

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EX-101 SCHEMA DOCUMENT

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EX-101 DEFINITION LINKBASE DOCUMENT

Filing Format

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

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PART I — FINANCIAL INFORMATION

Item 1. — Financial Statements

BRANDYWINE REALTY TRUST
CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share information)

	September 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Real estate investments:		
Rental properties	\$4,660,289	\$4,793,080
Accumulated depreciation	(925,342) (865,710
Operating real estate investments, net	3,734,947	3,927,370
Construction-in-progress	43,449	25,083
Land inventory	95,500	109,008
Total real estate investments, net	3,873,896	4,061,461
Cash and cash equivalents	241,616	410
Accounts receivable, net	13,394	14,718
Accrued rent receivable, net	117,306	108,101
Investment in real estate ventures, at equity	179,037	115,807
Deferred costs, net	119,182	115,362
Intangible assets, net	52,575	70,515
Notes receivable	7,226	18,186
Other assets	62,494	53,158
Total assets	\$4,666,726	\$4,557,718
LIABILITIES AND BENEFICIARIES' EQUITY		
Mortgage notes payable	\$502,123	\$511,061
Unsecured credit facility	—	275,500
Unsecured term loans	600,000	37,500
Unsecured senior notes, net of discounts	1,404,466	1,569,934
Accounts payable and accrued expenses	80,554	69,929
Distributions payable	24,820	23,895
Deferred income, gains and rent	80,748	99,569
Acquired lease intangibles, net	29,824	35,106
Other liabilities	59,982	45,528
Total liabilities	2,782,517	2,668,022
Commitments and contingencies (Note 17)		
Brandywine Realty Trust's equity:		
Preferred Shares (shares authorized-20,000,000):		
7.50% Series C Preferred Shares, \$0.01 par value; issued and outstanding- 0 in 2012 and 2,000,000 in 2011	—	20
7.375% Series D Preferred Shares, \$0.01 par value; issued and outstanding- 2,300,000 in 2012 and 2011, respectively	23	23
6.90% Series E Preferred Shares, \$0.01 par value; issued and outstanding- 4,000,000 in 2012 and 0 in 2011	40	—
Common Shares of Brandywine Realty Trust's beneficial interest, \$0.01 par value; shares authorized 200,000,000; 143,438,501 and 142,690,755 issued and	1,432	1,424

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outstanding in 2012 and 2011, respectively			
Additional paid-in capital	2,828,722	2,776,197	
Deferred compensation payable in common shares	5,352	5,631	
Common shares in grantor trust, 290,745 in 2012 and 292,646 in 2011	(5,352) (5,631)
Cumulative earnings	510,093	477,338	
Accumulated other comprehensive loss	(20,456) (6,079)
Cumulative distributions	(1,467,058) (1,392,332)
Total Brandywine Realty Trust's equity	1,852,796	1,856,591	
Non-controlling interests	31,413	33,105	
Total equity	1,884,209	1,889,696	
Total liabilities and equity	\$4,666,726	\$4,557,718	

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

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CONSOLIDATED STATEMENTS OF OPERATIONS

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

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2012	2011	2012	2011
Revenue:				
Rents	\$ 113,989	\$ 116,251	\$ 343,260	\$ 346,579
Tenant reimbursements	20,695	19,010	58,308	59,187
Termination fees	931	157	2,522	2,673
Third party management fees, labor reimbursement and leasing	3,007	3,028	9,021	8,514
Other	1,761	955	4,259	3,314
Total revenue	140,383	139,401	417,370	420,267
Operating Expenses:				
Property operating expenses	40,705	40,788	118,068	124,023
Real estate taxes	14,064	13,204	42,292	40,699
Third party management expenses	1,298	1,379	3,812	4,395
Depreciation and amortization	48,738	51,943	147,618	157,157
General and administrative expenses	6,080	6,177	18,209	18,311
Total operating expenses	110,885	113,491	329,999	344,585
Operating income	29,498	25,910	87,371	75,682
Other Income (Expense):				
Interest income	311	523	2,635	1,385
Historic tax credit transaction income	11,840	12,026	11,840	12,026
Interest expense	(32,620)	(32,346)	(99,745)	(99,477)
Interest expense — amortization of deferred financing costs	(1,218)	(1,846)	(3,790)	(3,844)
Interest expense — financing obligation	(230)	—	(608)	—
Equity in income of real estate ventures	500	418	1,382	2,739
Net gain on sale of interests in real estate	—	—	—	2,791
Loss on real estate venture formation	(950)	—	(950)	—
Gain (loss) on early extinguishment of debt	(51)	176	(1,549)	(580)
Income (loss) from continuing operations	7,080	4,861	(3,414)	(9,278)
Discontinued operations:				
Income from discontinued operations	69	1,750	1,867	5,329
Net gain on disposition of discontinued operations	9,940	—	34,774	3,836
Total discontinued operations	10,009	1,750	36,641	9,165
Net income (loss)	17,089	6,611	33,227	(113)
Net (income) loss from discontinued operations attributable to non-controlling interests — LP units	(182)	(86)	(669)	(234)
Net (income) loss attributable to non-controlling interests — LP units	(78)	(276)	244	88
Net (income) loss attributable to non-controlling interests	(260)	(362)	(425)	(146)
Net income (loss) attributable to Brandywine Realty Trust	16,829	6,249	32,802	(259)
Distribution to Preferred Shares	(2,785)	(1,998)	(7,832)	(5,994)
Preferred share redemption charge	—	—	(2,090)	—
Amount allocated to unvested restricted shareholders	(95)	(121)	(286)	(384)
	\$ 13,949	\$ 4,130	\$ 22,594	\$ (6,637)

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

Basic income (loss) per Common Share:

Continuing operations	\$0.03	\$0.02	\$(0.09)
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