

BRANDYWINE REALTY TRUST

Form 8-K

May 06, 2005

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 8-K

CURRENT REPORT

Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 5, 2005

BRANDYWINE REALTY TRUST
(Exact name of issuer as specified in charter)

MARYLAND
(State or Other
Jurisdiction
of Incorporation or
Organization)

001-9106
(Commission
file
number)

23-2413352
(I.R.S. Employer
Identification
Number)

401 Plymouth Road, Suite 500
Plymouth Meeting, Pennsylvania 19462
(Address of principal executive offices)

(610) 325-5600
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 9.01 Financial Statements and Exhibits

We are filing this Current Report on Form 8-K to update through December 31, 2004 pro forma financial information relating to our acquisition of The Rubenstein Company, L.P. on September 21, 2004 and related financing transactions.

Our Current Report on Form 8-K filed on September 3, 2004 included audited financial statements of the portfolio of properties (the TRC Properties) that we acquired through our acquisition of The Rubenstein Company, L.P., together with pro forma financial information as of, and for the six month period ended on, June 30, 2004.

As we indicated in our Current Report on Form 8-K that we filed on September 3, 2004, we are not affiliated with any of the former owners of The Rubenstein Company, L.P. or any of their respective affiliates. After reasonable inquiry, other than as disclosed in the notes to our pro forma financial statements included herein, we are not aware of any material factors relating to the TRC Properties that would cause the reported financial information not to be necessarily indicative of future operating results.

(a) Pro Forma Financial Information (unaudited)

Unaudited Pro Forma Consolidated Financial Information	F-1
Unaudited Pro Forma Consolidated Statement of Operations for the Year Ended December 31, 2004	F-2
Notes to Unaudited Pro Forma Consolidated Financial Information	F-3

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Exhibits

23.1 Consent of Ernst and Young, LLP
99.1 Current Report on Form 8-K, filed September 3, 2004

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Signatures

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

BRANDYWINE REALTY TRUST

Date: May 5,
2005

By:

/s/ GERARD H. SWEENEY

Gerard H. Sweeney
President and Chief Executive Officer

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EXHIBIT INDEX

Exhibit No.	Description
23.1	Consent of Ernst and Young, LLP
99.1	Current Report on Form 8-K, filed September 3, 2004

BRANDYWINE REALTY TRUST
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The following sets forth the unaudited pro forma consolidated statement of operations of Brandywine Realty Trust (the Company) for the year ended December 31, 2004. The unaudited pro forma consolidated financial information is presented as if the acquisition of The Rubenstein Company, L.P. by Brandywine Operating Partnership, L.P. (the Operating Partnership), the entity through which the Company owns its assets and conducts its business, and related financing transactions had occurred on January 1, 2004 for the pro forma consolidated statements of operations.

The unaudited pro forma consolidated financial information should be read in conjunction with the historical financial statements of the Company filed pursuant to the rules and regulations of the Securities and Exchange Commission. The unaudited pro forma consolidated financial information is not necessarily indicative of what the actual combined results of operations of the Company and the Rubenstein Company, L.P., would have been for the periods presented, nor do they purport to represent the Company's results of operations for any future period. A pro forma consolidated balance sheet of the Company is not presented herein as the actual balance sheet included in the Company's Annual Report on Form 10-K includes all pro forma transactions.

On September 21, 2004, the Operating Partnership completed the acquisition of 100% of the partnership interests in The Rubenstein Company, L.P. (the Rubenstein Acquisition). Through the acquisition, the Operating Partnership acquired 14 office properties located in Pennsylvania and Delaware that contain approximately 3.5 million net rentable square feet. The results of operations have been included in the consolidated financial statements since that date.

The aggregate consideration for the Rubenstein Acquisition was \$631.3 million including \$29.3 million of closing costs, debt prepayment penalties and debt premiums that are included in the basis of the assets acquired. The consideration was paid with \$540.4 million of cash, \$79.3 million of debt assumed, \$1.6 million of other liabilities assumed, and 343,006 Class A Units valued at \$10.0 million. The value of the debt assumed was based on prevailing market rates at the time of acquisition. The value of the Class A Units was based on the average trading price of the Company's common shares.

