

BRANDYWINE REALTY TRUST
Form 10-Q
October 24, 2017

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, 2017

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.)

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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

A total of 175,477,498 Common Shares of Beneficial Interest, par value \$0.01 per share of Brandywine Realty Trust, were outstanding as of October 20, 2017.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended September 30, 2017 of Brandywine Realty Trust (the “Parent Company”) and Brandywine Operating Partnership L.P. (the “Operating Partnership”). The Parent Company is a Maryland real estate investment trust, or REIT, that owns its assets and conducts its operations through the Operating Partnership, a Delaware limited partnership, and subsidiaries of the Operating Partnership. The Parent Company, the Operating Partnership and their consolidated subsidiaries are collectively referred to in this report as the “Company”. In addition, as used in this report, terms such as “we”, “us”, and “our” may refer to the Company, the Parent Company, or the Operating Partnership.

The Parent Company is the sole general partner of the Operating Partnership and, as of September 30, 2017, 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.

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.

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Filing Format

This combined Form 10-Q is being filed separately by Brandywine Realty Trust and Brandywine Operating Partnership, L.P.

PART I - FINANCIAL INFORMATION

Item 1. — Financial Statements

BRANDYWINE REALTY TRUST

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share information)

	September 30, 2017	December 31, 2016
	(unaudited)	
ASSETS		
Real estate investments:		
Operating properties	\$ 3,769,067	\$ 3,586,295
Accumulated depreciation	(885,438)	(852,476)
Operating real estate investments, net	2,883,629	2,733,819
Construction-in-progress	127,141	297,462
Land held for development	120,696	150,970
Total real estate investments, net	3,131,466	3,182,251
Assets held for sale, net	31,125	41,718
Cash and cash equivalents	25,287	193,919
Accounts receivable, net of allowance of \$3,294 and \$2,373 as of September 30, 2017 and December 31, 2016, respectively	14,785	12,446
Accrued rent receivable, net of allowance of \$13,731 and \$13,743 as of September 30, 2017 and December 31, 2016, respectively	166,093	149,624
Investment in Real Estate Ventures, equity method	236,313	281,331
Deferred costs, net	96,980	91,342
Intangible assets, net	58,817	72,478
Other assets	94,553	74,104
Total assets	\$ 3,855,419	\$ 4,099,213
LIABILITIES AND BENEFICIARIES' EQUITY		
Mortgage notes payable, net	\$ 318,317	\$ 321,549
Unsecured credit facility	178,000	-
Unsecured term loans, net	248,347	248,099
Unsecured senior notes, net	1,144,976	1,443,464
Accounts payable and accrued expenses	112,413	103,404
Distributions payable	28,391	30,032
Deferred income, gains and rent	41,468	31,620
Acquired lease intangibles, net	17,156	18,119
Liabilities related to assets held for sale	269	81
Other liabilities	15,512	19,408
Total liabilities	\$ 2,104,849	\$ 2,215,776
Commitments and contingencies (See Note 13)		
Brandywine Realty Trust's Equity:		
Preferred Shares (shares authorized-20,000,000)		
6.90% Series E Preferred Shares, \$0.01 par value; issued and outstanding- 0 as of September 30, 2017 and 4,000,000 as of December 31, 2016	-	40
	1,755	1,752

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Common Shares of Brandywine Realty Trust's beneficial interest, \$0.01 par value;
 shares authorized 400,000,000; 175,477,498 and 175,140,760 issued and outstanding
 as of September 30, 2017 and December 31, 2016, respectively

Additional paid-in-capital	3,167,481	3,258,870
Deferred compensation payable in common shares	14,090	13,684
Common shares in grantor trust, 1,000,966 as of September 30, 2017, 899,457 as of December 31, 2016	(14,090)	(13,684)
Cumulative earnings	586,954	539,319
Accumulated other comprehensive loss	(906)	(1,745)
Cumulative distributions	(2,021,568)	(1,931,892)
Total Brandywine Realty Trust's equity	1,733,716	1,866,344
Non-controlling interests	16,854	17,093
Total beneficiaries' equity	\$ 1,750,570	\$ 1,883,437
Total liabilities and beneficiaries' equity	\$ 3,855,419	\$ 4,099,213

