

BRANDYWINE REALTY TRUST
Form 10-Q
April 26, 2018

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 March 31, 2018

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

Edgar Filing: BRANDYWINE REALTY TRUST - Form 10-Q

2929 Walnut Street

Suite 1700

Philadelphia, Pennsylvania

(Address of principal executive offices)

19104

(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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Brandywine Realty Trust:

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

Brandywine Operating Partnership, L.P.:

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Edgar Filing: BRANDYWINE REALTY TRUST - Form 10-Q

A total of 178,530,101 Common Shares of Beneficial Interest, par value \$0.01 per share of Brandywine Realty Trust, were outstanding as of April 20, 2018.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended March 31, 2018 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 March 31, 2018, owned a 99.2% interest in the Operating Partnership. The remaining 0.8% 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.

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.

2

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

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

TABLE OF CONTENTS

	Page
<u>PART I — FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
Brandywine Realty Trust	
<u>Financial Statements of Brandywine Realty Trust</u>	5
<u>Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017</u>	5
<u>Consolidated Statements of Operations for the three-month periods ended March 31, 2018 and 2017</u>	6
<u>Consolidated Statements of Comprehensive Income for the three-month periods ended March 31, 2018 and 2017</u>	7
<u>Consolidated Statements of Beneficiaries' Equity for the three-month periods ended March 31, 2018 and 2017</u>	8
<u>Consolidated Statements of Cash Flows for the three-month periods ended March 31, 2018 and 2017</u>	10
Brandywine Operating Partnership, L.P.	
<u>Financial Statements of Brandywine Operating Partnership, L.P.</u>	11
<u>Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017</u>	11
<u>Consolidated Statements of Operations for the three-month periods ended March 31, 2018 and 2017</u>	12
<u>Consolidated Statements of Comprehensive Income for the three-month periods ended March 31, 2018 and 2017</u>	13
<u>Consolidated Statements of Partners' Equity for the three-month periods ended March 31, 2018 and 2017</u>	14
<u>Consolidated Statements of Cash Flows for the three-month periods ended March 31, 2018 and 2017</u>	16
<u>Notes to Unaudited Consolidated Financial Statements</u>	17
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	39
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	56
<u>Item 4. Controls and Procedures</u>	56
<u>PART II — OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	58

<u>Item 1A. Risk Factors</u>	58
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	58
<u>Item 3. Defaults Upon Senior Securities</u>	58
<u>Item 4. Mine Safety Disclosures</u>	58
<u>Item 5. Other Information</u>	58
<u>Item 6. Exhibits</u>	59
<u>Signatures</u>	61

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

(in thousands, except share and per share information)

	March 31, 2018 (unaudited)	December 31, 2017
ASSETS		
Real estate investments:		
Operating properties	\$3,864,706	\$ 3,832,348
Accumulated depreciation	(920,207)	(895,091)
Operating real estate investments, net	2,944,499	2,937,257
Construction-in-progress	129,413	121,188
Land held for development	99,436	98,242
Total real estate investments, net	3,173,348	3,156,687
Assets held for sale, net	-	392
Cash and cash equivalents	200,813	202,179
Accounts receivable, net of allowance of \$3,935 and \$3,467 as of March 31, 2018 and December 31, 2017, respectively	17,794	17,938
Accrued rent receivable, net of allowance of \$13,409 and \$13,645 as of March 31, 2018 and December 31, 2017, respectively	174,236	169,760
Investment in Real Estate Ventures, equity method	171,383	194,621
Deferred costs, net	97,299	96,695
Intangible assets, net	63,614	64,972
Other assets	139,449	92,204
Total assets	\$4,037,936	\$ 3,995,448
LIABILITIES AND BENEFICIARIES' EQUITY		
Mortgage notes payable, net	\$325,974	\$ 317,216
Unsecured term loans, net	248,512	248,429
Unsecured senior notes, net	1,365,546	1,365,183
Accounts payable and accrued expenses	105,176	107,074
Distributions payable	32,502	32,456
Deferred income, gains and rent	58,887	42,593
Acquired lease intangibles, net	19,510	20,274
Other liabilities	14,588	15,623
Total liabilities	\$2,170,695	\$ 2,148,848
Commitments and contingencies (See Note 14)		
Brandywine Realty Trust's Equity:		
Common Shares of Brandywine Realty Trust's beneficial interest, \$0.01 par value; shares authorized 400,000,000; 178,442,517 and 178,285,236 issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	1,785	1,784
Additional paid-in-capital	3,222,047	3,218,564
Deferred compensation payable in common shares	13,506	12,445

Edgar Filing: BRANDYWINE REALTY TRUST - Form 10-Q

Common shares in grantor trust, 948,592 and 894,736 as of March 31, 2018 and December 31, 2017, respectively	(13,506)	(12,445)
Cumulative earnings	704,506	660,174
Accumulated other comprehensive income	7,365	2,399
Cumulative distributions	(2,086,000)	(2,053,741)
Total Brandywine Realty Trust's equity	1,849,703	1,829,180
Noncontrolling interests	17,538	17,420
Total beneficiaries' equity	\$1,867,241	\$1,846,600
Total liabilities and beneficiaries' equity	\$4,037,936	\$3,995,448

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 March 31,	
	2018	2017
Revenue		
Rents	\$ 106,360	\$ 103,332
Tenant reimbursements	19,849	18,535
Termination fees	550	1,673
Third party management fees, labor reimbursement and leasing	7,674	6,485
Other	1,925	895
Total revenue	136,358	130,920
Operating expenses		
Property operating expenses	39,332	36,885
Real estate taxes	12,422	11,749
Third party management expenses	4,750	2,447
Depreciation and amortization	43,291	45,892
General and administrative expenses	8,723	9,325
Provision for impairment	-	2,730
Total operating expenses	108,518	109,028
Operating income	27,840	21,892
Other income (expense)		
Interest income	703	393
Interest expense	(19,533)	(21,437)
Interest expense - amortization of deferred financing costs	(627)	(634)
Equity in loss of Real Estate Ventures	(825)	(748)
Net gain on disposition of real estate	-	7,323
Net gain on sale of undepreciated real estate	22	-
Net gain on Real Estate Venture transactions	37,263	14,582
Net income before income taxes	44,843	21,371
Income tax provision	(138)	(100)
Net income	44,705	21,271
Net income attributable to noncontrolling interests	(376)	(169)
Net income attributable to Brandywine Realty Trust	44,329	21,102
Distribution to preferred shareholders	-	(1,725)
Nonforfeitable dividends allocated to unvested restricted shareholders	(114)	(99)
Net income attributable to Common Shareholders of Brandywine Realty Trust	\$ 44,215	\$ 19,278
Basic income per Common Share	\$ 0.25	\$ 0.11
Diluted income per Common Share	\$ 0.25	\$ 0.11
Basic weighted average shares outstanding	178,395,525	175,176,964
Diluted weighted average shares outstanding	179,788,311	176,201,872

Distributions declared per Common Share	\$0.18	\$0.16
-----------------------------------------	--------	--------

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

BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands)

	Three-month periods ended March 31,	
	2018	2017
Net income	\$44,705	\$21,271
Comprehensive income:		
Unrealized gain on derivative financial instruments	4,696	1,014
Amortization of interest rate contracts (1)	312	286
Total comprehensive income	5,008	1,300
Comprehensive income	49,713	22,571
Comprehensive income attributable to noncontrolling interest	(418)	(181)
Comprehensive income attributable to Brandywine Realty Trust	\$49,295	\$22,390

(1) Amounts reclassified from comprehensive income to interest expense within the Consolidated Statements of Operations.

