BRANDYWINE REALTY TRUST
Form 10-Q
July 27, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2017

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission file number

001-9106 (Brandywine Realty Trust)

000-24407 (Brandywine Operating Partnership, L.P.)

Brandywine Realty Trust

Brandywine Operating Partnership, L.P.

(Exact name of registrant as specified in its charter)

MARYLAND (Brandywine Realty Trust)	23-2413352
DELAWARE (Brandywine Operating Partnership L.P.)	23-2862640
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

555 East Lancaster Avenue	
Radnor, Pennsylvania	19087
(Address of principal executive offices)	(Zip Code)

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

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

Brandywine Realty Trust	Yes	No
Brandywine Operating Partnership, L.P.	Yes	No

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

Brandywine Realty Trust	Yes	No
Brandywine Operating Partnership, L.P.	Yes	No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Brandywine Realty Trust:

Large accelerated filer	Accelerated filer	Non-accelerated filer
Smaller reporting company	Emerging growth company	

Brandywine Operating Partnership, L.P.:

Large accelerated filer	Accelerated filer	Non-accelerated filer
Smaller reporting company	Emerging growth company	

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Brandywine Realty Trust	Yes	No
Brandywine Operating Partnership, L.P.	Yes	No

A total of 175,389,815 Common Shares of Beneficial Interest, par value $0.01 per share of Brandywine Realty Trust, were outstanding as of July 21, 2017.

EXPLANATORY NOTE

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

The Parent Company is the sole general partner of the Operating Partnership and, as of June 30, 2017, owned a 99.2% interest in the Operating Partnership. The remaining 0.8% interest consists of common units of limited partnership interest issued by the Operating Partnership to third parties in exchange for contributions of properties to the Operating Partnership. As the sole general partner of the Operating Partnership, the Parent Company has full and complete authority over the Operating Partnership's day-to-day operations and management.

Management operates the Parent Company and the Operating Partnership as one enterprise. The management of the Parent Company consists of the same members as the management of the Operating Partnership.

As general partner with control of the Operating Partnership, the Parent Company consolidates the Operating Partnership for financial reporting purposes, and the Parent Company does not have significant assets other than its investment in the Operating Partnership. Therefore, the assets and liabilities of the Parent Company and the Operating Partnership are the same on their respective financial statements. The separate discussions of the Parent Company and the Operating Partnership in this report should be read in conjunction with each other to understand the results of the Company's operations on a consolidated basis and how management operates the Company.

The Company believes that combining the quarterly reports on Form 10-Q of the Parent Company and the Operating Partnership into a single report will result in the following benefits:

- facilitate a better understanding by the investors of the Parent Company and the Operating Partnership by enabling them to view the business as a whole in the same manner as management views and operates the business;
- remove duplicative disclosures and provide a more straightforward presentation in light of the fact that a substantial portion of the disclosure applies to both the Parent Company and the Operating Partnership; and
- create time and cost efficiencies through the preparation of one combined report instead of two separate reports.

There are few differences between the Parent Company and the Operating Partnership, which are reflected in the footnote disclosures in this report. The Company believes it is important to understand the differences between the Parent Company and the Operating Partnership in the context of how these entities operate as an interrelated consolidated company. The Parent Company is a REIT, whose only material asset is its ownership of partnership interests of the Operating Partnership. As a result, the Parent Company does not conduct business itself, other than acting as the sole general partner of the Operating Partnership, issuing equity from time to time and guaranteeing the debt obligations of the Operating Partnership. The Operating Partnership holds substantially all the assets of the Company and directly or indirectly holds the ownership interests in the Company's Real Estate Ventures. The Operating Partnership conducts the operations of the Company's business and is structured as a partnership with no publicly traded equity. Except for net proceeds from equity issuances by the Parent Company, which are contributed to the Operating Partnership in exchange for partnership units, the Operating Partnership generates the capital required by the Company's business through the Operating Partnership's operations, by the Operating Partnership's incurrence of indebtedness (directly and through subsidiaries) and through the issuance of partnership units of the Operating Partnership or equity interests in subsidiaries of the Operating Partnership.

The equity and non-controlling interests in the Parent Company and the Operating Partnership's equity are the main areas of difference between the consolidated financial statements of the Parent Company and the Operating

Partnership. The common units of limited partnership interest in the Operating Partnership are accounted for as partners' equity in the Operating Partnership's financial statements while the common units of limited partnership interests held by parties other than the Parent Company are presented as non-controlling interests in the Parent Company's financial statements. The differences between the Parent Company and the Operating Partnership's equity relate to the differences in the equity issued at the Parent Company and Operating Partnership levels.

To help investors understand the significant differences between the Parent Company and the Operating Partnership, this report presents the following as separate notes or sections for each of the Parent Company and the Operating Partnership:

- Consolidated Financial Statements; and
- Notes to the Parent Company's and Operating Partnership's Equity.

This report also includes separate Item 4. (Controls and Procedures) disclosures and separate Exhibit 31 and 32 certifications for each of the Parent Company and the Operating Partnership in order to establish that the Chief Executive Officer and the Chief Financial Officer of each entity have made the requisite certifications and that the Parent Company and Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. § 1350.

In order to highlight the differences between the Parent Company and the Operating Partnership, the separate sections in this report for the Parent Company and the Operating Partnership specifically refer to the Parent Company and the Operating Partnership. In the sections that combine disclosures of the Parent Company and the Operating Partnership, this report refers to such disclosures as those of the Company. Although the Operating Partnership is generally the entity that directly or indirectly enters into contracts and real estate ventures and holds assets and incurs debt, reference to the Company is appropriate because the business is one enterprise and the Parent Company operates the business through the Operating Partnership.

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Filing Format

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

PART I - FINANCIAL INFORMATION

Item 1. — Financial Statements

BRANDYWINE REALTY TRUST

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share information)

ASSETS	June 30, 2017 (unaudited)	December 31, 2016
Real estate investments:		
Operating properties	$3,769,678	$3,586,295
Accumulated depreciation	(882,228)	(852,476)
Operating real estate investments, net	2,887,450	2,733,819
Construction-in-progress	119,690	297,462
Land held for development	125,157	150,970
Total real estate investments, net	3,132,297	3,182,251
Assets held for sale, net	5,569	41,718
Cash and cash equivalents	37,900	193,919
Accounts receivable, net of allowance of $2,936 and $2,373 as of June 30, 2017 and December 31, 2016, respectively	13,151	12,446
Accrued rent receivable, net of allowance of $13,857 and $13,743 as of June 30, 2017 and December 31, 2016, respectively	158,420	149,624
Investment in Real Estate Ventures, equity method	262,107	281,331
Deferred costs, net	93,410	91,342
Intangible assets, net	59,410	72,478
Other assets	110,185	74,104
Total assets	$3,872,449	$4,099,213
LIABILITIES AND BENEFICIARIES' EQUITY		
Mortgage notes payable, net	$319,405	$321,549
Unsecured credit facility	200,000	-
Unsecured term loans, net	248,264	248,099
Unsecured senior notes, net	1,144,503	1,443,464
Accounts payable and accrued expenses	99,904	103,404
Distributions payable	28,376	30,032
Deferred income, gains and rent	40,764	31,620
Acquired lease intangibles, net	15,989	18,119
Liabilities related to assets held for sale	-	81
Other liabilities	17,521	19,408
Total liabilities	$2,114,726	$2,215,776
Commitments and contingencies (See Note 13)		
Brandywine Realty Trust's Equity:		
Preferred Shares (shares authorized-20,000,000)		
6.90% Series E Preferred Shares, $0.01 par value; issued and outstanding- 0 as of June 30, 2017 and 4,000,000 as of December 31, 2016	-	40
	1,754	1,752