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 September 30,		Nine-month periods ended September 30,	
	2017	2016	2017	2016
Revenue				
Rents	\$102,557	\$104,537	\$307,446	\$318,324
Tenant reimbursements	17,239	17,324	53,812	53,315
Termination fees	200	611	2,013	1,459
Third party management fees, labor reimbursement and leasing	6,918	6,248	20,483	17,691
Other	1,524	974	3,395	2,588
Total revenue	128,438	129,694	387,149	393,377
Operating expenses				
Property operating expenses	36,847	37,250	110,947	114,208
Real estate taxes	11,235	11,566	34,062	34,933
Third party management expenses	2,619	2,501	7,391	7,172
Depreciation and amortization	42,429	46,956	132,584	142,736
General and administrative expenses	5,813	5,515	21,797	20,711
Provision for impairment	-	-	3,057	13,069
Total operating expenses	98,943	103,788	309,838	332,829
Operating income	29,495	25,906	77,311	60,548
Other income (expense)				
Interest income	79	291	635	970
Interest expense	(19,732)	(20,814)	(61,473)	(64,334)
Interest expense - amortization of deferred financing costs	(577)	(645)	(1,807)	(2,063)
Interest expense - financing obligation	-	(156)	-	(679)
Equity in loss of Real Estate Ventures	(5,723)	(7,254)	(5,387)	(9,323)
Net gain (loss) on disposition of real estate	-	(104)	8,411	114,625
Net gain on sale of undepreciated real estate	953	188	953	188
Net gain on Real Estate Venture transactions	13,758	10,472	28,340	19,529
Loss on early extinguishment of debt	-	-	-	(66,590)
Net income before income taxes	18,253	7,884	46,983	52,871
Income tax benefit	793	-	1,032	-
Net income	19,046	7,884	48,015	52,871
Net income attributable to non-controlling interests	(170)	(58)	(384)	(425)
Net income attributable to Brandywine Realty Trust	18,876	7,826	47,631	52,446
Distribution to preferred shareholders	-	(1,725)	(2,032)	(5,175)
Preferred share redemption charge	-	-	(3,181)	-
Nonforfeitable dividends allocated to unvested restricted shareholders	(73)	(79)	(245)	(263)
Net income attributable to Common Shareholders of Brandywine Realty Trust	\$18,803	\$6,022	\$42,173	\$47,008

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Basic income per Common Share	\$0.11	\$0.03	\$0.24	\$0.27
Diluted income per Common Share	\$0.11	\$0.03	\$0.24	\$0.27
Basic weighted average shares outstanding	175,433,657	175,127,110	175,315,581	174,976,998
Diluted weighted average shares outstanding	176,835,022	176,364,615	176,599,332	176,009,822
Distributions declared per Common Share	\$0.16	\$0.16	\$0.48	\$0.47

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 September 30,		Nine-month periods ended September 30,	
	2017	2016	2017	2016
Net income	\$19,046	\$7,884	\$48,015	\$52,871
Comprehensive income:				
Unrealized gain (loss) on derivative financial instruments	312	2,454	(59)	(10,764)
Reclassification of realized losses on derivative financial instruments to operations, net (1)	314	286	905	818
Total comprehensive income (loss)	626	2,740	846	(9,946)
Comprehensive income	19,672	10,624	48,861	42,925
Comprehensive income attributable to non-controlling interest	(174)	(81)	(391)	(339)
Comprehensive income attributable to Brandywine Realty Trust	\$19,498	\$10,543	\$48,470	\$42,586

(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 nine-month period ended September 30, 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	Non-Cumulative Interest
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)	\$17,000
								47,631			384
									839		7
(4,000,000)	(40)				(96,810)						
											85
											(46)
					(499)						
		6,752			110						
		333,127	39,870	3	5,900			4			
	(1,718)		61,639		(48)	406	(406)				

(1,423)

(42)

42

(2,032)

(3,181)

(84,463) (711

\$- 175,477,498 1,000,966 \$1,755 \$3,167,481 \$14,090 \$(14,090) \$586,954 \$(906) \$(2,021,568) \$16,8