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

BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENTS OF BENEFICIARIES' EQUITY

For the three-month period ended March 31, 2018

(unaudited, in thousands, except number of shares)

	Number of Common Shares	Number of Rabbi Trust/Deferred Compensation Shares	Trust's Beneficiary Interest	Additional Paid-in Capital	Deferred Compensation Payable Common Shares	Common Grantor Trust	Cumulative Earnings	Accumulated Other Comprehensive Income	Cumulative Distributions	Noncontrolling Interests	Total
Balance, December 31,	178,285,236	894,736	\$ 1,784	\$ 3,218,564	\$ 12,445	\$(12,445)	\$ 660,174	\$ 2,399	\$(2,053,741)	\$ 17,420	\$ 1,846,705
Income							44,329			376	44,705
Other Comprehensive Income								4,966		42	5,008
Issuance of Common Shares of Official Trust	23,311			416							416
Issuance of Partnership Interest in Consolidated Trust Share										15	15
Share Distributions										(54)	(54)
Share-based Compensation Activity	68,425		1	3,072			3				3,076
Share Issuance (/to)	66,830	53,856			1,061	(1,061)					-
Share Choice Issuance	(1,285)										-

Location of controlling interest				(5)					5	-	
Distributions declared (\$0.18 share)										(32,259) (266) (32,52
ASSETS, December 31, 2018	178,442,517	948,592	\$1,785	\$3,222,047	\$13,506	\$(13,506)	\$704,506	\$7,365	\$(2,086,000)	\$17,538	\$1,867,	

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

BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENT OF BENEFICIARIES' EQUITY

For the three-month period ended March 31, 2017

(unaudited, in thousands, except number of shares)

Number of Preferred Shares	Par Value of Preferred Shares	Number of Common Shares	Number of Rabbi Trust/Deferred Compensation Shares	Common Shares of Brandywine Realty Trust's Beneficial interest	Additional Paid-in Capital	Deferred Compensation Payable in Common Shares	Common Shares in Grantor Trust	Cumulative Earnings	Accumulated Other Comprehensive Income (Loss)	Cumulative Distributions	Noncontrolling Interests
4,000,000	\$40	175,140,760	899,457	\$1,752	\$3,258,870	\$13,684	\$(13,684)	\$539,319	\$(1,745)	\$(1,931,892)	\$17,093
								21,102			169
									1,288		12
											29
					(219)						
		6,752			110						
		56,669	39,870		3,769			1			
		(354)	(2,388)		(48)	560	(560)				
		(1,423)									
					(23)						23
									(1,725)		

(28,122) (237

4,000,000 \$40 175,202,404 936,939 \$1,752 \$3,262,459 \$14,244 \$(14,244) \$560,422 \$(457) \$(1,961,739) \$17,089

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

9

BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	Three-month periods ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income	\$44,705	\$21,271
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	43,291	45,892
Amortization of deferred financing costs	627	634
Amortization of debt discount/(premium), net	176	362
Amortization of stock compensation costs	3,265	3,124
Straight-line rent income	(4,978)	(5,895)
Amortization of acquired above (below) market leases, net	(793)	(1,338)
Straight-line ground rent expense	22	22
Provision for doubtful accounts	467	707
Net gain on real estate venture transactions	(37,263)	(14,582)
Net gain on sale of interests in real estate	(22)	(7,323)
Provision for impairment	-	2,730
Income from Real Estate Ventures, net of distributions	2,209	748
Income tax provision	138	100
Changes in assets and liabilities:		
Accounts receivable	(646)	(917)
Other assets	(12,911)	(10,626)
Accounts payable and accrued expenses	(1,146)	9,089
Deferred income, gains and rent	2,295	(3,333)
Other liabilities	(738)	(106)
Net cash provided by operating activities	38,698	40,559
Cash flows from investing activities:		
Acquisition of properties	(24,946)	-
Proceeds from the sale of properties	14,921	74,159
Proceeds from real estate venture sales	42,953	27,230
Proceeds from repayment of mortgage notes receivable	562	-
Capital expenditures for tenant improvements	(16,569)	(11,408)
Capital expenditures for redevelopments	(2,429)	(5,505)
Capital expenditures for developments	(19,387)	(21,156)
Advances for the purchase of tenant assets, net of repayments	316	997
Investment in unconsolidated Real Estate Ventures	(261)	(4,910)
Deposits for real estate	(162)	268
Capital distributions from Real Estate Ventures	1,951	8,306
Leasing costs paid	(3,120)	(4,129)
Net cash (used in) provided by investing activities	(6,171)	63,852
Cash flows from financing activities:		
Repayments of mortgage notes payable	(1,317)	(1,215)
Proceeds from the issuance of common shares	416	-

Edgar Filing: BRANDYWINE REALTY TRUST - Form 10-Q

Shares used for employee taxes upon vesting of share awards	(942)	(129)
Partner contributions to consolidated real estate venture	15	29
Partner distributions from consolidated real estate venture	(54)	-
Distributions paid to shareholders	(32,173)	(29,815)
Distributions to noncontrolling interest	(266)	(237)
Net cash used in financing activities	(34,321)	(31,367)
Increase (decrease) in cash and cash equivalents and restricted cash	(1,794)	73,044
Cash and cash equivalents and restricted cash at beginning of year	203,442	194,618
Cash and cash equivalents and restricted cash at end of period	\$201,648	\$267,662

Supplemental disclosure:

Cash paid for interest, net of capitalized interest during the three months ended March 31, 2018 and 2017 of \$687 and \$1,709, respectively	\$12,705	\$11,268
Cash paid for income taxes	7	-

Supplemental disclosure of non-cash activity:

Dividends and distributions declared but not paid	32,502	30,047
Change in investment in real estate ventures as a result of dispositions	(17,313)	(12,549)
Change in operating real estate related to a non-cash acquisition of an operating property	(20,653)	-
Change in intangible assets, net related to non-cash acquisition of an operating property	(3,144)	-
Change in acquired lease intangibles, net related to non-cash acquisition of an operating property	182	-
Change in investments in joint venture related to non-cash acquisition of property	(2,042)	-
Change in mortgage notes payable related to acquisition of an operating property	9,940	-
Change in capital expenditures financed through accounts payable at period end	(1,112)	1,273
Change in capital expenditures financed through retention payable at period end	(792)	(199)

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

BRANDYWINE OPERATING PARTNERSHIP, L.P.

CONSOLIDATED BALANCE SHEETS

(in thousands, except unit and per unit information)

	March 31, 2018 (unaudited)	December 31, 2017
ASSETS		
Real estate investments:		
Operating properties	\$3,864,706	\$ 3,832,348
Accumulated depreciation	(920,207)	(895,091)
Operating real estate investments, net	2,944,499	2,937,257
Construction-in-progress	129,413	121,188
Land held for development	99,436	98,242
Total real estate investments, net	3,173,348	3,156,687
Assets held for sale, net	-	392
Cash and cash equivalents	200,813	202,179
Accounts receivable, net of allowance of \$3,935 and \$3,467 as of March 31, 2018 and December 31, 2017, respectively	17,794	17,938
Accrued rent receivable, net of allowance of \$13,409 and \$13,645 as of March 31, 2018 and December 31, 2017, respectively	174,236	169,760
Investment in Real Estate Ventures, equity method	171,383	194,621
Deferred costs, net	97,299	96,695
Intangible assets, net	63,614	64,972
Other assets	139,449	92,204
Total assets	\$4,037,936	\$ 3,995,448
LIABILITIES AND PARTNERS' EQUITY		
Mortgage notes payable, net	\$325,974	\$ 317,216
Unsecured term loans, net	248,512	248,429
Unsecured senior notes, net	1,365,546	1,365,183
Accounts payable and accrued expenses	105,176	107,074
Distributions payable	32,502	32,456
Deferred income, gains and rent	58,887	42,593
Acquired lease intangibles, net	19,510	20,274
Other liabilities	14,588	15,623
Total liabilities	\$2,170,695	\$ 2,148,848
Commitments and contingencies (See Note 14)		
Redeemable limited partnership units at redemption value; 1,479,799 issued and outstanding as of March 31, 2018 and December 31, 2017	23,049	26,918
Brandywine Operating Partnership, L.P.'s equity:		
General Partnership Capital; 178,442,517 and 178,285,236 units issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	1,834,947	1,815,411
Accumulated other comprehensive income	7,064	2,056
Total Brandywine Operating Partnership, L.P.'s equity	1,842,011	1,817,467
Noncontrolling interest - consolidated real estate ventures	2,181	2,215
Total partners' equity	\$1,844,192	\$ 1,819,682
Total liabilities and partners' equity	\$4,037,936	\$ 3,995,448

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

BRANDYWINE OPERATING PARTNERSHIP, L.P.