Common Shares of Brandywine Realty Trust's beneficial interest, $0.01 par value; shares authorized 400,000,000; 175,389,815 and 175,140,760 issued and outstanding as of June 30, 2017 and December 31, 2016, respectively		
Additional paid-in-capital	3,165,935	3,258,870
Deferred compensation payable in common shares	14,107	13,684
Common shares in grantor trust, 1,000,966 as of June 30, 2017, 899,457 as of December 31, 2016	(14,107)	(13,684)
Cumulative earnings	568,078	539,319
Accumulated other comprehensive loss	(1,528)	(1,745)
Cumulative distributions	(1,993,419)	(1,931,892)
Total Brandywine Realty Trust's equity	1,740,820	1,866,344
Non-controlling interests	16,903	17,093
Total beneficiaries' equity	$ 1,757,723	$ 1,883,437
Total liabilities and beneficiaries' equity	$ 3,872,449	$ 4,099,213

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

BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three-month periods ended June 30, 2017	Three-month periods ended June 30, 2016	Six-month periods ended June 30, 2017	Six-month periods ended June 30, 2016
Revenue				
Rents	$101,557	$103,624	$204,889	$213,787
Tenant reimbursements	18,038	15,937	36,573	35,991
Termination fees	140	554	1,813	848
Third party management fees, labor reimbursement and leasing	7,080	6,208	13,565	11,443
Other	976	858	1,871	1,614
Total revenue	127,791	127,181	258,711	263,683
Operating expenses				
Property operating expenses	37,215	36,079	74,100	76,958
Real estate taxes	11,078	11,481	22,827	23,367
Third party management expenses	2,325	2,661	4,772	4,671
Depreciation and amortization	44,263	46,907	90,155	95,780
General and administrative expenses	6,320	6,076	15,745	15,196
Provision for impairment	327	5,679	3,057	13,069
Total operating expenses	101,528	108,883	210,656	229,041
Operating income	26,263	18,298	48,055	34,642
Other income (expense)				
Interest income	163	359	556	679
Interest expense	(20,304)	(19,829)	(41,741)	(43,520)
Interest expense - amortization of deferred financing costs	(596)	(644)	(1,230)	(1,418)
Interest expense - financing obligation	-	(242)	-	(523)
Equity in income (loss) of Real Estate Ventures	1,084	(1,666)	336	(2,069)
Net gain (loss) on disposition of real estate	1,088	(727)	8,411	114,729
Net gain on Real Estate Venture transactions	-	3,128	14,582	9,057
Loss on early extinguishment of debt	-	-	-	(66,590)
Net income (loss)	7,698	(1,323)	28,969	44,987
Net (income) loss attributable to non-controlling interests	(45)	22	(214)	(367)
Net income (loss) attributable to Brandywine Realty Trust	7,653	(1,301)	28,755	44,620
Distribution to preferred shareholders	(307)	(1,725)	(2,032)	(3,450)
Preferred share redemption charge	(3,181)	-	(3,181)	-
Nonforfeitable dividends allocated to unvested restricted shareholders	(73)	(79)	(172)	(184)
Net income (loss) attributable to Common Shareholders of Brandywine Realty Trust	$4,092	$(3,105)	$23,370	$40,986
Basic income (loss) per Common Share	$0.02	$(0.02)	$0.13	$0.23

Diluted income (loss) per Common Share	$0.02	$(0.02)	$0.13	$0.23
Basic weighted average shares outstanding	175,333,300	175,013,291	175,255,564	174,901,118
Diluted weighted average shares outstanding	176,756,598	175,013,291	176,480,380	175,823,970
Distributions declared per Common Share	$0.16	$0.16	$0.32	$0.31

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,	
	2017	2016	2017	2016
Net income (loss)	$7,698	$(1,323)	$28,969	$44,987
Comprehensive income:				
Unrealized loss on derivative financial instruments	(1,385)	(3,813)	(371)	(13,218)
Reclassification of realized losses on derivative financial instruments to operations, net (1)	305	286	591	532
Total comprehensive income (loss)	(1,080)	(3,527)	220	(12,686)
Comprehensive income (loss)	6,618	(4,850)	29,189	32,301
Comprehensive (income) loss attributable to non-controlling interest	(36)	51	(217)	(258)
Comprehensive income (loss) attributable to Brandywine Realty Trust	$6,582	$(4,799)	$28,972	$32,043

(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, 2017

(unaudited, in thousands, except number of shares)

Number of Preferred Shares	Par Value of Preferred Shares	Number of Common Shares	Number of Rabbi Trust/Deferred Compensation Shares	Common Shares of Brandywine Realty Trust's beneficial interest	Additional Paid-in Capital	Deferred Compensation Payable in Common Shares	Common Shares in Grantor Trust	Cumulative Earnings	Accumulated Other Comprehensive Income (Loss)	Cumulative Distributions	Non-C Interes
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)	$17,0
								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)	$16,9	

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

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BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENT OF BENEFICIARIES' EQUITY

For the six-month period ended June 30, 2016

(unaudited, in thousands, except number of shares)

	Number of Preferred Shares	Par Value of Preferred Shares	Number of Common Shares	Number of Rabbi Trust/Deferred Compensation Shares	Common Shares of Brandywine Realty Trust's beneficial interest	Additional Paid-in Capital	Deferred Compensation Payable in Common Shares	Common Shares in Grantor Trust	Cumulative Earnings	Accumulated Other Comprehensive Loss	Cumulative Distributions	Non-Co Interest
	4,000,000	$40	174,688,568	745,686	$1,747	$3,252,622	$11,918	$(11,918)	$499,086	$(5,192)	$(1,814,378)	$18,16
									44,620			367
										(12,577)		(109
												54
s			55,303		1	874						(875
			365,414		3	3,575			37			
			(8,252)	155,583		(46)	1,826	(1,826)				
g						(290)						290
											(3,450)	
											(54,272)	(467

4,000,000	$40	175,101,033	901,269	$1,751	$3,256,735	$13,744	$(13,744)	$543,743	$(17,769)	$(1,872,100)	$17,42

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

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BRANDYWINE REALTY TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	Six-month periods ended June 30, 2017	2016
Cash flows from operating activities:		
Net income	$28,969	$44,987
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	90,155	95,780
Amortization of deferred financing costs	1,230	1,418
Amortization of debt discount/(premium), net	718	745
Amortization of stock compensation costs	3,705	2,947
Straight-line rent income	(13,104)	(13,699)
Amortization of acquired above (below) market leases, net	(1,768)	(3,585)
Straight-line ground rent expense	44	44
Provision for doubtful accounts	1,250	427
Net gain on real estate venture transactions	(14,582)	(9,057)
Net gain on sale of interests in real estate	(8,411)	(114,729)
Loss on early extinguishment of debt	-	66,590
Provision for impairment	3,057	13,069
Real Estate Venture loss in excess of distributions	(680)	2,655
Deferred financing obligation	-	(528)
Changes in assets and liabilities:		
Accounts receivable	136	3,159
Other assets	(3,000)	(898)
Accounts payable and accrued expenses	(2,180)	(5,129)
Deferred income, gains and rent	(4,422)	(1,408)
Other liabilities	1,131	592
Net cash provided by operating activities	82,248	83,380
Cash flows from investing activities:		
Proceeds from the sale of properties	102,083	748,395
Proceeds from real estate venture sales	27,230	4,812
Capital expenditures for tenant improvements	(19,461)	(25,939)
Capital expenditures for redevelopments	(12,501)	(8,333)
Capital expenditures for developments	(36,783)	(105,879)
Advances for the purchase of tenant assets, net of repayments	(1,082)	(3,614)
Investment in unconsolidated Real Estate Ventures	(4,982)	(15,300)
Deposits for real estate	(212)	(928)
Escrowed cash	(32,007)	6,993
Cash distribution from unconsolidated Real Estate Ventures in excess of cumulative equity income	12,406	10,298
Leasing costs paid	(9,846)	(10,220)
Net cash provided by investing activities	24,845	600,285
Cash flows from financing activities:		
Proceeds from mortgage notes payable	-	86,900

