

Edgar Filing: Easterly Government Properties, Inc. - Form 10-Q

Easterly Government Properties, Inc.
Form 10-Q
August 08, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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 001-36834

EASTERLY GOVERNMENT PROPERTIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State of Incorporation)

47-2047728
(IRS Employer Identification No.)

2101 L Street NW, Suite 650, Washington, D.C.
(Address of Principal Executive Offices)

20037
(Zip Code)

(202) 595-9500

(Registrant's telephone number, including area code)

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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 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). 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.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

(Do not check if smaller reporting company) 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 Act). Yes No

As of August 1, 2017, the registrant had 38,928,796 shares of common stock, par value \$0.01 per share, outstanding.

INDEX TO FINANCIAL STATEMENTS

	Page
Part I: Financial Information	
Item 1: Financial Statements: Consolidated Financial Statements	
<u>Consolidated Balance Sheets as of June 30, 2017 (unaudited) and December 31, 2016</u>	1
<u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2017 and 2016 (unaudited)</u>	2
<u>Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2017 and 2016 (unaudited)</u>	3
<u>Consolidated Statements of Cash Flows for the Three and Six Months Ended June 30, 2017 and 2016 (unaudited)</u>	4
<u>Notes to the Consolidated Financial Statements</u>	6
<u>Item 2: Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	17
<u>Item 3: Quantitative and Qualitative Disclosures About Market Risk</u>	28
<u>Item 4: Controls and Procedures</u>	29
Part II: Other Information	
<u>Item 1: Legal Proceedings</u>	30
<u>Item 1A: Risk Factors</u>	30
<u>Item 2: Unregistered Sales of Equity Securities and Use of Proceeds</u>	30
<u>Item 3: Defaults Upon Senior Securities</u>	30
<u>Item 4: Mine Safety Disclosures</u>	30
<u>Item 5: Other Information</u>	30
<u>Item 6: Exhibits</u>	31
<u>Signatures</u>	

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Easterly Government Properties, Inc.

Consolidated Balance Sheets

(Amounts in thousands, except share amounts)

	June 30, 2017 (unaudited)	December 31, 2016
Assets		
Real estate properties, net	\$ 1,117,039	\$ 901,066
Cash and cash equivalents	6,105	4,845
Restricted cash	3,559	1,646
Deposits on acquisitions	1,000	1,750
Rents receivable	8,284	8,544
Accounts receivable	6,746	5,823
Deferred financing, net	1,437	2,787
Intangible assets, net	127,127	113,795
Interest rate swaps	3,199	3,785
Prepaid expenses and other assets	3,120	1,422
Total assets	\$ 1,277,616	\$ 1,045,463
Liabilities		
Revolving credit facility	68,000	212,167
Term loan facility, net	99,132	—
Notes payable, net	173,646	—
Mortgage notes payable, net	204,782	80,806
Intangible liabilities, net	38,175	41,840
Accounts payable and accrued liabilities	14,473	13,784
Total liabilities	598,208	348,597
Commitments and contingencies (Note 10)		
Equity		
Common stock, par value \$0.01, 200,000,000 shares authorized, 38,305,101 and 36,874,810 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	383	369
Additional paid-in capital	619,668	596,971
Retained earnings	3,632	1,721
Cumulative dividends	(61,226)	(42,794)
Accumulated other comprehensive income	2,661	3,038
Total stockholders' equity	565,118	559,305
Non-controlling interest in Operating Partnership	114,290	137,561
Total equity	679,408	696,866
Total liabilities and equity	\$ 1,277,616	\$ 1,045,463

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

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Easterly Government Properties, Inc.

Consolidated Statements of Operations (unaudited)

(Amounts in thousands, except share and per share amounts)

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Revenues				
Rental income	\$27,501	\$22,291	\$53,521	\$44,027
Tenant reimbursements	2,974	2,476	6,602	4,631
Other income	128	154	367	234
Total revenues	30,603	24,921	60,490	48,892
Operating expenses				
Property operating	5,837	5,085	12,186	9,418
Real estate taxes	2,979	2,332	5,714	4,700
Depreciation and amortization	13,462	11,074	26,522	21,937
Acquisition costs	456	346	988	679
Corporate general and administrative	3,142	3,052	6,586	6,088
Total expenses	25,876	21,889	51,996	42,822
Operating income	4,727	3,032	8,494	6,070
Other expenses				
Interest expense, net	(3,714)	(1,995)	(6,131)	(3,924)
Net income	1,013	1,037	2,363	2,146
Non-controlling interest in Operating Partnership	(186)	(338)	(452)	(772)
Net income available to Easterly Government				
Properties, Inc.	\$827	\$699	\$1,911	\$1,374
Net income available to Easterly Government				
Properties, Inc. per share:				
Basic	\$0.02	\$0.02	\$0.05	\$0.05
Diluted	\$0.02	\$0.02	\$0.05	\$0.05
Weighted-average common shares outstanding				
Basic	37,408,603	27,484,075	37,151,527	25,812,893
Diluted	39,845,314	29,267,258	39,534,993	27,538,423
Dividends declared per common share	\$0.25	\$0.23	\$0.49	\$0.45

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

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Easterly Government Properties, Inc.

Consolidated Statements of Comprehensive Income (unaudited)

(Amounts in thousands, except share amounts)

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net income	\$1,013	\$1,037	\$2,363	\$2,146
Other comprehensive loss:				
Unrealized loss on interest rate swaps	(694)	—	(586)	—
Other comprehensive loss:	(694)	—	(586)	—
Comprehensive income	319	1,037	1,777	2,146
Non-controlling interest in Operating Partnership	(186)	(338)	(452)	(772)
Other comprehensive loss attributable to				
non-controlling interest	221	—	209	—
Comprehensive income attributable to Easterly				
Government Properties, Inc.	\$354	\$699	\$1,534	\$1,374

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

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Easterly Government Properties, Inc.

