

BRANDYWINE REALTY TRUST  
Form 10-Q  
November 09, 2006

**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, 2006**

**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**

(Exact name of registrant as specified in its charter)

**Maryland**

State or other jurisdiction of  
incorporation or organization

**23-2413352**

(I.R.S. Employer Identification No.)

**555 East Lancaster Avenue,  
Radnor, Pennsylvania**  
(Address of principal executive  
offices)

**19087**  
(Zip Code)

**(610) 325-5600**

Registrant's telephone number

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. Yes No

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.

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Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes No

A total of 88,249,748 Common Shares of Beneficial Interest, par value \$0.01 per share, were outstanding as of November 7, 2006.

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**BRANDYWINE REALTY TRUST**

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[Back to Contents](#)**PART I - FINANCIAL INFORMATION****Item 1. - Financial Statements****BRANDYWINE REALTY TRUST****CONSOLIDATED BALANCE SHEETS****(unaudited, in thousands, except share and per share information)**

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
	<hr/>	<hr/>
<b>ASSETS</b>		
Real estate investments:		
Operating properties	\$4,871,978	\$2,560,061
Accumulated depreciation	(499,141 )	(390,333 )
	<hr/>	<hr/>
Operating real estate investments, net	4,372,837	2,169,728
Construction-in-progress	309,783	273,240
Land held for development	118,181	98,518
	<hr/>	<hr/>
Total real estate investments, net	4,800,801	2,541,486
Cash and cash equivalents	16,538	7,174
Escrowed cash	20,153	18,498
Accounts receivable, net	23,400	12,874
Accrued rent receivable, net	67,283	47,034
Marketable securities	187,162	
Investment in unconsolidated ventures	78,288	13,331
Deferred costs, net	65,378	37,602
Intangible assets, net	325,119	78,097
Other assets	67,500	49,649
	<hr/>	<hr/>
Total assets	\$5,651,622	\$2,805,745
	<hr/>	<hr/>
<b>LIABILITIES AND BENEFICIARIES EQUITY</b>		
Mortgage notes payable	\$892,935	\$494,777
Secured note payable	181,759	
Unsecured notes	1,863,188	936,607
Unsecured credit facility	249,998	90,000
Accounts payable and accrued expenses	124,814	52,635
Distributions payable	43,752	28,880
Tenant security deposits and deferred rents	57,799	20,953
Acquired below market leases, net of accumulated amortization of \$22,030 and \$6,931	107,122	34,704
Other liabilities	14,927	4,466

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Total liabilities	3,536,294	1,663,022
Minority interest - partners' share of consolidated real estate ventures	109,074	37,861
Minority interest attributable to continuing operations - LP units	36,758	(2 )
Commitments and contingencies (Note 16)		
Beneficiaries' 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 2006 and 2005	20	20
7.375% Series D Preferred Shares, \$0.01 par value; issued and outstanding-2,300,000 in 2006 and 2005	23	23
Common Shares of beneficial interest, \$0.01 par value; shares authorized 200,000,000; issued and outstanding-90,058,533 in 2006 and 56,179,075 in 2005	901	562
Additional paid-in capital	2,368,460	1,369,913
Cumulative earnings	399,647	413,282
Accumulated other comprehensive income (loss)	1,038	(3,169 )
Cumulative distributions	(800,593 )	(675,767 )
	<u>1,969,496</u>	<u>1,104,864</u>
Total beneficiaries' equity	1,969,496	1,104,864
	<u>\$5,651,622</u>	<u>\$2,805,745</u>
Total liabilities, minority interest, and beneficiaries' equity	\$5,651,622	\$2,805,745

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

[Back to Contents](#)**BRANDYWINE REALTY TRUST****CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited, in thousands, except share and per share information)**