Repayments of mortgage notes payable	(2,442)	(354,754)
Proceeds from credit facility borrowings	219,000	195,000
Repayments of credit facility borrowings	(19,000)	(195,000)
Repayments of unsecured notes	(300,000)	(149,919)
Debt financing costs paid	-	(477)
Redemption of preferred shares	(100,000)	-
Proceeds from the exercise of stock options	471	826
Shares used for employee taxes upon vesting of share awards	(674)	(879)
Partner contributions to consolidated real estate venture	33	54
Distributions paid to shareholders	(60,026)	(56,052)
Distributions to non-controlling interest	(474)	(461)
Net cash used in financing activities	(263,112)	(474,762)
Increase (decrease) in cash and cash equivalents	(156,019)	208,903
Cash and cash equivalents at beginning of year	193,919	56,694
Cash and cash equivalents at end of period	$37,900	$265,597
Supplemental disclosure:		
Cash paid for interest, net of capitalized interest during the six months ended June 30, 2017 and 2016 of $2,523 and $7,387, respectively	$45,844	$52,559
Supplemental disclosure of non-cash activity:		
Dividends and distributions declared but not paid	28,376	29,880
Change in investment in real estate ventures as a result of dispositions	12,549	2,023
Change in investment in real estate ventures related to non-cash disposition of property	-	25,165
Change in capital expenditures financed through accounts payable at period end	(3,682)	(4,814)
Change in capital expenditures financed through retention payable at period end	534	1,009

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)

ASSETS	June 30, 2017 (unaudited)	December 31, 2016
Real estate investments:		
Operating properties	$3,769,678	$ 3,586,295
Accumulated depreciation	(882,228)	(852,476)
Operating real estate investments, net	2,887,450	2,733,819
Construction-in-progress	119,690	297,462
Land held for development	125,157	150,970
Total real estate investments, net	3,132,297	3,182,251
Assets held for sale, net	5,569	41,718
Cash and cash equivalents	37,900	193,919
Accounts receivable, net of allowance of $2,936 and $2,373 as of June 30, 2017 and December 31, 2016, respectively	13,151	12,446
Accrued rent receivable, net of allowance of $13,857 and $13,743 as of June 30, 2017 and December 31, 2016, respectively	158,420	149,624
Investment in Real Estate Ventures, equity method	262,107	281,331
Deferred costs, net	93,410	91,342
Intangible assets, net	59,410	72,478
Other assets	110,185	74,104
Total assets	$3,872,449	$ 4,099,213
LIABILITIES AND PARTNERS' EQUITY		
Mortgage notes payable, net	$319,405	$ 321,549
Unsecured credit facility	200,000	-
Unsecured term loans, net	248,264	248,099
Unsecured senior notes, net	1,144,503	1,443,464
Accounts payable and accrued expenses	99,904	103,404
Distributions payable	28,376	30,032
Deferred income, gains and rent	40,764	31,620
Acquired lease intangibles, net	15,989	18,119
Liabilities related to assets held for sale	-	81
Other liabilities	17,521	19,408
Total liabilities	$2,114,726	$ 2,215,776
Commitments and contingencies (See Note 13)		
Redeemable limited partnership units at redemption value; 1,479,799 issued and outstanding in as of June 30, 2017 and December 31, 2016	25,926	23,795
Brandywine Operating Partnership, L.P.'s equity:		
6.90% Series E-Linked Preferred Mirror Units; issued and outstanding- 0 as of June 30, 2017 and 4,000,000 as of December 31, 2016	-	96,850
General Partnership Capital; 175,389,815 and 175,140,760 units issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	1,731,503	1,762,764
Accumulated other comprehensive loss	(1,902)	(2,122)
Total Brandywine Operating Partnership, L.P.'s equity	1,729,601	1,857,492

Non-controlling interest - consolidated real estate ventures	2,196	2,150
Total partners' equity	$1,731,797	$ 1,859,642
Total liabilities and partners' equity	$3,872,449	$ 4,099,213

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

BRANDYWINE OPERATING PARTNERSHIP, L.P.

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2017	2016	2017	2016
Revenue				
Rents	$101,557	$103,624	$204,889	$213,787
Tenant reimbursements	18,038	15,937	36,573	35,991
Termination fees	140	554	1,813	848
Third party management fees, labor reimbursement and leasing	7,080	6,208	13,565	11,443
Other	976	858	1,871	1,614
Total revenue	127,791	127,181	258,711	263,683
Operating expenses				
Property operating expenses	37,215	36,079	74,100	76,958
Real estate taxes	11,078	11,481	22,827	23,367
Third party management expenses	2,325	2,661	4,772	4,671
Depreciation and amortization	44,263	46,907	90,155	95,780
General and administrative expenses	6,320	6,076	15,745	15,196
Provision for impairment	327	5,679	3,057	13,069
Total operating expenses	101,528	108,883	210,656	229,041
Operating income	26,263	18,298	48,055	34,642
Other income (expense)				
Interest income	163	359	556	679
Interest expense	(20,304)	(19,829)	(41,741)	(43,520)
Interest expense - amortization of deferred financing costs	(596)	(644)	(1,230)	(1,418)
Interest expense - financing obligation	-	(242)	-	(523)
Equity in income (loss) of Real Estate Ventures	1,084	(1,666)	336	(2,069)
Net gain (loss) on disposition of real estate	1,088	(727)	8,411	114,729
Net gain on Real Estate Venture transactions	-	3,128	14,582	9,057
Loss on early extinguishment of debt	-	-	-	(66,590)
Net income (loss)	7,698	(1,323)	28,969	44,987
Net income from continuing operations attributable to non-controlling interests - consolidated real estate ventures	(8)	(4)	(13)	(6)
Net income (loss) attributable to Brandywine Operating Partnership	7,690	(1,327)	28,956	44,981
Distribution to preferred unitholders	(307)	(1,725)	(2,032)	(3,450)
Preferred unit redemption charge	(3,181)	-	(3,181)	-
Amounts allocated to unvested restricted unitholders	(73)	(79)	(172)	(184)
Net income (loss) attributable to Common Partnership Unitholders of Brandywine Operating Partnership, L.P.	$4,129	$(3,131)	$23,571	$41,347

Basic income (loss) per Common Partnership Unit	$0.02	$(0.02)	$0.13	$0.23
Diluted income (loss) per Common Partnership Unit	$0.02	$(0.02)	$0.13	$0.23
Basic weighted average common partnership units outstanding	176,813,099	176,541,708	176,735,363	176,432,877
Diluted weighted average common partnership units outstanding	178,236,397	176,541,708	177,960,179	177,355,730
Distributions declared per Common Partnership Unit	$0.16	$0.16	$0.32	$0.31