Consolidated Statements of Cash Flows (unaudited)

(Amounts in thousands)

	For the six months ended June 30,	
	2017	2016
Cash flows from operating activities		
Net income	\$2,363	\$2,146
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	26,522	21,937
Straight line rent	(493)	33
Amortization of above- / below-market leases	(4,218)	(3,409)
Amortization of unearned revenue	(55)	(50)
Amortization of loan premium / discount	(42)	(43)
Amortization of deferred financing costs	516	432
Non-cash compensation	1,467	1,422
Net change in:		
Rents receivable	787	(517)
Accounts receivable	(923)	(789)
Prepaid expenses and other assets	(1,698)	(449)
Accounts payable and accrued liabilities	318	329
Net cash provided by operating activities	24,544	21,042
Cash flows from investing activities		
Real estate acquisitions and deposits	(249,492)	(129,796)
Additions to operating properties	(901)	(266)
Additions to development properties	(3,911)	—
Restricted cash	(1,913)	179
Net cash (used in) investing activities	(256,217)	(129,883)
Cash flows from financing activities		
Payment of deferred financing costs	(3,225)	—
Issuance of common shares	1,886	84,943
Credit facility draws	108,000	53,750
Credit facility repayments	(252,167)	(10,000)
Term loan draws	100,000	—
Issuance of notes payable	175,000	—
Issuance of mortgage notes payable	127,500	—
Repayments of mortgage notes payable	(1,473)	(1,414)
Dividends and distributions paid	(22,564)	(19,001)
Payment of offering costs	(24)	(3,909)
Net cash provided by financing activities	232,933	104,369
Net increase (decrease) in cash and cash equivalents	1,260	(4,472)
Cash and cash equivalents, beginning of period	4,845	8,176
Cash and cash equivalents, end of period	\$6,105	\$3,704

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

Easterly Government Properties, Inc.

Consolidated Statements of Cash Flows (unaudited)

(Amounts in thousands)

Supplemental disclosure of cash flow information is as follows:

	For the six months ended June 30,	
	2017	2016
Cash paid for interest	\$5,271	\$3,615
Supplemental disclosure of non-cash information		
Additions to operating properties accrued, not paid	\$229	\$87
Additions to development properties accrued, not paid	11	—
Financing costs accrued, not paid	173	—
Offering costs accrued, not paid	—	174
Unrealized loss on interest rate swaps	(586)	—
Exchange of Common Units for Shares of Common Stock		
Non-controlling interest in Operating Partnership	\$(19,866)	\$(88,674)
Common stock	13	58
Additional paid-in capital	19,853	88,616
Total	\$—	\$—

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

Easterly Government Properties, Inc.

Notes to the Consolidated Financial Statements (unaudited)

1. Organization and Basis of Presentation

The information contained in the following notes to the consolidated financial statements is condensed from that which would appear in the annual consolidated financial statements; accordingly, the consolidated financial statements included herein should be reviewed in conjunction with the consolidated financial statements for the fiscal year ended December 31, 2016, and related notes thereto, included in the Annual Report on Form 10-K of Easterly Government Properties, Inc. (which may be referred to in these financial statements as the “Company,” “we,” “us,” or “our”) for the year ended December 31, 2016 filed with the U.S. Securities and Exchange Commission (the “SEC”) on March 2, 2017.

The Company is a Maryland corporation that has elected to be taxed as a real estate investment trust (“REIT”) under the Internal Revenue Code, as amended (the “Code”) commencing with its taxable year ended December 31, 2015. The operations of the Company are carried on primarily through Easterly Government Properties LP (the “Operating Partnership”) and the wholly owned subsidiaries of the Operating Partnership.

We are an internally managed REIT, focused primarily on the acquisition, development, and management of Class A commercial properties that are leased to U.S. Government agencies that serve essential functions. We generate substantially all of our revenue by leasing our properties to such agencies, either directly or through the U.S. General Services Administration (“GSA”). Our objective is to generate attractive risk-adjusted returns for our stockholders over the long term through dividends and capital appreciation.

As of June 30, 2017, we wholly owned 45 operating properties in the United States, including 42 operating properties that were leased primarily to U.S. Government tenant agencies and three operating properties that were entirely leased to private tenants, encompassing approximately 3.5 million square feet in the aggregate. In addition, we wholly owned two properties under development encompassing approximately 0.1 million square feet. We focus on acquiring, developing, and managing U.S. Government leased properties that are essential to supporting the mission of the tenant agency and strive to be a partner of choice for the U.S. Government, working with the tenant agency to meet its needs and objectives.

The Operating Partnership holds substantially all of our assets and conducts substantially all our business. The Company is the sole general partner of the Operating Partnership. The Company owned approximately 83.2% of the aggregate limited partnership interests in the Operating Partnership (“common units”) at June 30, 2017. We believe that we have operated and have been organized in conformity with the requirements for qualification and taxation as a REIT for U.S. federal income tax purposes commencing with our taxable year ended December 31, 2015.

Principle of Consolidation

The accompanying consolidated financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and include the accounts of the Company, including Easterly Government Properties TRS, LLC, Easterly Government Services, LLC and the Operating Partnership. All significant intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation

The condensed consolidated financial statements included herein are unaudited; however, they include all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary to state fairly the consolidated financial position of the Company at June 30, 2017, and the consolidated results of operations and the

consolidated cash flows for the three and six months ended June 30, 2017 and 2016. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of the Company's condensed consolidated financial statements are disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

6

Recently Adopted Accounting Pronouncements

On January 1, 2017, the Company adopted ASU 2017-01, Business Combinations (Topic 805), which clarifies the framework for determining whether an integrated set of assets and activities meets the definition of a business. The revised framework establishes a screen for determining whether an integrated set of assets and activities is a business and narrows the definition of a business, which is expected to result in fewer transactions being accounted for as business combinations. Acquisitions of integrated sets of assets and activities that do not meet the definition of a business are accounted for as asset acquisitions. As a result the Company believes most of our future acquisitions of operating properties will qualify as asset acquisitions and third-party transaction costs associated with these acquisitions will be capitalized while internal acquisition costs will continue to be expensed.

On January 1, 2017, the Company adopted ASU No. 2016-09, Compensation – Stock Compensation, which identifies areas for simplification involving several aspects of accounting for share-based payment transactions. The new guidance allows for entities to make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. In addition, the guidance allows employers to withhold shares to satisfy minimum statutory tax withholding requirements up to the employees' maximum individual tax rate without causing the award to be classified as a liability. The guidance also stipulates that cash paid by an employer to a taxing authority when directly withholding shares for tax-withholding purposes should be classified as a financing activity on the statement of cash flows. The implementation of this update did not have a material impact in our consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers and will replace most existing revenue recognition guidance when it becomes effective. This amendment applies to all contracts with customers except those that are within the scope of other topics in the FASB ASC ("Accounting Standards Codification"). In July 2015, the FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 by one year to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period.

