

BRANDYWINE REALTY TRUST

Form 10-Q

July 27, 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 June 30, 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

19104

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (610) 325-5600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Brandywine Realty Trust Yes No

Brandywine Operating Partnership, L.P. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Brandywine Realty Trust Yes No

Brandywine Operating Partnership, L.P. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 178,602,602 Common Shares of Beneficial Interest, par value \$0.01 per share of Brandywine Realty Trust, were outstanding as of July 25, 2018.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 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 June 30, 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.

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 June 30, 2018 and December 31, 2017</u>	5
<u>Consolidated Statements of Operations for the three and six-month periods ended June 30, 2018 and 2017</u>	6
<u>Consolidated Statements of Comprehensive Income for the three and six-month periods ended June 30, 2018 and 2017</u>	7
<u>Consolidated Statements of Beneficiaries' Equity for the six-month periods ended June 30, 2018 and 2017</u>	8
<u>Consolidated Statements of Cash Flows for the six-month periods ended June 30, 2018 and 2017</u>	10
Brandywine Operating Partnership, L.P.	
<u>Financial Statements of Brandywine Operating Partnership, L.P.</u>	12
<u>Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017</u>	12
<u>Consolidated Statements of Operations for the three and six-month periods ended June 30, 2018 and 2017</u>	13
<u>Consolidated Statements of Comprehensive Income for the three and six-month periods ended June 30, 2018 and 2017</u>	14
<u>Consolidated Statements of Partners' Equity for the six-month periods ended June 30, 2018 and 2017</u>	15
<u>Consolidated Statements of Cash Flows for the six-month periods ended June 30, 2018 and 2017</u>	17
<u>Notes to Unaudited Consolidated Financial Statements</u>	19
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	44
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	67
<u>Item 4. Controls and Procedures</u>	68
<u>PART II — OTHER INFORMATION</u>	69

<u>Item 1. Legal Proceedings</u>	69
<u>Item 1A. Risk Factors</u>	69
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	69
<u>Item 3. Defaults Upon Senior Securities</u>	69
<u>Item 4. Mine Safety Disclosures</u>	69
<u>Item 5. Other Information</u>	69
<u>Item 6. Exhibits</u>	70
<u>Signatures</u>	71

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)

	June 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Real estate investments:		
Operating properties	\$3,864,629	\$3,832,348
Accumulated depreciation	(931,194)	(895,091)
Operating real estate investments, net	2,933,435	2,937,257
Construction-in-progress	120,593	121,188
Land held for development	95,658	98,242
Prepaid leasehold interests in land held for development	40,177	-
Total real estate investments, net	3,189,863	3,156,687
Assets held for sale, net	4,254	392
Cash and cash equivalents	108,304	202,179
Accounts receivable, net of allowance of \$3,850 and \$3,467 as of June 30, 2018 and December 31, 2017, respectively	19,530	17,938
Accrued rent receivable, net of allowance of \$13,403 and \$13,645 as of June 30, 2018 and December 31, 2017, respectively	176,380	169,760
Investment in Real Estate Ventures, equity method	170,361	194,621
Deferred costs, net	96,184	96,695
Intangible assets, net	59,418	64,972
Other assets	167,225	92,204
Total assets	\$3,991,519	\$3,995,448
LIABILITIES AND BENEFICIARIES' EQUITY		
Mortgage notes payable, net	\$324,289	\$317,216
Unsecured term loan, net	248,595	248,429
Unsecured senior notes, net	1,365,909	1,365,183
Accounts payable and accrued expenses	106,790	107,074
Distributions payable	32,493	32,456
Deferred income, gains and rent	29,239	42,593
Acquired lease intangibles, net	18,573	20,274
Other liabilities	14,856	15,623
Total liabilities	\$2,140,744	\$2,148,848
Commitments and contingencies (See Note 13)		
Brandywine Realty Trust's Equity:		
Common Shares of Brandywine Realty Trust's beneficial interest, \$0.01 par value; shares authorized 400,000,000; 178,604,473 and 178,285,236 issued and outstanding as	1,787	1,784

