

BRANDYWINE REALTY TRUST

Form 10-Q

November 02, 2011

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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, 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

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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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
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Brandywine Operating Partnership, L.P.:

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
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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 type="checkbox"/>
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Brandywine Operating Partnership, L.P.	Yes <input type="checkbox"/> No <input type="checkbox"/>
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A total of 135,579,643 Common Shares of Beneficial Interest, par value \$0.01 per share, were outstanding as of October 26, 2011.

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended September 30, 2011 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, terms such as we , us , or our used in this report may refer to the Company, Parent Company, or the Operating Partnership.

The Parent Company is the sole general partner of the Operating Partnership and, as of September 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.

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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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
(in thousands, except share and per share information)

	September 30, 2011 (unaudited)	December 31, 2010
ASSETS		
Real estate investments:		
Rental properties	\$ 4,920,728	\$ 4,834,111
Accumulated depreciation	(860,584)	(776,078)
Operating real estate investments, net	4,060,144	4,058,033
Construction-in-progress	36,246	33,322
Land inventory	120,470	110,055
Total real estate investments, net	4,216,860	4,201,410
Cash and cash equivalents	5,706	16,565
Accounts receivable, net	15,048	16,009
Accrued rent receivable, net	107,756	95,541
Investment in real estate ventures, at equity	84,219	84,372
Deferred costs, net	113,656	106,117
Intangible assets, net	81,562	97,462
Notes receivable	19,436	18,205
Other assets	59,511	54,697
Total assets	\$ 4,703,754	\$ 4,690,378
LIABILITIES AND BENEFICIARIES EQUITY		
Mortgage notes payable	\$ 491,867	\$ 711,789
Unsecured credit facility	166,000	183,000
Unsecured term loan	183,000	183,000
Unsecured senior notes, net of discounts	1,651,360	1,352,657
Accounts payable and accrued expenses	85,942	72,235
Distributions payable	23,505	22,623
Deferred income, gains and rent	100,419	121,552
Acquired below market leases, net	37,940	29,233
Other liabilities	42,827	36,515
Total liabilities	2,782,860	2,712,604
Commitments and contingencies (Note 17)		
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 2011 and 2010, respectively	20 23	20 23

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7.375% Series D Preferred Shares, \$0.01 par value; issued and outstanding-
2,300,000 in 2011 and 2010, respectively

Common Shares of Brandywine Realty Trust's beneficial interest, \$0.01 par
value; shares authorized 200,000,000; 135,579,643 and 134,601,796 issued in
2011 and 2010, respectively and 135,579,643 and 134,485,117 outstanding in
2011 and 2010, respectively

Additional paid-in capital	1,353	1,343
Deferred compensation payable in common stock	2,686,800	2,671,217
Common shares in treasury, at cost, 116,679 in 2010	5,631	5,774
Common shares in grantor trust, 292,646 in 2011 and 291,281 in 2010	(5,631)	(5,774)
Cumulative earnings	481,577	483,439
Accumulated other comprehensive loss	(2,424)	(1,945)
Cumulative distributions	(1,368,809)	(1,301,521)
 Total Brandywine Realty Trust's equity	 1,798,540	 1,849,502
Non-controlling interests	122,354	128,272
 Total equity	 1,920,894	 1,977,774
 Total liabilities and equity	 \$ 4,703,754	 \$ 4,690,378

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,	
	2011	2010	2011	2010
Revenue:				
Rents	\$ 121,701	\$ 116,520	\$ 362,846	\$ 343,568
Tenant reimbursements	19,806	19,784	61,831	57,834
Termination fees	190	1,039	2,706	4,124
Third party management fees, labor reimbursement and leasing	3,028	2,922	8,514	9,293
Other	939	1,227	3,378	3,170
Total revenue	145,664	141,492	439,275	417,989
Operating Expenses:				
Property operating expenses	42,363	41,851	128,977	124,187
Real estate taxes	13,863	14,096	42,734	40,217
Third party management expenses	1,379	1,528	4,395	4,433
Depreciation and amortization	54,252	51,644	163,940	154,962
General and administrative expenses	6,177	5,753	18,311	18,498
Total operating expenses	118,034	114,872	358,357	342,297
Operating income	27,630	26,620	80,918	75,692
Other Income (Expense):				
Interest income	523	726	1,385	2,554
Historic tax credit transaction income	12,026		12,026	
Interest expense	(32,346)	(34,488)	(99,477)	(97,222)
Interest expense amortization of deferred financing costs	(1,846)	(827)	(3,844)	(2,700)
Equity in income of real estate ventures	418	1,035	2,739	3,356
Net gain on sale of interests in real estate			2,791	
Gain (loss) on early extinguishment of debt	176	(64)	(580)	(1,701)
Income (loss) from continuing operations	6,581	(6,998)	(4,042)	(20,021)
Discontinued operations:				
Income from discontinued operations	30	385	93	1,060
Net gain (loss) on disposition of discontinued operations		(3)	3,836	6,346