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,	
	2017	2016	2017	2016
Net income (loss)	$7,698	$(1,323)	$28,969	$44,987
Comprehensive income:				
Unrealized loss on derivative financial instruments	(1,385)	(3,813)	(371)	(13,218)
Reclassification of realized losses on derivative financial instruments to operations, net (1)	305	286	591	532
Total comprehensive income (loss)	(1,080)	(3,527)	220	(12,686)
Comprehensive income (loss)	6,618	(4,850)	29,189	32,301
Comprehensive income attributable to non-controlling interest - consolidated real estate ventures	(8)	(4)	(13)	(6)
Comprehensive income (loss) attributable to Brandywine Operating Partnership, L.P.	$6,610	$(4,854)	$29,176	$32,295

(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, 2017

(unaudited, in thousands, except number of units)

	Series E-Linked Preferred Mirror Units		General Partner Capital				
	Units	Amount	Units	Amount	Accumulated Other Comprehensive Gain/(Loss)	Non-controlling Interest - Consolidated Real Estate Ventures	Total Partners' Equity
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 STATEMENT OF PARTNERS' EQUITY

For the six-month period ended June 30, 2016

(unaudited, in thousands, except number of units)

	Series E-Linked Preferred Mirror Units		General Partner Capital				
	Units	Amount	Units	Amount	Accumulated Other Comprehensive Loss	Non-controlling Interest - Consolidated Real Estate Ventures	Total Partners' Equity
BALANCE, December 31, 2015	4,000,000	$96,850	174,688,568	$1,836,692	$ (5,597)	$ 2,032	$1,929,977
Net income				44,981		6	44,987
Other comprehensive loss					(12,686)		(12,686)
Deferred compensation obligation			(8,252)	(46)			(46)
Issuance of partnership interest in consolidated real estate venture						54	54
Conversion of LP Units to Common Shares			55,303	875			875
Share-based compensation activity			365,414	3,615			3,615
Adjustment of redeemable partnership units to liquidation value at period end				(2,450)			(2,450)
Redemption value of limited partnership units				(875)			(875)
Distributions to Preferred Mirror Units				(3,450)			(3,450)
Distributions to general partnership unitholders ($0.31 per unit)				(54,272)			(54,272)
BALANCE, June 30, 2016	4,000,000	$96,850	175,101,033	$1,825,070	$ (18,283)	$ 2,092	$1,905,729

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, 2017	2016
Cash flows from operating activities:		
Net income	$28,969	$44,987
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	90,155	95,780
Amortization of deferred financing costs	1,230	1,418
Amortization of debt discount/(premium), net	718	745
Amortization of stock compensation costs	3,705	2,947
Straight-line rent income	(13,104)	(13,699)
Amortization of acquired above (below) market leases, net	(1,768)	(3,585)
Straight-line ground rent expense	44	44
Provision for doubtful accounts	1,250	427
Net gain on real estate venture transactions	(14,582)	(9,057)
Net gain on sale of interests in real estate	(8,411)	(114,729)
Loss on early extinguishment of debt	-	66,590
Provision for impairment	3,057	13,069
Real Estate Venture loss in excess of distributions	(680)	2,655
Deferred financing obligation	-	(528)
Changes in assets and liabilities:		
Accounts receivable	136	3,159
Other assets	(3,000)	(898)
Accounts payable and accrued expenses	(2,180)	(5,129)
Deferred income, gains and rent	(4,422)	(1,408)
Other liabilities	1,131	592
Net cash provided by operating activities	82,248	83,380
Cash flows from investing activities:		
Proceeds from the sale of properties	102,083	748,395
Proceeds from real estate venture sales	27,230	4,812
Capital expenditures for tenant improvements	(19,461)	(25,939)
Capital expenditures for redevelopments	(12,501)	(8,333)
Capital expenditures for developments	(36,783)	(105,879)
Advances for the purchase of tenant assets, net of repayments	(1,082)	(3,614)
Investment in unconsolidated Real Estate Ventures	(4,982)	(15,300)
Deposits for real estate	(212)	(928)
Escrowed cash	(32,007)	6,993
Cash distribution from unconsolidated Real Estate Ventures in excess of cumulative equity income	12,406	10,298
Leasing costs paid	(9,846)	(10,220)
Net cash provided by investing activities	24,845	600,285
Cash flows from financing activities:		
Proceeds from mortgage notes payable	-	86,900

Repayments of mortgage notes payable	(2,442)	(354,754)
Proceeds from credit facility borrowings	219,000	195,000
Repayments of credit facility borrowings	(19,000)	(195,000)
Repayments of unsecured notes	(300,000)	(149,919)
Redemption of preferred units	(100,000)	-
Debt financing costs paid	-	(477)
Proceeds from the exercise of stock options	471	826
Shares used for employee taxes upon vesting of share awards	(674)	(879)
Partner contributions to consolidated real estate venture	33	54
Distributions paid to preferred and common partnership units	(60,500)	(56,513)
Net cash used in financing activities	(263,112)	(474,762)
Increase (decrease) in cash and cash equivalents	(156,019)	208,903
Cash and cash equivalents at beginning of year	193,919	56,694
Cash and cash equivalents at end of period	$37,900	$265,597
Supplemental disclosure:		
Cash paid for interest, net of capitalized interest during the six months ended June 30, 2017 and 2016 of $2,523 and $7,387, respectively	$45,844	$52,559
Supplemental disclosure of non-cash activity:		
Dividends and distributions declared but not paid	28,376	29,880
Change in investment in real estate ventures as a result of dispositions	12,549	2,023
Change in investment in real estate ventures related to non-cash disposition of property	-	25,165
Change in capital expenditures financed through accounts payable at period end	(3,682)	(4,814)
Change in capital expenditures financed through retention payable at period end	534	1,009

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, 2017

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, residential, 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, 2017, 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, 2017, the Company owned 99 properties that contain an aggregate of approximately 16.4 million net rentable square feet and consist of 87 office properties, six mixed-use properties, one retail property (94 properties, collectively the "Core Properties"), two development properties and three redevelopment properties (collectively, the "Properties"). In addition, as of June 30, 2017, the Company owned economic interests in 13 unconsolidated real estate ventures (collectively, the "Real Estate Ventures"), seven of which own properties that contain an aggregate of approximately 8.1 million net rentable square feet of office space; four of which own, in aggregate, 5.7 acres of land held for development and two of which own residential towers that contain 345 and 321 apartment units, respectively. As of June 30, 2017, the Company also owned 278 acres of undeveloped land, of which 50 acres was held for sale, and held options to purchase approximately 60 additional acres of undeveloped land. As of June 30, 2017, the total potential development that these land parcels could support, including the parcels under option, under current zoning and entitlements, amounted to an estimated 11.2 million square feet, of which 0.4 million square feet relates to the 50 acres held for sale. The Properties and the properties owned by the Real Estate Ventures are located in or near Philadelphia, Pennsylvania; Metropolitan Washington, D.C.; Southern New Jersey; Wilmington, Delaware and Austin, Texas. In addition to managing properties owned by the Company, as of June 30, 2017, the Company was managing approximately 10.2 million net rentable square feet of office and industrial properties for third parties and Real Estate Ventures.