Edgar Filing: BRANDYWINE REALTY TRUST - Form 10-Q

of June 30, 2018 and December 31, 2017, respectively

Additional paid-in-capital	3,223,072	3,218,564
Deferred compensation payable in common shares	14,036	12,445
Common shares in grantor trust, 982,305 and 894,736 as of June 30, 2018 and December 31, 2017, respectively	(14,036)	(12,445)
Cumulative earnings	717,515	660,174
Accumulated other comprehensive income	9,221	2,399
Cumulative distributions	(2,118,230)	(2,053,741)
Total Brandywine Realty Trust's equity	1,833,365	1,829,180
Noncontrolling interests	17,410	17,420
Total beneficiaries' equity	\$1,850,775	\$1,846,600
Total liabilities and beneficiaries' equity	\$3,991,519	\$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 June 30,		Six-month periods ended June 30,	
	2018	2017	2018	2017
Revenue				
Rents	\$ 107,657	\$ 101,557	\$ 214,017	\$ 204,889
Tenant reimbursements	18,688	18,038	38,537	36,573
Termination fees	582	140	1,132	1,813
Third party management fees, labor reimbursement and leasing	4,913	7,080	12,587	13,565
Other	1,946	976	3,871	1,871
Total revenue	133,786	127,791	270,144	258,711
Operating expenses				
Property operating expenses	37,887	37,215	77,219	74,100
Real estate taxes	12,417	11,078	24,839	22,827
Third party management expenses	2,243	2,325	6,993	4,772
Depreciation and amortization	43,717	44,263	87,008	90,155
General and administrative expenses	7,523	6,659	16,246	15,984
Provision for impairment	-	327	-	3,057
Total operating expenses	103,787	101,867	212,305	210,895
Operating income	29,999	25,924	57,839	47,816
Other income (expense)				
Interest income	641	163	1,344	556
Interest expense	(19,301)	(20,304)	(38,834)	(41,741)
Interest expense - amortization of deferred financing costs	(627)	(596)	(1,254)	(1,230)
Equity in income (loss) of Real Estate Ventures	(358)	1,084	(1,183)	336
Net gain (loss) on disposition of real estate	(35)	1,088	(35)	8,411
Net gain on sale of undepreciated real estate	2,837	-	2,859	-
Net gain on Real Estate Venture transactions	-	-	37,263	14,582
Net income before income taxes	13,156	7,359	57,999	28,730
Income tax (provision) benefit	(20)	339	(158)	239
Net income	13,136	7,698	57,841	28,969
Net income attributable to noncontrolling interests	(130)	(45)	(506)	(214)
Net income attributable to Brandywine Realty Trust	13,006	7,653	57,335	28,755
Distribution to preferred shareholders	-	(307)	-	(2,032)
Preferred share redemption charge	-	(3,181)	-	(3,181)
Nonforfeitable dividends allocated to unvested restricted shareholders	(86)	(73)	(200)	(172)
Net income attributable to Common Shareholders of Brandywine Realty Trust	\$ 12,920	\$ 4,092	\$ 57,135	\$ 23,370

Edgar Filing: BRANDYWINE REALTY TRUST - Form 10-Q

Basic income per Common Share	\$0.07	\$0.02	\$0.32	\$0.13
Diluted income per Common Share	\$0.07	\$0.02	\$0.32	\$0.13
Basic weighted average shares outstanding	178,547,555	175,333,300	178,471,960	175,255,564
Diluted weighted average shares outstanding	179,692,336	176,756,598	179,740,690	176,480,380
Distributions declared per Common Share	\$0.18	\$0.16	\$0.36	\$0.32

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 June 30,		Six-month periods ended June 30,	
	2018	2017	2018	2017
Net income	\$13,136	\$7,698	\$57,841	\$28,969
Comprehensive income:				
Unrealized gain (loss) on derivative financial instruments	1,578	(1,385)	6,274	(371)
Amortization of interest rate contracts (1)	293	305	605	591
Total comprehensive income (loss)	1,871	(1,080)	6,879	220
Comprehensive income	15,007	6,618	64,720	29,189
Comprehensive income attributable to noncontrolling interest	(145)	(36)	(563)	(217)
Comprehensive income attributable to Brandywine Realty Trust	\$14,862	\$6,582	\$64,157	\$28,972

(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 six-month period ended June 30, 2018

(unaudited, in thousands, except number of 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	Cumulative Distributions	Noncontrolling Interests	Total
ANCE, mber 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,
Income							57,335			506	57,841
r prehensive ne								6,822		57	6,879
ance of mon es of fficial est	23,311			416							416
ance of ership est in olidated estate are istributions										11	11
olidated estate are e-based ensation ity	196,151		2	4,207			6				4,215
e Issuance (to) rred ensation	101,060	87,569	1	(112)	1,591	(1,591)					(111
e Choice issuance	(1,285)										-

location of controlling est					(3)					3	-		
contributions ured (\$0.36 share)										(64,489)	(533)	(65,02
ANCE, 30, 2018	178,604,473	982,305	\$1,787	\$3,223,072	\$14,036	\$(14,036)	\$717,515	\$9,221	\$(2,118,230)	\$17,410	\$1,850,			

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

BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENT OF BENEFICIARIES' EQUITY

For the six-month period ended June 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 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 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)	\$17,095
								28,755			214
									217		3
(4,000,000)	(40)				(96,810)						
											33
					(491)						
		6,752			110						
		245,444	39,870	2	4,338			4			
		(1,718)	61,639		(48)	423	(423)				
		(1,423)									