	<b>For the three-month periods ended September 30,</b>		<b>For the nine-month periods ended September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Revenue:</b>				
Rents	\$ 149,374	\$ 80,288	\$ 437,913	\$ 241,207
Tenant reimbursements	23,802	11,710	58,203	34,716
Other	8,418	3,029	17,456	11,813
Total revenue	181,594	95,027	513,572	287,736
<b>Operating Expenses:</b>				
Property operating expenses	53,465	26,664	149,828	83,679
Real estate taxes	18,220	9,744	51,203	28,763
Depreciation and amortization	68,277	28,230	199,275	83,983
Administrative expenses	6,490	4,486	22,704	13,616
Total operating expenses	146,452	69,124	423,010	210,041
<b>Operating income</b>	35,142	25,903	90,562	77,695
<b>Other Income (Expense):</b>				
Interest income	2,479	304	7,702	966
Interest expense	(45,402 )	(17,762 )	(128,869 )	(53,366 )
Equity in income of real estate ventures	370	745	1,798	2,296
Net gain on sale of interests in real estate		4,640	2,608	4,640
Gain on termination of purchase contract	3,147		3,147	
Income (loss) before minority interest	(4,264 )	13,830	(23,052 )	32,231
Minority interest - partners' share of consolidated real estate ventures	279	(41 )	560	(213 )
Minority interest attributable to continuing operations - LP units	276	(401 )	1,267	(908 )
Income (loss) from continuing operations	(3,709 )	13,388	(21,225 )	31,110
<b>Discontinued operations:</b>				
Income (loss) from discontinued operations	1,150	294	5,018	941
Net gain on disposition of discontinued operations	5,188	2,196	5,188	2,196
Minority interest - partners' share of consolidated real estate ventures	(1,857 )		(2,239 )	

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Minority interest attributable to discontinued operations - LP units	(208 )	(84 )	(376 )	(108 )
Income (loss) from discontinued operations	4,273	2,406	7,591	3,029
<b>Net income (loss)</b>	564	15,794	(13,634 )	34,139
Income allocated to Preferred Shares	(1,998 )	(1,998 )	(5,994 )	(5,994 )
<b>Income (loss) allocated to Common Shares</b>	<b>\$(1,434 )</b>	<b>\$13,796</b>	<b>\$(19,628 )</b>	<b>\$28,145</b>
<b>Basic earnings per Common Share:</b>				
Continuing operations	\$(0.06 )	\$0.20	\$(0.30 )	\$0.45
Discontinued operations	0.05	0.04	0.08	0.05
	<b>\$(0.02 )</b>	<b>\$0.25</b>	<b>\$(0.22 )</b>	<b>\$0.50</b>
<b>Diluted earnings per Common Share:</b>				
Continuing operations	\$(0.06 )	\$0.20	\$(0.30 )	\$0.45
Discontinued operations	0.05	0.04	0.08	0.05
	<b>\$(0.02 )</b>	<b>\$0.24</b>	<b>\$(0.22 )</b>	<b>\$0.50</b>
<b>Dividends declared per common share</b>	<b>\$0.44</b>	<b>\$0.44</b>	<b>\$1.32</b>	<b>\$1.32</b>
<b>Basic weighted average shares outstanding</b>	<b>90,042,270</b>	<b>56,071,973</b>	<b>89,963,541</b>	<b>55,734,114</b>
<b>Diluted weighted average shares outstanding</b>	<b>90,042,270</b>	<b>56,372,013</b>	<b>89,963,541</b>	<b>55,968,657</b>

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

[Back to Contents](#)**BRANDYWINE REALTY TRUST****CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME****(unaudited, in thousands)**

	<b>For the three-month periods ended September 30,</b>		<b>For the nine-month periods ended September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Net income (loss)	\$564	\$15,794	\$(13,634 )	\$34,139
Other comprehensive income:				
Unrealized gain (loss) on derivative financial instruments	(1,070 )		1,293	
Less: minority interest - consolidated real estate venture partner's share of unrealized gain (loss) on derivative financial instruments	525		(284 )	
Realized gain on derivative financial instruments			3,266	
Reclassification of realized (gains)/losses on derivative financial instruments to operations, net	9	113	113	340
Unrealized gain (loss) on available-for-sale securities	595	(257 )	(181 )	(20 )
Total other comprehensive income	59	(144 )	4,207	320
Comprehensive income (loss)	\$623	\$15,650	\$(9,427 )	\$34,459

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

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**BRANDYWINE REALTY TRUST**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(unaudited, in thousands)**