The Company conducts its third-party real estate management services business primarily through wholly-owned management company subsidiaries. As of June 30, 2017, the management company subsidiaries were managing properties containing an aggregate of approximately 26.6 million net rentable square feet, of which approximately 16.4 million net rentable square feet related to Properties owned by the Company and approximately 10.2 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 (consisting solely of normal recurring matters) for a fair statement of the financial position of the Company as of June 30, 2017, the results of its operations for the three- and six-month periods ended June 30, 2017 and 2016 and its cash flows for the six-month periods ended June 30, 2017 and 2016 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 2016 Annual Report on Form 10-K filed with the SEC on March 1, 2017.

The Company's Annual Report on Form 10-K for the year ended December 31, 2016 contains a discussion of our significant accounting policies under Note 2, "Summary of Significant Accounting Policies". There have been no significant changes in our significant accounting policies since December 31, 2016. Management discusses our significant accounting policies and management’s judgments and estimates with the Company's Audit Committee.

Out of Period Adjustment

The Company incorrectly recorded $1.2 million of impairment charges during quarter ended December 31, 2016, which should have been recorded in the consolidated financial statements for the three-month period ended March 31, 2017 and the six-month period ended June 30, 2017. In addition, the Company incorrectly recorded $1.9 million of depreciation expense relating to the write-off of tenant improvement assets, during the three-month period ended June 30, 2017, which should have been written-off during the period ended March 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 three- and six-month periods ended June 30, 2017.

Reclassifications

During the first quarter of 2017, the Company adopted ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”), which requires the Company to reclassify employer tax payments on account of employee tax withholdings on share-based awards from operating activities to financing activities. Prior to the issuance of ASU 2016-09, there was no guidance on the classification of cash paid by an employer to the taxing authorities when directly withholding shares for tax withholding purposes. As a result of the adoption, a $0.9 million cash outflow has been reclassified in the June 30, 2016 consolidated statements of cash flows from operating activities to financing activities. There was no other impact from the adoption of this guidance.

During the quarter ended December 31, 2016, the Company early adopted ASU 2016-15, “Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”), which clarifies that debt prepayment costs should be presented as financing activities in the statement of cash flows. As a result of the adoption, $53.4 million was reclassified in the consolidated statements of cash flows from the operating activities section to the financing activities section of the consolidated statements of cash flows, within the “Repayment of mortgage notes payable” caption, for the six-months period ended June 30, 2016. There was no other impact from the adoption of this guidance.

Recent Accounting Pronouncements

In May 2017, the Financial Accounting Standards Board (the “FASB”) issued ASU No. 2017-09 (“ASU 2017-09”) to provide guidance to clarify when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the changes in terms or conditions. ASU 2017-09 is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted and application is prospective. The Company is in the process of evaluating the impact of this new guidance on its consolidated financial statements.

In February 2017, the FASB issued ASU No. 2017-05 (“ASU 2017-05”) 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, the 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 guidance specific to real estate sales in ASC 360-20 will be eliminated. ASU 2017-05 is effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. The effective date of this guidance coincides with revenue recognition guidance. The Company expects to utilize the modified retrospective approach.

Under the modified retrospective approach, the Company is required to evaluate incomplete contracts as of December 31, 2017 to determine if the sale recognition of nonfinancial assets under ASU 2017-05 differs from ASC 360-20. The Company has identified three potential sale contracts that may not be considered completed contracts, as defined under ASU 2017-05 by December 31, 2017. Based on our initial assessment of these sale contracts, the revenue and remaining gain on sale for each of these property sales will be recognized when the Company fulfills its performance obligations under each contract. Accordingly, the derecognition of nonfinancial assets and revenue recognition patterns are not expected to change under ASU 2017-05 when compared to ASC 360-20.

In May 2016, the FASB issued guidance amending the revenue from contracts with customers standard issued in May 2014, which is not yet effective. The amendments are intended to address implementation issues that were raised by stakeholders and discussed by the Joint Transition Resource Group, and provide additional practical expedients on collectability, noncash consideration, presentation of sales tax and contract modifications and completed contracts at transition. In accordance with the FASB election to defer the effective date of the revenue recognition standard by one year, reporting entities may choose to adopt the standard as of its original effective date or for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Calendar year-end reporting entities are therefore required to apply the new revenue guidance beginning in their 2018 interim and annual financial statements. The Company has evaluated the impact of this new guidance and has determined that the impact of the adoption of this guidance is not material to its financial results. In order to evaluate this standard the Company analyzed all of its revenue streams except for rental revenue because rental revenue recognition is not covered by revenue from contracts with customers. The results of the initial assessment are as follows:

•The Company analyzed its tenant reimbursement revenue and determined that the performance obligations set forth in the Company’s lease agreements will not change the revenue recognition pattern.

•The Company identified similar performance obligations under this standard as compared with deliverables and separate units of account previously identified for leasing commissions, management fees, parking revenue, hotel and restaurant revenues and other sundry revenues. As a result, the Company determined that the timing of its leasing commissions, management fees, parking revenue, hotel and restaurant revenues and other sundry revenues will remain the same.

•The Company determined that its revenue recognition pattern for development fee revenues will change under the revenue from contracts with customers standard. For all contracts that are not complete as of December 31, 2017, the Company will adopt the input method under the accounting standard. This methodology replaces the percentage of completion method under the current revenue recognition accounting guidance. Although the accounting under the input method is similar to the percentage of completion method, variable income components are evaluated differently under revenue with contracts from customers when compared to the current revenue recognition standard. Additionally, the Company currently recognizes development fee revenue related to its development services provided for certain third party customers under the completed contract method of accounting. This concept is no longer relevant under the new standard because the Company can measure the inputs that are included in the construction services provided to third party customers and will recognize development fee revenue over time rather than at a point in time. The Company is currently analyzing all of the contracts that will not be complete as of December 31, 2017 and expects the restatement of development fee revenues to be immaterial to its consolidated financial statements.

•Currently, the Company is evaluating the disclosure requirements in the guidance and has not determined the impact on the footnote disclosures to its consolidated financial statements.

3. REAL ESTATE INVESTMENTS

As of June 30, 2017 and December 31, 2016, the gross carrying value of the properties was as follows (in thousands):

	June 30, 2017	December 31, 2016
Land	$462,743	$ 469,522
Building and improvements	2,861,180	2,683,087
Tenant improvements	445,755	433,686
Operating properties	3,769,678	3,586,295
Assets held for sale - real estate investments (a)	-	73,591
Total	$3,769,678	$ 3,659,886

(a) Real estate investments related to assets held for sale above represents gross real estate assets and does not include accumulated depreciation, land held for development or other assets on the balance sheet of the property held for sale. See “Held for Sale” below in this Note 3.

Dispositions

The Company sold the following twelve office properties, one retail property and one mixed-use property during the six-month period ended June 30, 2017 (dollars in thousands):

Disposition Date	Property/Portfolio Name	Location	Type	Number of Properties	Rentable Square Feet	Sales Price	Net Proceeds on Sale	Gain/(Loss) on Sale (a)	
June 27, 2017	Two, Four A, Four B and Five Eves Drive (Evesham Corporate Center)	Marlton, NJ	Office	4	134,794	$ 9,700	$ 8,650	$ (325)	(b)
June 12, 2017	7000 Midlantic Drive	Mount Laurel, NJ	Retail	1	10,784	8,150	7,714	1,413	
March 30, 2017	200, 210 & 220 Lake Drive East (Woodland Falls)	Cherry Hill, NJ	Office	3	215,465	19,000	17,771	(249)	(c)
March 15, 2017	Philadelphia Marine Center (Marine Piers)	Philadelphia, PA	Mixed-use	1	181,900	21,400	11,182	6,498	(d)
March 13, 2017	11700, 11710, 11720 & 11740 Beltsville Drive (Calverton)	Beltsville, MD	Office	3	313,810	9,000	8,354	-	(e)
February 2, 2017	1200 & 1220 Concord Avenue (Concord Airport Plaza)	Concord, CA	Office	2	350,256	33,100	32,010	551	(f)
Total Dispositions				14	1,207,009	$ 100,350	$ 85,681	$ 7,888	

(a) Gain/(Loss) on Sale is net of closing and other transaction related costs.