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three-month periods ended	
	March 31, 2018	2017
Revenue		
Rents	\$ 106,360	\$ 103,332
Tenant reimbursements	19,849	18,535
Termination fees	550	1,673
Third party management fees, labor reimbursement and leasing	7,674	6,485
Other	1,925	895
Total revenue	136,358	130,920
Operating expenses		
Property operating expenses	39,332	36,885
Real estate taxes	12,422	11,749
Third party management expenses	4,750	2,447
Depreciation and amortization	43,291	45,892
General and administrative expenses	8,723	9,325
Provision for impairment	-	2,730
Total operating expenses	108,518	109,028
Operating income	27,840	21,892
Other income (expense)		
Interest income	703	393
Interest expense	(19,533)	(21,437)
Interest expense - amortization of deferred financing costs	(627)	(634)
Equity in loss of Real Estate Ventures	(825)	(748)
Net gain on disposition of real estate	-	7,323
Net gain on sale of undepreciated real estate	22	-
Net gain on Real Estate Venture transactions	37,263	14,582
Net income before income taxes	44,843	21,371
Income tax provision	(138)	(100)
Net income	44,705	21,271
Net income from continuing operations attributable to noncontrolling interests - consolidated real estate ventures	(5)	(5)
Net income attributable to Brandywine Operating Partnership	44,700	21,266
Distribution to preferred unitholders	-	(1,725)
Nonforfeitable dividends allocated to unvested restricted unitholders	(114)	(99)
Net income attributable to Common Partnership Unitholders of Brandywine Operating Partnership, L.P.	\$ 44,586	\$ 19,442
Basic income per Common Partnership Unit	\$ 0.25	\$ 0.11
Diluted income per Common Partnership Unit	\$ 0.25	\$ 0.11

Edgar Filing: BRANDYWINE REALTY TRUST - Form 10-Q

Basic weighted average common partnership units outstanding	179,875,324	176,656,763
Diluted weighted average common partnership units outstanding	181,268,110	177,681,671
Distributions declared per Common Partnership Unit	\$0.18	\$0.16

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

BRANDYWINE OPERATING PARTNERSHIP, L.P.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands)

	Three-month periods ended March 31,	
	2018	2017
Net income	\$44,705	\$21,271
Comprehensive income:		
Unrealized gain on derivative financial instruments	4,696	1,014
Amortization of interest rate contracts (1)	312	286
Total comprehensive income	5,008	1,300
Comprehensive income	49,713	22,571
Comprehensive income attributable to noncontrolling interest - consolidated real estate ventures	(5)	(5)
Comprehensive income attributable to Brandywine Operating Partnership, L.P.	\$49,708	\$22,566

(1) Amounts reclassified from comprehensive income to interest expense within the Consolidated Statements of Operations.

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

BRANDYWINE OPERATING PARTNERSHIP, L.P.

CONSOLIDATED STATEMENTS OF PARTNERS' EQUITY

For the three-month period ended March 31, 2018

(unaudited, in thousands, except number of units)

	General Partner Capital		Accumulated Other Comprehensive Income	Noncontrolling Interest - Consolidated Real Estate Ventures	Total Partners' Equity
	Units	Amount			
BALANCE, December 31, 2017	178,285,236	\$ 1,815,411	\$ 2,056	\$ 2,215	\$ 1,819,682
Net income		44,700		5	44,705
Other comprehensive income			5,008		5,008
Deferred compensation obligation	66,830				-
Issuance of LP Units	23,311	416			416
Issuance of partnership interest in consolidated real estate venture				15	15
Distributions from consolidated real estate venture				(54)	(54)
Share Choice Plan issuance	(1,285)				-
Share-based compensation activity	68,425	3,075			3,075
Adjustment of redeemable partnership units to liquidation value at period end		3,604			3,604
Distributions to general partnership unitholders (\$0.18 per unit)		(32,259)			(32,259)
BALANCE, March 31, 2018	178,442,517	\$ 1,834,947	\$ 7,064	\$ 2,181	\$ 1,844,192

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

BRANDYWINE OPERATING PARTNERSHIP, L.P.

CONSOLIDATED STATEMENT OF PARTNERS' EQUITY

For the three-month period ended March 31, 2017

(unaudited, in thousands, except number of units)

	Series E-Linked Preferred Mirror Units		General Partner Capital		Accumulated Other Comprehensive Income/(Loss)	Noncontrolling Interest - Consolidated Real Estate Ventures	Total Partners' Equity
	Units	Amount	Units	Amount			
BALANCE, December 31, 2016	4,000,000	\$96,850	175,140,760	\$1,762,764	\$ (2,122)	\$ 2,150	\$1,859,642
Net income				21,266		5	21,271
Other comprehensive income					1,300		1,300
Deferred compensation obligation			(354)	(48)			(48)
Issuance of LP Units				(219)			(219)
Issuance of partnership interest in consolidated real estate venture						29	29
Share Choice Plan issuance			(1,423)				-
Bonus share issuance			6,752	110			110
Share-based compensation activity			56,669	3,769			3,769
Adjustment of redeemable partnership units to liquidation value at period end				(340)			(340)
Distributions to Preferred Mirror Units				(1,725)			(1,725)
Distributions to general partnership unitholders (\$0.16 per unit)				(28,122)			(28,122)
BALANCE, March 31, 2017	4,000,000	\$96,850	175,202,404	\$1,757,455	\$ (822)	\$ 2,184	\$1,855,667

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

BRANDYWINE OPERATING PARTNERSHIP L.P.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	Three-month periods ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income	\$44,705	\$21,271
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	43,291	45,892
Amortization of deferred financing costs	627	634
Amortization of debt discount/(premium), net	176	362
Amortization of stock compensation costs	3,265	3,124
Straight-line rent income	(4,978)	(5,895)
Amortization of acquired above (below) market leases, net	(793)	(1,338)
Straight-line ground rent expense	22	22
Provision for doubtful accounts	467	707
Net gain on real estate venture transactions	(37,263)	(14,582)
Net gain on sale of interests in real estate	(22)	(7,323)
Provision for impairment	-	2,730
Income from Real Estate Ventures, net of distributions	2,209	748
Income tax provision	138	100
Changes in assets and liabilities:		
Accounts receivable	(646)	(917)
Other assets	(12,911)	(10,626)
Accounts payable and accrued expenses	(1,146)	9,089
Deferred income, gains and rent	2,295	(3,333)
Other liabilities	(738)	(106)
Net cash provided by operating activities	38,698	40,559
Cash flows from investing activities:		
Acquisition of properties	(24,946)	-
Proceeds from the sale of properties	14,921	74,159
Proceeds from real estate venture sales	42,953	27,230
Proceeds from repayment of mortgage notes receivable	562	-
Capital expenditures for tenant improvements	(16,569)	(11,408)
Capital expenditures for redevelopments	(2,429)	(5,505)
Capital expenditures for developments	(19,387)	(21,156)
Advances for the purchase of tenant assets, net of repayments	316	997
Investment in unconsolidated Real Estate Ventures	(261)	(4,910)
Deposits for real estate	(162)	268
Capital distributions from Real Estate Ventures	1,951	8,306
Leasing costs paid	(3,120)	(4,129)
Net cash (used in) provided by investing activities	(6,171)	63,852
Cash flows from financing activities:		
Repayments of mortgage notes payable	(1,317)	(1,215)
Proceeds from the issuance of common shares	416	-

