

BRANDYWINE REALTY TRUST

Form 10-Q

August 04, 2011

**Table of Contents**

**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, 2011**

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)  
DELAWARE (Brandywine Operating Partnership  
L.P.)  
(State or other jurisdiction of  
Incorporation or organization)**

**23-2413352  
23-2862640  
(I.R.S. Employer  
Identification No.)**

**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

Edgar Filing: BRANDYWINE REALTY TRUST - Form 10-Q

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

Brandywine Realty Trust:

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

Brandywine Operating Partnership, L.P.:

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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 <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Brandywine Operating Partnership, L.P.	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

A total of 135,536,351 Common Shares of Beneficial Interest, par value \$0.01 per share, were outstanding as of August 1, 2011.

---

**Table of Contents**

**EXPLANATORY NOTE**

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 2011 of Brandywine Realty Trust (the Parent Company ) and Brandywine Operating Partnership (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 June 30, 2011, owned a 93.2% interest in the Operating Partnership. The remaining 6.8% 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.

**Table of Contents**

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.

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Brandywine Realty Trust</u></b>	
Financial Statements of Brandywine Realty Trust (unaudited)	
<u>Consolidated Balance Sheets as of June 30, 2011 and December 31, 2010</u>	5
<u>Consolidated Statements of Operations for the three- and six-month periods ended June 30, 2011 and 2010</u>	6
<u>Consolidated Statements of Comprehensive Income for the three- and six-month periods ended June 30, 2011 and 2010</u>	7
<u>Consolidated Statements of Equity for the six-month periods ended June 30, 2011 and 2010</u>	8
<u>Consolidated Statements of Cash Flows for the six-month periods ended June 30, 2011 and 2010</u>	9
<b><u>Brandywine Operating Partnership, L.P.</u></b>	
Financial Statements of Brandywine Operating Partnership, L.P. (unaudited)	
<u>Consolidated Balance Sheets as of June 30, 2011 and December 31, 2010</u>	10
<u>Consolidated Statements of Operations for the three- and six-month periods ended June 30, 2011 and 2010</u>	11
<u>Consolidated Statements of Comprehensive Income for the three- and six-month periods ended June 30, 2011 and 2010</u>	12
<u>Consolidated Statements of Cash Flows for the six-month periods ended June 30, 2011 and 2010</u>	13
<u>Notes to Unaudited Consolidated Financial Statements</u>	14
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	42
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	63
<u>Item 4. Controls and Procedures (Brandywine Realty Trust)</u>	
Controls and Procedures (Brandywine Operating Partnership, L.P.)	63
<b><u>PART II OTHER INFORMATION</u></b>	
<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. Removed and Reserved</u>	64
<u>Item 5. Other Information</u>	64
<u>Item 6. Exhibits</u>	65
<u>Signatures</u>	66
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 31.3</u>	
<u>Exhibit 31.4</u>	
<u>Exhibit 32.1</u>	
<u>Exhibit 32.2</u>	
<u>Exhibit 32.3</u>	
<u>Exhibit 32.4</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	
<u>EX-101 DEFINITION LINKBASE DOCUMENT</u>	

**Filing Format**

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



**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

**BRANDYWINE REALTY TRUST**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share and per share information)

	<b>June 30, 2011 (unaudited)</b>	<b>December 31, 2010</b>
<b>ASSETS</b>		
Real estate investments:		
Rental properties	\$ 4,885,041	\$ 4,834,111
Accumulated depreciation	(835,713)	(776,078)
Operating real estate investments, net	4,049,328	4,058,033
Construction-in-progress	33,314	33,322
Land inventory	120,245	110,055
Total real estate investments, net	4,202,887	4,201,410
Cash and cash equivalents	733	16,565
Accounts receivable, net	14,129	16,009
Accrued rent receivable, net	103,221	95,541
Investment in real estate ventures, at equity	82,927	84,372
Deferred costs, net	113,498	106,117
Intangible assets, net	78,401	97,462
Notes receivable	19,285	18,205
Other assets	53,414	54,697
Total assets	\$ 4,668,495	\$ 4,690,378
<b>LIABILITIES AND BENEFICIARIES EQUITY</b>		
Mortgage notes payable	\$ 588,823	\$ 711,789
Unsecured credit facility	42,000	183,000
Unsecured term loan	183,000	183,000
Unsecured senior notes, net of discounts	1,652,198	1,352,657
Accounts payable and accrued expenses	63,263	72,235
Distributions payable	22,854	22,623
Deferred income, gains and rent	112,814	121,552
Acquired below market leases, net	25,556	29,233
Other liabilities	41,943	36,515
Total liabilities	2,732,451	2,712,604
Commitments and contingencies (Note 17)		
Brandywine Realty Trust's equity:		
Preferred Shares (shares authorized-20,000,000):	20	20