The Company will adopt ASU 2014-09 and the related updates subsequently issued by the FASB in January 2018 using one of two methods: retrospective restatement for each reporting period presented at the time of adoption, or retrospectively with the cumulative effect of initially applying this guidance recognized at the date of initial application. The Company has not decided which method of adoption we will use.

The Company is continuing to evaluate ASU No. 2014-09, additional information about the Company's revenue streams and other considerations are summarized below.

Rental income from real property – is derived from rental agreements, whereby 42 of the Company's operating properties are leased primarily to the U.S. Government and three of the Company's operating properties are entirely leased to private tenants. Rental income from real property is specifically excluded from ASU 2014-09.

Tenant reimbursements – is comprised of tenant reimbursements from real estate taxes, and certain other expenses, as well as tenant project reimbursements that consist primarily of subcontracted costs that are reimbursed to us by the tenant.

Other income – is comprised primarily of the management fee income associated with tenant project reimbursements.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new

standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for in the same manner as operating leases today. As of June 30, 2017, the Company had a sublease for office space in Washington D.C. expiring in June 2021 and a lease for office space in San Diego, CA expiring in April 2022. The remaining contractual payments under the Company's lease and sublease for office space aggregate \$2.1 million. Additionally, ASU 2016-02 will require that lessees and lessors capitalize, as initial direct costs, only those costs that are incurred due to the execution of a lease. Under ASU 2016-02, allocated payroll costs and other costs that are incurred regardless of whether the lease is obtained will no longer be capitalized as initial direct costs and instead will be expensed as incurred. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASU No. 2016-02 is effective for reporting periods beginning after December 15, 2018, with early adoption

permitted. The standard permits the use of either the retrospective or modified retrospective transition method. The Company is in the process of evaluating the impact of this new guidance.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230), which provides classification guidance for certain cash receipts and cash payments including payment of debt extinguishment costs, settlement of zero-coupon debt instruments, insurance claim payments and distributions from equity method investees. The standard is effective on January 1, 2018, with early adoption permitted. The Company is in the process of evaluating the impact of this new guidance.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230), which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The standard is effective on January 1, 2018, with early adoption permitted. The Company is in the process of evaluating the impact of this new guidance.

In February 2017, the FASB issued ASU No. 2017-05, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. This ASU clarifies the scope and accounting of a financial asset that meets the definition of an “in-substance nonfinancial asset” and defines the term “in-substance nonfinancial asset.” This ASU also adds guidance for partial sales of nonfinancial assets. ASU 2017-05 will be effective at the same time ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), is effective. The Company is in the process of evaluating the impact of this new guidance.

3. Real Estate and Intangibles

During the six months ended June 30, 2017, we acquired two operating properties, OSHA – Sandy and VA – Loma Linda, in asset acquisitions for an aggregate purchase price of \$249.6 million, of which VA – Loma Linda comprised \$212.6 million. We allocated the purchase price of the acquisition based on the estimated fair values of the acquired assets and assumed liabilities as follows (dollars in thousands):

	Total
Real estate	
Land	\$ 14,837
Building	208,004
Acquired tenant improvements	927
Total real estate	223,768
Intangible assets	
In-place leases	17,676
Acquired leasing commissions	9,402
Total intangible assets	27,078
Intangible liabilities	
Below-market leases	(1,255)
Total intangible liabilities	(1,255)

Purchase price	\$249,591
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We did not assume any debt upon acquisition of these properties. The intangible assets and liabilities of operating properties acquired have a weighted average amortization period of 16.61 years as of June 30, 2017. During the six months ended June 30, 2017, we included \$2.6 million of revenues and \$1.0 million of net income in our consolidated statement of operations related to operating properties acquired.

During the six months ended June 30, 2017, we incurred \$1.0 million of acquisition-related expenses including \$0.8 million of internal costs associated with property acquisitions.

8

Pro Forma Financial Information

We did not have any business combinations during the six months ended June 30, 2017. As such, the unaudited pro forma financial information set forth below presents results for the six months ended June 30, 2016 as if the ICE – Albuquerque and NPS – Omaha acquisitions had occurred on January 1, 2015. The pro forma information is not necessarily indicative of the results that actually would have occurred nor does it intend to indicate future operating results (dollars in thousands):

	For the six months ended June 30, 2016
Proforma (unaudited)	
Total rental revenue	\$49,940
Net income (loss) ⁽¹⁾	2,996

(1)The net income for the six months ended June 30, 2016 excludes \$0.7 million of property acquisition costs. Consolidated Real Estate and Intangibles

Real estate and intangibles consisted of the following as of June 30, 2017 (dollars in thousands):

	Total
Real estate properties, net	
Land	\$127,660
Building	993,657
Acquired tenant improvements	40,863
Construction in progress	8,498
Accumulated amortization	(53,639)
Total Real estate properties, net	\$1,117,039
Intangible assets, net	
In-place leases	\$140,338
Acquired leasing commissions	32,586
Above market leases	10,631
Accumulated amortization	(56,428)
Total Intangible assets, net	\$127,127
Intangible liabilities, net	
Below market leases	\$(57,753)
Accumulated amortization	19,578
Total Intangible liabilities, net	\$(38,175)

4. Debt

At June 30, 2017, our borrowings consisted of the following (dollars in thousands):

Loan	Principal Outstanding	Interest Rate ⁽¹⁾	Maturity Date
Revolving credit facility:			
Senior unsecured revolving credit facility ⁽²⁾	\$ 68,000	L + 140bps	February 2019 ⁽³⁾
Total revolving credit facility	68,000		
Term loan facility:			
Senior unsecured term loan facility	100,000	3.12% ⁽⁴⁾	September 2023
Total term loan facility	100,000		
Less: Total unamortized deferred financing fees	(868)		
Total term loan facility, net	99,132		
Notes payable:			
Senior unsecured notes payable, series A	95,000	4.05%	May 2027
Senior unsecured notes payable, series B	50,000	4.15%	May 2029
Senior unsecured notes payable, series C	30,000	4.30%	May 2032
Total notes payable	175,000		
Less: Total unamortized deferred financing fees	(1,354)		
Total notes payable, net	173,646		
Mortgage notes payable:			
CBP - Savannah	14,562	3.40% ⁽⁵⁾	July 2033
ICE - Charleston	20,369	4.21% ⁽⁵⁾	January 2027
MEPCOM - Jacksonville	11,234	4.41% ⁽⁵⁾	October 2025
USFS II - Albuquerque	17,044	4.46% ⁽⁵⁾	July 2026
DEA - Pleasanton	15,700	L + 150bps ⁽⁵⁾	October 2023
VA - Loma Linda	127,500	3.59%	July 2027
Total mortgage notes payable	206,409		
Less: Total unamortized deferred financing fees	(2,045)		
Less: Total unamortized premium/discount	418		
Total mortgage notes payable, net	204,782		
Total debt	545,560		

(1) At June 30, 2017, the one-month LIBOR (“L”) was 1.23%. The current interest rate is not adjusted to include the amortization of deferred financing fees or debt issuance costs incurred in obtaining debt or any unamortized fair market value premiums. The spread over the applicable rate for the Company's senior unsecured revolving credit facility and senior unsecured term loan facility is based on the Company's consolidated leverage ratio, as defined

in the respective loan agreements.