Edgar Filing: BRANDYWINE REALTY TRUST - Form 10-Q

Shares used for employee taxes upon vesting of share awards	(942)	(129)
Partner contributions to consolidated real estate venture	15	29
Partner distributions from consolidated real estate venture	(54)	-
Distributions paid to preferred and common partnership units	(32,439)	(30,052)
Net cash used in financing activities	(34,321)	(31,367)
Increase (decrease) in cash and cash equivalents and restricted cash	(1,794)	73,044
Cash and cash equivalents and restricted cash at beginning of year	203,442	193,919
Cash and cash equivalents and restricted cash at end of period	\$201,648	\$266,963

Supplemental disclosure:

Cash paid for interest, net of capitalized interest during the three months ended March 31, 2018 and 2017 of \$687 and \$1,709, respectively	\$12,705	\$11,268
Cash paid for income taxes	7	-

Supplemental disclosure of non-cash activity:

Dividends and distributions declared but not paid	32,502	30,047
Change in investment in real estate ventures as a result of dispositions	(17,313)	(12,549)
Change in operating real estate related to a non-cash acquisition of an operating property	(20,653)	-
Change in intangible assets, net related to non-cash acquisition of an operating property	(3,144)	-
Change in acquired lease intangibles, net related to non-cash acquisition of an operating property	182	-
Change in investments in joint venture related to non-cash acquisition of property	(2,042)	-
Change in mortgage notes payable related to acquisition of an operating property	9,940	-
Change in capital expenditures financed through accounts payable at period end	(1,112)	1,273
Change in capital expenditures financed through retention payable at period end	(792)	(199)

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

BRANDYWINE REALTY TRUST AND BRANDYWINE OPERATING PARTNERSHIP, L.P.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

1. ORGANIZATION OF THE PARENT COMPANY AND THE OPERATING PARTNERSHIP

The Parent Company is a self-administered and self-managed real estate investment trust (“REIT”) that provides leasing, property management, development, redevelopment, acquisition and other tenant-related services for a portfolio of office, retail and mixed-use properties. The Parent Company owns its assets and conducts its operations through the Operating Partnership and subsidiaries of the Operating Partnership. The Parent Company is the sole general partner of the Operating Partnership and, as of March 31, 2018, owned a 99.2% interest in the Operating Partnership. The Parent Company’s common shares of beneficial interest are publicly traded on the New York Stock Exchange under the ticker symbol “BDN”.

As of March 31, 2018, the Company owned 94 properties that contain an aggregate of approximately 16.5 million net rentable square feet (collectively, the “Properties”). The Company’s core portfolio of operating properties, as of March 31, 2018, excludes two development properties and four redevelopment properties under construction or committed for construction (collectively, the “Core Properties”). The Properties were comprised of the following as of March 31, 2018:

	Number of Properties	Rentable Square Feet
Office properties	82	15,004,862
Mixed-use properties	5	646,741
Retail properties	1	17,884
Core Properties	88	15,669,487
Development properties	2	247,818
Redevelopment properties	4	583,719
The Properties	94	16,501,024

In addition, as of March 31, 2018, the Company owned land held for development, comprised of 200 acres of undeveloped land and held options to purchase approximately 59 additional acres of undeveloped land. As of March 31, 2018, the total potential development that these land parcels could support under current zoning and entitlements, including the parcels under option, amounted to an estimated 14.7 million square feet. The Properties and the properties owned by the Real Estate Ventures are located in or near Philadelphia, Pennsylvania; Metropolitan Washington, D.C.; Southern New Jersey; Wilmington, Delaware and Austin, Texas. In addition to managing properties that the Company owns, as of March 31, 2018, the Company was managing approximately 8.8 million net rentable square feet of office and industrial properties for third parties and Real Estate Ventures.

The Company conducts its third-party real estate management services business primarily through wholly-owned management company subsidiaries. As of March 31, 2018, the management company subsidiaries were managing properties containing an aggregate of approximately 25.3 million net rentable square feet, of which approximately 16.5 million net rentable square feet related to Properties owned by the Company and approximately 8.8 million net rentable square feet related to properties owned by third parties and Real Estate Ventures.

Unless otherwise indicated, all references in this Form 10-Q to square feet represent net rentable area.

2. BASIS OF PRESENTATION

Basis of Presentation

The consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") for interim financial statements. Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments consist solely of normal recurring matters, and result in a fair statement of the financial position of the Company as of March 31, 2018, the results of its operations for the three-month periods ended March 31, 2018 and 2017 and its cash flows for the three-month periods ended March 31, 2018 and 2017 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 Parent Company's and the Operating Partnership's consolidated financial statements and footnotes included in their combined 2017 Annual Report on Form 10-K filed with the SEC on February 23, 2018.

The Company's Annual Report on Form 10-K for the year ended December 31, 2017 contains a discussion of our significant accounting policies under Note 2, "Summary of Significant Accounting Policies". Other than the adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606), and ASU 2016-18, Statement of Cash Flows: Restricted Cash (Topic 230), which did not result in the restatement of any prior reported amounts, there have been no significant changes in our significant accounting policies since December 31, 2017. Management discusses our significant accounting policies and management's judgments and estimates with the Company's Audit Committee.

Out of Period Adjustment

The Company recorded \$1.2 million of impairment charges during the quarter ended December 31, 2016, which should have been recorded in the consolidated financial statements for the three-month period ended March 31, 2017 and the year ended December 31, 2017. Management concluded that these misstatements were not material to any prior period, nor were they material to the consolidated financial statements as of and for the twelve-month periods ended December 31, 2017 and 2016.

Reclassifications and Adoption of New Accounting Guidance

Through the three-months ended March 31, 2017, the Company included \$0.1 million of income tax provision in general and administrative expenses. During the fourth quarter of 2017, the Company began disaggregating our income tax provision/benefit in the consolidated statements of operations. As a result, in the statements of operations included herein, the Company reclassified \$0.1 million of net income tax provision out of general and administrative expenses into the income tax provision caption to provide comparative presentation.

During the first quarter of 2018, the Company adopted Financial Accounting Standards Board (the "FASB") ASU No. 2016-18, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts described as restricted cash or cash equivalents. Beginning-of-period and end-of-period total amounts shown on the statement of cash flows should include restricted cash, cash equivalents and amounts described as restricted cash or cash equivalents. The guidance does not provide a definition of restricted cash or restricted cash equivalents. As of March 31, 2018 and March 31, 2017, the Company had \$0.8 million and \$33.0 million of restricted cash, respectively, on its consolidated balance sheets within the caption 'Other assets.' As a result of the adoption of this ASU, restricted cash balances are included with cash and cash equivalents balances as of the beginning and ending of each period presented in the consolidated statements of cash flows; separate line items reconciling changes in restricted cash balances to the changes in cash and cash equivalents will no longer be presented within the operating and investing sections of the consolidated statements of cash flows. As a result of the adoption of ASU 2016-18, for the three-months ended March 31, 2017 operating cash flows increased by \$0.3 million, which is reflected within the change in other assets caption, and investing cash flows increased by \$32.0 million, which relates to Section 1031 proceeds on the sale of Concord Airport Plaza and was presented within the escrowed cash caption.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). Under Topic 606, revenue is recognized when a customer obtains control of promised goods or services and is recognized at an amount that reflects the consideration expected to be received in exchange for such goods or services. In addition, Topic 606 requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Company adopted Topic 606 in the first quarter of 2018 using the modified retrospective method. This adoption, which required us to evaluate incomplete contracts as of January 1, 2018, related to the Company's point of sale revenue, management, leasing and development fee arrangements and other sundry income. The Company's analysis of incomplete contracts resulted in no restatement of the consolidated balance sheets and statements of operations presented in its consolidated financial statements. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606. The new guidance provides a unified model to determine how revenue is recognized. To determine the proper amount of revenue to be recognized, the Company performs the following steps: (i) identify the

contract with the customer, (ii) identify the performance obligations within the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations and (v) recognize revenue when (or as) a performance obligation is satisfied.