						(34)					34
										(2,032)	
										(3,181)	
										(56,314)	(474
-	\$-	175,389,815	1,000,966	\$1,754	\$3,165,935	\$14,107	\$(14,107)	\$568,078	\$(1,528)	\$(1,993,419)	\$16,900	

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

BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	Six-month periods ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$57,841	\$28,969
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	87,008	90,155
Amortization of deferred financing costs	1,254	1,230
Amortization of debt discount/(premium), net	351	718
Amortization of stock compensation costs	4,672	3,730
Straight-line rent income	(7,786)	(13,104)
Amortization of acquired above (below) market leases, net	(1,578)	(1,768)
Straight-line ground rent expense	107	44
Provision for doubtful accounts	706	1,250
Net gain on real estate venture transactions	(37,263)	(14,582)
Net gain on sale of interests in real estate	(2,824)	(8,411)
Provision for impairment	-	3,057
Income from Real Estate Ventures, net of distributions	2,693	(680)
Income tax provision	158	(239)
Changes in assets and liabilities:		
Accounts receivable	(230)	136
Other assets	(3,656)	(2,262)
Accounts payable and accrued expenses	(2,312)	(2,180)
Deferred income, gains and rent	(1,375)	(4,422)
Other liabilities	(235)	1,131
Net cash provided by operating activities	97,531	82,772
Cash flows from investing activities:		
Acquisition of properties	(40,240)	-
Proceeds from the sale of properties	16,771	102,083
Proceeds from real estate venture sales	42,953	27,230
Issuance of mortgage note receivable	(44,430)	-
Proceeds from repayment of mortgage notes receivable	92	-
Capital expenditures for tenant improvements	(30,072)	(19,461)
Capital expenditures for redevelopments	(10,172)	(12,501)
Capital expenditures for developments	(46,059)	(36,783)
Advances for the purchase of tenant assets, net of repayments	(253)	(1,082)
Investment in unconsolidated Real Estate Ventures	(261)	(4,982)
Deposits for real estate	(5,462)	(212)
Capital distributions from Real Estate Ventures	2,451	12,406
Leasing costs paid	(7,938)	(9,846)
Net cash (used in) provided by investing activities	(122,620)	56,852
Cash flows from financing activities:		
Repayments of mortgage notes payable	(3,136)	(2,442)

Edgar Filing: BRANDYWINE REALTY TRUST - Form 10-Q

Proceeds from credit facility borrowings	-	219,000
Repayments of credit facility borrowings	-	(19,000)
Repayments of unsecured notes	-	(300,000)
Redemption of preferred shares	-	(100,000)
Proceeds from the exercise of stock options	-	471
Proceeds from the issuance of common shares	416	-
Shares used for employee taxes upon vesting of share awards	(1,494)	(674)
Partner contributions to consolidated real estate venture	11	33
Partner distributions from consolidated real estate venture	(54)	-
Distributions paid to shareholders	(64,396)	(60,026)
Distributions to noncontrolling interest	(533)	(474)
Net cash used in financing activities	(69,186)	(263,112)
Increase (decrease) in cash and cash equivalents and restricted cash	(94,275)	(123,488)
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	\$ 109,167	\$ 71,130

Supplemental disclosure:

Cash paid for interest, net of capitalized interest during the six months ended June 30, 2018 and 2017 of \$1,577 and \$2,523, respectively	\$38,852	\$45,844
---	----------	----------

Supplemental disclosure of non-cash activity:

Dividends and distributions declared but not paid	32,493	28,376
Change in construction-in-progress related to non-cash disposition of land	22,625	-
Change in deferred income, gains and rent to the non-cash disposition of land	(25,462)	-
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	(2,636)	(3,682)
--	---------	---------

Change in capital expenditures financed through retention payable at period end	(942)	534
---	--------	-----

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)