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Total discontinued operations	30	382	3,929	7,406
Net income (loss)	6,611	(6,616)	(113)	(12,615)
Net income from discontinued operations attributable to non-controlling interests LP units	(2)	(8)	(80)	(159)
Net (income) loss attributable to non-controlling interests LP units	(360)	187	(66)	548
Net (income) loss attributable to non-controlling interests	(362)	179	(146)	389
Net income (loss) attributable to Brandywine Realty Trust	6,249	(6,437)	(259)	(12,226)
Distribution to Preferred Shares	(1,998)	(1,998)	(5,994)	(5,994)
Amount allocated to unvested restricted shareholders	(121)	(128)	(384)	(384)
Net income (loss) attributable to Common Shareholders of Brandywine Realty Trust	\$ 4,130	\$ (8,563)	\$ (6,637)	\$ (18,604)
Basic income (loss) per Common Share:				
Continuing operations	\$ 0.03	\$ (0.06)	\$ (0.08)	\$ (0.20)
Discontinued operations	0.00	0.00	0.03	0.06
	\$ 0.03	\$ (0.06)	\$ (0.05)	\$ (0.14)
Diluted income (loss) per Common Share:				
Continuing operations	0.03	\$ (0.06)	\$ (0.08)	\$ (0.20)
Discontinued operations	0.00	0.00	0.03	0.06
	\$ 0.03	\$ (0.06)	\$ (0.05)	\$ (0.14)
Basic weighted average shares outstanding	135,562,487	132,208,245	135,164,424	130,841,534
Diluted weighted average shares outstanding	136,841,451	132,208,245	135,164,424	130,841,534
Net income (loss) attributable to Brandywine Realty Trust				
Income (loss) from continuing operations	\$ 6,221	\$ (6,811)	\$ (4,108)	\$ (19,473)
Income from discontinued operations	28	374	3,849	7,247

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Net income (loss)	\$	6,249	\$	(6,437)	\$	(259)	\$	(12,226)
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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,	
	2011	2010	2011	2010
Net income (loss)	\$ 6,611	\$ (6,616)	\$ (113)	\$ (12,615)
Comprehensive income (loss):				
Unrealized gain (loss) on derivative financial instruments		2,274	(613)	6,445
Reclassification of realized (gains)/losses on derivative financial instruments to operations, net	53	13	126	12
Total comprehensive income (loss)	53	2,287	(487)	6,457
Comprehensive income (loss)	6,664	(4,329)	(600)	(6,158)
Comprehensive (income) loss attributable to non-controlling interest	(365)	131	(139)	253
Comprehensive income (loss) attributable to Brandywine Realty Trust	\$ 6,299	\$ (4,198)	\$ (739)	\$ (5,905)

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, 2011 and 2010
(unaudited, in thousands, except number of shares)

September 30, 2011

	Number of Preferred Shares	Par Value of Preferred Shares	Number of Common Shares	Number of Treasury Shares	Number of Rabbi Shares of Rabbi of	Common Shares of Brandywine Realty	Trust s Beneficial interest	Additional Paid-in Capital	Common Shares in Treasury	Deferred Compensation Payable in Common Stock	Accumulated Other Comprehensive Income	Accumulated Other Comprehensive Income
BALANCE,												
December 31,												
2010		4,300,000	\$ 43	134,601,796	116,679	291,281	\$ 1,343	\$ 2,671,217	\$(3,074)	\$ 5,774	\$(5,774)	\$