18

Edgar Filing: BRANDYWINE REALTY TRUST - Form 10-Q

The following is a summary of revenue earned by the Company's reportable segments (see Note 13, "Segment Information," for further information) during the three-month period ended March 31, 2018 (in thousands):

	Three-month period ended March 31, 2018						Corporate	Total
	Philadelphia CBD	Pennsylvania Suburbs	Washington, D.C.	Metropolitan Austin, Texas	Other			
Base rent	\$39,175	\$ 29,894	\$ 20,079	\$4,485	\$2,196	\$ (486)	\$95,343	
Straight-line rent	4,339	499	208	256	18	(115)	5,205	
Point of sale	5,341	48	240	122	61	-	5,812	
Total rents	48,855	30,441	20,527	4,863	2,275	(601)	106,360	
Tenant reimbursements	12,366	3,921	928	1,981	765	(112)	19,849	
Termination fees	47	434	69	-	-	-	550	
Third party management fees, labor reimbursement and leasing	212	8	1,465	1,501	3,095	1,393	7,674	
Other income	1,122	78	70	19	6	630	1,925	
Total revenue	\$62,602	\$ 34,882	\$ 23,059	\$8,364	\$6,141	\$ 1,310	\$136,358	
Rental Revenue								

The Company owns, operates and manages commercial real estate. Rental revenue is earned by leasing commercial space to its tenants. Rental revenue is recognized on a straight line basis over the term of the leases. The Company's primary source of revenue are leases which fall under the scope of Leases (Topic 840).

Point of Sale Revenue

Point of sale revenue consists of parking and flexible stay revenue from the Company's hotel operations. Point of sale service obligations are performed daily, and the customer obtains control of those services simultaneously as they are performed. Accordingly, revenue is recorded on an accrual basis as it is earned, coinciding with the services that are provided to the Company's customers. Due to the nature of the services provided to the Company's customers, there is a nominal amount of unearned revenue recorded as deposits on the Company's balance sheet related to its parking and flexible stay operations.

Tenant Reimbursements

The Company contracts third party vendors and suppliers to fulfill the obligations of operating its properties for its tenants. These goods and services are reimbursed from the Company's tenants in the period that the expenses are incurred based on the terms of the lease agreements executed with each tenant.

Third party management fees, labor reimbursement and leasing

The Company performs property management services for third party property owners of real estate that consist of (i) providing leasing services, (ii) property inspections, (iii) repairs and maintenance monitoring (iv) and financial and accounting oversight. For these services, the Company earns management fees monthly, which are based on a fixed percentage of each managed property's financial results, and is reimbursed for the labor costs incurred by its property management employees as services are rendered to the property owners. The Company determined that control over the services is passed to its customers simultaneously as performance occurs. Accordingly, management fee revenue is

earned as the services are provided to the Company's customers.

Lease commissions are earned when the Company, as a broker for the third party property owner, executes a lease agreement with a tenant. Based on the terms of the Company's lease commission contracts, it determined that control is transferred to the customer upon execution of each lease agreement. The Company's lease commissions are earned based on a fixed percentage of rental income generated for each executed lease agreement and there is no variable income component.

Development fee revenue is earned through two different sources: (i) the Company performs development services for third parties as agent and earns fixed development fees based on a percentage of construction costs incurred over the construction period and (ii) the Company acts as a general contractor on behalf of one of its managed real estate ventures. The Company acts as the principal construction company for the real estate venture and records gross revenue as it provides construction services based on the quantifiable construction outputs.

In applying the cost based output method of revenue recognition, the Company uses the actual costs incurred relative to the total estimated costs to determine its progress towards contract completion and to calculate the corresponding gross revenue and gross profit to recognize. For any costs that do not contribute to satisfying the Company's performance obligations, it excludes such costs from its output methods of revenue recognition as the amounts are not reflective of transferring control of the outputs to the customer. The use of estimates in this calculation involves significant judgment.

Other Income

Other income primarily consists of sundry revenue earned for services provided to tenants. Sundry revenues are recognized simultaneously with the services provided to the Company's tenants.

Contract assets and contract liabilities

As of March 31, 2018, the Company has no outstanding contract assets or contract liabilities.

Nonfinancial Assets

In February 2017, the FASB issued ASU No. 2017-05, Gains and losses from the derecognition of nonfinancial assets (ASC 610-20), to provide guidance for recognizing gains and losses from the transfer of nonfinancial assets and in-substance nonfinancial assets in contracts with non-customers, unless other specific guidance applies. The standard requires a company to derecognize nonfinancial assets once it transfers control of a distinct nonfinancial asset or distinct in-substance nonfinancial asset. Additionally, when a company transfers its controlling interest in a nonfinancial asset, but retains a noncontrolling ownership interest, a company is required to measure any noncontrolling interest it receives or retains at fair value. The guidance requires companies to recognize a full gain or loss on the transaction. As a result of the new guidance, the previous guidance specific to real estate sales within ASC 360-20 will be eliminated.

The Company adopted ASU 2017-05 in the first quarter of 2018 using the modified retrospective method. This adoption requires the Company to analyze incomplete contracts related to property dispositions previously accounted for under ASC 360-20 and to determine whether such arrangements had any forms of continuing involvement that may have affected the revenue or profit recognition of the transactions, including arrangements with prohibited forms of continuing involvement. The Company evaluated the following incomplete contracts to determine if the revenue recognition pattern was affected by ASU 2017-05:

Garza Land Sales

As of March 31, 2018, the Company sold three parcels containing 8.4 acres, 1.7 acres and 6.6 acres to three unaffiliated third parties for \$11.8 million, \$3.5 million and \$14.6 million, respectively. In connection with the agreements of sale, the Company entered into a development agreement and related completion guarantee to construct certain infrastructure improvements to the land on behalf of each buyer, estimated to cost \$13.2 million. Total estimated costs related to the improvements are included in the sale price of each land parcel. Recognition of the sale of the land parcels is deferred until the improvements are completed because the Company has not transferred control of the land parcels to the buyer. The Company expects the infrastructure improvements to be completed and infrastructure guarantee to be relieved by its customers during the second quarter of 2018. At that point in time, the

Company will transfer control to the buyer and will be able to determine the total infrastructure costs and recognize the sale of the land. As of March 31, 2018, the total infrastructure costs incurred were \$7.6 million, and the Company estimates that it will incur total costs of \$13.2 million, which is less than the fixed purchase price for the land parcels. Accordingly, there are no indicators of impairment as of March 31, 2018. Based on the facts and circumstances, revenue recognition under ASU 2017-05 coincides with the Company's conclusion under ASC 360-20, and no restatement of the consolidated financial statements is necessary as a result of implementing the guidance for the sale of nonfinancial assets.