- (2) Available capacity of \$332.0 million at June 30, 2017 with an accordion feature that provides additional capacity of \$250.0 million, for a total facility size of not more than \$650.0 million.
- (3) Credit facility has two six-month as-of-right extension options subject to certain conditions and the payment of an extension fee.
- (4) Entered into two interest rate swaps with an effective date of March 29, 2017 with an aggregate notional value of \$100 million to effectively fix the interest rate at 3.12% annually.
- (5) Effective interest rates are as follows: CBP - Savannah 4.12%, ICE - Charleston 3.93% , MEPCOM - Jacksonville 3.89%, USFS II - Albuquerque 3.92%, DEA - Pleasanton 1.8%.

The table below sets forth the costs included in interest expense related to the Company's debt arrangements on the accompanying Consolidated Statement of Operations for the three and six months ended June 30, 2017 and 2016 (dollars in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
Costs Included in Interest Expense	2017	2016	2017	2016
Amortization of deferred financing fees	\$265	\$216	\$516	\$432

On May 25, 2017, the Operating Partnership issued \$175 million of fixed rate, senior unsecured notes (the “Notes”) in a private placement pursuant to a purchase agreement among the Operating Partnership, the Company and the purchasers of the Notes (the “Purchase Agreement”). The Notes are unconditionally guaranteed by the Company and various subsidiaries of the Operating Partnership (the “Subsidiary Guarantors”).

Subject to the terms of the Purchase Agreement and the Notes, upon certain events of default, including, but not limited to, (i) a default in the payment of any principal, “make-whole” amount or interest under the Notes, and (ii) a default in the payment of certain other indebtedness of the Operating Partnership or of the Company or of the Subsidiary Guarantors, the principal and accrued and unpaid interest and the make-whole amount on the outstanding Notes will become due and payable at the option of the holders. The Purchase Agreement and Notes also contain various covenants (including, among others, financial covenants with respect to debt service coverage, consolidated net worth, fixed charges and consolidated leverage and covenants relating to liens). If the Operating Partnership or the Company breaches any of these covenants, the principal and accrued and unpaid interest and the make-whole amount on the outstanding Notes will become due and payable at the option of the holders.

The Operating Partnership may prepay at any time all, or from time to time any part of, the Notes, in the amount not less than 5% of the aggregate principal amount of the Notes then outstanding at (i) 100% of the principal amount so prepaid, together with accrued interest, and (ii) a make-whole amount that is calculated by discounting the value of the remaining scheduled interest payments that would otherwise be payable through the scheduled maturity date of the applicable Notes on the principal amount being prepaid. The Operating Partnership has the right to make tender offers and is required to make other prepayment offers under the terms set forth in the Purchase Agreement.

On June 28, 2017, the Company, through a wholly-owned subsidiary of the Operating Partnership, entered into a \$127.5 million mortgage loan secured by VA – Loma Linda.

Financial Covenant Considerations

The Company was in compliance with all financial and other covenants as of June 30, 2017 related to its senior unsecured revolving credit facility, senior unsecured term loan facility, senior unsecured notes payable and secured mortgage notes payable.

Fair Value of Debt

As of June 30, 2017, the carrying value of our senior unsecured revolving credit facility approximated fair value. In determining the fair value we considered the short term maturity, variable interest rate and credit spreads. We deem the fair value of our senior unsecured revolving credit facility as a Level 3 measurement.

As of June 30, 2017, the carrying value of our senior unsecured term loan facility approximated fair value. In determining the fair value we considered the variable interest rate and credit spreads. We deem the fair value of our senior unsecured term loan facility as a Level 3 measurement.

At June 30, 2017, the fair value of our notes payable was determined by discounting future contractual principal and interest payments using prevailing market rates. We deem the fair value measurement of our notes payable instruments as a Level 3 measurement. At June 30, 2017, the fair value of our notes payable was \$177.9 million.

At June 30, 2017, the fair value of our mortgage debt was determined by discounting future contractual principal and interest payments using prevailing market rates. We deem the fair value measurement of our mortgage debt instruments as a Level 3 measurement. At June 30, 2017, the fair value of our mortgage debt was \$205.2 million.

5. Derivatives and Hedging Activities

As of June 30, 2017, the Company had two outstanding forward-starting interest rate swaps with an aggregate notional value of \$100.0 million that were designated as cash flow hedges. The forward swaps have an effective date of March 29, 2017 and extend

11

until the maturity of our senior unsecured term loan facility on September 29, 2023. The forward swaps effectively fix the interest rate under our senior unsecured term loan facility at 3.12% annually based on the Company's current consolidated leverage ratio and a variable interest rate of one-month LIBOR.

Cash Flow Hedges of Interest Rate Risk

As of June 30, 2017, our forward swaps were classified as an asset on our consolidated balance sheet at \$3.2 million. The effective portion of changes in the fair value of derivatives designated and qualified as cash flow hedges is recorded in accumulated other comprehensive income and will be reclassified to interest expense in the period that the hedged forecasted transactions affect earnings on the Company's variable rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings into interest expense. For the six months ended June 30, 2017, the amount of unrealized loss recognized in accumulated other comprehensive income on interest rate swaps was \$0.6 million and the amount of loss reclassified from accumulated other comprehensive income into interest expense was \$0.1 million. Additionally, during the six months ended June 30, 2017, there was no ineffectiveness.

The Company estimates that less than \$0.1 million will be reclassified from accumulated other comprehensive income as an increase to interest expense over the next 12 months.