The Company allocates the purchase price of properties to net tangible and identified intangible assets acquired based on fair values. Above-market and below-market in-place lease values for acquired properties are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) the Company's estimate of the fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancellable term of the lease. Capitalized above-market lease values are amortized as a reduction of rental income over the remaining non-cancellable terms of the respective leases. Capitalized below-market lease values are amortized as an increase of rental income over the remaining non-cancellable terms of the respective leases, including any fixed-rate renewal periods.

Other intangible assets also include amounts representing the value of tenant relationships and in-place leases based on the Company's evaluation of the specific characteristics of each tenant's lease and the Company's overall relationship with the respective tenant. The Company estimates the cost to execute leases with terms similar to the remaining lease terms of the in-place leases, include leasing commissions, legal and other related expenses. This intangible asset is amortized to expense over the remaining term of the respective leases. Company estimates of fair value are made using methods similar to those used by independent appraisers or by using independent appraisals. Factors considered by the Company in their analysis include an estimate of the carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired. In estimating carrying

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costs, the Company includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, which primarily range from three to twelve months.

Characteristics considered by the Company in allocating value to its tenant relationships include the nature and extent of the Company's business relationship with the tenant, growth prospects for developing new business with the tenant, the tenant's credit quality and expectations of lease renewals, among other factors. The value of tenant relationship intangibles is amortized over the remaining initial lease term and expected renewals, but in no event longer than the remaining depreciable life of the building. The value of in-place leases is amortized over the remaining non-cancellable term of the respective leases and any fixed-rate renewal periods.

In the event that a tenant terminates its lease, the unamortized portion of each intangible, including market rate adjustments, in-place lease values and tenant relationship values, would be charged to expense.

Our purchase price allocation for the Rubenstein Acquisition was completed as follows:

	At September 21, 2004
Real estate investments	
Land	\$105,302
Building and improvements	434,795
Tenant improvements	20,322
	560,419
Total real estate investments acquired	560,419
Rent receivables	5,537
Other assets acquired:	
Intangible assets:	
In-Place leases	49,455
Relationship values	35,548
Above-market leases	13,240
	98,243
Total intangible assets acquired	98,243
Other assets	6,292
	104,535
Total Other assets	104,535
	670,491
Total assets acquired	
Liabilities assumed:	
Mortgage notes payable	79,330
Security deposits and deferred rent	618
Other liabilities:	
Below-market leases	39,204
Other liabilities	943
	40,147
Total other liabilities assumed	40,147
	120,095
Total liabilities assumed	120,095
	\$550,396
Net assets acquired	\$550,396

The Operating Partnership has agreed to issue the sellers up to a maximum of \$9.7 million of additional Class A Units if certain of the Rubenstein Acquisition properties achieve at least 95% occupancy prior to September 21, 2007. Any contingent amounts ultimately payable would represent additional purchase price and would be reflected within the basis of the assets acquired and liabilities assumed.

At the closing of this transaction, the Operating Partnership agreed not to sell the Rubenstein Acquisition properties in a transaction that would trigger taxable income to the contributors (i.e., sellers) for periods ranging from three to 15 years. In the event that the Operating Partnership sells any of the properties in such a transaction within the applicable restricted period, the Operating Partnership will be required to pay

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significant tax liabilities that would be incurred by the contributors.