Marine Piers Sublease Interest Sale

On March 15, 2017, the Company sold its sublease interest in the Piers at Penn's Landing (the "Marine Piers"), which includes leasehold improvements containing 181,900 net rentable square feet, and a marina, located in Philadelphia, Pennsylvania, for an aggregate sales price of \$21.4 million. On the closing date, the buyer paid \$12.0 million in cash. The \$9.4 million balance of the purchase is due on (a) January 31, 2020, in the event that the tenant at the Marine Piers does not exercise an option it holds to extend the term of the sublease or (b) January 15, 2024, in the event that the tenant does exercise the option to extend the term of the sublease. In accordance with ASU 2017-05, the Company determined that it is appropriate to recognize the sale of the sublease interest in the Marine Piers and to defer the amount of the pending payment due from the buyer because the Company cannot determine the collectability of the remaining \$9.4 million balance due under the purchase and sale agreement. The Company received cash proceeds of \$11.2 million, after closing costs and prorations. The net book value of the Marine Piers was \$4.7 million, resulting in a gain on sale of \$6.5 million. The remaining gain on sale of \$9.4 million arising from the pending payment will be recognized at the earlier of, (i) the time that the Company determines collection of the deferred payment is probable or (ii) on the second purchase price installment date. Based on the facts and circumstances, revenue recognition under ASU 2017-05 coincides with the Company's previous conclusion under ASC 360-20, and therefore no restatement of the consolidated financial statements is necessary as a result of implementing the guidance for the sale of nonfinancial assets.

Recent Accounting Pronouncements

In August 2017, the FASB issued ASU No. 2017-12 to simplify the application of hedge accounting guidance and improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. In addition, ASU 2017-12 requires an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. The transition guidance provides companies with the option of early adopting the new standard using a modified retrospective transition method in any interim period after issuance of the update, or alternatively requires adoption for fiscal years beginning after December 15, 2018. This adoption method requires companies to recognize the cumulative effect of initially applying the guidance as an adjustment to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year that an entity adopts the update. The Company is in the process of evaluating the impact of this new guidance on its consolidated financial statements.

Leasing Standard

In February 2016, the FASB issued guidance ("ASU-2016-02") modifying the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for in the same manner as operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The guidance supersedes previously issued guidance under ASC Topic 840 "Leases." The guidance is effective on January 1, 2019, with early adoption permitted. The ASU is expected to have the following impact on the Company's consolidated financial statements:

-

The Company is in the process of separating lease components due under its leases from non-lease components. Under ASC 842 as a lessor, lease components will be recognized on a straight line basis, while non-lease components will be recognized in accordance with the new revenue standard. The Company is in the process of evaluating the impact the ASU will have on its consolidated financial statements.

•The Company's tenant reimbursement revenues generated from common area and maintenance services that are provided to its tenants are considered a non-lease component that must be separated, allocated based on the transaction price allocation guidance and accounted for according to the new revenue standard.

•ASC 842 is expected to impact the Company's consolidated financial statements as the Company has land lease arrangements for which it is the lessee.

•The Company will expense additional costs related to leasing efforts under ASC 842 compared to the previous GAAP because certain activities performed by personnel involved in the leasing process will no longer be considered incremental costs to execute a lease agreement.

•The Company's equity-method investments may adopt the standard using the timeline otherwise afforded private companies. The Company anticipates the impact of ASC 842 will be similar to the items described above.

In January 2018, the FASB issued a proposed amendment to the lease ASU that would allow lessors to elect, as a practical expedient, not to allocate the total consideration to lease and nonlease components based on their relative standalone selling prices. If adopted, this practical expedient will allow lessors to elect a combined single lease component presentation if (i) the timing and pattern of the revenue

recognition of the combined single lease component is the same, and (ii) the related lease component and, the combined single lease component would be classified as an operating lease.

The Company has not completed its analysis of this ASU. The Company expects tenant recoveries that qualify as nonlease components will be presented under a single lease component presentation. Tenant recoveries that qualify as lease components, which relate to the right to use the leased asset (e.g., property taxes, and insurance), will be accounted for under the new lease ASU. Tenant recoveries that qualify as nonlease components, which relate to payments for goods or services that are transferred separately from the right to use the underlying asset, including tenant recoveries pertaining to payments for maintenance activities and common area expenses, would be accounted for under the new revenue recognition ASU upon adoption of the new lease ASU.

In January 2018, the FASB issued ASU No. 2018-01 to address the accounting treatment of land easements within the context of ASU No. 2016-02, Leases (Topic 842). ASU 2018-01 provides an optional transition practical expedient to not evaluate under Topic 842 existing or expired land easements that were not previously accounted for as leases under the current leases guidance in Topic 840. An entity that elects this practical expedient should evaluate new or modified land easements under Topic 842 beginning at the date that the entity adopts Topic 842. An entity that does not elect this practical expedient should evaluate all existing or expired land easements in connection with the adoption of the new lease requirements in Topic 842 to assess whether they meet the definition of a lease. The amendments in ASU 2018-01 affect the amendments in ASU 2016-02, which are not yet effective but may be early adopted. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in ASU 2016-02. An entity that early adopted Topic 842 should apply the amendments in this update upon issuance. The Company is in the process of evaluating the impact of this new guidance on its consolidated financial statements.

3. REAL ESTATE INVESTMENTS

As of March 31, 2018 and December 31, 2017, the gross carrying value of the properties was as follows (in thousands):

	March 31, 2018	December 31, 2017
Land	\$498,197	\$ 492,197
Building and improvements	2,915,399	2,896,113
Tenant improvements	451,110	444,038
Total	\$3,864,706	\$ 3,832,348

Acquisitions

On March 22, 2018, the Company acquired, through a 99-year ground lease, the leasehold interest in a one-acre land parcel, located at 3001-3003 JFK Boulevard, in Philadelphia, Pennsylvania. The Company prepaid \$24.6 million of ground lease rent and capitalized \$0.3 million of costs related to entering the lease in accordance with ASC 840. Based on the Company's evaluation under ASC 840, the ground lease was classified as an operating lease and included in the "Other assets" caption in the consolidated balance sheets.

On January 5, 2018, the Company acquired, from its real estate venture partner in both the Four Tower Bridge real estate venture and the Seven Tower Bridge real estate venture, the remaining 35% ownership interest in the Four Tower Bridge real estate venture through a nonmonetary exchange for the Company's 20% ownership interest in the Seven Tower Bridge real estate venture. The Four Tower Bridge real estate venture owned an office property containing 86,021 square feet, in Conshohocken, Pennsylvania, encumbered with \$9.7 million in debt. The Company previously accounted for its noncontrolling interest in Four Tower Bridge using the equity method. As a result of the exchange transaction, the Company obtained control of the Four Tower Bridge property.

The acquisition of the remaining 35% ownership interest of Four Tower Bridge resulted in the consolidation of the property, which has been accounted for as an asset acquisition under ASU 2017-01. As such, the Company capitalized \$0.1 million of acquisition related costs and allocated the unencumbered acquisition value, consisting of the fair value of \$23.6 million and the acquisition related costs, to tangible and intangible assets and liabilities. The unencumbered acquisition value was determined under the comparative sales approach, which utilized observable transactions within the Conshohocken submarket.

The Company utilized a number of sources in making estimates of fair value for purposes of allocating the acquisition value to tangible and intangible assets acquired. The acquisition value has been allocated as follows (in thousands):

	January 5, 2018
Building, land and improvements	\$20,734
Intangible assets acquired (a)	3,144
Below market lease liabilities assumed (b)	(182)
Total unencumbered acquisition value	\$23,696
Mortgage debt assumed - at fair value (c)	(9,940)
Total encumbered acquisition value	\$13,756
Total unencumbered acquisition value	23,696
Mortgage debt assumed - at fair value (c)	(9,940)
Investment in unconsolidated real estate ventures	(3,502)
Net working capital assumed	1,379
Gain on real estate venture transactions	\$11,633

(a) Weighted average amortization period of 4.1 years.