Credit-Risk-Related Contingent Features

The Company has agreements with each of its derivative counterparties that contain a provision where the Company could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company's default on the indebtedness. As of June 30, 2017, the Company did not have any derivatives in a net liability position.

6. Fair Value Measurements

Accounting standards define fair value as the exit price, or the amount that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standards also establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability developed based on market data obtained from sources independent of us. Unobservable inputs are inputs that reflect our assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. The hierarchy of these inputs is broken down into three levels: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. Categorization within the valuation hierarchy is based upon the lowest level of input that is most significant to the fair value measurement.

Recurring fair value measurements

The fair values of our interest rate swaps are determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest

rate curves and implied volatilities in such interest rates. While the Company determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. The Company has determined that the significance of the impact of the credit valuation adjustments made to its derivative contracts, which determination was based on the fair value of each individual contract, was not significant to the overall valuation. As a result, all of the Company's derivatives held as of June 30, 2017 were classified as Level 2 of the fair value hierarchy.

The carrying values of cash and cash equivalents, restricted cash, accounts receivable, other assets and accounts payable and accrued expenses are reasonable estimates of fair values because of the short maturities of these instruments. For our disclosure of debt fair values in Note 4, we estimated the fair value of our unsecured senior revolving credit facility based on the short term maturity, variable interest rates and credit spreads (categorized within Level 3 of the fair value hierarchy), estimated the fair value of our senior unsecured term loan facility based on the variable interest rate and credit spreads (categorized within Level 3 of the fair value hierarchy) and estimated the fair value of our other debt based on the discounted estimated future cash payments to be made on such debt (categorized within Level 3 of the fair value hierarchy); the discount rates used approximate current market rates for loans, or groups of loans, with similar maturities and credit quality, and the estimated future payments included scheduled principal and interest payments. Fair value estimates are made as of a specific point in time, are subjective in nature and involve uncertainties and

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matters of significant judgement. Settlement at such fair value amounts may not be possible and may not be prudent management decision.

The table below presents the Company's assets and liabilities measured at fair value on a recurring basis as of June 30, 2017, aggregated by the level in the fair value hierarchy within which those measurements fall.

Balance Sheet Line Item	As of June 30, 2017		
	Level 1	Level 2	Level 3
	Interest rate swaps - Asset	\$—	\$3,199

7. Equity

The following table summarizes the changes in our stockholders' equity for the six months ended June 30, 2017 and 2016 (dollars in thousands):

	Shares	Common			Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Non-	Total
		Stock Par Value	Additional Paid-in Capital	controlling Interest in Operating Partnership				
Six months ended June 30, 2017								
Balance at December 31, 2016	36,874,810	\$ 369	\$ 596,971	\$ 1,721	\$(42,794)	\$ 3,038	\$ 137,561	\$ 696,866
Stock based compensation		—	158	—	—	—	1,309	1,467
Dividends and distributions paid		—	—	—	(18,432)	—	(4,132)	(22,564)
Grant of unvested restricted stock	17,912	—	—	—	—	—	—	—
Redemption of common units for shares of common stock	1,325,331	13	19,853	—	—	—	(19,866)	—
Issuance of common stock	87,048	1	1,861	—	—	—	—	1,862
Unrealized loss on interest rate swaps		—	—	—	—	(377)	(209)	(586)

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Net income	—	—	1,911	—	—	—	452	2,363
Allocation of non-controlling interest								
in Operating Partnership	—	825	—	—	—	—	(825)	—
Balance at June 30, 2017	38,305,101	\$ 383	\$ 619,668	\$ 3,632	\$(61,226)	\$ 2,661	\$ 114,290	\$ 679,408
Six months ended June 30, 2016								
Balance at December 31, 2015	24,168,379	\$ 241	\$ 391,767	\$(1,694)	\$(13,051)	\$ —	\$ 242,631	\$ 619,894
Stock based compensation	—	—	145	—	—	—	1,277	1,422
Dividends and distributions paid	—	—	—	—	(12,806)	—	(6,195)	(19,001)
Grant of unvested restricted stock	16,128	—	—	—	—	—	—	—
Redemption of common units for								
shares of common stock	5,745,028	58	88,616	—	—	—	(88,674)	—
Public offering	4,719,045	47	80,813	—	—	—	—	80,860
Net income	—	—	1,374	—	—	—	772	2,146
Allocation of non-controlling interest								
in Operating Partnership	—	—	(1,269)	—	—	—	1,269	—
Balance at June 30, 2016	34,648,580	\$ 346	\$ 560,072	\$(320)	\$(25,857)	\$ —	\$ 151,080	\$ 685,321

On March 8, 2017, the Company issued an aggregate of 2,692 shares of restricted common stock to certain employees pursuant to our 2015 Equity Incentive Plan. The restricted common stock grants will vest upon the second anniversary of the grant date so long as the grantee remains an employee of the Company on such date.

In connection with our 2017 annual meeting of stockholders, we issued an aggregate of 15,220 shares of restricted common stock to our non-employee directors pursuant to our 2015 Equity Incentive Plan. The restricted common stock grants will vest upon the earlier of the anniversary of the date of grant or the next annual stockholder meeting.

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A summary of our shares of restricted common stock and long-term incentive plan units in the Operating Partnership (“LTIP units”) awards at June 30, 2017 is as follows:

	Restricted Shares Weighted Average Grant Date Fair Value Per Share	Restricted Shares	LTIP Units	LTIP Units Weighted Average Grant Date Fair Value Per Share
Outstanding, December 31, 2016	16,128	\$ 18.60	926,000	\$ 8.91
Vested	(16,128)	18.60	—	—
Granted	17,912	19.72	—	—
Forfeited	—	—	—	—
Outstanding, June 30, 2017	17,912	\$ 19.72	926,000	\$ 8.91

We recognized \$1.5 million in compensation expense related to the restricted common stock and the LTIP unit awards for the six months ended June 30, 2017. As of June 30, 2017, unrecognized compensation expense for both awards was \$3.1 million, which will be amortized over the vesting period.

We valued our non-vested restricted share award issued in 2017 at the grant date fair value, which was the market price of our shares of common stock.

