

BRANDYWINE REALTY TRUST

Form 10-Q

May 03, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-Q

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(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended March 31, 2013

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.)

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Brandywine Realty Trust  
Brandywine Operating Partnership, L.P.  
(Exact name of registrant as specified in its charter)

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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

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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 156,560,738 Common Shares of Beneficial Interest, par value \$0.01 per share of Brandywine Realty Trust, were outstanding as of April 30, 2013.

## EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended March 31, 2013 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 March 31, 2013, owned a 98.7% interest in the Operating Partnership. The remaining 1.3% 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.

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;
- Parent Company’s and Operating Partnership’s Equity; and

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

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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 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 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

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

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

	March 31, 2013 (unaudited)	December 31, 2012
<b>ASSETS</b>		
Real estate investments:		
Rental properties	\$4,607,890	\$4,726,169
Accumulated depreciation	(951,934	) (954,665
Operating real estate investments, net	3,655,956	3,771,504
Construction-in-progress	53,468	48,950
Land inventory	92,776	102,439
Total real estate investments, net	3,802,200	3,922,893
Cash and cash equivalents	47,874	1,549
Accounts receivable, net	15,072	13,232
Accrued rent receivable, net	120,070	122,066
Investment in real estate ventures, at equity	184,802	193,555
Deferred costs, net	119,378	122,243
Intangible assets, net	66,104	70,620
Notes receivable	7,026	7,226
Other assets	62,778	53,325
Total assets	\$4,425,304	\$4,506,709
<b>LIABILITIES AND BENEFICIARIES' EQUITY</b>		
Mortgage notes payable	\$440,300	\$442,974
Unsecured credit facility	—	69,000
Unsecured term loans	450,000	450,000
Unsecured senior notes, net of discounts	1,503,632	1,503,356
Accounts payable and accrued expenses	81,626	71,579
Distributions payable	23,684	23,652
Deferred income, gains and rent	81,976	82,947
Acquired lease intangibles, net	31,902	33,859
Other liabilities	53,551	55,826
Total liabilities	2,666,671	2,733,193
Commitments and contingencies (Note 17)		
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 2013 and 2012	40	40
Common Shares of Brandywine Realty Trust's beneficial interest, \$0.01 par value; shares authorized 200,000,000; 143,712,578 and 143,538,733 issued and outstanding in 2013 and 2012, respectively	1,435	1,434
Additional paid-in capital	2,783,130	2,780,194
Deferred compensation payable in common shares	5,516	5,352
Common shares in grantor trust, 315,753 in 2013 and 290,745 in 2012	(5,516	) (5,352

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Cumulative earnings	483,635	479,734
Accumulated other comprehensive loss	(14,048	) (15,918
Cumulative distributions	(1,516,591	) (1,493,206
Total Brandywine Realty Trust's equity	1,737,601	1,752,278
Non-controlling interests	21,032	21,238
Total equity	1,758,633	1,773,516
Total liabilities and equity	\$4,425,304	\$4,506,709

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

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BRANDYWINE REALTY TRUST  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited, in thousands, except share and per share information)

	For the three-month period ended March 31,	
	2013	2012
Revenue:		
Rents	\$ 115,552	\$ 109,699
Tenant reimbursements	20,357	18,696
Termination fees	496	1,490
Third party management fees, labor reimbursement and leasing	3,236	3,142
Other	967	1,512
Total revenue	140,608	134,539
Operating Expenses:		
Property operating expenses	39,641	38,077
Real estate taxes	14,430	13,567
Third party management expenses	1,425	1,250
Depreciation and amortization	49,861	48,096
General and administrative expenses	6,551	6,050
Total operating expenses	111,908	107,040
Operating income	28,700	27,499
Other Income (Expense):		
Interest income	58	483
Interest expense	(30,914)	) (34,144)
Interest expense — amortization of deferred financing costs	(1,161)	) (1,311)
Interest expense — financing obligation	(218)	) (182)
Equity in income of real estate ventures	1,535	44
Loss on early extinguishment of debt	(3)	) (248)
Loss from continuing operations	(2,003)	) (7,859)
Discontinued operations:		
Income from discontinued operations	618	2,527
Net gain on disposition of discontinued operations	5,304	14,668
Total discontinued operations	5,922	17,195
Net income	3,919	9,336
Net (income) loss from discontinued operations attributable to non-controlling interests — LP units	(75)	) (315)
Net (income) loss attributable to non-controlling interests — LP units	47	181
Net (income) loss attributable to non-controlling interests	(28)	) (134)
Net income attributable to Brandywine Realty Trust	3,891	9,202
Distribution to Preferred Shares	(1,725)	) (1,998)
Amount allocated to unvested restricted shareholders	(108)	) (96)
Net income attributable to Common Shareholders of Brandywine Realty Trust	\$2,058	\$7,108
Basic income (loss) per Common Share:		
Continuing operations	\$ (0.03)	) \$ (0.07)
Discontinued operations	0.04	0.12
	\$0.01	\$0.05
Diluted income (loss) per Common Share:		
Continuing operations	\$ (0.03)	) \$ (0.07)

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Discontinued operations	0.04	0.12
	\$0.01	\$0.05
Basic weighted average shares outstanding	143,605,659	142,820,955
Diluted weighted average shares outstanding	143,605,659	142,820,955
Net income (loss) attributable to Brandywine Realty Trust		
Loss from continuing operations	\$(1,956	) \$(7,678
Income from discontinued operations	5,847	16,880
Net income	\$3,891	\$9,202

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

BRANDYWINE REALTY TRUST  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (unaudited, in thousands)

	For the three-month period ended March 31,	
	2013	2012
Net income	\$3,919	\$9,336
Comprehensive income (loss):		
Unrealized gain on derivative financial instruments	1,845	27
Reclassification of realized (gains)/losses on derivative financial instruments to operations, net (1)	48	48
Total comprehensive income	1,893	75
Comprehensive income	5,812	9,411
Comprehensive (income) loss attributable to non-controlling interest	(52	) (135
Comprehensive income attributable to Brandywine Realty Trust	\$5,760	\$9,276

(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 three-month periods ended March 31, 2013 and 2012  
 (unaudited, in thousands, except number of shares)

March 31, 2013

	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 Income (Loss)	Cumulative Distributions
BALANCE,											
December 31, 2012	4,000,000	\$40	143,538,733	290,745	\$1,434	\$2,780,194	\$5,352	\$(5,352)	\$479,734	\$(15,918)	\$(1,493,206)
Net income											