Edgar Filing: BRANDYWINE REALTY TRUST - Form 10-Q

7.50% Series C Preferred Shares, \$0.01 par value; issued and outstanding-2,000,000 in 2011 and 2010, respectively		
7.375% Series D Preferred Shares, \$0.01 par value; issued and outstanding-2,300,000 in 2011 and 2010, respectively	23	23
Common Shares of Brandywine Realty Trust's beneficial interest, \$0.01 par value; shares authorized 200,000,000; 135,536,709 and 134,601,796 issued in 2011 and 2010, respectively and 135,536,709 and 134,485,117 outstanding in 2011 and 2010, respectively	1,353	1,343
Additional paid-in capital	2,684,730	2,671,217
Deferred compensation payable in common stock	5,737	5,774
Common shares in treasury, at cost, 116,679 in 2010		(3,074)
Common shares in grantor trust, 295,852 in 2011 and 291,281 in 2010	(5,737)	(5,774)
Cumulative earnings	475,327	483,439
Accumulated other comprehensive loss	(2,474)	(1,945)
Cumulative distributions	(1,346,353)	(1,301,521)
Total Brandywine Realty Trust's equity	1,812,626	1,849,502
Non-controlling interests	123,418	128,272
Total equity	1,936,044	1,977,774
Total liabilities and equity	\$ 4,668,495	\$ 4,690,378

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

Table of Contents

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

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2011	2010	2011	2010
<b>Revenue:</b>				
Rents	\$ 120,416	\$ 113,006	\$ 241,145	\$ 227,048
Tenant reimbursements	18,969	17,234	42,025	38,050
Termination fees	1,948	1,331	2,516	3,085
Third party management fees, labor reimbursement and leasing	2,733	2,904	5,486	6,371
Other	1,341	1,022	2,439	1,943
<b>Total revenue</b>	<b>145,407</b>	<b>135,497</b>	<b>293,611</b>	<b>276,497</b>
<b>Operating Expenses:</b>				
Property operating expenses	40,595	38,018	86,614	82,336
Real estate taxes	14,474	13,383	28,871	26,121
Third party management expenses	1,506	1,493	3,016	2,905
Depreciation and amortization	58,014	51,289	109,688	103,318
General and administrative expenses	5,890	6,653	12,134	12,745
<b>Total operating expenses</b>	<b>120,479</b>	<b>110,836</b>	<b>240,323</b>	<b>227,425</b>
<b>Operating income</b>	<b>24,928</b>	<b>24,661</b>	<b>53,288</b>	<b>49,072</b>
<b>Other Income (Expense):</b>				
Interest income	421	963	862	1,828
Interest expense	(34,738)	(31,210)	(67,131)	(62,734)
Interest expense amortization of deferred financing costs	(1,070)	(862)	(1,998)	(1,873)
Equity in income of real estate ventures	1,088	1,025	2,321	2,321
Net gain on sale of interests in real estate			2,791	
Loss on early extinguishment of debt	(756)	(445)	(756)	(1,637)
<b>Loss from continuing operations</b>	<b>(10,127)</b>	<b>(5,868)</b>	<b>(10,623)</b>	<b>(13,023)</b>
<b>Discontinued operations:</b>				
Income from discontinued operations	57	268	63	675
Net gain on disposition of discontinued operations	3,836		3,836	6,349
<b>Total discontinued operations</b>	<b>3,893</b>	<b>268</b>	<b>3,899</b>	<b>7,024</b>
<b>Net loss</b>	<b>(6,234)</b>	<b>(5,600)</b>	<b>(6,724)</b>	<b>(5,999)</b>
Net income from discontinued operations attributable to non-controlling interests LP units	(78)	(6)	(78)	(150)