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

BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENT OF BENEFICIARIES' EQUITY

For the nine-month period ended September 30, 2016

(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 Loss	Cumulative Distributions	Non-Controlling Interest
4,000,000	\$40	174,688,568	745,686	\$1,747	\$3,252,622	\$11,918	\$(11,918)	\$499,086	\$(5,192)	\$(1,814,378)	\$18,160
								52,446			425
									(9,860)		(86
											73
		55,303		1	874						(875
		405,200		4	4,890			40			
		(8,311)	153,771		(47)	1,766	(1,766)				
					(290)						290
									(5,175)		
									(82,523)		(704

4,000,000 \$40 175,140,760 899,457 \$1,752 \$3,258,049 \$13,684 \$(13,684) \$551,572 \$(15,052) \$(1,902,076) \$17,288

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

BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	Nine-month periods ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$48,015	\$52,871
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	132,584	142,736
Amortization of deferred financing costs	1,807	2,063
Amortization of debt discount/(premium), net	1,069	1,108
Amortization of stock compensation costs	4,321	3,612
Straight-line rent income	(21,002)	(22,049)
Amortization of acquired above (below) market leases, net	(2,280)	(5,090)
Straight-line ground rent expense	66	66
Provision for doubtful accounts	1,622	573
Net gain on real estate venture transactions	(28,340)	(19,529)
Net gain on sale of interests in real estate	(9,364)	(114,813)
Loss on early extinguishment of debt	-	66,590
Provision for impairment	3,057	13,069
Other than temporary impairment	4,844	-
Real Estate Venture loss in excess of distributions	199	9,945
Deferred financing obligation	-	(681)
Income tax benefit	(1,133)	-
Changes in assets and liabilities:		
Accounts receivable	(4,445)	4,041
Other assets	(8,927)	(10,332)
Accounts payable and accrued expenses	6,743	7,163
Deferred income, gains and rent	(3,160)	(2,000)
Other liabilities	2,107	318
Net cash provided by operating activities	127,783	129,661
Cash flows from investing activities:		
Acquisition of properties	(34,748)	(20,406)
Proceeds from the sale of properties	114,821	758,931
Proceeds from real estate venture sales	59,022	20,551
Issuance of mortgage note receivable	-	(3,365)
Capital expenditures for tenant improvements	(44,902)	(37,991)
Capital expenditures for redevelopments	(21,951)	(10,852)
Capital expenditures for developments	(53,560)	(147,831)
Advances for the purchase of tenant assets, net of repayments	1,148	275
Investment in unconsolidated Real Estate Ventures	(5,243)	(27,174)
Deposits for real estate	605	(746)
Escrowed cash	-	6,993
Cash distribution from unconsolidated Real Estate Ventures in excess of cumulative equity income	14,906	12,565
Leasing costs paid	(12,553)	(12,884)

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Net cash provided by investing activities	17,545	538,066
Cash flows from financing activities:		
Proceeds from mortgage notes payable	-	86,900
Repayments of mortgage notes payable	(3,681)	(355,947)
Proceeds from credit facility borrowings	264,000	195,000
Repayments of credit facility borrowings	(86,000)	(195,000)
Repayments of unsecured notes	(300,000)	(149,919)
Debt financing costs paid	-	(477)
Redemption of preferred shares	(100,000)	-
Proceeds from the exercise of stock options	1,229	1,286
Shares used for employee taxes upon vesting of share awards	(674)	(879)
Partner contributions to consolidated real estate venture	85	73
Partner distributions from consolidated real estate venture	(46)	-
Distributions paid to shareholders	(88,162)	(85,702)
Distributions to non-controlling interest	(711)	(697)
Net cash used in financing activities	(313,960)	(505,362)
Increase (decrease) in cash and cash equivalents	(168,632)	162,365
Cash and cash equivalents at beginning of year	193,919	56,694
Cash and cash equivalents at end of period	\$25,287	\$219,059

Supplemental disclosure:

Cash paid for interest, net of capitalized interest during the nine months ended September 30, 2017 and 2016 of \$2,975 and \$10,023, respectively	\$58,252	\$64,046
Cash paid for income taxes	225	-

Supplemental disclosure of non-cash activity:

Dividends and distributions declared but not paid	28,391	30,036
Change in investment in real estate ventures as a result of dispositions	(30,584)	(2,023)
Change in investment in real estate ventures related to non-cash disposition of property	-	25,165
Change in real estate ventures as a result of other than temporary impairment	(4,844)	-

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Change in operating real estate from deconsolidation of 3141 Fairview Park Drive	-	44,313
Change in investment in real estate ventures from deconsolidation of 3141 Fairview Park Drive	-	(12,642)
Change in mortgage notes payable from deconsolidation of 3141 Fairview Park Drive	-	(20,582)
Change in other liabilities from deconsolidation of 3141 Fairview Park Drive	-	(12,384)
Change in capital expenditures financed through accounts payable at period end	(1,455)	(5,012)
Change in capital expenditures financed through retention payable at period end	83	2,487

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)

	September 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Real estate investments:		
Operating properties	\$ 3,769,067	\$ 3,586,295
Accumulated depreciation	(885,438)	(852,476)
Operating real estate investments, net	2,883,629	2,733,819
Construction-in-progress	127,141	297,462
Land held for development	120,696	150,970
Total real estate investments, net	3,131,466	3,182,251
Assets held for sale, net	31,125	41,718
Cash and cash equivalents	25,287	193,919
Accounts receivable, net of allowance of \$3,294 and \$2,373 as of September 30, 2017 and December 31, 2016, respectively	14,785	12,446
Accrued rent receivable, net of allowance of \$13,731 and \$13,743 as of September 30, 2017 and December 31, 2016, respectively	166,093	149,624
Investment in Real Estate Ventures, equity method	236,313	281,331
Deferred costs, net	96,980	91,342
Intangible assets, net	58,817	72,478
Other assets	94,553	74,104
Total assets	\$ 3,855,419	\$ 4,099,213
LIABILITIES AND PARTNERS' EQUITY		
Mortgage notes payable, net	\$ 318,317	\$ 321,549
Unsecured credit facility	178,000	-
Unsecured term loans, net	248,347	248,099
Unsecured senior notes, net	1,144,976	1,443,464
Accounts payable and accrued expenses	112,413	103,404
Distributions payable	28,391	30,032
Deferred income, gains and rent	41,468	31,620
Acquired lease intangibles, net	17,156	18,119
Liabilities related to assets held for sale	269	81
Other liabilities	15,512	19,408
Total liabilities	\$ 2,104,849	\$ 2,215,776
Commitments and contingencies (See Note 13)		
Redeemable limited partnership units at redemption value; 1,479,799 issued and outstanding in as of September 30, 2017 and December 31, 2016	25,864	23,795
Brandywine Operating Partnership, L.P.'s equity:		
6.90% Series E-Linked Preferred Mirror Units; issued and outstanding- 0 as of September 30, 2017 and 4,000,000 as of December 31, 2016	-	96,850
General Partnership Capital; 175,477,498 and 175,140,760 units issued and outstanding as of September 30, 2017 and December 31, 2016, respectively	1,723,767	1,762,764
Accumulated other comprehensive loss	(1,276)	(2,122)
Total Brandywine Operating Partnership, L.P.'s equity	1,722,491	1,857,492

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Non-controlling interest - consolidated real estate ventures	2,215	2,150
Total partners' equity	\$ 1,724,706	\$ 1,859,642
Total liabilities and partners' equity	\$ 3,855,419	\$ 4,099,213

