

BRANDYWINE REALTY TRUST

Form 10-Q

November 09, 2007

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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, 2007**

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**

(State or other jurisdiction of  
Incorporation or organization)

(I.R.S. Employer 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 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  Accelerated filer  Non-accelerated filer

Brandywine Operating Partnership, L.P.

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).

Brandywine Realty Trust

Yes  No

Brandywine Operating Partnership, L.P.

Yes o No b

A total of 86,843,035 Common Shares of Beneficial Interest, par value \$0.01 per share, were outstanding as of November 1, 2007.

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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.

**Table of 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, 2007</b>	<b>December 31, 2006</b>
<b>ASSETS</b>		
Real estate investments:		
Operating properties	\$ 4,997,025	\$ 4,927,305
Accumulated depreciation	(583,843)	(515,698)
Operating real estate investments, net	4,413,182	4,411,607
Development land and construction-in-progress	406,732	328,119
Total real estate investments, net	4,819,914	4,739,726
Cash and cash equivalents	17,661	25,379
Accounts receivable, net (Note 2)	17,644	19,957
Accrued rent receivable, net	81,529	71,589
Asset held for sale, net		126,016
Investment in real estate ventures, at equity (Note 4)	72,237	74,574
Deferred costs, net (Note 5)	84,309	73,708
Intangible assets, net (Note 6)	233,405	281,251
Other assets	79,358	96,818
Total assets	\$ 5,406,057	\$ 5,509,018
<b>LIABILITIES AND BENEFICIARIES EQUITY</b>		
Mortgage notes payable (Note 7)	\$ 617,645	\$ 883,920
Unsecured notes, net of discounts (Note 7)	2,208,207	2,208,310
Unsecured credit facility (Note 7)	442,664	60,000
Accounts payable and accrued expenses	111,480	108,400
Distributions payable	42,253	42,760
Tenant security deposits and deferred rents	59,107	55,697
Acquired below market leases, net (Note 6)	72,731	92,527
Other liabilities	17,899	14,661
Mortgage notes payable and other liabilities held for sale		20,826
Total liabilities	3,571,986	3,487,101
Minority interest partners share of consolidated real estate ventures (Note 10)		34,428
Minority interest LP units (Note 10)	81,583	89,563
Commitments and contingencies (Note 14)		
Beneficiaries equity (Note 11):		
Preferred Shares (shares authorized-20,000,000):		

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7.50% Series C Preferred Shares, \$0.01 par value; issued and outstanding- 2,000,000 in 2007 and 2006	20	20
7.375% Series D Preferred Shares, \$0.01 par value; issued and outstanding- 2,300,000 in 2007 and 2006	23	23
Common Shares of beneficial interest, \$0.01 par value; shares authorized 200,000,000; issued and outstanding- 86,843,035 in 2007 and 88,327,041 in 2006	868	883
Additional paid-in capital	2,269,250	2,311,541
Cumulative earnings	446,706	423,764
Accumulated other comprehensive (loss) income	(2,865)	1,576
Cumulative distributions	(961,514)	(839,881)
Total beneficiaries equity	1,752,488	1,897,926
Total liabilities, minority interest and beneficiaries equity	\$ 5,406,057	\$ 5,509,018