The unaudited pro forma consolidated financial information gives effect to:

the Rubenstein Acquisition;

The Company's September 2004 issuance of 7,750,000 common shares

The Operating Partnership's repayment of an existing \$100 million term loan facility in September 2004

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The Operating Partnership's issuance in October 2004, of \$275.0 million of its 2009 4.5% unsecured notes (the 2009 Notes) and \$250.0 million of its 2014 5.4% unsecured notes (the 2014 Notes) in an underwritten public offering. The Operating Partnership received net proceeds, after discounts, of approximately \$520.1 million. We and certain of the wholly-owned subsidiaries of the Operating Partnership fully and unconditionally guaranteed the payment of principal and interest on the Notes. In anticipation of the issuance of the Notes, we entered into treasury lock agreements with notional amounts totaling \$194.8 million with an expiration of 5 years at an all-in rate of 4.8% and with notional amounts totaling \$188.0 million with an expiration of 10 years at an all-in rate of 5.6%. Upon issuance of the Notes, we terminated the treasury lock agreements at a total cost of \$3.2 million that will be amortized to interest expense over the life of the respective Notes.

The Operating Partnership's sale in December 2004 of \$113.0 million aggregate principal amount of its 2008 unsecured notes (the 2008 Notes) to a group of institutional investors. The 2008 Notes bear interest from their date of issuance at the rate of 4.34% per annum and mature on December 14, 2008.

Actual repayments on the Company's and Operating Partnership's revolving credit facility of \$200.0 million in October 2004 as a result of the above transactions.

The Operating Partnership initially financed the Rubenstein Acquisition with \$433.0 million in unsecured term loans. The unaudited pro forma consolidated financial information excludes the incremental interest expense on the \$433 million in term loans as the Operating Partnership repaid these term loans in October 2004 and December 2004 from the issuance of the 2008, 2009, and 2014 Notes. As a result of the repayment of the term loans, the Company wrote-off the incremental deferred financing cost amortization totaling \$3.0 million that is excluded from the unaudited pro forma financial information.

The statements contained in this filing may include forward-looking statements within the meaning of the Federal securities laws. Although the Company believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions, it can give no assurance that its expectations will be achieved. As forward-looking statements, these statements involve risks and uncertainties that could cause actual results to differ materially from the expected results. These risks and uncertainties include, but are not limited to, uncertainties affecting real estate businesses generally, risks relating to acquisition activities and risks relating to leasing and re-leasing activities. Additional information on factors, which could impact the Company and the forward-looking statements contained herein, are detailed in the Company's filings with the Securities and Exchange Commission.

BRANDYWINE REALTY TRUST
PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2004
(unaudited, in thousands, except share and per share data)

	The Company Historical	Rubenstein Acquisition Historical	Pro Forma Adjustments	The Company Pro Forma
	(A)	(B)	(C)	
Revenue:				
Rents	\$ 275,631	\$ 43,570	\$ 2,294(D)	\$ 321,495
Tenant reimbursements	37,572	9,725		47,297
Other	10,389			10,389
Total Revenue	323,592	53,295	2,294	379,181
Expenses:				
Property operating expenses	89,857	20,808	(1,363)(E)	109,302
Real estate taxes	31,062	7,247		38,309
Depreciation and amortization	79,904		30,371(F)	110,275
Administrative expenses	15,100			15,100
Total operating expenses	215,923	28,055	29,008	272,986
Operating income	107,669	25,240	(26,714)	106,195
Other income				
Interest income	2,469			2,469
Interest expense	(55,061)	(15,801)	(2,634)(G)	(73,496)
Equity in income of real estate ventures	2,024			2,024
Net gains on sales of interest in real estate	2,975			2,975
Income before minority interest	60,076	9,439	(29,348)	40,167
Minority interest attributable to continuing operations	(2,472)		520(H)	(1,952)
Income from continuing operations	\$ 57,604	\$ 9,439	\$ (28,828)	\$ 38,215
Basic Earnings per Common Share from continuing operations	\$ 1.09(I)			\$ 0.62(I)
Diluted Earnings per Common Share from continuing operations	\$ 1.09(I)			\$ 0.62(I)

Notes to Unaudited Pro Forma Consolidated Financial Statement

1. Adjustments to Unaudited Pro Forma Consolidated Statement of Operations for the year-ended December 31, 2004

- (A) Reflects our historical consolidated statement of operations for the year ended December 31, 2004 as filed on our Annual Report on Form 10-K in March 2005.
- (B) Reflects the historical results of operations for the Rubenstein Acquisition for the period from January 1, 2004 to September 21, 2004 (the acquisition date). These amounts are based on the following information:

Period	Rental Income	Tenant Reimbursements	Property Operating Expenses	Real Estate Taxes	Interest Expense on Mortgages
January 1, 2004 to June 30, 2004	\$ 30,048	\$ 6,707	\$ 14,350		

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Morgan Stanley Finance LLC

Buffered PLUS Based on the Value of the S&P 500® Index due September 17, 2020

Buffered Performance Leveraged Upside SecuritiesSM

Principal at Risk Securities

involved in the transaction and provided further that the Plan pays no more, and receives no less, than “adequate consideration” in connection with the transaction (the so-called “service provider” exemption). There can be no assurance that any of these class or statutory exemptions will be available with respect to transactions involving the Buffered PLUS.

Because we may be considered a party in interest with respect to many Plans, the Buffered PLUS may not be purchased, held or disposed of by any Plan, any entity whose underlying assets include “plan assets” by reason of any Plan’s investment in the entity (a “Plan Asset Entity”) or any person investing “plan assets” of any Plan, unless such purchase, holding or disposition is eligible for exemptive relief, including relief available under PTCEs 96-23, 95-60, 91-38, 90-1, 84-14 or the service provider exemption or such purchase, holding or disposition is otherwise not prohibited. Any purchaser, including any fiduciary purchasing on behalf of a Plan, transferee or holder of the Buffered PLUS will be deemed to have represented, in its corporate and its fiduciary capacity, by its purchase and holding of the Buffered PLUS that either (a) it is not a Plan or a Plan Asset Entity and is not purchasing such Buffered PLUS on behalf of or with “plan assets” of any Plan or with any assets of a governmental, non-U.S. or church plan that is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code (“Similar Law”) or (b) its purchase, holding and disposition of these Buffered PLUS will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or violate any Similar Law.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the Buffered PLUS on behalf of or with “plan assets” of any Plan consult with their counsel regarding the availability of exemptive relief.

The Buffered PLUS are contractual financial instruments. The financial exposure provided by the Buffered PLUS is not a substitute or proxy for, and is not intended as a substitute or proxy for, individualized investment management or advice for the benefit of any purchaser or holder of the Buffered PLUS. The Buffered PLUS have not been designed and will not be administered in a manner intended to reflect the individualized needs and objectives of any purchaser or holder of the Buffered PLUS.

Each purchaser or holder of any Buffered PLUS acknowledges and agrees that:

(i) the purchaser or holder or its fiduciary has made and shall make all investment decisions for the purchaser or holder and the purchaser or holder has not relied and shall not rely in any way upon us or our affiliates to act as a fiduciary or adviser of the purchaser or holder with respect to (A) the design and terms of the Buffered PLUS, (B) the purchaser or holder's investment in the Buffered PLUS, or (C) the exercise of or failure to exercise any rights we have under or with respect to the Buffered PLUS;

(ii) we and our affiliates have acted and will act solely for our own account in connection with (A) all transactions relating to the Buffered PLUS and (B) all hedging transactions in connection with our obligations under the Buffered PLUS;

(iii) any and all assets and positions relating to hedging transactions by us or our affiliates are assets and positions of those entities and are not assets and positions held for the benefit of the purchaser or holder;

(iv) our interests are adverse to the interests of the purchaser or holder; and

(v) neither we nor any of our affiliates is a fiduciary or adviser of the purchaser or holder in connection with any such assets, positions or transactions, and any information that we or any of our affiliates may provide is not intended to be impartial investment advice.