	June 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Real estate investments:		
Operating properties	\$3,864,629	\$ 3,832,348
Accumulated depreciation	(931,194)	(895,091)
Operating real estate investments, net	2,933,435	2,937,257
Construction-in-progress	120,593	121,188
Land held for development	95,658	98,242
Prepaid leasehold interests in land held for development	40,177	-
Total real estate investments, net	3,189,863	3,156,687
Assets held for sale, net	4,254	392
Cash and cash equivalents	108,304	202,179
Accounts receivable, net of allowance of \$3,850 and \$3,467 as of June 30, 2018 and December 31, 2017, respectively	19,530	17,938
Accrued rent receivable, net of allowance of \$13,403 and \$13,645 as of June 30, 2018 and December 31, 2017, respectively	176,380	169,760
Investment in Real Estate Ventures, equity method	170,361	194,621
Deferred costs, net	96,184	96,695
Intangible assets, net	59,418	64,972
Other assets	167,225	92,204
Total assets	\$3,991,519	\$ 3,995,448
LIABILITIES AND PARTNERS' EQUITY		
Mortgage notes payable, net	\$324,289	\$ 317,216
Unsecured term loan, net	248,595	248,429
Unsecured senior notes, net	1,365,909	1,365,183
Accounts payable and accrued expenses	106,790	107,074
Distributions payable	32,493	32,456
Deferred income, gains and rent	29,239	42,593
Acquired lease intangibles, net	18,573	20,274
Other liabilities	14,856	15,623
Total liabilities	\$2,140,744	\$ 2,148,848
Commitments and contingencies (See Note 13)		
Redeemable limited partnership units at redemption value; 1,479,799 issued and outstanding as of June 30, 2018 and December 31, 2017	24,772	26,918
Brandywine Operating Partnership, L.P.'s equity:		
General Partnership Capital; 178,604,473 and 178,285,236 units issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	1,814,870	1,815,411
Accumulated other comprehensive income	8,935	2,056
Total Brandywine Operating Partnership, L.P.'s equity	1,823,805	1,817,467

Edgar Filing: BRANDYWINE REALTY TRUST - Form 10-Q

Noncontrolling interest - consolidated real estate ventures	2,198	2,215
Total partners' equity	\$1,826,003	\$ 1,819,682
Total liabilities and partners' equity	\$3,991,519	\$ 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 June 30,		Six-month periods ended June 30,	
	2018	2017	2018	2017
Revenue				
Rents	\$ 107,657	\$ 101,557	\$ 214,017	\$ 204,889
Tenant reimbursements	18,688	18,038	38,537	36,573
Termination fees	582	140	1,132	1,813
Third party management fees, labor reimbursement and leasing	4,913	7,080	12,587	13,565
Other	1,946	976	3,871	1,871
Total revenue	133,786	127,791	270,144	258,711
Operating expenses				
Property operating expenses	37,887	37,215	77,219	74,100
Real estate taxes	12,417	11,078	24,839	22,827
Third party management expenses	2,243	2,325	6,993	4,772
Depreciation and amortization	43,717	44,263	87,008	90,155
General and administrative expenses	7,523	6,659	16,246	15,984
Provision for impairment	-	327	-	3,057
Total operating expenses	103,787	101,867	212,305	210,895
Operating income	29,999	25,924	57,839	47,816
Other income (expense)				
Interest income	641	163	1,344	556
Interest expense	(19,301)	(20,304)	(38,834)	(41,741)
Interest expense - amortization of deferred financing costs	(627)	(596)	(1,254)	(1,230)
Equity in income (loss) of Real Estate Ventures	(358)	1,084	(1,183)	336
Net gain (loss) on disposition of real estate	(35)	1,088	(35)	8,411
Net gain on sale of undepreciated real estate	2,837	-	2,859	-
Net gain on Real Estate Venture transactions	-	-	37,263	14,582
Net income before income taxes	13,156	7,359	57,999	28,730
Income tax (provision) benefit	(20)	339	(158)	239
Net income	13,136	7,698	57,841	28,969
Net income attributable to noncontrolling interests - consolidated real estate ventures	(21)	(8)	(26)	(13)
Net income attributable to Brandywine Operating Partnership	13,115	7,690	57,815	28,956
Distribution to preferred unitholders	-	(307)	-	(2,032)
Preferred unit redemption charge	-	(3,181)	-	(3,181)
Nonforfeitable dividends allocated to unvested restricted unitholders	(86)	(73)	(200)	(172)
	\$ 13,029	\$ 4,129	\$ 57,615	\$ 23,571

Edgar Filing: BRANDYWINE REALTY TRUST - Form 10-Q

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

Basic income per Common Partnership Unit	\$0.07	\$0.02	\$0.32	\$0.13
Diluted income per Common Partnership Unit	\$0.07	\$0.02	\$0.32	\$0.13
Basic weighted average common partnership units outstanding	180,027,354	176,813,099	179,951,759	176,735,363
Diluted weighted average common partnership units outstanding	181,172,135	178,236,397	181,220,489	177,960,179
Distributions declared per Common Partnership Unit	\$0.18	\$0.16	\$0.36	\$0.32

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 June 30,		Six-month periods ended June 30,	
	2018	2017	2018	2017
Net income	\$13,136	\$7,698	\$57,841	\$28,969
Comprehensive income:				
Unrealized gain (loss) on derivative financial instruments	1,578	(1,385)	6,274	(371)
Amortization of interest rate contracts (1)	293	305	605	591
Total comprehensive income (loss)	1,871	(1,080)	6,879	220
Comprehensive income	15,007	6,618	64,720	29,189
Comprehensive income attributable to noncontrolling interest - consolidated real estate ventures	(21)	(8)	(26)	(13)
Comprehensive income attributable to Brandywine Operating Partnership, L.P.	\$14,986	\$6,610	\$64,694	\$29,176

