

BRANDYWINE OPERATING PARTNERSHIP, L.P.
Form 10-Q
October 31, 2014

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, 2014

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 (I.R.S. Employer
incorporation or organization) Identification No.)

555 East Lancaster Avenue
Radnor, Pennsylvania 19087
(Address of principal executive offices) (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, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Brandywine Realty Trust:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Brandywine Operating Partnership, L.P.:

Large accelerated filer Accelerated filer Non-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 178,982,369 Common Shares of Beneficial Interest, par value \$0.01 per share of Brandywine Realty Trust, were outstanding as of October 29, 2014.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended September 30, 2014 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 September 30, 2014, owned a 98.9% interest in the Operating Partnership. The remaining 1.1% 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

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 debt, reference to the Company is appropriate because the business is one enterprise and the Parent Company operates the business through the Operating Partnership.

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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.

PART I - FINANCIAL INFORMATION

Item 1. — Financial Statements

BRANDYWINE REALTY TRUST

CONSOLIDATED BALANCE SHEETS

(unaudited, in thousands, except share and per share information)

| | September 30, 2014 (unaudited) | December 31, 2013 |
|--|--------------------------------------|----------------------|
| ASSETS | | |
| Real estate investments: | | |
| Operating properties | \$4,608,895 | \$4,669,289 |
| Accumulated depreciation | (1,053,571 |) (983,808 |
| Operating real estate investments, net | 3,555,324 | 3,685,481 |
| Construction-in-progress | 140,456 | 74,174 |
| Land inventory | 90,842 | 93,351 |
| Total real estate investments, net | 3,786,622 | 3,853,006 |
| Cash and cash equivalents | 671,943 | 263,207 |
| Accounts receivable, net | 19,825 | 17,389 |
| Accrued rent receivable, net | 131,211 | 126,295 |
| Assets held for sale | 37,647 | — |
| Investment in real estate ventures, at equity | 197,539 | 180,512 |
| Deferred costs, net | 122,881 | 122,954 |
| Intangible assets, net | 105,300 | 132,329 |
| Other assets | 75,383 | 69,403 |
| Total assets | \$5,148,351 | \$4,765,095 |
| LIABILITIES AND BENEFICIARIES' EQUITY | | |
| Mortgage notes payable | \$658,601 | \$670,151 |
| Unsecured term loans | 200,000 | 450,000 |
| Unsecured senior notes, net of discounts | 1,854,779 | 1,475,230 |
| Accounts payable and accrued expenses | 97,022 | 83,693 |
| Distributions payable | 28,857 | 25,584 |
| Deferred income, gains and rent | 53,219 | 71,635 |
| Acquired lease intangibles, net | 27,388 | 34,444 |
| Other liabilities | 36,824 | 32,923 |
| Liabilities related to assets held for sale | 1,771 | — |
| Total liabilities | 2,958,461 | 2,843,660 |
| Commitments and contingencies (Note 16) | | |
| 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 2014 and 2013 | 40 | 40 |
| Common Shares of Brandywine Realty Trust's beneficial interest, \$0.01 par value; shares authorized 400,000,000; 178,982,369 and 156,731,993 issued and outstanding in 2014 and 2013, respectively | 1,790 | 1,566 |
| Additional paid-in capital | 3,310,313 | 2,971,596 |
| Deferred compensation payable in common shares | 6,219 | 5,407 |
| Common shares in grantor trust, 384,536 in 2014 and 312,280 in 2013 | (6,219 |) (5,407 |

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| | | | |
|---|-------------|--------------|---|
| Cumulative earnings | 531,294 | 522,528 | |
| Accumulated other comprehensive loss | (2,658 |) (2,995 |) |
| Cumulative distributions | (1,671,888 |) (1,592,515 |) |
| Total Brandywine Realty Trust's equity | 2,168,891 | 1,900,220 | |
| Non-controlling interests | 20,999 | 21,215 | |
| Total beneficiaries' equity | 2,189,890 | 1,921,435 | |
| Total liabilities and beneficiaries' equity | \$5,148,351 | \$4,765,095 | |

