

FRANKLIN STREET PROPERTIES CORP /MA/
Form 10-Q
October 30, 2018
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 - Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 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: 001-32470

Franklin Street Properties Corp.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation
or organization)

04-3578653
(I.R.S. Employer
Identification No.)

401 Edgewater Place, Suite 200

Wakefield, MA 01880

(Address of principal executive offices)(Zip Code)

(781) 557-1300

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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. YES NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

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).
YES NO

The number of shares of common stock outstanding as of October 25, 2018 was 107,231,155.

Table of Contents

Franklin Street Properties Corp.
Form 10-Q

Quarterly Report
September 30, 2018

Table of Contents

	Page
<u>Part I.</u>	
<u>Financial Information</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017</u>	3
<u>Consolidated Statements of Income for the three and nine months ended September 30, 2018 and 2017</u>	4
<u>Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2018 and 2017</u>	5
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017</u>	6
<u>Notes to Consolidated Financial Statements</u>	7-19
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20-37
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	37
<u>Item 4. Controls and Procedures</u>	39
<u>Part II.</u>	
<u>Other Information</u>	
<u>Item 1. Legal Proceedings</u>	40
<u>Item 1A. Risk Factors</u>	40
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	40

<u>Item 3. Defaults Upon Senior Securities</u>	40
<u>Item 4. Mine Safety Disclosures</u>	40
<u>Item 5. Other Information</u>	40
<u>Item 6. Exhibits</u>	41
<u>Signatures</u>	42

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Franklin Street Properties Corp.

Consolidated Balance Sheets

(Unaudited)

	September 30, 2018	December 31, 2017
(in thousands, except share and par value amounts)		
Assets:		
Real estate assets:		
Land	\$ 191,578	\$ 191,578
Buildings and improvements	1,848,362	1,811,631
Fixtures and equipment	7,842	5,614
	2,047,782	2,008,823
Less accumulated depreciation	419,746	376,131
Real estate assets, net	1,628,036	1,632,692
Acquired real estate leases, less accumulated amortization of \$98,890 and \$109,771, respectively	65,687	86,520
Investment in non-consolidated REITs	—	70,164
Cash, cash equivalents and restricted cash	10,434	9,819
Tenant rent receivables, less allowance for doubtful accounts of \$225 and \$250, respectively	3,206	3,123
Straight-line rent receivable, less allowance for doubtful accounts of \$50 and \$50, respectively	53,056	53,194
Prepaid expenses and other assets	9,259	8,387
Related party mortgage loan receivables	70,925	71,720
Other assets: derivative asset	22,265	13,925
Office computers and furniture, net of accumulated depreciation of \$1,493 and \$1,420, respectively	216	289
Deferred leasing commissions, net of accumulated amortization of \$24,059 and \$22,276, respectively	45,475	40,679
Total assets	\$ 1,908,559	\$ 1,990,512
Liabilities and Stockholders' Equity:		
Liabilities:		
Bank note payable	\$ 17,000	\$ 78,000
	763,914	764,901

Term loans payable, less unamortized financing costs of \$6,086 and \$5,099, respectively		
Series A&B Senior Notes, less unamortized financing costs of \$1,191 and \$1,308, respectively	198,809	198,692
Accounts payable and accrued expenses	62,699	61,039
Accrued compensation	2,844	3,641
Tenant security deposits	5,619	5,383
Other liabilities: derivative liabilities	—	1,759
Acquired unfavorable real estate leases, less accumulated amortization of \$7,985 and \$7,638, respectively	4,261	5,805
Total liabilities	1,055,146	1,119,220
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, \$.0001 par value, 20,000,000 shares authorized, none issued or outstanding	—	—
Common stock, \$.0001 par value, 180,000,000 shares authorized, 107,231,155 and 107,231,155 shares issued and outstanding, respectively	11	11
Additional paid-in capital	1,356,457	1,356,457
Accumulated other comprehensive income	22,265	12,166
Accumulated distributions in excess of accumulated earnings	(525,320)	(497,342)
Total stockholders' equity	853,413	871,292
Total liabilities and stockholders' equity	\$ 1,908,559	\$ 1,990,512

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

Table of Contents

Franklin Street Properties Corp.

Consolidated Statements of Income

(Unaudited)

(in thousands, except per share amounts)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Rental	\$ 67,436	\$ 67,339	\$ 198,473	\$ 201,710
Related party revenue:				
Management fees and interest income from loans	1,261	1,278	3,793	4,014
Other	8	9	26	29
Total revenues	68,705	68,626	202,292	205,753
Expenses:				
Real estate operating expenses	17,946	17,898	52,051	52,492
Real estate taxes and insurance	11,651	11,882	35,120	35,880
Depreciation and amortization	23,277	24,988	70,903	75,599
General and administrative	3,394	3,286	9,908	9,806
Interest	9,935	8,258	29,174	23,730
Total expenses	66,203	66,312	197,156	197,507
Income before equity in income (loss) of non-consolidated REITs, other, gain (loss) on sale of properties and properties held for sale, less applicable income tax and taxes	2,502	2,314	5,136	8,246
Equity in income (loss) of non-consolidated REITs	7,180	(121)	6,793	(719)
Other	—	67	—	218
Gain (loss) on sale of properties and properties held for sale, less applicable income tax	—	(257)	—	(18,460)
Income (loss) before taxes on income	9,682	2,003	11,929	(10,715)
Taxes on income	74	100	231	297
Net income (loss)	\$ 9,608	\$ 1,903	\$ 11,698	\$ (11,012)
Weighted average number of shares outstanding, basic and diluted	107,231	107,231	107,231	107,231
Net income (loss) per share, basic and diluted	\$ 0.09	\$ 0.02	\$ 0.11	\$ (0.10)

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

Table of Contents

Franklin Street Properties Corp.

Consolidated Statements of Comprehensive Income

(Unaudited)

(in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	\$ 9,608	\$ 1,903	\$ 11,698	\$ (11,012)
Comprehensive income (loss):				
Unrealized gain (loss) on derivative financial instruments	1,069	14	10,099	(524)
Total comprehensive income (loss)	1,069	14	10,099	(524)
Comprehensive income (loss)	\$ 10,677	\$ 1,917	\$ 21,797	\$ (11,536)

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

Table of Contents

Franklin Street Properties Corp.

Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)	For the Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$ 11,698	\$ (11,012)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	73,127	77,418
Amortization of above and below market leases	(405)	(941)
Hedge ineffectiveness	—	(218)
Loss on sale of properties and properties held for sale, less applicable income tax	—	18,460
Equity in (income) loss of non-consolidated REITs	(6,793)	719
Increase (decrease) in allowance for doubtful accounts	(25)	25
Changes in operating assets and liabilities:		
Tenant rent receivables	(58)	(902)
Straight-line rents	821	(2,021)
Lease acquisition costs	(683)	(876)
Prepaid expenses and other assets	(487)	(1,945)
Accounts payable and accrued expenses	(2,665)	(489)
Accrued compensation	(797)	(784)
Tenant security deposits	236	76
Payment of deferred leasing commissions	(11,051)	(8,178)
Net cash provided by operating activities	62,918	69,332
Cash flows from investing activities:		
Property improvements, fixtures and equipment	(35,901)	(41,862)