(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 six-month period ended June 30, 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		57,815		26		57,841
Other comprehensive income			6,879			6,879
Deferred compensation obligation	101,060	(111)				(111)
Issuance of LP Units	23,311	416				416
Issuance of partnership interest in consolidated real estate venture				11		11
Distributions from consolidated real estate venture				(54)		(54)
Share Choice Plan issuance	(1,285)					-
Share-based compensation activity	196,151	4,215				4,215
Adjustment of redeemable partnership units to liquidation value at period end		1,613				1,613
Distributions to general partnership unitholders (\$0.36 per unit)		(64,489)				(64,489)
BALANCE, June 30, 2018	178,604,473	\$ 1,814,870	\$ 8,935	\$ 2,198		\$1,826,003

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

BRANDYWINE OPERATING PARTNERSHIP, L.P.

CONSOLIDATED STATEMENT OF PARTNERS' EQUITY

For the six-month period ended June 30, 2017

(unaudited, in thousands, except number of units)

	Series E-Linked Preferred Mirror Units		General Partner Capital		Noncontrolling Accumulated Interest - Other Consolidated Comprehensive Real Estate Income/(Loss) 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				28,956		13	28,969
Other comprehensive income					220		220
Redemption of Preferred Mirror Units	(4,000,000)	(96,850)					(96,850)
Deferred compensation obligation			(1,718)	(48)			(48)
Issuance of LP Units				(491)			(491)
Issuance of partnership interest in consolidated real estate venture						33	33
Share Choice Plan issuance			(1,423)				-
Bonus share issuance			6,752	110			110
Share-based compensation activity			245,444	4,344			4,344
Adjustment of redeemable partnership units to liquidation value at period end				(2,605)			(2,605)
Distributions to Preferred Mirror Units				(2,032)			(2,032)
Preferred Mirror Units redemption charge				(3,181)			(3,181)
Distributions to general partnership unitholders (\$0.32 per unit)				(56,314)			(56,314)

BALANCE, June 30, 2017	-	\$-	175,389,815	\$1,731,503	\$ (1,902) \$ 2,196	\$1,731,797
---------------------------	---	-----	-------------	-------------	-----------	------------	-------------

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)

	Six-month periods ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$57,841	\$28,969
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	87,008	90,155
Amortization of deferred financing costs	1,254	1,230
Amortization of debt discount/(premium), net	351	718
Amortization of stock compensation costs	4,672	3,730
Straight-line rent income	(7,786)	(13,104)
Amortization of acquired above (below) market leases, net	(1,578)	(1,768)
Straight-line ground rent expense	107	44
Provision for doubtful accounts	706	1,250
Net gain on real estate venture transactions	(37,263)	(14,582)
Net gain on sale of interests in real estate	(2,824)	(8,411)
Provision for impairment	-	3,057
Income from Real Estate Ventures, net of distributions	2,693	(680)
Income tax provision	158	(239)
Changes in assets and liabilities:		
Accounts receivable	(230)	136
Other assets	(3,656)	(2,262)
Accounts payable and accrued expenses	(2,312)	(2,180)
Deferred income, gains and rent	(1,375)	(4,422)
Other liabilities	(235)	1,131
Net cash provided by operating activities	97,531	82,772
Cash flows from investing activities:		
Acquisition of properties	(40,240)	-
Proceeds from the sale of properties	16,771	102,083
Proceeds from real estate venture sales	42,953	27,230
Issuance of mortgage note receivable	(44,430)	-
Proceeds from repayment of mortgage notes receivable	92	-
Capital expenditures for tenant improvements	(30,072)	(19,461)
Capital expenditures for redevelopments	(10,172)	(12,501)
Capital expenditures for developments	(46,059)	(36,783)
Advances for the purchase of tenant assets, net of repayments	(253)	(1,082)
Investment in unconsolidated Real Estate Ventures	(261)	(4,982)
Deposits for real estate	(5,462)	(212)
Escrowed cash	-	-
Capital distributions from Real Estate Ventures	2,451	12,406
Leasing costs paid	(7,938)	(9,846)
Net cash (used in) provided by investing activities	(122,620)	56,852
Cash flows from financing activities:		

