

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.)

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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

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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.

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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)

	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

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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

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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 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	Nonconforming Interests
4,000,000	\$40	175,140,760	899,457	\$1,752	\$3,258,870	\$13,684	\$(13,684)	\$539,319	\$(1,745)	\$(1,931,892)	\$17,095
								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)

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

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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	Six-month periods ended
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