(b) Weighted average amortization period of 4.8 years.

(c) The outstanding principal balance on mortgage debt assumed at January 5, 2018 was \$9.7 million.

Four Tower Bridge contributed approximately \$0.7 million of revenue and \$0.1 million of net income, included in the Company's consolidated income statements, for the period from January 5, 2018 through March 31, 2018.

Dispositions

Edgar Filing: BRANDYWINE REALTY TRUST - Form 10-Q

The Company sold the following land parcels during the three-month period ended March 31, 2018 (dollars in thousands):

Disposition Date	Property/Portfolio Name	Location	Number of Parcels	Acres	Sales Price	Net Proceeds on Sale	Gain on Sale
March 16, 2018	Garza Ranch - Office	Austin, TX	1	6.6	\$14,571	\$ 14,509	\$ - (a)
January 10, 2018	Westpark Land	Durham, NC	1	13.1	485	412	22
Total Dispositions			2	19.7	\$15,056	\$ 14,921	\$ 22

- (a) The Company has a continuing involvement, through a completion guarantee, which requires the Company as developer to complete certain infrastructure improvements on behalf of the buyers of the land parcels. The Company does not transfer control of the land parcel until the infrastructure improvements are complete and the guarantee is released. Accordingly, the cash received at settlement was recorded as “Deferred income, gains and rent” on the Company’s consolidated balance sheets and the Company will recognize the sale once the infrastructure improvements are complete. See Note 14, “Commitments and Contingencies,” for further discussion of the infrastructure improvements.

The sale of land referenced above does not represent a strategic shift that has a major effect on the Company’s operations and financial results. Accordingly, the operating results of these properties remain classified within continuing operations for all periods presented.

4. INVESTMENT IN UNCONSOLIDATED REAL ESTATE VENTURES

As of March 31, 2018, the Company held ownership interests in 10 unconsolidated Real Estate Ventures for an aggregate investment balance of \$171.4 million. The Company formed or acquired interests in these Real Estate Ventures with unaffiliated third parties to develop or manage office, residential and/or mixed-use properties or to acquire land in anticipation of possible development of office, residential and/or mixed-use properties. As of March 31, 2018, six of the real estate ventures owned properties that contain an aggregate of approximately 6.6 million net rentable square feet of office space; two real estate ventures owned 1.4 acres of land held for development; one real estate venture owned 1.3 acres of land in active development; and one real estate venture owned a residential tower that contains 321 apartment units.

The Company accounts for its unconsolidated interests in the Real Estate Ventures using the equity method. The Company's unconsolidated interests range from 25% to 70%, subject to specified priority allocations of distributable cash in certain of the Real Estate Ventures.

The Company earned management fees from its Real Estate Ventures of \$1.3 million and \$1.5 million for the three-month periods ended March 31, 2018 and March 31, 2017, respectively.

The Company earned leasing commission income from its Real Estate Ventures of \$0.8 million and \$1.3 million for the three-month periods ended March 31, 2018 and March 31, 2017, respectively.

The Company had outstanding accounts receivable balances from its Real Estate Ventures of \$1.4 million and \$0.9 million as of March 31, 2018 and December 31, 2017, respectively.

The amounts reflected in the following tables (except for the Company's share of equity and income) are based on the financial information of the individual Real Estate Ventures. The Company does not record operating losses of a Real Estate Venture in excess of its investment balance unless the Company is liable for the obligations of the Real Estate Venture or is otherwise committed to provide financial support to the Real Estate Venture.

The following is a summary of the financial position of the Real Estate Ventures in which the Company held interests as of March 31, 2018 and December 31, 2017 (in thousands):

	March 31, 2018		HSRE-BDN I, LLC (evo at Cira Centre South) (a)			Other	Total
	DRA (G&I) Austin	Brandywine-AI Venture LLC					
Net property	\$263,384	\$ 159,159	\$ -		\$488,224	\$910,767	
Other assets	35,080	24,520	-		84,092	143,692	
Other liabilities	17,189	4,844	-		72,129	94,162	
Debt, net	247,844	92,813	-		294,662	635,319	
Equity (b)	33,431	86,022	-		205,525	324,978	

December 31, 2017

	DRA (G&I) Austin	Brandywine-AI Venture LLC	HSRE-BDN I, LLC (evo at Cira Centre South)	Other	Total
Net property	\$263,557	\$ 158,960	\$ 143,990	\$517,458	\$1,083,965
Other assets	42,272	24,181	8,563	86,916	161,932
Other liabilities	24,131	4,493	1,648	67,435	97,707
Debt, net	248,700	92,917	110,136	314,667	766,420
Equity (b)	32,998	85,731	40,769	222,272	381,770

(a) On January 10, 2018, evo at Cira sold the 345-unit student housing tower, its sole operating asset. See 'evo at Cira Disposition' section below.

(b) This amount includes the effect of the basis difference between the Company's historical cost basis and the basis recorded at the Real Estate Venture level, which is typically amortized over the life of the related assets and liabilities. Basis differentials occur from the impairment of investments, purchases of third party interests in existing Real Estate Ventures and upon the transfer of assets that were previously owned by the Company into a Real Estate Venture. In addition, certain acquisition, transaction and other costs may not be reflected in the net assets at the Real Estate Venture level.

The following is a summary of results of operations of the Real Estate Ventures in which the Company held interests during the three-month periods ended March 31, 2018 and 2017 (in thousands):

	Three-month period ended March 31, 2018				
	DRA (G&I) Austin	Brandywine-AI Venture LLC	HSRE-BDN I, LLC (evo at Cira Centre South)	Other	Total
Revenue	\$14,356	\$ 5,836	\$ 995	\$21,634	\$42,821
Operating expenses	(6,066)	(2,544)	(250)	(11,908)	(20,768)
Interest expense, net	(2,294)	(864)	(388)	(4,580)	(8,126)
Depreciation and amortization	(5,698)	(2,137)	(376)	(6,173)	(14,384)
Loss on early extinguishment of debt	-	-	(718)	-	(718)
Net income (loss)	\$298	\$ 291	\$ (737)	\$(1,027)	\$(1,175)
Ownership interest %	50 %	50 %	50 %	(a)	(a)
Company's share of net income (loss)	\$149	\$ 146	\$ (369)	\$(632)	\$(706)
Basis adjustments and other	(69)	15	11	(76)	(119)
Equity in income (loss) of Real Estate Ventures	\$80	\$ 161	\$ (358)	\$(708)	\$(825)

	Three-month period ended March 31, 2017				
	DRA (G&I) Austin	Brandywine-AI Venture LLC	HSRE-BDN I, LLC (evo at Cira Centre	Other	Total

Edgar Filing: BRANDYWINE REALTY TRUST - Form 10-Q

	South)				
Revenue	\$21,552	\$ 7,325	\$ 3,154	\$22,248	\$54,279
Operating expenses	(9,313)	(2,940)	(679)	(12,234)	(25,166)
Interest expense, net	(3,689)	(1,145)	(898)	(5,098)	(10,830)
Depreciation and amortization	(9,229)	(2,809)	(1,128)	(7,595)	(20,761)
Net income (loss)	\$(679)	\$ 431	\$ 449	\$(2,679)	\$(2,478)
Ownership interest %	50 %	50 %	50 %	(a)	(a)
Company's share of net income (loss)	\$(340)	\$ 216	\$ 225	\$(1,262)	\$(1,161)
Basis adjustments and other	(25)	310	7	121	413
Equity in income (loss) of Real Estate Ventures	\$(365)	\$ 526	\$ 232	\$(1,141)	\$(748)

(a) The Company's unconsolidated ownership interests ranged from 25% to 70% during the three-month periods ended March 31, 2018 and 20% to 70% during the three-month period ended March 31, 2017, subject to specified priority allocations of distributable cash in certain of the Real Estate Ventures.