(b) During the first quarter of 2017, the Company recognized a $1.0 million impairment related to these properties. The loss on sale represents closing costs.

(c) During the fourth quarter of 2016, the Company recognized a $7.3 million impairment related to these properties. The loss on sale represents closing costs.

(d) 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, which will be paid in two installments. On the closing date, the buyer paid $12.0 million in cash. On the second purchase price installment date, the buyer will pay $9.4 million. The second purchase price installment is due on (a) January 31, 2020, in the event that the tenant at the Marine Piers does not exercise its existing option to extend the term of the sublease or (b) January 15, 2024, in the event that the tenant does exercise its current extension option to extend the term of the sublease. In accordance with ASC 360-20, Real Estate Sales, the Company determined that it is appropriate to account for the sales transaction under the cost recovery method. The Company received cash proceeds of $11.2 million, after closing costs and prorations, and 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 will be recognized on the second purchase price installment date.

(e) During the fourth quarter of 2016, the Company recognized a $3.0 million impairment related to these properties. During the first quarter of 2017, there was a price reduction of $1.7 million under the agreement of sale and an additional impairment of $1.7 million was recognized.

(f) This sale is designated as a like-kind exchange under Section 1031 of the Internal Revenue Code (“IRC”) and, as such, the proceeds, totaling $32.0 million after closing costs and prorations, were deposited with a Qualified Intermediary, as defined under the IRC. The proceeds received at closing were recorded as “Other assets” in the Company’s consolidated balance sheet. During the fourth quarter of 2016, the Company recognized an $11.5 million impairment related to these properties.

In addition to the amounts in the table above, the Company recorded $0.5 million gain during the first quarter of 2017 from the receipt of additional cash from the disposition of Cira Square during 2016. For further information relating to this sale, see Note 3, “Real Estate Investments,” in the notes to the audited financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

The Company sold the following land parcels during the six-month period ended June 30, 2017 (dollars in thousands):

Disposition Date	Property/Portfolio Name	Location	Number of Parcels	Acres	Sales Price	Net Proceeds on Sale	Gain on Sale	
April 28, 2017	Garza Ranch - Multi-family	Austin, TX	1	8.4	$ 11,800	$ 11,560	$ -	(a)
February 15, 2017	Gateway Land - Site C	Richmond, VA	1	4.8	1,100	1,043	-	(b)
January 30, 2017	Garza Ranch - Hotel	Austin, TX	1	1.7	3,500	3,277	-	(a)
Total Dispositions			3	14.9	$ 16,400	$ 15,880	$ -	

(a) The Company has a continuing involvement through a completion guaranty, which requires the Company as developer to complete certain infrastructure improvements on behalf of the buyers of the land parcels. The cash received at settlement was recorded as “Deferred income, gains and rent” on the Company’s consolidated balance sheet and the Company will recognize the sale once the infrastructure improvements are complete. See Item 2., “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Contractual Obligations” for further discussion of the infrastructure improvements.

(b) During the fourth quarter of 2016, the Company recognized a nominal impairment related to this land parcel.

Held for Sale

As of June 30, 2017, the Company had land held for development, consisting of a 50-acre parcel of land located in the Company’s Other segment, classified as held for sale but which did not meet the criteria to be classified within discontinued operations. Accordingly, as of June 30, 2017, $5.6 million was reclassified from ‘Land held for development’ to ‘Assets held for sale, net’ on the consolidated balance sheets. There were no other reclassifications related to this parcel of land.

As the fair value less anticipated costs to sell was less than the carrying value for the land parcel, the Company recorded an impairment of $0.3 million at June 30, 2017. See “Land Impairment” below in this Note 3.

As of December 31, 2016, the Company classified three office properties in its Metropolitan Washington, D.C. segment, two office properties in its Other segment and a five-acre parcel of land in its Other segment as held for sale. As of December 31, 2016, $40.7 million and $1.0 million was reclassified from ‘Operating real estate investments, net’ and ‘Land held for development’, respectively, to ‘Assets held for sale, net’ on the consolidated balance sheets; an immaterial amount was reclassified from ‘Other liabilities’ to ‘Liabilities related to assets held for sale’.

Land Impairment

As of June 30, 2017, the Company determined that it would not recover the carrying value, less cost of sale, of one land parcel, consisting of 50 acres that was classified as held for sale as of June 30, 2017. Accordingly, the Company recorded an impairment charge of $0.3 million at June 30, 2017, reducing the aggregate carrying value of the land parcel from $5.9 million to its estimated fair value of $5.6 million. The fair value measurement is based on pricing in the purchase and sale agreement for the property. As the pricing in the purchase and sale agreement is unobservable, the Company determined that the input utilized to determine fair value for the property falls within Level 3 in accordance with the fair value hierarchy established by Accounting Standards Codification (ASC) Topic 820, “Fair Value Measurements and Disclosures”.

Held for Use Impairment

As of June 30, 2017, the Company evaluated the recoverability of the carrying value of its properties that triggered assessment. Based on the analysis, no impairment charges were identified.

As of March 31, 2017, the Company evaluated the recoverability of the carrying value of its properties that triggered assessment under the undiscounted cash flow model. Based on the Company’s evaluation, it was determined that due to the reduction in the Company’s intended hold period of four properties located in the Other segment, the Company would not recover the carrying values of these properties. Accordingly, the Company recorded impairment charges on these properties of $1.0 million at March 31, 2017, reducing the aggregate carrying values of the properties from $10.2 million to their estimated fair value of $9.2 million. The Company measured these impairments based on a discounted cash flow analysis, using a hold period of 10 years and residual capitalization rates and discount rates of 9.00% and 9.25%, respectively. The results were comparable to indicative pricing in the market. The assumptions used to determine fair value under the income approach are Level 3 inputs in accordance with the fair value hierarchy established by Accounting Standards Codification (ASC) Topic 820, “Fair Value Measurements and Disclosures.”

During the three and six-month periods ended June 30, 2016, the Company recognized provisions for impairment of $5.7 million $13.1 million, respectively. For further information relating to these impairments, see Note 3, “Real Estate Investments,” in the notes to the audited financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

The sales of properties, land and the land parcel held for sale do not represent a strategic shift that has a major effect on the Company's operations and financial results. Accordingly, the operating results of these properties remain classified within continuing operations for all periods presented.

4. INVESTMENT IN UNCONSOLIDATED REAL ESTATE VENTURES

As of June 30, 2017, the Company held ownership interests in 13 unconsolidated Real Estate Ventures for an aggregate investment balance of $262.1 million. The Company formed or acquired interests in these Real Estate Ventures with unaffiliated third parties to develop or manage office, residential, and/or mixed-use properties or to acquire land in anticipation of possible development of office, residential and/or mixed-use properties. As of June 30, 2017, seven of the real estate ventures owned properties that contain an aggregate of approximately 8.1 million net rentable square feet of office space; four real estate ventures owned 5.7 acres of land held for development and two real estate ventures owned residential towers that contain 345 and 321 apartment units, respectively.