On March 27, 2017, we completed an underwritten public offering of an aggregate of 4,945,000 shares of common stock, including 645,000 shares sold pursuant the underwriters exercise in full of their option to purchase additional shares. The shares were offered on a forward basis in connection with certain forward sales agreements entered into with certain financial institutions, acting as forward purchasers. Pursuant to the forward sales agreements, the forward purchasers borrowed and the forward sellers, acting as agents for the forward purchasers, sold an aggregate of 4,945,000 shares in the public offering. We did not initially receive any proceeds from the sale of shares of our common stock by the forward sellers in the public offering, but expect to receive gross proceeds of approximately \$94.0 million upon full physical settlement of the forward sales agreements, which we expect will occur no later than September 27, 2017. The Company will account for the forward share agreements as equity.

In connection with the liquidation of certain private investment funds that contributed assets in our initial public offering, we issued 1,325,331 shares of our common stock between January 1, 2017 and June 30, 2017 upon the redemption of 1,325,331 common units in accordance with the terms of the partnership agreement of the Operating Partnership.

On May 3, 2017, our board of directors declared a dividend for the first quarter of 2017 in the amount of \$0.25 per share of common stock and per common unit outstanding to stockholders and common unit holders of record as of the close of business on June 14, 2017. Our board of directors also declared a dividend for the first quarter of 2017 for each LTIP unit in an amount equal to 10% of the dividend paid per common unit. Such dividends were paid on June 29, 2017.

On August 2, 2017, our board of directors declared a dividend for the second quarter of 2017 in the amount of \$0.25 per share of common stock and per common unit outstanding to stockholders and common unit holders of record as of the close of business on September 13, 2017. Our board of directors also declared a dividend for the second quarter of 2017 for each LTIP unit in an amount equal to 10% of the dividend paid per common unit. Such dividends are to be paid on September 28, 2017.

On March 3, 2017, we entered into separate equity distribution agreements with each of Citigroup Global Markets Inc., BTIG, LLC, Jefferies LLC, Raymond James & Associates, Inc., RBC Capital Markets, LLC and SunTrust Robinson Humphrey, Inc. (collectively, the “managers”), pursuant to which we may issue and sell the shares of our common stock having an aggregate offering price of up to \$100.0 million from time to time through the managers, acting as sales agents and/or principals (the “ATM Program”). The sales of shares of our common stock under the equity distribution agreements may be made in negotiated transactions or transactions that are deemed to be “at the market” offerings as defined in Rule 415 under the Securities Act. During the three months ended June 30, 2017, we issued an aggregate of 87,048 shares of our common stock through the ATM Program, generating proceeds of approximately \$1.9 million, net of offering costs. We used the proceeds for general corporate purposes. As of June 30, 2017, we had approximately \$98.1 million of gross sales of our common stock available under the ATM Program.

8. Earnings Per Share

Basic earnings or loss per share of common stock (“EPS”) is calculated by dividing net income attributable to common stockholders by the weighted average shares of common stock outstanding for the periods presented. Diluted EPS is computed after adjusting the basic EPS computation for the effect of dilutive common equivalent shares outstanding during the periods presented. Unvested restricted shares, LTIP units and forward sales agreements shares are considered participating securities, which require the

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use of the two-class method for the computation of basic and diluted earnings per share. The following table sets forth the computation of the Company's basic and diluted earnings per share of common stock for the three and six months ended June 30, 2017 and 2016 (amounts in thousands, except per share amounts):

	For the three months ended		For the six months ended	
	June 30, 2017	2016	June 30, 2017	2016
Numerator				
Net income	\$1,013	\$1,037	\$2,363	\$2,146
Less: Non-controlling interest in Operating Partnership	(186)	(338)	(452)	(772)
Net income available to Easterly Government				
Properties, Inc.	827	699	1,911	1,374
Less: Dividends on participating securities	(28)	(25)	(54)	(51)
Net income available to common stockholders	\$799	\$674	\$1,857	\$1,323
Denominator for basic EPS	37,408,603	27,484,075	37,151,527	25,812,893
Dilutive effect of share-based compensation awards	8,191	11,629	6,992	12,753
Dilutive effect of LTIP units	1,873,429	1,638,738	1,856,030	1,625,785
Dilutive effect of forward sales agreements shares	555,091	132,816	520,444	86,992
Denominator for diluted EPS	39,845,314	29,267,258	39,534,993	27,538,423
Basic EPS	\$0.02	\$0.02	\$0.05	\$0.05
Diluted EPS	\$0.02	\$0.02	\$0.05	\$0.05

9. Operating Leases

Our rental properties are subject to generally non-cancelable operating leases generating future minimum contractual rent payments due from tenants. As of June 30, 2017, future non-cancelable minimum contractual rent payments are as follows (dollars in thousands):

	Payments due by period						
	Total	2017	2018	2019	2020	2021	Thereafter
Operating Leases							
Minimum lease payments	\$755,816	48,206	88,620	84,550	77,864	68,385	388,191

The Company's consolidated operating properties were 100% occupied by 24 tenants at June 30, 2017.

For the six months ended June 30, 2017 we recognized \$48.4 million in rental income attributable to base rent, \$4.2 million in rental income attributable to the amortization of our above- and below-market leases and a straight-line adjustment of \$0.5 million.

10. Commitments and Contingencies

We sublease 5,682 square feet of office space in Washington, D.C. under a sublease agreement with a commencement date of March 2016 and expiration date of June 2021.

We also lease 5,752 square feet of office space in San Diego, CA under an operating lease that commenced February 2015 and expires in April 2022.

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For the six months ended June 30, 2017 rent expense incurred under the terms of the corporate office leases, was \$0.2 million. Future minimum rental payments under the Company's corporate office leases as of June 30, 2017 are summarized as follows (dollars in thousands):

	Payments due by period						
	Total	2017	2018	2019	2020	2021	Thereafter
Corporate office leases							
Minimum lease payments	\$2,079	225	462	479	496	352	65

11. Concentrations Risk

Concentrations of credit risk arise for the Company when multiple tenants of the Company are engaged in similar business activities, are located in the same geographic region or have similar economic features that impact in a similar manner their ability to meet contractual obligations, including those to the Company. The Company regularly monitors its tenant base to assess potential concentrations of credit risk.

As stated in Note 1 above, the Company leases commercial space to the U.S. Government or nongovernmental tenants. At June 30, 2017, the U.S Government accounted for approximately 97.4% of rental income and non-governmental tenants accounted for the remaining approximately 2.6%.