	<b>Nine-month periods ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$(13,634 )	\$34,139
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation	143,893	63,588
Amortization:		
Deferred financing costs	2,063	1,939
Deferred leasing costs	8,394	6,425
Acquired above (below) market leases, net	(6,067 )	(1,050 )
Assumed lease intangibles	50,471	14,854
Deferred compensation costs	2,332	1,618
Straight-line rent	(23,486 )	(10,852 )
Provision for doubtful accounts	2,970	600
Real estate venture income in excess of distributions	(162 )	(697 )
Net gain on sale of interests in real estate	(7,797 )	(6,820 )
Gain on termination of purchase contract	(3,147 )	
Minority interest	788	1,229
Changes in assets and liabilities:		
Accounts receivable	2,515	4,469
Other assets	(13,185 )	(12,837 )
Accounts payable and accrued expenses	36,192	5,861
Tenant security deposits and deferred rents	30,635	628
Other liabilities	904	672
Net cash from operating activities	213,679	103,766
<b>Cash flows from investing activities:</b>		
Acquisition of Prentiss	(935,856 )	
Acquisition of properties	(169,462 )	(92,674 )
Sales of properties, net	258,931	29,428
Gain on termination of purchase contract	3,147	
Capital expenditures	(180,771 )	(136,801 )
Investment in marketable securities	183	404
Investment in unconsolidated Real Estate Ventures	(643 )	(258 )
Escrowed cash	(492 )	1,806
Cash distributions from unconsolidated Real Estate Ventures in excess of equity in income	2,444	390
Leasing costs	(30,524 )	(8,445 )
Net cash from investing activities	(1,053,043)	(206,150)
<b>Cash flows from financing activities:</b>		

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Proceeds from Credit Facility borrowings	462,000	250,000
Repayments of Credit Facility borrowings	(302,002 )	(62,000 )
Proceeds from mortgage notes payable	20,520	
Repayments of mortgage notes payable	(29,327 )	(13,565 )
Proceeds from term loan	750,000	
Repayments of term loan	(750,000 )	
Proceeds from unsecured notes	847,818	
Proceeds from forward starting swap termination	3,266	
Repayments on employee stock loans	60	50
Debt financing costs	(6,991 )	(234 )
Exercise of stock options	9,120	19,283
Repurchases of Common Shares and minority interest units	(34,481 )	(240 )
Distributions paid to shareholders	(110,094 )	(79,752 )
Distributions to minority interest holders	(11,161 )	(3,164 )
	<u>848,728</u>	<u>110,378</u>
Net cash from financing activities		
	<u>9,364</u>	<u>7,994</u>
Increase (decrease) in cash and cash equivalents		
Cash and cash equivalents at beginning of period	<u>7,174</u>	<u>15,346</u>
	<u>\$16,538</u>	<u>\$23,340</u>
Cash and cash equivalents at end of period		
Supplemental disclosure:		
Cash paid for interest, net of capitalized interest	\$99,987	\$27,374
Supplemental disclosure of non-cash activity:		
Common shares issued in the Prentiss acquisition	1,021,269	
Operating Partnership units issued in the Prentiss acquisition	64,103	
Operating Partnership units issued in property acquisitions	13,819	
Mortgage notes payable assumed in the Prentiss acquisition	532,607	
Secured note payable assumed in the Prentiss acquisition	186,116	

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

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## **BRANDYWINE REALTY TRUST**

### **NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

#### **September 30, 2006**

##### **1. THE COMPANY**

Brandywine Realty Trust, a Maryland real estate investment trust (collectively with its subsidiaries, the Company), is a self-administered and self-managed real estate investment trust, or REIT, active in acquiring, developing, redeveloping, leasing and managing office and industrial properties. As of September 30, 2006, the Company owned 277 office properties, 23 industrial facilities and one mixed-use property (collectively, the Properties) containing an aggregate of approximately 30.0 million net rentable square feet. As of September 30, 2006, the Company owned economic interests in 11 unconsolidated real estate ventures that contain approximately 2.7 million net rentable square feet and in four consolidated real estate ventures that own 15 office properties containing approximately 1.5 million net rentable square feet (collectively, the Real Estate Ventures). The Properties and the properties owned by the Real Estate Ventures are located in or in areas surrounding Philadelphia, Pennsylvania; Wilmington, Delaware; Austin, Texas; Dallas, Texas; Richmond, Virginia; Northern and Southern California; Southern and Central New Jersey; and Northern Virginia.