The Company accounts for its unconsolidated interests in the Real Estate Ventures using the equity method. The Company’s unconsolidated interests range from 20% to 70%, subject to specified priority allocations of distributable cash in certain of the Real Estate Ventures.

The Company earned management fees from its Real Estate Ventures of $1.6 million and $3.2 million for the three- and six-month periods ended June 30, 2017, respectively, and $1.6 million and $3.1 million for the three- and six-month periods ended June 30, 2016, respectively.

The Company earned leasing commission income from its Real Estate Ventures of $1.5 million and $2.8 million for the three- and six-month periods ended June 30, 2017, respectively, and $0.5 million and $1.3 million for the three- and six-month periods ended June 30, 2016, respectively.

The Company has outstanding accounts receivable balances from its Real Estate Ventures of $2.0 million and $1.4 million as of June 30, 2017 and December 31, 2016, respectively.

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

The following is a summary of the financial position of the Real Estate Ventures in which the Company held interests as of June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
Net property	$1,405,573	$ 1,483,067
Other assets	216,142	231,972
Other liabilities	114,829	129,486
Debt, net	946,057	989,738
Equity	560,829	595,815
Company's share of equity (Company's basis) (a)	$262,107	$ 281,331

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

The following is a summary of results of operations of the Real Estate Ventures in which the Company held interests during the three- and six-month periods ended June 30, 2017 and 2016 (in thousands):

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2017	2016	2017	2016
Revenue	$58,819	$53,406	$113,098	$99,931
Operating expenses	(25,172)	(27,088)	(50,338)	(53,755)
Interest expense, net	(11,272)	(10,928)	(22,101)	(19,917)
Depreciation and amortization	(20,371)	(20,242)	(41,133)	(40,403)
Net income (loss) (a)	$2,004	$(4,852)	$(474)	$(14,144)
Equity in income (loss) of Real Estate Ventures	$1,084	$(1,666)	$336	$(2,069)

(a) The six-month period ended June 30, 2016 amount includes $7.1 million of acquisition deal costs related to the formation of the MAP Venture.

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The Parc at Plymouth Meeting Venture

On January 31, 2017, the Company sold its 50% interest in TB-BDN Plymouth Apartments, L.P., a 50/50 real estate venture with Toll Brothers, at a gross sales value of $100.5 million, of which the Company was allocated 50% for its interest. The venture developed and operated a 398-unit multi-family complex in Plymouth Meeting, Pennsylvania encumbered by a $54.0 million construction loan. The construction loan was repaid commensurate with the sale of the Company’s 50% interest. As a result, the Company is no longer subject to a $3.2 million payment guarantee on the construction loan. The cash proceeds, after the payment of the Company’s share of the debt and closing costs, were $27.2 million. The carrying amount of the Company’s investment at the time of sale was $12.6 million, resulting in a $14.6 million gain on sale of interest in the real estate venture.

Guarantees

As of June 30, 2017, the Company’s unconsolidated real estate ventures had aggregate indebtedness to third parties of $952.7 million. These loans are generally mortgage or construction loans, most of which are non-recourse to the Company. As of June 30, 2017, the loans for which there is recourse to the Company consist of the following: (i) a $55.4 million payment guaranty on the term loan for evo at Cira Centre South; (ii) a joint and several cost overrun guaranty on the $88.9 million construction loan for the development project undertaken by 1919 Market Street LP; and (iii) a $0.4 million payment guarantee on a loan provided to PJP VII. In addition, during construction undertaken by real estate ventures, the Company has provided and expects to continue to provide cost overrun and completion guarantees, with rights of contribution among partners or members in the real estate ventures, as well as customary environmental indemnities and guarantees of customary exceptions to nonrecourse provisions in loan agreements. For additional information regarding these real estate ventures, including their indebtedness, see Note 4, "Investment in Unconsolidated Real Estate Ventures," in the notes to the audited financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

5. INTANGIBLE ASSETS AND LIABILITIES

As of June 30, 2017 and December 31, 2016, the Company’s intangible assets/liabilities were comprised of the following (in thousands):

	June 30, 2017		
	Total Cost	Accumulated Amortization	Intangible Assets, net
Intangible assets, net:			
In-place lease value	$99,338	$ (44,364)	$ 54,974
Tenant relationship value	12,831	(10,412)	2,419
Above market leases acquired	4,354	(2,337)	2,017
Total intangible assets, net	$116,523	$ (57,113)	$ 59,410
Acquired lease intangibles, net:			
Below market leases acquired	$30,391	$ (14,402)	$ 15,989

December 31, 2016

	Total Cost	Accumulated Amortization	Intangible Assets, net
Intangible assets, net:			
In-place lease value	$142,889	$ (75,696)	$ 67,193
Tenant relationship value	13,074	(10,167)	2,907
Above market leases acquired	4,718	(2,340)	2,378
Total intangible assets, net	$160,681	$ (88,203)	$ 72,478
Acquired lease intangibles, net:			
Below market leases acquired	$37,579	$ (19,460)	$ 18,119

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As of June 30, 2017, the Company’s annual amortization for its intangible assets/liabilities, assuming no prospective early lease terminations, are as follows (dollars in thousands):

	Assets	Liabilities
2017 (six months remaining)	$ 6,595	$ 1,193
2018	11,754	2,196
2019	10,536	1,885
2020	8,457	1,337
2021	5,971	807
Thereafter	16,097	8,571
Total	$ 59,410	$ 15,989

6. DEBT OBLIGATIONS

The following table sets forth information regarding the Company’s consolidated debt obligations outstanding at June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016	Effective Interest Rate		Maturity Date
MORTGAGE DEBT:					
Two Logan Square	$ 85,233	$ 86,012	3.98%		May 2020
One Commerce Square	125,362	127,026	3.64%	(a)	Apr 2023
Two Commerce Square	112,000	112,000	4.51%	(b)	Apr 2023
Principal balance outstanding	322,595	325,038			
Plus: fair market value premium (discount), net	(2,543)	(2,761)			
Less: deferred financing costs	(647)	(728)			
Mortgage indebtedness	$ 319,405	$ 321,549			
UNSECURED DEBT					
$600.0M Revolving Credit Facility	$ 200,000	$ -	LIBOR + 1.20%		May 2019
Seven-Year Term Loan - Swapped to fixed	250,000	250,000	3.72%		Oct 2022
$300.0M 5.70% Guaranteed Notes due 2017 (c)	-	300,000	5.68%		May 2017

$325.0M 4.95% Guaranteed Notes due 2018	325,000	325,000	5.13%	Apr 2018
$250.0M 3.95% Guaranteed Notes due 2023	250,000	250,000	4.02%	Feb 2023
$250.0M 4.10% Guaranteed Notes due 2024	250,000	250,000	4.33%	Oct 2024
$250.0M 4.55% Guaranteed Notes due 2029	250,000	250,000	4.60%	Oct 2029
Indenture IA (Preferred Trust I) - Swapped to fixed	27,062	27,062	2.75%	Mar 2035
Indenture IB (Preferred Trust I) - Swapped to fixed	25,774	25,774	3.30%	Apr 2035
Indenture II (Preferred Trust II) - Swapped to fixed	25,774	25,774	3.09%	Jul 2035
Principal balance outstanding	1,603,610	1,703,610		
Plus: original issue premium (discount), net	(4,178)	(4,678)		
Less: deferred financing costs	(6,665)	(7,369)		
Total unsecured indebtedness	$ 1,592,767	$ 1,691,563		
Total Debt Obligations	$ 1,912,172	$ 2,013,112		

(a) This loan was assumed upon acquisition of the related properties on December 19, 2013. On December 29, 2015, the Company refinanced the debt increasing the principal balance to $130.0 million and extended the scheduled maturity date from January 6, 2016 to April 5, 2023. The effective interest rate as of December 31, 2015 was 3.64%. A default under this loan will also constitute a default under the loan secured by Two Commerce Square. This loan is also secured by a lien on Two Commerce Square.