Edgar Filing: BRANDYWINE REALTY TRUST - Form 10-Q

Repayments of mortgage notes payable	(3,136)	(2,442)
Proceeds from credit facility borrowings	-	219,000
Repayments of credit facility borrowings	-	(19,000)
Repayments of unsecured notes	-	(300,000)
Redemption of preferred shares	-	(100,000)
Proceeds from the exercise of stock options	-	471
Proceeds from the issuance of common shares	416	-
Shares used for employee taxes upon vesting of share awards	(1,494)	(674)
Partner contributions to consolidated real estate venture	11	33
Partner distributions from consolidated real estate venture	(54)	-
Distributions paid to preferred and common partnership units	(64,929)	(60,500)
Net cash used in financing activities	(69,186)	(263,112)
Increase (decrease) in cash and cash equivalents and restricted cash	(94,275)	(123,488)
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	\$ 109,167	\$ 71,130

Supplemental disclosure:

Cash paid for interest, net of capitalized interest during the six months ended June 30, 2018 and 2017 of \$1,577 and \$2,523, respectively	\$ 38,852	\$ 45,844
---	-----------	-----------

Supplemental disclosure of non-cash activity:

Dividends and distributions declared but not paid	32,493	28,376
Change in construction-in-progress related to non-cash disposition of land	22,625	-
Change in deferred income, gains and rent to the non-cash disposition of land	(25,462)	-
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	(2,636)	(3,682)
--	---------	---------

Change in capital expenditures financed through retention payable at period end	(942)	534
---	--------	-----

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

June 30, 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 June 30, 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 June 30, 2018, the Company owned 93 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 June 30, 2018, excludes two development properties and five redevelopment properties under construction or committed for construction (collectively, the “Core Properties”). The Properties were comprised of the following as of June 30, 2018:

	Number of Properties	Rentable Square Feet
Office properties	81	14,966,602
Mixed-use properties	4	646,741
Retail properties	1	17,884
Core Properties	86	15,631,227
Development properties	2	247,818
Redevelopment properties	5	583,719
The Properties	93	16,462,764

In addition to the Properties, as of June 30, 2018, the Company owned land held for development, comprised of 199 acres of undeveloped land, of which 2.7 acres were held for sale, 2.0 acres related to leasehold interests in two land parcels, each acquired through prepaid 99-year ground leases, and held options to purchase approximately 58 additional acres of undeveloped land. As of June 30, 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, of which 0.1 million square feet relates to 2.7 acres held for sale. As of June 30, 2018, the Company also owned interests in unconsolidated real estate ventures (see Note 4, “Investment in Unconsolidated Real Estate Ventures,” for further information). 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.

The Company conducts its third-party real estate management services business primarily through wholly-owned management company subsidiaries. As of June 30, 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 June 30, 2018, the results of its operations for the three- and six-month periods ended June 30, 2018 and 2017 and its cash flows for the six-month periods ended June 30, 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 six-month period ended June 30, 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

On March 22, 2018, the Company acquired, through a 99-year ground lease, the leasehold interest in a one-acre land parcel, and recorded a prepaid asset of \$24.9 million within the "Other assets" caption of the consolidated balance sheets. During the second quarter of 2018, the Company reclassified the entire balance into the "Prepaid leasehold interests in land held for development" caption in the consolidated balance sheets.

Through the three- and six-month periods ended June 30, 2017, the Company included \$0.3 million and \$0.2 million of income tax benefit in general and administrative expenses, respectively. 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 for the three- and six-month periods ended June 30, 2017, included herein, the Company reclassified \$0.3 million and \$0.2 million of net income tax benefit out of general and administrative expenses into the "Income tax (provision) benefit" caption in the consolidated statements of operations 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 define restricted cash or restricted cash equivalents. As of June 30, 2018 and June 30, 2017, the Company had \$0.9 million and \$33.2 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 end 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 six-months ended June 30, 2017 operating cash flows increased by \$0.5 million, which is reflected within the change in other assets caption. In addition, investing cash flows for the six months ended June 30, 2017 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 of the consolidated statements of cash flows.

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.

Edgar Filing: BRANDYWINE REALTY TRUST - Form 10-Q

The following is a summary of revenue earned by the Company's reportable segments (see Note 12, "Segment Information," for further information) during the three- and six-month periods ended June 30, 2018 (in thousands):

	Three-month period ended June 30, 2018						Total
	Philadelphia CBD	Pennsylvania Suburbs	Metropolitan Washington, D.C.	Austin, Texas	Other	Corporate	
Base rent	\$40,476	\$ 29,919	\$ 20,861	\$4,949	\$2,109	\$ (486)	\$97,828
Straight-line rent	2,943	507	(361)	(49)	106	(120)	3,026
Point of sale	6,280	80	256	129	58	-	6,803
Total rents	49,699	30,506	20,756	5,029	2,273	(606)	107,657
Tenant reimbursements	12,132	3,170	857	1,991	661	(123)	18,688
Termination fees	108	405	69	-	-	-	582
Third party management fees, labor reimbursement and leasing	217	4	1,386	1,431	404	1,471	4,913
Other income	1,368	248	131	18	1	180	1,946
Total revenue	\$63,524	\$ 34,333	\$ 23,199	\$8,469	\$3,339	\$ 922	\$133,786