As more fully described in Note 3, on January 5, 2006, the Company acquired Prentiss Properties Trust (Prentiss) pursuant to an Agreement and Plan of Merger (the Merger Agreement) that the Company entered into with Prentiss on October 3, 2005.

The Company owns its assets through Brandywine Operating Partnership, L.P. a Delaware limited partnership (the Operating Partnership). The Company is the sole general partner of the Operating Partnership and, as of September 30, 2006, owned a 95.4% interest in the Operating Partnership. The Company conducts its third-party real estate management services business primarily through four management companies (collectively, the Management Companies), Brandywine Realty Services Corporation (BRSCO), BTRS, Inc., Brandywine Properties I Limited, Inc. (BPI), and Brandywine Properties Management, L.P. (BPM). BRSCO, BTRS, Inc. and BPI are taxable REIT subsidiaries. The Operating Partnership owns a 95% interest in BRSCO and the remaining 5% interest is owned by a partnership comprised of a current executive and former executive of the Company, each of whom is a member of the Company's Board of Trustees. The Operating Partnership owns, directly and indirectly, 100% of each of BTRS, Inc., BPI and BPM.

As of September 30, 2006, the Management Companies were managing properties containing an aggregate of approximately 43.1 million net rentable square feet, of which approximately 30.0 million net rentable square feet related to Properties owned by the Company and approximately 13.1 million net rentable square feet related to properties owned by third parties and certain Real Estate Ventures.

##### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

###### **Basis of Presentation**

The consolidated financial statements have been prepared by the Company without audit except as to the balance sheet as of December 31, 2005, which has been derived from audited data, pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the included disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments (consisting solely of normal recurring matters) for a fair statement of the financial

position of the Company as of September 30, 2006, the results of its operations for the three- and nine-month periods ended September 30, 2006 and 2005 and its cash flows for the nine-month periods ended September 30, 2006 and 2005 have been included. The results of operations for such interim periods are not necessarily indicative of the results for a full year. These consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and footnotes included in the Company's 2005 Annual Report on Form 10-K. Certain prior period amounts have been reclassified to conform to the current period presentation.

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## **BRANDYWINE REALTY TRUST**

### **NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2006**

#### **Principles of Consolidation**

The accompanying consolidated financial statements include all accounts of the Company, and its majority-owned and/or controlled subsidiaries. The portion of these entities not owned by the Company is presented as minority interest as of and during the periods consolidated. All intercompany accounts and transactions have been eliminated in consolidation.

When the Company obtains an economic interest in an entity, the Company evaluates the entity to determine if the entity is deemed a variable interest entity ( VIE ), and if the Company is deemed to be the primary beneficiary, in accordance with FASB Interpretation No. 46R, Consolidation of Variable Interest Entities ( FIN 46R ). The Company consolidates (i) entities that are VIEs where the Company is deemed to be the primary beneficiary and (ii) entities that are non-VIEs which the Company controls. Entities that the Company accounts for under the equity method (i.e., at cost, increased or decreased by the Company's share of earnings or losses, less distributions) include (i) entities that are VIEs where the Company is not deemed to be the primary beneficiary and (ii) entities that are non-VIEs which the Company does not control, but over which the Company has the ability to exercise significant influence. The Company will reconsider its determination of whether an entity is a VIE and who the primary beneficiary is if certain events occur that are likely to cause a change in the original determinations.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Management makes significant estimates regarding revenue, impairment of long-lived assets, allowance for doubtful accounts and deferred costs.

#### **Operating Properties**

Operating properties are carried at historical cost less accumulated depreciation and impairment losses. The cost of operating properties reflects their purchase price or development cost. Costs incurred for the acquisition and renovation of an operating property are capitalized to the Company's investment in that property. Ordinary repairs and maintenance are expensed as incurred. Major replace