

BRANDYWINE REALTY TRUST

Form 10-Q

November 03, 2010

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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, 2010**

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.)**

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

**(State or other jurisdiction of
Incorporation or organization)**

**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

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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

Non-accelerated filer

Accelerated filer

Smaller reporting company

Brandywine Operating Partnership, L.P.:

Large accelerated filer

Non-accelerated filer

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 134,456,983 Common Shares of Beneficial Interest, par value \$0.01 per share, were outstanding as of October 31, 2010.

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended September 30, 2010 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 .

The Parent Company is the sole general partner of the Operating Partnership and as of September 30, 2010, owned a 93.1% interest in the Operating Partnership. The remaining interest of approximately 6.9% pertains to common limited partnership interests owned by non-affiliated investors who acquired their interests in exchange for contributions of properties or interests in properties to the Operating Partnership. As the sole general partner of the Operating Partnership, the Parent Company has full and complete responsibility for 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 Company s 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 joint 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 public 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 its subsidiaries.

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 those of the Operating Partnership. The common limited partnership interests in the Operating Partnership are accounted for as partners equity in the Operating Partnership s financial statements while the redeemable common 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.

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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;

the following notes to the consolidated financial statements:

Noncontrolling Interests; and

Parent Company's and Operating Partnership's Equity

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 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 joint 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 operations on a consolidated basis and how management operates the Company.

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

	September 30, 2010	December 31, 2009
ASSETS		
Real estate investments:		
Rental properties	\$ 4,830,454	\$ 4,512,618
Accumulated depreciation	(764,455)	(716,956)
Operating real estate investments, net	4,065,999	3,795,662
Construction-in-progress	53,377	271,962
Land inventory	106,801	97,368
Total real estate investments, net	4,226,177	4,164,992
Cash and cash equivalents	104,041	1,567
Accounts receivable, net	20,079	10,934
Accrued rent receivable, net	90,620	87,173
Asset held for sale, net	11,908	
Investment in real estate ventures, at equity	78,077	75,458
Deferred costs, net	100,894	106,097
Intangible assets, net	107,604	105,163
Notes receivable	20,127	59,008
Other assets	64,771	53,358
Total assets	\$ 4,824,298	\$ 4,663,750
LIABILITIES AND BENEFICIARIES EQUITY		
Mortgage notes payable	\$ 757,584	\$ 551,720
Borrowing under credit facilities	22,000	92,000
Unsecured term loan	183,000	183,000
Unsecured senior notes, net of discounts	1,562,238	1,627,857
Accounts payable and accrued expenses	92,092	88,599
Distributions payable	22,624	21,799
Tenant security deposits and deferred rents	52,878	58,572
Acquired below market leases, net	31,334	37,087
Deferred income	72,760	47,379
Other liabilities	29,256	33,997
Liabilities related to assets held for sale	261	
Total liabilities	2,826,027	2,742,010
Commitments and contingencies (Note 18)		

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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- 2,000,000 in 2010 and 2009, respectively	20	20
7.375% Series D Preferred Shares, \$0.01 par value; issued and outstanding- 2,300,000 in 2010 and 2009, respectively	23	23
Common Shares of Brandywine Realty Trust's beneficial interest, \$0.01 par value; shares authorized 200,000,000; 134,176,707 and 128,849,176 issued in 2010 and 2009, respectively and 134,042,560 and 128,597,412 outstanding in 2010 and 2009, respectively	1,339	1,286
Additional paid-in capital	2,663,832	2,610,421
Deferred compensation payable in common stock	5,946	5,549
Common shares in treasury, at cost, 134,147 and 251,764 in 2010 and 2009, respectively	(3,806)	(7,205)
Common shares in grantor trust, 296,450 in 2010 and 255,700 in 2009	(5,946)	(5,549)
Cumulative earnings	488,553	501,384
Accumulated other comprehensive loss	(2,817)	(9,138)
Cumulative distributions	(1,279,231)	(1,213,359)
 Total Brandywine Realty Trust's equity	 1,867,913	 1,883,432
Non-controlling interests	130,358	38,308
 Total equity	 1,998,271	 1,921,740
 Total liabilities and equity	 \$ 4,824,298	 \$ 4,663,750

