

BRANDYWINE OPERATING PARTNERSHIP, L.P.  
Form 10-Q  
April 25, 2017

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 March 31, 2017

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 OPERATING PARTNERSHIP, L.P. - 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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Brandywine Realty Trust:

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

Brandywine Operating Partnership, L.P.:

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company 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.

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 175,327,436 Common Shares of Beneficial Interest, par value \$0.01 per share of Brandywine Realty Trust, were outstanding as of April 21, 2017.

---

## EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended March 31, 2017 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, 2017, owned a 99.2% interest in the Operating Partnership. The remaining 0.8% 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.

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
<u>PART I — FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
Brandywine Realty Trust	
<u>Financial Statements of Brandywine Realty Trust</u>	6
<u>Consolidated Balance Sheets as of March 31, 2017 and December 31, 2016</u>	6
<u>Consolidated Statements of Operations for the three-month periods ended March 31, 2017 and 2016</u>	7
<u>Consolidated Statements of Comprehensive Income for the three-month periods ended March 31, 2017 and 2016</u>	8
<u>Consolidated Statements of Beneficiaries' Equity for the three-month periods ended March 31, 2017 and 2016</u>	9
<u>Consolidated Statements of Cash Flows for the three-month periods ended March 31, 2017 and 2016</u>	11
Brandywine Operating Partnership, L.P.	
<u>Financial Statements of Brandywine Operating Partnership, L.P.</u>	12
<u>Consolidated Balance Sheets as of March 31, 2017 and December 31, 2016</u>	12
<u>Consolidated Statements of Operations for the three-month periods ended March 31, 2017 and 2016</u>	13
<u>Consolidated Statements of Comprehensive Income for the three-month periods ended March 31, 2017 and 2016</u>	14
<u>Consolidated Statements of Partners' Equity for the three-month periods ended March 31, 2017 and 2016</u>	15
<u>Consolidated Statements of Cash Flows for the three-month periods ended March 31, 2017 and 2016</u>	17
<u>Notes to Unaudited Consolidated Financial Statements</u>	18
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	35
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	52
<u>Item 4. Controls and Procedures</u>	53
<u>PART II — OTHER INFORMATION</u>	54
<u>Item 1. Legal Proceedings</u>	54

<u>Item 1A. Risk Factors</u>	54
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	54
<u>Item 3. Defaults Upon Senior Securities</u>	54
<u>Item 4. Mine Safety Disclosures</u>	54
<u>Item 5. Other Information</u>	54
<u>Item 6. Exhibits</u>	55
<u>Signatures</u>	57
<u>Index to Exhibits</u>	59
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)

	March 31, 2017 (unaudited)	December 31, 2016
<b>ASSETS</b>		
Real estate investments:		
Operating properties	\$3,702,204	\$3,586,295
Accumulated depreciation	(864,196 )	(852,476 )
Operating real estate investments, net	2,838,008	2,733,819
Construction-in-progress	166,372	297,462
Land held for development	153,268	150,970
Total real estate investments, net	3,157,648	3,182,251
Assets held for sale, net	6,262	41,718
Cash and cash equivalents	234,654	193,919
Accounts receivable, net of allowance of \$2,622 and \$2,373 in 2017 and 2016, respectively	12,099	12,446
Accrued rent receivable, net of allowance of \$13,703 and \$13,743 in 2017 and 2016, respectively	152,819	149,624
Investment in Real Estate Ventures, equity method	264,941	281,331
Deferred costs, net	92,425	91,342
Intangible assets, net	64,222	72,478
Other assets	116,792	74,104
Total assets	\$4,101,862	\$4,099,213
<b>LIABILITIES AND BENEFICIARIES' EQUITY</b>		
Mortgage notes payable, net	\$320,484	\$321,549
Unsecured term loans, net	248,181	248,099
Unsecured senior notes, net	1,444,006	1,443,464
Accounts payable and accrued expenses	115,079	103,404
Distributions payable	30,047	30,032
Deferred income, gains and rent	30,592	31,620
Acquired lease intangibles, net	16,604	18,119
Liabilities related to assets held for sale	387	81
Other liabilities	16,916	19,408
Total liabilities	\$2,222,296	\$2,215,776
Commitments and contingencies (See Note 14)		
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 2017 and 2016	40	40
Common Shares of Brandywine Realty Trust's beneficial interest, \$0.01 par value; shares authorized 400,000,000; 175,202,404 and 175,140,760 issued and outstanding in	1,752	1,752

2017 and 2016, respectively		
Additional paid-in-capital	3,262,459	3,258,870
Deferred compensation payable in common shares	14,244	13,684
Common shares in grantor trust, 936,939 in 2017, 899,457 in 2016	(14,244 )	(13,684 )
Cumulative earnings	560,422	539,319
Accumulated other comprehensive loss	(457 )	(1,745 )
Cumulative distributions	(1,961,739)	(1,931,892 )
Total Brandywine Realty Trust's equity	1,862,477	1,866,344
Non-controlling interests	17,089	17,093
Total beneficiaries' equity	\$ 1,879,566	\$ 1,883,437
Total liabilities and beneficiaries' equity	\$ 4,101,862	\$ 4,099,213