(b) This loan was assumed upon acquisition of the related property on December 19, 2013. The interest rate reflects the market rate at the time of acquisition. A default under this loan will also constitute a default under the loan secured by One Commerce Square. This loan is also secured by a lien on One Commerce Square.

(c) On May 1, 2017, the entire principal balance of the unsecured 5.70% Guaranteed Notes was repaid upon maturity. Available cash balances and the Credit Facility (see below) were used to fund the repayment of the unsecured notes.

As of June 30, 2017 and December 31, 2016, the Company's weighted-average effective interest rates on its mortgage notes payable were both 4.03%.

The Company utilizes its four-year unsecured revolving credit facility (the "Credit Facility") borrowings for general business purposes, including acquisition, development and redevelopment properties and the repayment of other debt. The Credit Facility provides for borrowings of up to $600.0 million and the per annum variable interest rate on the outstanding balances is LIBOR plus 1.20%. The interest rate and facility fee are subject to adjustment upon a change in the Company's unsecured debt ratings. As of June 30, 2017, the Company had $200.0 million of borrowings and $12.4 million in letters of credit outstanding, leaving $387.6 million of unused availability under the Credit Facility. During the six months ended June 30, 2017, the weighted-average interest rate on Credit Facility borrowings was 2.30%. As of June 30, 2017, the effective interest rate on Credit Facility borrowings was 2.37%. As of and during the six-month period ended June 30, 2016, the Company had no borrowings under the Credit Facility.

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

The Company was in compliance with all financial covenants as of June 30, 2017. Management continuously monitors the Company's compliance with and anticipated compliance with the covenants. Certain of the covenants restrict the Company's ability to obtain alternative sources of capital. While the Company currently believes it will remain in compliance with its covenants, in the event that the economy deteriorates in the future, the Company may not be able to remain in compliance with such covenants, in which case a default would result absent a lender waiver.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets and liabilities recorded on the consolidated balance sheets are categorized based on the inputs to the valuation techniques as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access;
- Level 2 inputs are inputs, other than quoted prices included in Level 1, which are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals; and
- Level 3 inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity or information.

The Company determined the fair values disclosed below using available market information and discounted cash flow analyses as of June 30, 2017 and December 31, 2016, respectively. The discount rate used in calculating fair value is the sum of the current risk free rate and the risk premium on the date of measurement of the instruments or obligations. Considerable judgment is necessary to interpret market data and to develop the related estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts that the Company could realize upon disposition. The use of different estimates and valuation methodologies may have a material effect on the fair value amounts shown. The Company believes that the carrying amounts reflected in the consolidated balance sheets at June 30, 2017 and December 31, 2016 approximate the fair values for cash and cash equivalents, accounts receivable, other assets (except for the note receivable disclosed below), accounts payable and accrued expenses. The following are financial instruments for which the Company’s estimates of fair value differ from the carrying amounts (in thousands):

	June 30, 2017		December 31, 2016	
	Carrying Amount (a)	Fair Value	Carrying Amount (a)	Fair Value
Unsecured notes payable	$1,065,894	$1,089,765	$1,364,854	$1,372,758
Variable rate debt	$526,873	$508,284	$326,709	$307,510
Mortgage notes payable	$319,405	$316,204	$321,549	$328,853
Note receivable (b)	$3,349	$3,872	$3,380	$3,717

(a) In April 2015, the FASB issued guidance requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction from the carrying amount of the corresponding debt liability, consistent with debt discounts. As a result, the carrying amounts presented in the table above are net of deferred financing costs of $4.9 million and $5.5 million for unsecured notes payable, $1.7 million and $1.9 million for variable rate debt and $0.6 million and $0.7 million for mortgage notes payable as of June 30, 2017 and December 31, 2016, respectively.

(b) The inputs to originate the note receivable are unobservable and, as a result, are categorized as Level 3. The Company determined fair value by calculating the present value of the cash payments to be received through the maturity date of the loan. See Note 2, "Summary of Significant Accounting Policies," to the Company's 2016 Annual Report on Form 10-K for the year ended December 31, 2016 for further information regarding the note origination.

The inputs utilized to determine the fair value of the Company's unsecured notes payable are categorized as Level 2. This is because the Company valued these instruments using quoted market prices as of June 30, 2017 and December 31, 2016. For the fair value of the Company's unsecured notes, the Company uses a discount rate based on the indicative new issue pricing provided by lenders.

The inputs utilized to determine the fair value of the Company's mortgage notes payable and variable rate debt are categorized as Level 3. The fair value of the variable rate debt was estimated using a discounted cash flow analysis valuation on the borrowing rates currently available to the Company for loans with similar terms and maturities, as applicable. The fair value of the mortgage debt was determined by discounting the future contractual interest and principal payments by a blended market rate for loans with similar terms, maturities and loan-to-value. These inputs have been categorized as Level 3 because the Company considers the rates used in the valuation techniques to be unobservable inputs.

For the Company's mortgage loans, the Company uses an estimate based discounted cash flow analyses and its knowledge of the mortgage market. The weighted average discount rate for the combined variable rate debt and mortgage loans used to calculate fair value as of June 30, 2017 and December 31, 2016 was 4.075% and 4.353%, respectively. An increase in the discount rate used in the discounted cash flow model would result in a decrease to the fair value of the Company's long-term debt. Conversely, a decrease in the discount rate used in the discounted cash flow model would result in an increase to the fair value of the Company's long-term debt.

Disclosure about the fair value of financial instruments is based upon pertinent information available to management as of June 30, 2017 and December 31, 2016. Although management is not aware of any factors that would significantly affect the fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since June 30, 2017, and current estimates of fair value may differ from the amounts presented herein.

8. LIMITED PARTNERS' NON-CONTROLLING INTERESTS IN THE PARENT COMPANY

Non-controlling interests in the Parent Company's financial statements relate to redeemable common limited partnership interests in the Operating Partnership held by parties other than the Parent Company and properties which are consolidated but not wholly owned.

Operating Partnership

The aggregate book value of the non-controlling interests associated with the redeemable common limited partnership interests in the accompanying consolidated balance sheet of the Parent Company was $14.7 million and $14.9 million as of June 30, 2017 and December 31, 2016, respectively. Under the applicable accounting guidance, the redemption value of limited partnership units are carried at, on a limited partner basis, the greater of historical cost adjusted for the allocation of income and distributions or fair value. The Parent Company believes that the aggregate settlement value of these interests based on the number of units outstanding and the closing price of the common shares on the balance sheet dates as of June 30, 2017 and December 31, 2016 was approximately $25.9 million and $24.4 million, respectively.

9. FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The following table summarizes the terms and fair values of the Company’s derivative financial instruments as of June 30, 2017 and December 31, 2016. The notional amounts provide an indication of the extent of the Company’s involvement in these instruments at that time, but do not represent exposure to credit, interest rate or market risks (amounts presented in thousands and included in other assets and other liabilities on the Company’s consolidated balance sheets).

Hedge Product	Hedge Type	Designation	Notional Amount	Strike	Trade Date	Maturity Date	Fair value