25

Four Tower Bridge Acquisition

On January 5, 2018, the Company acquired, from its real estate venture partner in both the Four Tower Bridge real estate venture and the Seven Tower Bridge real estate venture, the remaining 35% ownership interest in the Four Tower Bridge real estate venture through a nonmonetary exchange for the Company's 20% ownership interest in the Seven Tower Bridge real estate venture. The Four Tower Bridge real estate venture owned an office property containing 86,021 square feet in Conshohocken, Pennsylvania encumbered with \$9.7 million in debt. The Company previously accounted for its noncontrolling interest in Four Tower Bridge using the equity method. As a result of the exchange transaction, the Company obtained control of the Four Tower Bridge property and recognized a gain of \$11.6 million. For further information regarding the accounting of the transaction, see Note 3, "Real Estate Investments."

evo at Cira Disposition

On January 10, 2018, evo at Cira, a real estate venture in which the Company held a 50% interest, sold its sole asset, a 345-unit student housing tower, at a gross sales value of \$197.5 million. The student housing tower, located in Philadelphia, Pennsylvania, was encumbered by a secured loan with a principal balance of \$110.9 million at the time of sale, which was repaid in full from the sale proceeds. The Company's share of net cash proceeds from the sale, after debt repayment and closing costs, was \$43.0 million. As the Company's investment basis was \$17.3 million, a gain of \$25.7 million was recorded.

Guarantees

As of March 31, 2018, the Real Estate Ventures had aggregate indebtedness to third parties of \$639.3 million. These loans are generally mortgage or construction loans, most of which are non-recourse to the Company. As of March 31, 2018, the loans for which there is recourse to the Company consist of the following: (i) a \$0.4 million payment guarantee on a loan with a \$4.3 million outstanding principal balance, provided to PJP VII and (ii) up to a \$41.3 million payment guarantee on a \$150.0 million loan provided to 4040 Wilson. In addition, during construction undertaken by real estate ventures, including 4040 Wilson, the Company has provided and expects to continue to provide cost overrun and completion guarantees, with rights of contribution among partners or members in the real estate ventures, as well as customary environmental indemnities and guarantees of customary exceptions to nonrecourse provisions in loan agreements.

5. INTANGIBLE ASSETS AND LIABILITIES

As of March 31, 2018 and December 31, 2017, the Company's intangible assets/liabilities were comprised of the following (in thousands):

March 31, 2018		
Total	Accumulated	Intangible
Cost	Amortization	Assets,
		net

Edgar Filing: BRANDYWINE REALTY TRUST - Form 10-Q

Intangible assets, net:

In-place lease value	\$ 106,574	\$ (46,495)	\$ 60,079
Tenant relationship value	10,593	(9,064)	1,529
Above market leases acquired	4,712	(2,706)	2,006
Total intangible assets, net	\$ 121,879	\$ (58,265)	\$ 63,614

Acquired lease intangibles, net:

Below market leases acquired	\$ 35,719	\$ (16,209)	\$ 19,510
------------------------------	-----------	------------	---	-----------

	December 31, 2017		
	Total Cost	Accumulated Amortization	Intangible Assets, net
Intangible assets, net:			
In-place lease value	\$ 108,060	\$ (47,003)	\$ 61,057
Tenant relationship value	11,201	(9,275)	1,926
Above market leases acquired	4,545	(2,556)	1,989
Total intangible assets, net	\$ 123,806	\$ (58,834)	\$ 64,972
Acquired lease intangibles, net:			
Below market leases acquired	\$ 36,213	\$ (15,939)	\$ 20,274

As of March 31, 2018, the Company's annual amortization for its intangible assets/liabilities, assuming no prospective early lease terminations, are as follows (dollars in thousands):

	Assets	Liabilities
2018 (nine months remaining)	\$ 11,483	\$ 2,648
2019	13,130	2,847
2020	10,452	2,081
2021	7,538	1,432
2022	5,355	1,264
Thereafter	15,656	9,238
Total	\$ 63,614	\$ 19,510

6. DEBT OBLIGATIONS

The following table sets forth information regarding the Company's consolidated debt obligations outstanding at March 31, 2018 and December 31, 2017 (in thousands):

	March 31, 2018	December 31, 2017	Effective Interest Rate	Maturity Date
MORTGAGE DEBT:				
Two Logan Square	\$84,037	\$ 84,440	3.98%	May 2020
Four Tower Bridge	9,695	-	4.50%	(a) Feb 2021
One Commerce Square	122,808	123,667	3.64%	Apr 2023
Two Commerce Square	112,000	112,000	4.51%	Apr 2023
Principal balance outstanding	328,540	320,107		
Plus: fair market value premium (discount), net	(2,041)	(2,325)		
Less: deferred financing costs	(525)	(566)		
Mortgage indebtedness	\$325,974	\$ 317,216		
UNSECURED DEBT				
Seven-Year Term Loan - Swapped to fixed	\$250,000	\$ 250,000	3.72%	Oct 2022
\$350.0M 3.95% Guaranteed Notes due 2023	350,000	350,000	3.87%	Feb 2023
\$250.0M 4.10% Guaranteed Notes due 2024	250,000	250,000	4.33%	Oct 2024
\$450.0M 3.95% Guaranteed Notes due 2027	450,000	450,000	4.03%	Nov 2027
\$250.0M 4.55% Guaranteed Notes due 2029	250,000	250,000	4.60%	Oct 2029
Indenture IA (Preferred Trust I)	27,062	27,062	LIBOR + 1.25%	Mar 2035
Indenture IB (Preferred Trust I) - Swapped to fixed	25,774	25,774	3.30%	Apr 2035
Indenture II (Preferred Trust II) - Swapped to fixed	25,774	25,774	3.09%	Jul 2035
Principal balance outstanding	1,628,610	1,628,610		
Plus: original issue premium (discount), net	(4,341)	(4,423)		
Less: deferred financing costs	(10,211)	(10,575)		
Total unsecured indebtedness	\$1,614,058	\$ 1,613,612		
Total Debt Obligations	\$1,940,032	\$ 1,930,828		

(a) This loan was assumed upon acquisition of the related property on January 5, 2018. The interest rate reflects the market rate at the time of acquisition.

As of March 31, 2018 and December 31, 2017, the Company's weighted-average effective interest rates on its mortgage notes payable were 4.05% and 4.04%, respectively.

In addition to the debt described above, the Company utilizes its four-year unsecured revolving credit facility (the "Credit Facility") borrowings for general business purposes, including to fund costs of acquisitions, developments and redevelopments of properties, fund share repurchases and to repay from time to time other debt. The Credit Facility provides for borrowings of up to \$600.0 million and the per annum variable interest rate on borrowings is LIBOR plus 1.20%. The interest rate and facility fee are subject to adjustment upon a change in the Company's unsecured debt ratings. The Company had no borrowings under the Credit Facility as of and during either of the three-month periods

ended March 31, 2018 and March 31, 2017.

The Parent Company unconditionally guarantees the unsecured debt obligations of the Operating Partnership (or is a co-borrower with the Operating Partnership) but does not by itself incur unsecured indebtedness. The Parent Company has no material assets other than its investment in the Operating Partnership.

The Company was in compliance with all financial covenants as of March 31, 2018. Management continuously monitors the Company's compliance with and anticipated compliance with the covenants. Certain of the covenants restrict the Company's ability to obtain alternative sources of capital.

28

As of March 31, 2018, the Company's aggregate scheduled principal payments of debt obligations, excluding amortization of discounts and premiums, are as follows (in thousands):