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,	
	2007	2006	2007	2006
<b>Revenue:</b>				
Rents	\$ 142,089	\$ 131,649	\$ 418,626	\$ 385,185
Tenant reimbursements	21,415	22,648	63,254	54,778
Other	11,900	8,145	20,929	16,826
<b>Total revenue</b>	<b>175,404</b>	<b>162,442</b>	<b>502,809</b>	<b>456,789</b>
<b>Operating Expenses:</b>				
Property operating expenses	48,866	46,396	140,036	128,874
Real estate taxes	15,848	15,724	48,310	44,319
Depreciation and amortization	61,516	60,292	181,790	175,649
General & administrative expenses	7,452	6,490	21,714	22,704
<b>Total operating expenses</b>	<b>133,682</b>	<b>128,902</b>	<b>391,850</b>	<b>371,546</b>
<b>Operating income</b>	<b>41,722</b>	<b>33,540</b>	<b>110,959</b>	<b>85,243</b>
<b>Other Income (Expense):</b>				
Interest income	1,060	2,479	3,450	7,702
Interest expense	(40,868)	(44,504)	(122,029)	(126,478)
Interest expense - Deferred financing costs	(1,058)	(789)	(3,381)	(2,062)
Equity in income of real estate ventures	763	370	6,021	1,798
Net gain on disposition of undepreciated real estate	421		421	2,608
Gain on termination of purchase contract		3,147		3,147
<b>Income (loss) before minority interest and discontinued operations</b>	<b>2,040</b>	<b>(5,757)</b>	<b>(4,559)</b>	<b>(28,042)</b>
Minority interest partners share of consolidated real estate ventures	5	279	(103)	560
Minority interest attributable to continuing operations - LP units	(2)	344	456	1,486
<b>Income (loss) from continuing operations</b>	<b>2,043</b>	<b>(5,134)</b>	<b>(4,206)</b>	<b>(25,996)</b>
<b>Discontinued operations:</b>				
Income from discontinued operations		2,643	2,869	10,008
Net gain on disposition of discontinued operations	338	5,188	25,491	5,188
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	(14)	(276)	(1,211)	(595)
Income from discontinued operations	324	5,698	27,149	12,362
<b>Net income (loss)</b>	2,367	564	22,943	(13,634)
Income allocated to Preferred Shares	(1,998)	(1,998)	(5,994)	(5,994)
<b>Income (loss) allocated to Common Shares</b>	\$ 369	\$ (1,434)	\$ 16,949	\$ (19,628)
<b>Basic earnings (loss) per Common Share:</b>				
Continuing operations	\$ 0.00	\$ (0.08)	\$ (0.12)	\$ (0.36)
Discontinued operations	0.00	0.06	0.31	0.14
	\$ 0.00	\$ (0.02)	\$ 0.19	\$ (0.22)
<b>Diluted earnings (loss) per Common Share:</b>				
Continuing operations	\$ 0.00	\$ (0.08)	\$ (0.12)	\$ (0.36)
Discontinued operations	0.00	0.06	0.31	0.14
	\$ 0.00	\$ (0.02)	\$ 0.19	\$ (0.22)
<b>Dividends declared per Common Share</b>	\$ 0.44	\$ 0.44	\$ 1.32	\$ 1.32
<b>Basic weighted average shares outstanding</b>	86,897,335	90,042,270	87,416,757	89,963,541
<b>Diluted weighted average shares outstanding</b>	87,114,598	90,042,270	87,416,757	89,963,541

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

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**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>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net income (loss)	\$ 2,367	\$ 564	\$ 22,943	\$ (13,634)
Other comprehensive income:				
Unrealized gain (loss) on derivative financial instruments	(461)	(1,070)	(883)	1,293
Less: minority interest consolidated real estate venture partner's share of unrealized gain (loss) on derivative financial instruments		525		(284)
Settlement of treasury locks	(3,860)		(3,860)	
Settlement of forward starting swaps			1,148	3,266
Reclassification of realized (gains)/losses on derivative financial instruments to operations, net	171	9	(214)	113
Unrealized gain (loss) on available for sale securities	(37)	595	(632)	(181)
Total other comprehensive income (loss)	(4,187)	59	(4,441)	4,207
Comprehensive income (loss)	\$ (1,820)	\$ 623	\$ 18,502	\$ (9,427)

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>2007</b>	<b>2006</b>
<b>Cash flows from (used in) operating activities:</b>		
Net income (loss)	\$ 22,943	\$ (13,634)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation	135,354	143,893
Amortization:		
Deferred financing costs	3,381	2,063
Deferred leasing costs	11,570	8,394
Acquired above (below) market leases, net	(9,311)	(6,067)
Acquired lease intangibles	39,463	50,471
Deferred compensation costs	3,486	2,332
Straight-line rent	(20,260)	(23,486)
Provision for doubtful accounts	1,000	2,970
Real estate venture income in excess of distributions	(20)	(162)
Net gain on sale of interests in real estate	(25,912)	(7,797)
Gain on termination of purchase contract		(3,147)
Minority interest (expense)/income	858	788
Changes in assets and liabilities:		
Accounts receivable	4,607	2,515
Other assets	(5,812)	(13,494)
Accounts payable and accrued expenses	27,449	36,192
Tenant security deposits and deferred rents	5,989	30,635
Other liabilities	(5,346)	904
 Net cash from operating activities	 189,439	 213,370
<b>Cash flows from (used in) investing activities:</b>		
Acquisition of Prentiss		(935,856)
Acquisition of properties	(88,890)	(169,462)
Acquisition of minority interest partners share of consolidated real estate venture	(63,732)	
Sales of properties, net	234,428	258,931
Proceeds from termination of purchase contract		3,147
Capital expenditures	(194,009)	(180,771)
Investment in unconsolidated real estate ventures	(809)	(643)
Cash distributions from unconsolidated real estate ventures in excess of equity in income	2,917	2,444
Leasing costs	(13,854)	(30,524)
 Net cash used in investing activities	 (123,949)	 (1,052,734)
<b>Cash flows from (used in) financing activities:</b>		
Proceeds from Credit Facility borrowings	886,539	462,000
Repayments of Credit Facility borrowings	(503,875)	(302,002)