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 | | Nine-month periods ended | |
|--|---------------------------|------------|--------------------------|------------|
| | September 30, | | September 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Revenue: | | | | |
| Rents | \$ 120,288 | \$ 116,382 | \$ 363,581 | \$ 347,054 |
| Tenant reimbursements | 20,095 | 20,694 | 64,057 | 60,595 |
| Termination fees | 1,418 | 2,040 | 6,970 | 2,946 |
| Third party management fees, labor reimbursement and leasing | 3,932 | 3,263 | 12,269 | 9,652 |
| Other | 825 | 975 | 2,295 | 3,305 |
| Total revenue | 146,558 | 143,354 | 449,172 | 423,552 |
| Operating expenses: | | | | |
| Property operating expenses | 42,675 | 40,639 | 132,612 | 119,421 |
| Real estate taxes | 12,869 | 14,167 | 39,167 | 42,639 |
| Third party management expenses | 1,687 | 1,317 | 5,133 | 4,105 |
| Depreciation and amortization | 52,616 | 50,583 | 157,773 | 149,300 |
| General and administrative expenses | 5,900 | 6,436 | 20,086 | 20,323 |
| Total operating expenses | 115,747 | 113,142 | 354,771 | 335,788 |
| Operating income | 30,811 | 30,212 | 94,401 | 87,764 |
| Other income (expense): | | | | |
| Interest income | 528 | 268 | 1,298 | 448 |
| Historic tax credit transaction income | 11,853 | 11,853 | 11,853 | 11,853 |
| Interest expense | (31,481) |) (30,338) |) (94,837) |) (91,689) |
| Amortization of deferred financing costs | (1,566) |) (1,158) |) (3,952) |) (3,502) |
| Interest expense — financing obligation | (273) |) (264) |) (861) |) (693) |
| Recognized hedge activity | (828) |) — |) (828) |) — |
| Equity in income (loss) of real estate ventures | (486) |) 714 |) (733) |) 3,757 |
| Net gain on disposition of real estate | 4,698 | — | 4,698 | — |
| Net gain (loss) on sale of undepreciated real estate | — |) (129) |) 1,184 |) (129) |
| Net gain from remeasurement of investment in RE ventures | — | — | 458 | 7,847 |
| Net gain (loss) on real estate venture transactions | — | — |) (417) |) 3,683 |
| Loss on early extinguishment of debt | (2,606) |) (11) |) (2,606) |) (1,127) |
| Provision for impairment on assets held for sale | (1,765) |) — |) (1,765) |) — |
| Income from continuing operations | 8,885 | 11,147 | 7,893 | 18,212 |
| Discontinued operations: | | | | |
| Income (loss) from discontinued operations | — |) (43) |) 18 | 946 |
| Net gain (loss) on disposition of discontinued operations | (3) |) (16) |) 900 | 3,029 |
| Total discontinued operations | (3) |) (59) |) 918 | 3,975 |
| Net income | 8,882 | 11,088 | 8,811 | 22,187 |
| Net (income) loss from discontinued operations attributable to non-controlling interests — LP units | — | 1 | (10) |) (52) |
| Net income attributable to non-controlling interest partners' share of consolidated real estate ventures | (24) |) — |) (12) |) — |
| | (84) |) (106) |) (35) |) (143) |

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Net income attributable to non-controlling interests —

LP units

| | | | | | |
|---|---------|----------|----------|----------|---|
| Net income attributable to non-controlling interests | (108 |) (105 |) (57 |) (195 |) |
| Net income attributable to Brandywine Realty Trust | 8,774 | 10,983 | 8,754 | 21,992 | |
| Distribution to Preferred Shares | (1,725 |) (1,725 |) (5,175 |) (5,175 |) |
| Nonforfeitable dividends allocated to unvested restricted shareholders | (82 |) (85 |) (268 |) (278 |) |
| Net income attributable to Common Shareholders of Brandywine Realty Trust | \$6,967 | \$9,173 | | | |