	Six-month period ended June 30, 2018						Total
	Philadelphia CBD	Pennsylvania Suburbs	Metropolitan Washington, D.C.	Austin, Texas	Other	Corporate	
Base rent	\$79,651	\$ 59,813	\$ 40,940	\$9,434	\$4,305	\$ (972)	\$193,171
Straight-line rent	7,282	1,006	(153)	207	124	(235)	8,231
Point of sale	11,621	128	496	251	119	-	12,615
Total rents	98,554	60,947	41,283	9,892	4,548	(1,207)	214,017
Tenant reimbursements	24,498	7,091	1,785	3,972	1,426	(235)	38,537
Termination fees	155	839	138	-	-	-	1,132
Third party management fees, labor reimbursement and leasing	429	12	2,851	2,932	3,499	2,864	12,587
Other income	2,490	326	201	37	7	810	3,871
Total revenue	\$126,126	\$ 69,215	\$ 46,258	\$16,833	\$9,480	\$ 2,232	\$270,144

Rental Revenue

The Company owns, operates and manages commercial real estate. Rental revenue is earned by leasing commercial space to the Company's tenants. Rental revenue is recognized on a straight-line basis over the term of the leases. The

Company's primary source of revenue is 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 with third-party vendors and suppliers for goods and services to fulfill certain of the Company's obligations to tenants. The Company is reimbursed by tenants for these goods and services in the period that the expenses are incurred based on the terms of the lease agreements 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, and (iv) 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 June 30, 2018, the Company has no outstanding assets or liabilities associated with the Company's third party management contracts.

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

On July 1, 2016, the Company closed on the acquisition of 34.6 acres of land located in Austin, Texas known as the Garza Ranch, for a purchase price of \$20.6 million. As of June 30, 2018, the Company sold three parcels containing 8.4 acres, 1.7 acres and 6.6 acres to three unaffiliated third parties. Two of the land parcels were sold to third party developers on January 30, 2017 and April 28, 2017 and the third land parcel was sold to a third party on March 16, 2018. 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. These improvement costs were included in the sale price of each land parcel. Due to the completion guarantee, the Company did not transfer control to the buyers of the land parcels and recognition of the sale was deferred until the improvements were substantially complete. The cash received at settlement was recorded as “Deferred income, gains and rent” on the Company’s consolidated balance sheets.

As a result, the Company transferred control of the land parcels to the buyers and recognized the land sales. Accordingly, during the three-month period ended June 30, 2018, the Company applied the cash proceeds received from the settlements of each parcel and recorded an aggregate \$2.8 million deferred gain, which was recorded in the “Net gain on sale of undepreciated real estate” caption in its consolidated statements of operations. The following table details the gain on sale for each land parcel, as of June 30, 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	\$1,424
April 28, 2017	Garza Ranch - Multifamily	Austin, TX	1	8.4	11,800	11,560	1,233
January 30, 2017	Garza Ranch - Hotel	Austin, TX	1	1.7	3,500	3,277	180
Total Dispositions			3	16.7	\$29,871	\$29,346	\$2,837

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 and the Company received cash proceeds of \$11.2 million, after closing costs and prorations. 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 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 June 2018, the FASB issued ASU No. 2018-07 that aligns the accounting for share-based payment awards issued to employees and nonemployees. Under previously issued GAAP guidance, the accounting for nonemployee share-based payments differed from that applied to employee awards, particularly with regard to the measurement date and the impact of performance conditions. Under the revised guidance, the existing employee guidance will apply to nonemployee share-based transactions (as long as the transaction is not effectively a form of financing), with the exception of specific guidance related to the attribution of compensation cost. The cost of nonemployee awards will continue to be recorded as if the grantor had paid cash for the goods or services. In addition, the contractual term will be able to be used in lieu of an expected term in the option-pricing model for nonemployee awards. Changes to the accounting for nonemployee awards include:

• Equity-classified share-based payment awards issued to nonemployees will now be measured on the grant date, instead of the previous requirement to remeasure the awards through the performance completion date.

• Compensation cost associated with the award will be recognized when achievement of the performance condition is probable, rather than upon achievement of the performance condition.

• The current requirement to reassess the classification (equity or liability) for nonemployee awards upon vesting will be eliminated, except for awards in the form of convertible instruments.

• The revised guidance also clarifies that any share-based payment awards issued to customers should be evaluated under ASC 606, Revenue from Contracts with Customers.

The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. The Company is in the process of evaluating the impact of this new guidance on its consolidated financial statements.