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Proceeds from mortgage notes payable		20,520
Repayments of mortgage notes payable	(266,280)	(29,327)
Proceeds from term loan		750,000
Repayments of term loan		(750,000)
Proceeds from unsecured notes	299,784	847,818
Repayments of unsecured notes	(299,866)	
Net settlement of hedge transactions	(2,712)	3,266
Repayments on employee stock loans		60
Debt financing costs	(3,822)	(6,991)
Exercise of stock options	6,278	9,120
Repurchases of Common Shares	(59,426)	(34,481)
Distributions paid to shareholders	(122,075)	(110,094)
Distributions to minority interest holders	(7,753)	(11,161)
Net cash (used in) from financing activities	(73,208)	848,728
Increase (decrease) in cash and cash equivalents	(7,718)	9,364
Cash and cash equivalents at beginning of period	25,379	7,174
Cash and cash equivalents at end of period	\$ 17,661	\$ 16,538
Supplemental disclosure:		
Cash paid for interest, net of capitalized interest of \$12,757 in 2007 and \$7,209 in 2006	\$ 118,766	\$ 108,426
Supplemental disclosure of non-cash activity:		
Common shares issued in the Prentiss acquisition		1,022,173
Operating Partnership units issued in Prentiss acquisitions		64,103
Operating Partnership units issued in property acquisitions		13,819
Debt, minority interest and other liabilities, net, assumed in the Prentiss acquisition		679,520

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, 2007**

**1. THE COMPANY**

Brandywine Realty Trust, a Maryland real estate investment trust ( REIT ), is a self-administered and self-managed real estate investment trust active in acquiring, developing, redeveloping, leasing and managing office and industrial properties. Brandywine Realty Trust owns its assets and conducts its operations through Brandywine Operating Partnership, L.P. a Delaware limited partnership (the Operating Partnership ) and subsidiaries of the Operating Partnership. Brandywine Realty Trust, the Operating Partnership and their consolidated subsidiaries are collectively referred to below as the Company. The Company s common shares of beneficial interest are publicly traded on the New York Stock Exchange under the ticker symbol BDN .

As of September 30, 2007, the Company owned 244 office properties, 23 industrial facilities and one mixed-use property (collectively, the Properties ) containing an aggregate of approximately 26.1 million net rentable square feet. The Company also has seven properties under development and 10 properties under redevelopment containing an aggregate 4.1 million net rentable square feet. As of September 30, 2007, the Company consolidates three office properties owned by real estate ventures containing 0.4 million net rentable square feet. Therefore, the Company owns and consolidates 288 properties with an aggregate of 30.6 million net rentable square feet. As of September 30, 2007, the Company owned economic interests in 13 unconsolidated real estate ventures that contain approximately 2.8 million net rentable square feet (collectively, the Real Estate Ventures ). The Properties and the properties owned by the Real Estate Ventures are located in and surrounding Philadelphia, PA, Wilmington, DE, Southern and Central New Jersey, Richmond, VA, Metropolitan Washington, D.C., Austin, TX and Oakland and San Diego, CA.

Brandywine Realty Trust is the sole general partner of the Operating Partnership and, as of September 30, 2007, owned a 95.7% 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. ( BTRS ), Brandywine Properties I Limited, Inc. ( BPI ) and Brandywine Properties Management, L.P. ( BPM ). Each of BRSCO, BTRS and BPI is a taxable REIT subsidiary. 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, BPI and BPM. As of September 30, 2007 the Management Companies were managing properties containing an aggregate of approximately 43.7 million net rentable square feet, of which approximately 30.2 million net rentable square feet related to Properties owned by the Operating Partnership and approximately 13.5 million net rentable square feet related to properties owned by third parties and certain Real Estate Ventures. Unless otherwise indicated, all references to square feet represent net rentable area.

**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, 2006, 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, 2007, the results of its operations for the three- and nine-month periods ended September 30, 2007 and 2006 and its cash flows for the nine-month periods ended September 30, 2007 and 2006 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

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**BRANDYWINE REALTY TRUST**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2007**

financial statements and footnotes included in the Company's 2006 Annual Report on Form 10-K. Certain prior period amounts have been reclassified to conform to the current period presentation, primarily the result of reclassifying the operations of properties sold to discontinued operations on the consolidated statement of operations.