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 March 31,	
	2017	2016
Revenue		
Rents	\$ 103,332	\$ 110,163
Tenant reimbursements	18,535	20,054
Termination fees	1,673	294
Third party management fees, labor reimbursement and leasing	6,485	5,235
Other	895	756
Total revenue	130,920	136,502
Operating expenses		
Property operating expenses	36,885	40,879
Real estate taxes	11,749	11,886
Third party management expenses	2,447	2,010
Depreciation and amortization	45,892	48,873
General and administrative expenses	9,425	9,120
Provision for impairment	2,730	7,390
Total operating expenses	109,128	120,158
Operating income	21,792	16,344
Other income (expense)		
Interest income	393	320
Interest expense	(21,437 )	(23,691 )
Interest expense - amortization of deferred financing costs	(634 )	(774 )
Interest expense - financing obligation	-	(281 )
Equity in loss of Real Estate Ventures	(748 )	(403 )
Net gain on disposition of real estate	7,323	115,456
Net gain on Real Estate Venture transactions	14,582	5,929
Loss on early extinguishment of debt	-	(66,590 )
Net income	21,271	46,310
Net income attributable to non-controlling interests	(169 )	(389 )
Net income attributable to Brandywine Realty Trust	21,102	45,921
Distribution to preferred shareholders	(1,725 )	(1,725 )
Nonforfeitable dividends allocated to unvested restricted shareholders	(99 )	(105 )
Net income attributable to Common Shareholders of Brandywine Realty Trust	\$ 19,278	\$ 44,091
Basic income per Common Share:		
Continuing operations	\$ 0.11	\$ 0.25
Diluted income per Common Share:		
Continuing operations	\$ 0.11	\$ 0.25
Basic weighted average shares outstanding	175,176,964	174,788,945
Diluted weighted average shares outstanding	176,201,872	175,471,413

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

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 March 31,	
	2017	2016
Net income	\$21,271	\$46,310
Comprehensive income:		
Unrealized gain (loss) on derivative financial instruments	1,014	(9,405 )
Reclassification of realized losses on derivative financial instruments to operations, net (1)	286	246
Total comprehensive income (loss)	1,300	(9,159 )
Comprehensive income	22,571	37,151
Comprehensive income attributable to non-controlling interest	(181 )	(309 )
Comprehensive income attributable to Brandywine Realty Trust	\$22,390	\$36,842

(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 period ended March 31, 2017

(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 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	Non-Controlling Interests
4,000,000	\$40	175,140,760	899,457	\$1,752	\$3,258,870	\$13,684	\$(13,684)	\$539,319	\$(1,745)	\$(1,931,892)	\$17,093
								21,102			169
									1,288		12
											29
					(219 )						
		6,752			110						
		56,669	39,870		3,769			1			
		(354 )	(2,388 )		(48 )	560	(560 )				
		(1,423 )									
					(23 )						23
									(1,725 )		

(28,122 ) (237

4,000,000 \$40 175,202,404 936,939 \$1,752 \$3,262,459 \$14,244 \$(14,244) \$560,422 \$(457 ) \$(1,961,739) \$17,089

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

## BRANDYWINE REALTY TRUST

## CONSOLIDATED STATEMENT OF BENEFICIARIES' EQUITY

For the three-month period ended March 31, 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
								45,921			389
									(9,079 )		(80)
											18
		210,116		2	3,296			34			
		(8,252 )	101,321			1,237	(1,237 )				
					(10 )						10
									(1,725 )		
									(26,347 )		(230)
4,000,000	\$40	174,890,432	847,007	\$1,749	\$3,255,908	\$13,155	\$(13,155)	\$545,041	\$(14,271)	\$(1,842,450)	\$18,270



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

## BRANDYWINE REALTY TRUST

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	Three-month periods ended March 31,	
	2017	2016
Cash flows from operating activities:		
Net income	\$21,271	\$46,310
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	45,892	48,873
Amortization of deferred financing costs	634	774
Amortization of debt discount/(premium), net	362	382
Amortization of stock compensation costs	3,124	2,296
Straight-line rent income	(5,895 )	(6,104 )
Amortization of acquired above (below) market leases, net	(1,338 )	(2,232 )
Straight-line ground rent expense	22	22
Provision for doubtful accounts	707	215
Net gain on real estate venture transactions	(14,582)	(5,929 )
Net gain on sale of interests in real estate	(7,323 )	(115,456)
Loss on early extinguishment of debt	-	66,590
Provision for impairment	2,730	7,390
Real Estate Venture loss in excess of distributions	748	723
Deferred financing obligation	-	(253 )
Changes in assets and liabilities:		
Accounts receivable	(917 )	246
Other assets	(10,926)	