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 periods ended September 30,		For the nine-month periods ended September 30,	
	2010	2009	2010	2009
Revenue:				
Rents	\$ 117,567	\$ 119,141	\$ 346,739	\$ 357,929
Tenant reimbursements	20,187	18,964	58,995	56,253
Termination fees	1,039	1,764	4,124	2,840
Third party management fees, labor reimbursement and leasing	2,922	5,194	9,293	14,055
Other	1,250	871	3,195	2,318
Total revenue	142,965	145,934	422,346	433,395
Operating Expenses:				
Property operating expenses	42,448	39,762	125,992	121,967
Real estate taxes	14,328	14,161	40,909	42,740
Third party management expenses	1,528	2,256	4,433	6,339
Depreciation and amortization	52,019	51,143	156,198	154,566
General and administrative expenses	5,753	5,018	18,498	15,490
Total operating expenses	116,076	112,340	346,030	341,102
Operating income	26,889	33,594	76,316	92,293
Other Income (Expense):				
Interest income	726	473	2,554	1,694
Interest expense	(34,488)	(31,455)	(97,222)	(102,045)
Interest expense amortization of deferred financing costs	(827)	(1,579)	(2,700)	(4,725)
Recognized hedge activity		(1,517)		(1,822)
Equity in income of real estate ventures	1,035	1,331	3,356	3,450
(Loss) gain on early extinguishment of debt	(64)	5,073	(1,701)	23,725
Income (loss) from continuing operations	(6,729)	5,920	(19,397)	12,570
Discontinued operations:				
Income from discontinued operations	116	1,395	436	4,383
Net (loss) gain on disposition of discontinued operations	(3)	(6)	6,346	(1,037)
Provision for impairment				(3,700)
Total discontinued operations	113	1,389	6,782	(354)

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Net income (loss)	(6,616)	7,309	(12,615)	12,216
Net (income) loss from discontinued operations attributable to non-controlling interests LP units	(3)	(30)	(147)	24
Net income attributable to non-controlling interests partners share of consolidated real estate ventures		(47)		(69)
Net (income) loss attributable to non-controlling interests LP units	182	(84)	536	(189)
Net (income) loss attributable to non-controlling interests	179	(161)	389	(234)
Net income (loss) attributable to Brandywine Realty Trust	(6,437)	7,148	(12,226)	11,982
Distribution to Preferred Shares	(1,998)	(1,998)	(5,994)	(5,994)
Amount allocated to unvested restricted shareholders	(128)	(73)	(384)	(183)
Net income (loss) attributable to Common Shareholders of Brandywine Realty Trust	\$ (8,563)	\$ 5,077	\$ (18,604)	\$ 5,805
Basic earnings per Common Share:				
Continuing operations	\$ (0.06)	\$ 0.03	\$ (0.19)	\$ 0.05
Discontinued operations	0.00	0.01	0.05	(0.00)
	\$ (0.06)	\$ 0.04	\$ (0.14)	\$ 0.05
Diluted earnings per Common Share:				
Continuing operations	(0.06)	\$ 0.03	\$ (0.19)	\$ 0.05
Discontinued operations	0.00	0.01	0.05	(0.00)
	\$ (0.06)	\$ 0.04	\$ (0.14)	\$ 0.05
Basic weighted average shares outstanding	132,208,245	128,582,498	130,841,534	106,273,509
Diluted weighted average shares outstanding	132,208,245	129,926,111	130,841,534	107,206,551
Net income (loss) attributable to Brandywine Realty Trust				
Income (loss) from continuing operations	\$ (6,547)	\$ 5,789	\$ (18,861)	\$ 12,312
Income (loss) from discontinued operations	110	1,359	6,635	(330)

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Net income (loss)	\$	(6,437)	\$	7,148	\$	(12,226)	\$	11,982
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The accompanying notes are an integral part of these consolidated financial statements.

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

	For the three-month periods ended September 30,		For the nine-month periods ended September 30,	
	2010	2009	2010	2009
Net income (loss)	\$ (6,616)	\$ 7,309	\$ (12,615)	\$ 12,216
Comprehensive income:				
Unrealized gain on derivative financial instruments	2,274	328	6,445	6,399
Reclassification of realized (gains)/losses on derivative financial instruments to operations, net	13	(20)	12	(60)
Total comprehensive income	2,287	308	6,457	6,339
Comprehensive income (loss)	(4,329)	7,617	(6,158)	18,555
Comprehensive (income) loss attributable to non-controlling interest	131	(161)	253	(234)
Comprehensive income (loss) attributable to Brandywine Realty Trust	\$ (4,198)	\$ 7,456	\$ (5,905)	\$ 18,321

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

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**BRANDYWINE REALTY TRUST
CONSOLIDATED STATEMENTS OF BENEFICIARIES' EQUITY
For the Nine-Month Periods Ended September 30, 2010 and 2009
(unaudited, in thousands, except number of shares)**

September 30, 2010

			Common		
			Number	Shares	
			of	of	
			Rabbi	Brandywine	Deferred
					Common
					Accumulated
Number	Par	Number			
of	Value	of			
	of				