Each purchaser and holder of the Buffered PLUS has exclusive responsibility for ensuring that its purchase, holding and disposition of the Buffered PLUS do not violate the prohibited transaction rules of ERISA or the Code or any Similar Law. The sale of any Buffered PLUS to any Plan or plan subject to Similar Law is in no respect a representation by us or any of our affiliates or representatives that such an investment meets all relevant legal requirements with respect to investments by plans generally or any particular plan, or that such an investment is appropriate for plans generally or any particular plan. In this regard, neither this discussion nor anything provided in this document is or is intended to be investment advice directed at any potential Plan purchaser or at Plan purchasers generally and such purchasers of the Buffered PLUS should consult and rely on their own counsel and advisers as to whether an investment in the Buffered PLUS is suitable.

However, individual retirement accounts, individual retirement annuities and Keogh plans, as well as employee benefit plans that permit participants to direct the investment of their accounts, will not be permitted to purchase or hold the Buffered PLUS if the account, plan or annuity is for the benefit of an employee of Morgan Stanley or Morgan Stanley Wealth Management or a family member and the employee receives any compensation (such as, for example, an addition to bonus) based on the purchase of the Buffered PLUS by the account, plan or annuity.

Morgan Stanley Finance LLC

Buffered PLUS Based on the Value of the S&P 500® Index due September 17, 2020

Buffered Performance Leveraged Upside SecuritiesSM

Principal at Risk Securities

Additional considerations:

Client accounts over which Morgan Stanley, Morgan Stanley Wealth Management or any of their respective subsidiaries have investment discretion are not permitted to purchase the Buffered PLUS, either directly or indirectly.

Selected dealers, which may include our affiliates, and their financial advisors will collectively receive from the agent a fixed sales commission of \$ for each Buffered PLUS they sell.

Supplemental information regarding plan of distribution; conflicts of interest:

MS & Co. is an affiliate of MSFL and a wholly owned subsidiary of Morgan Stanley, and it and other affiliates of ours expect to make a profit by selling, structuring and, when applicable, hedging the Buffered PLUS. When MS & Co. prices this offering of Buffered PLUS, it will determine the economic terms of the Buffered PLUS such that for each Buffered PLUS the estimated value on the pricing date will be no lower than the minimum level described in “Investment Summary” beginning on page 2.

Contact:

MS & Co. will conduct this offering in compliance with the requirements of FINRA Rule 5121 of the Financial Industry Regulatory Authority, Inc., which is commonly referred to as FINRA, regarding a FINRA member firm’s distribution of the securities of an affiliate and related conflicts of interest. MS & Co. or any of our other affiliates may not make sales in this offering to any discretionary account. See “Plan of Distribution (Conflicts of Interest)” and “Use of Proceeds and Hedging” in the accompanying product supplement for PLUS.

Morgan Stanley Wealth Management clients may contact their local Morgan Stanley branch office or our principal executive offices at 1585 Broadway, New York, New York 10036 (telephone number (866) 477-4776). All other clients may contact their local brokerage representative. Third-party distributors may contact Morgan Stanley Structured Investment Sales at (800) 233-1087.

Where you can find more information:

Morgan Stanley and MSFL have filed a registration statement (including a prospectus, as supplemented by the product supplement for PLUS and the index supplement) with the Securities and Exchange Commission, or SEC, for the offering to which this communication relates. You should read the prospectus in that registration statement, the product supplement for PLUS, the index supplement and any other documents relating to this offering that Morgan Stanley and MSFL have filed with the SEC for more complete information about Morgan Stanley, MSFL and this offering. You may get these documents without cost by visiting EDGAR on the SEC web site at www.sec.gov. Alternatively, Morgan Stanley, MSFL, any underwriter or any dealer participating in the offering will arrange to send you the product supplement for PLUS, index supplement and prospectus if you so request by calling toll-free 1-(800)-584-6837.

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You may access these documents on the SEC web site at www.sec.gov as follows:

Product Supplement for PLUS dated November 16, 2017

Index Supplement dated November 16, 2017

Prospectus dated November 16, 2017

Terms used but not defined in this document are defined in the product supplement for PLUS, in the index supplement or in the prospectus.

“Performance Leveraged Upside SecuritiesSM” and “PLUSSM” are our service marks.

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