Edgar Filing: BRANDYWINE REALTY TRUST - Form 10-Q

Net loss attributable to non-controlling interests LP units	243	165	294	360
<b>Net loss attributable to non-controlling interests</b>	165	159	216	210
<b>Net loss attributable to Brandywine Realty Trust</b>	(6,069)	(5,441)	(6,508)	(5,789)
Distribution to Preferred Shares	(1,998)	(1,998)	(3,996)	(3,996)
Amount allocated to unvested restricted shareholders	(121)	(128)	(263)	(256)
<b>Net loss attributable to Common Shareholders of Brandywine Realty Trust</b>	\$ (8,188)	\$ (7,567)	\$ (10,767)	\$ (10,041)
<b>Basic loss per Common Share:</b>				
Continuing operations	\$ (0.09)	\$ (0.06)	\$ (0.11)	\$ (0.13)
Discontinued operations	0.03	0.00	0.03	0.05
	\$ (0.06)	\$ (0.06)	\$ (0.08)	\$ (0.08)
<b>Diluted loss per Common Share:</b>				
Continuing operations	(0.09)	\$ (0.06)	\$ (0.11)	\$ (0.13)
Discontinued operations	0.03	0.00	0.03	0.05
	\$ (0.06)	\$ (0.06)	\$ (0.08)	\$ (0.08)
<b>Basic weighted average shares outstanding</b>	135,342,538	131,510,924	134,962,093	130,146,853
<b>Diluted weighted average shares outstanding</b>	135,342,538	131,510,924	134,962,093	130,146,853
<b>Net loss attributable to Brandywine Realty Trust</b>				
Loss from continuing operations	\$ (9,884)	\$ (5,703)	\$ (10,329)	\$ (12,663)
Income from discontinued operations	3,815	262	3,821	6,874
Net loss	\$ (6,069)	\$ (5,441)	\$ (6,508)	\$ (5,789)

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

**Table of Contents**

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

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2011	2010	2011	2010
Net loss	\$ (6,234)	\$ (5,600)	\$ (6,724)	\$ (5,999)
Comprehensive income (loss):				
Unrealized gain (loss) on derivative financial instruments		2,355	(613)	4,171
Reclassification of realized (gains)/losses on derivative financial instruments to operations, net	51	14	74	(1)
Total comprehensive income (loss)	51	2,369	(539)	4,170
Comprehensive income (loss)	(6,183)	(3,231)	(7,263)	(1,829)
Comprehensive loss attributable to non-controlling interest	164	109	226	122
Comprehensive income (loss) attributable to Brandywine Realty Trust	\$ (6,019)	\$ (3,122)	\$ (7,037)	\$ (1,707)

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

**Table of Contents**

**BRANDYWINE REALTY TRUST**  
**CONSOLIDATED STATEMENTS OF BENEFICIARIES EQUITY**  
**For the Six-Month Periods Ended June 30, 2011 and 2010**  
**(unaudited, in thousands, except number of shares)**

**June 30, 2011**

Number of Preferred Shares	Par Value of Common Shares	Number of Treasury Shares	Number of Rabbi Trust/Deferred Compensation Shares	Common Shares of Brandywine Realty	Additional Paid-in Capital	Common Shares in Treasury	Deferred Compensation Payable in Common Stock	Common Shares in Grantor Trust	Accumulated Other Comprehensive Income (Loss)	Cumulative Distributions		
											Number of Shares	Value
0,000	\$ 43	134,601,796	116,679	291,281	\$ 1,343	\$ 2,671,217	\$ (3,074)	\$ 5,774	\$ (5,774)	\$ 483,439	\$ (1,945)	\$ (1,301,521)