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 September 30,		Nine-month periods ended September 30,	
	2017	2016	2017	2016
Revenue				
Rents	\$102,557	\$104,537	\$307,446	\$318,324
Tenant reimbursements	17,239	17,324	53,812	53,315
Termination fees	200	611	2,013	1,459
Third party management fees, labor reimbursement and leasing	6,918	6,248	20,483	17,691
Other	1,524	974	3,395	2,588
Total revenue	128,438	129,694	387,149	393,377
Operating expenses				
Property operating expenses	36,847	37,250	110,947	114,208
Real estate taxes	11,235	11,566	34,062	34,933
Third party management expenses	2,619	2,501	7,391	7,172
Depreciation and amortization	42,429	46,956	132,584	142,736
General and administrative expenses	5,813	5,515	21,797	20,711
Provision for impairment	-	-	3,057	13,069
Total operating expenses	98,943	103,788	309,838	332,829
Operating income	29,495	25,906	77,311	60,548
Other income (expense)				
Interest income	79	291	635	970
Interest expense	(19,732)	(20,814)	(61,473)	(64,334)
Interest expense - amortization of deferred financing costs	(577)	(645)	(1,807)	(2,063)
Interest expense - financing obligation	-	(156)	-	(679)
Equity in loss of Real Estate Ventures	(5,723)	(7,254)	(5,387)	(9,323)
Net gain (loss) on disposition of real estate	-	(104)	8,411	114,625
Net gain on sale of undepreciated real estate	953	188	953	188
Net gain on Real Estate Venture transactions	13,758	10,472	28,340	19,529
Loss on early extinguishment of debt	-	-	-	(66,590)
Net income before income taxes	18,253	7,884	46,983	52,871
Income tax benefit	793	-	1,032	-
Net income	19,046	7,884	48,015	52,871
Net income from continuing operations attributable to non-controlling interests - consolidated real estate ventures	(12)	(6)	(25)	(12)
Net income attributable to Brandywine Operating Partnership	19,034	7,878	47,990	52,859
Distribution to preferred unitholders	-	(1,725)	(2,032)	(5,175)
Preferred unit redemption charge	-	-	(3,181)	-
Amounts allocated to unvested restricted unitholders	(73)	(79)	(245)	(263)
	\$18,961	\$6,074	\$42,532	\$47,421

Net income attributable to Common Partnership
 Unitholders of Brandywine Operating Partnership,
 L.P.

Basic income per Common Partnership Unit	\$0.11	\$0.03	\$0.24	\$0.27
Diluted income per Common Partnership Unit	\$0.11	\$0.03	\$0.24	\$0.27
Basic weighted average common partnership units outstanding	176,913,456	176,606,909	176,795,380	176,491,311
Diluted weighted average common partnership units outstanding	178,314,821	177,844,414	178,079,131	177,524,135
Distributions declared per Common Partnership Unit	\$0.16	\$0.16	\$0.48	\$0.47

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 September 30, 2017		2016		Nine-month periods ended September 30, 2017		2016	
Net income	\$19,046	\$7,884	\$48,015	\$52,871				
Comprehensive income:								
Unrealized gain (loss) on derivative financial instruments	312	2,454	(59)	(10,764)				
Reclassification of realized losses on derivative financial instruments to operations, net (1)	314	286	905	818				
Total comprehensive income (loss)	626	2,740	846	(9,946)				
Comprehensive income	19,672	10,624	48,861	42,925				
Comprehensive income attributable to non-controlling interest - consolidated real estate ventures	(12)	(6)	(25)	(12)				
Comprehensive income attributable to Brandywine Operating Partnership, L.P.	\$19,660	\$10,618	\$48,836	\$42,913				

(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 nine-month period ended September 30, 2017

(unaudited, in thousands, except number of units)

	Series E-Linked Preferred Mirror Units		General Partner Capital		Accumulated Other Comprehensive Gain/(Loss)	Non-controlling 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				47,990		25	48,015
Other comprehensive income					846		846
Redemption of Preferred Mirror Units	(4,000,000)	(96,850)					(96,850)
Deferred compensation obligation			(1,718)	(48)			(48)
Issuance of LP Units				(499)			(499)
Issuance of partnership interest in consolidated real estate venture						86	86
Distributions from consolidated real estate venture						(46)	(46)
Share Choice Plan issuance			(1,423)				-
Bonus share issuance			6,752	110			110
Share-based compensation activity			333,127	5,907			5,907
Adjustment of redeemable partnership units to liquidation value at period end				(2,781)			(2,781)
Distributions to Preferred Mirror Units				(2,032)			(2,032)
Preferred Mirror Units redemption charge				(3,181)			(3,181)
Distributions to general partnership unitholders				(84,463)			(84,463)

(\$0.48 per unit)

BALANCE, September 30, 2017	-	\$-	175,477,498	\$1,723,767	\$ (1,276)	\$ 2,215	\$
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