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 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 lease ASU requires the use of the modified retrospective transition method and does not allow for a full retrospective approach. However, it provides two options for application of the modified retrospective transition method:

• Under the first option, the ASU requires the application of the standard to all leases that exist at or commence after, January 1, 2017 (the beginning of the earliest comparative period presented in the 2019 financial statements), with a cumulative adjustment to the opening balance of retained earnings on January 1, 2017, for the effect of applying the standard at the date of initial applications, and restatement of the amounts presented prior to January 1, 2019.

• Under the second option, an entity may elect a package of practical expedients, which allows for the following:

- o An entity need not reassess whether any expired or existing contracts are or contain leases;
- o An entity need not reassess the lease classification for any expired or existing leases; and
- o An entity need not reassess initial direct costs for any existing leases.

This package of practical expedients is available as a single election that must be consistently applied to all existing leases at the date of adoption. Lessors that adopt this package are not expected to reassess expired or existing leases at the date of initial application, which is January 1, 2017, under the ASU. This option enables entities to account for their existing leases for the remainder of the respective lease terms following previous accounting guidance, which eliminates the need to calculate a cumulative adjustment to the opening balance of retained earnings.

In addition, there is a practical expedient that allows the Company to use hindsight when determining the lease term and assessing the fair value of right of use assets. After considering its impact, the Company has decided not to elect the hindsight expedient as part of the application of the modified retrospective transition method.

Furthermore, in March 2018, the FASB proposed an amendment to the package of practical expedients that provides an optional transition method to make January 1, 2019 the initial application date of the ASU, rather than January 1, 2017. Entities that elect both the package of practical expedients and the optional transitional method will apply the new lease ASU prospectively, to leases commencing or modified after January 1, 2019, and will not be required to apply the disclosures under the new lease ASU to comparative periods.

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 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 March 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. Nonlease components that do not meet the criteria of this practical expedient will be accounted for under the new revenue recognition ASU.

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. Additionally, the Company has determined that it is going to elect to apply the package of practical expedients when applying the modified retrospective approach.

3. REAL ESTATE INVESTMENTS

As of June 30, 2018 and December 31, 2017, the gross carrying value of the operating properties was as follows (in thousands):

	June 30, 2018	December 31, 2017
Land	\$497,517	\$ 492,197
Building and improvements	2,911,910	2,896,113
Tenant improvements	455,202	444,038
Total	\$3,864,629	\$ 3,832,348

Acquisitions

On June 29, 2018, the Company acquired, through a 99-year ground lease, the leasehold interest in a one-acre land parcel, located at 3025 JFK Boulevard, in Philadelphia, Pennsylvania. The Company prepaid \$15.0 million of ground lease rent and, in accordance with ASC 840, capitalized \$0.3 million of costs related to entering the lease. Additionally, the ground lease required the Company to pay \$5.6 million for a leasehold valuation credit, which can be applied to increase the density of the projects subject to the Schuylkill Yards Project master development agreement. Of this credit, \$2.4 million will be applied to the development of 3001-3003 and 3025 JFK Boulevard if the Company constructs a minimum of 1.2 million square feet of floor area ratio ("FAR") on these land parcels. The remaining credit of \$3.2 million can be used for development in excess of 1.2 million FAR at 3001-3003 and 3025 JFK Boulevard or toward future ground lease takedowns at the Schuylkill Yards Development Site. This \$3.2 million credit is reimbursed if the master development agreement is terminated by the landowner. Based on the Company's evaluation under ASC 840, the ground lease is classified as an operating lease. The ground lease and credit are included in the "Prepaid leasehold interests in land held for development" and "Other assets" captions, respectively, in the consolidated balance sheets.

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, in accordance with ASC 840, capitalized \$0.3 million of costs related to entering the lease. Based on the Company's evaluation under ASC 840, the ground lease is classified as an operating lease and included in the "Prepaid leasehold interests in land held for development" caption in the consolidated balance sheets.

On January 5, 2018, the Company acquired, from its then partner in each of the Four Tower Bridge real estate venture and the Seven Tower Bridge real estate venture, the partner's 35% ownership interest in the Four Tower Bridge real estate venture in exchange for the Company's 20% ownership interest in the Seven Tower Bridge real estate venture. As a result of this non-monetary exchange, the Company acquired 100% of the Four Tower Bridge real estate venture, which owns 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 Company's acquisition of the 35% ownership interest in Four Tower Bridge from its former partner 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 and \$1.4 million of revenue and \$0.1 million of net loss and \$0.1 million of net income, included in the Company's consolidated income statements, for the three- and six-month periods ended June 30, 2018, respectively.

Dispositions

The Company sold the following office property during the six-month period ended June 30, 2018 (dollars in thousands):

Disposition Date	Property/Portfolio Name	Location	Type	Number of Properties	Rentable Square Feet	Sales Price	Net Proceeds on Sale	Loss on Sale
June 21, 2018								