Fourteen of our 45 operating properties are located in California, accounting for approximately 27.1% of our total rentable square feet and approximately 35.9% of our total annualized lease income as of June 30, 2017. In addition, we owned one property under development located in California. To the extent that weak economic or real estate conditions or natural disasters affect California more severely than other areas of the country, our business, financial condition and results of operations could be significantly impacted.

12. Subsequent Events

For its consolidated financial statements as of June 30, 2017, the Company evaluated subsequent events and noted no significant events.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We caution investors that forward-looking statements are based on management's beliefs and on assumptions made by, and information currently available to, management. When used, the words "anticipate", "believe", "estimate", "expect", "intend", "may", "might", "plan", "project", "result", "should", "will", and similar expressions which do not relate solely to historical matters are intended to identify forward-looking statements. These statements are subject to risks, uncertainties, and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties, and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. We expressly disclaim any responsibility to update our forward-looking statements, whether as a result of new information, future events, or otherwise. Accordingly, investors should use caution in relying on forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

Some of the risks and uncertainties that may cause our actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following:

- the factors included under the heading "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 and the factors included under the heading "Risk Factors" in the Company's other public filings;
- risks associated with our dependence on the U.S. Government and its agencies for substantially all of our revenues, including credit risk and risk that the U.S. Government reduces its spending on real estate or that it changes its preference away from leased properties;
- risks associated with ownership and development of real estate;
- decreased rental rates or increased vacancy rates;
- loss of key personnel;
- general volatility of the capital and credit markets and the market price of our common stock;
- the risk we may lose one or more major tenants;
- difficulties in completing and successfully integrating acquisitions;
- failure of acquisitions or development projects to occur at anticipated levels or yield anticipated results;
- risks associated with actual or threatened terrorist attacks;
- intense competition in the real estate market that may limit our ability to attract or retain tenants or re-lease space;
- insufficient amounts of insurance or exposure to events that are either uninsured or underinsured;
- uncertainties and risks related to adverse weather conditions, natural disasters and climate change;
- exposure to liability relating to environmental and health and safety matters;
- limited ability to dispose of assets because of the relative illiquidity of real estate investments and the nature of our assets;
- exposure to litigation or other claims;
- risks associated with breaches of our data security;
- risks associated with our indebtedness;
- failure to refinance current or future indebtedness on favorable terms, or at all;
- failure to meet the restrictive covenants and requirements in our existing and new debt agreements;
 - fluctuations in interest rates and increased costs to refinance or issue new debt;
- risks associated with derivatives or hedging activity; and
- risks associated with mortgage debt or unsecured financing or the unavailability thereof, which could make it difficult to finance or refinance properties and could subject us to foreclosure.

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For a further discussion of these and other factors, see the section entitled “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016.

Overview

References to “we,” “our,” “us” and “the Company” refer to Easterly Government Properties, Inc., a Maryland corporation, together with our consolidated subsidiaries including Easterly Government Properties LP, a Delaware limited partnership, which we refer to herein as our operating partnership.

We are an internally managed real estate investment trust, or REIT, focused primarily on the acquisition, development and management of Class A commercial properties that are leased to U.S. Government agencies that serve essential functions. We generate substantially all of our revenue by leasing our properties to such agencies, either directly or through the U.S. General Services Administration, or GSA. Our objective is to generate attractive risk-adjusted returns for our stockholders over the long term through dividends and capital appreciation.

As of June 30, 2017, we wholly owned 45 operating properties in the United States, including 42 operating properties that were leased primarily to U.S. Government tenant agencies and three operating properties that were entirely leased to private tenants, encompassing approximately 3.5 million square feet in the aggregate. In addition, we wholly owned two properties under development encompassing approximately 0.1 million square feet. We focus on acquiring, developing and managing U.S. Government leased properties that are essential to supporting the mission of the tenant agency and strive to be a partner of choice for the U.S. Government, working with the tenant agency to meet its needs and objectives.

Our operating partnership holds substantially all of our assets and conducts substantially all of our business. As of June 30, 2017, we owned approximately 83.2% of the aggregate limited partnership interests in our operating partnership, or common units. We have elected to be taxed as a REIT and operate in a manner that we believe allows us to continue to qualify as a REIT for federal income tax purposes commencing with our taxable year ended December 31, 2015.

Recent Acquisitions

On June 1, 2017, the Company acquired a 327,614 square foot Department of Veterans Affairs (VA) Ambulatory Care Center in Loma Linda, California. The building was constructed in 2016 and is 100% leased to the VA under a 20 year lease.

On May 31, 2017, the Company acquired property located in Lenexa, Kansas, which is currently under development to become a 52,870 square foot Food and Drug Administration (FDA) laboratory. The FDA - Lenexa laboratory will be leased to the GSA for a 20-year term, beginning upon completion of development of the property.

On February 3, 2017, the Company acquired a 75,000 square foot laboratory located in Sandy, Utah. The building was constructed in 2003 and is 100% leased to the GSA and occupied by the Occupational Safety and Health Administration (OSHA) under a 20 year lease. The lease includes two five-year renewal options with fixed rental increases that, if exercised, would carry the lease term to 2034.

Operating Properties

As of June 30, 2017, our 45 operating properties were 100% leased with a weighted average annualized lease income per leased square foot of \$34.63 and a weighted average age of approximately 12.1 years. We calculate annualized lease income as annualized contractual base rent for the last month in a specified period, plus the annualized straight line rent adjustments for the last month in such period and the annualized expense reimbursements earned by us for the last month in such period.

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Information about our operating properties as of June 30, 2017 is set forth in the table below:

Property Name	Location	Type ⁽¹⁾	Tenant	Rentable	Annualized	Percentage	Annualized	Annualized
			Lease					Lease
Property Name	Location	Type ⁽¹⁾	Expiration	Square	Lease	Lease	Lease	Square
Property Name	Location	Type ⁽¹⁾	Year ⁽²⁾	Feet	Income	Income	Income	Foot
U.S Government Leased								
VA - Loma Linda	Loma Linda, CA	OC	2036	327,614	\$16,039,323	13.3	%	\$ 48.96
IRS - Fresno	Fresno, CA	O	2018	180,481	7,486,857	6.2	%	41.48
PTO - Arlington	Arlington, VA	O	2019 / 2020	189,871	6,557,257	5.3	%	34.54
FBI - San Antonio	San Antonio, TX	O	2021	148,584	5,040,098	4.2	%	33.92
FBI - Omaha	Omaha, NE	O	2024	112,196	4,536,468	3.8	%	40.43
EPA - Kansas City	Kansas City, KS	L	2023	71,979	3,852,671	3.2	%	53.52
ICE - Charleston ⁽⁴⁾	North Charleston, SC	O	2021 / 2027	86,733	3,685,906	3.0	%	42.50
DOT - Lakewood	Lakewood, CO	O	2024	122,225	3,487,403	2.9	%	28.53
USCIS - Lincoln	Lincoln, NE	O	2020	137,671	3,256,811	2.7	%	23.66
AOC - El Centro ⁽⁶⁾	El Centro, CA	C/O	2019	46,813	3,041,909	2.5	%	64.98
FBI - Birmingham	Birmingham, AL	O	2020	96,278	3,022,473	2.5	%	31.39
OSHA - Sandy	Sandy, UT	L	2024 ⁽⁷⁾	75,000	2,988,675	2.5	%	39.85
USFS II - Albuquerque	Albuquerque, NM	O	2026 ⁽⁸⁾	98,720	2,795,974	2.3	%	28.32
ICE - Albuquerque	Albuquerque, NM	O	2027	71,100	2,794,202	2.3	%	39.30
DEA - Vista	Vista, CA	L	2020	54,119	2,761,077	2.3	%	51.02
DEA - Pleasanton	Pleasanton, CA	L	2035	42,480	2,741,304	2.3	%	64.53
USFS I - Albuquerque	Albuquerque, NM	O	2021 ⁽⁸⁾	92,455	2,727,586	2.3	%	29.50
FBI - Richmond	Richmond, VA	O	2021	96,607	2,722,195	2.3	%	28.18
AOC - Del Rio ⁽⁶⁾	Del Rio, TX	C/O	2024	89,880	2,662,523	2.2	%	29.62
DEA - Dallas Lab	Dallas, TX	L	2021	49,723	2,395,557	2.0	%	48.18
MEPCOM - Jacksonville	Jacksonville, FL	O	2025	30,000	2,179,704	1.8	%	72.66
FBI - Little Rock	Little Rock, AR	O	2021	101,977	2,145,210	1.8	%	21.04
CBP - Savannah	Savannah, GA	L	2033	35,000	2,114,245	1.7	%	60.41
FBI - Albany	Albany, NY	O	2018	98,184	2,093,697	1.7	%	21.32
DEA - Santa Ana	Santa Ana, CA	O	2024	39,905	2,073,724	1.7	%	51.97
DOE - Lakewood	Lakewood, CO	O	2029	115,650	2,061,963	1.7	%	17.83
DEA - Dallas	Dallas, TX	O	2021	71,827	1,808,587	1.5	%	25.18
NPS - Omaha	Omaha, NE	O	2024	62,772	1,750,216	1.4	%	27.88
CBP - Chula Vista	Chula Vista, CA	O	2018	59,397	1,708,702	1.4	%	28.77
	Sacramento, CA	O	2017	37,975	1,707,569	1.4	%	44.97

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DEA - North Highlands									
ICE - Otay	San Diego, CA	O	2022 / 2026	(9)	52,881	1,700,148	1.4	%	34.38
CBP - Sunburst	Sunburst, MT	O	2028		33,000	1,588,434	1.3	%	48.13
USCG - Martinsburg	Martinsburg, WV	O	2027		59,547	1,574,367	1.3	%	26.44
AOC - Aberdeen ⁽⁶⁾	Aberdeen, MS	C/O	2025		46,979	1,459,277	1.2	%	31.06
DEA - Birmingham ⁽¹⁰⁾	Birmingham, AL	O	2020		35,616	1,392,369	1.2	%	39.09
DEA - Albany	Albany, NY	O	2025		31,976	1,339,760	1.1	%	41.90
DEA - Otay ⁽¹¹⁾	San Diego, CA	O	2017		32,560	1,303,953	1.1	%	40.05
DEA - Riverside	Riverside, CA	O	2017		34,354	1,291,158	1.1	%	37.58
AOC - South Bend ⁽⁶⁾	South Bend, IN	C/O	2027		30,119	820,226	0.7	%	27.23
SSA - Mission Viejo	Mission Viejo, CA	O	2020		11,590	535,274	0.4	%	46.18
DEA - San Diego	San Diego, CA	W	2032		16,100	525,712	0.4	%	32.65
SSA - San Diego	San Diego, CA	O	2032		10,856	442,291	0.4	%	43.97
Subtotal					3,238,794	\$ 118,212,855	97.8	%	\$ 36.55
Privately Leased									
2650 SW 145th Avenue -									
Parbel of Florida	Miramar, FL	W/D	2018		81,721	1,668,372	1.4	%	20.42
5998 Osceola Court -									
United Technologies	Midland, GA	W/M	2023	(12)	105,641	538,932	0.4	%	5.10
501 East Hunter Street									
-									
Lummus Corporation									
	Lubbock, TX	W/D	2028	(7)	70,078	521,472	0.4	%	7.44
Subtotal					257,440	\$ 2,728,776	2.2	%	\$ 10.60
Total / Weighted Average									
					3,496,234	\$ 120,941,631	100.0	%	\$ 34.63

(1) OC=Outpatient Clinic; O=Office; C=Courthouse; L=Laboratory; W=Warehouse; D=Distribution;

M=Manufacturing

(2) The year of lease expiration does not include renewal options. All leases with renewal options are noted in the following footnotes to this table.

(3) 168,468 rentable square feet leased to the PTO will expire on March 31, 2019, and 21,403 rentable square feet leased to the PTO will expire on January 7, 2020.

(4) This property is only partially leased to the U.S. Government. We Are Sharing Hope SC (formerly known as LifePoint, Inc.) occupies 21,609 rentable square feet.

(5) 21,609 rentable square feet leased to We Are Sharing Hope SC will expire on September 30, 2021, and 65,124 rentable square feet leased to ICE will expire on January 31, 2027.

- (6) A portion of this property is occupied by the U.S. Marshals Service to provide security and otherwise support the mission of the Administrative Office of the Courts. Because of the interrelated nature of the U.S. Marshals Service and the Administrative Office of the Courts, we have not separately addressed occupancy by the U.S. Marshals Service.
- (7) Lease contains two five-year renewal options.
- (8) Lease contains one five-year renewal option.
- (9) 40,485 rentable square feet leased to ICE will expire on November 27, 2022, 7,434 rentable square feet leased to the DOT will expire on June 4, 2022 and 1,538 rentable square feet leased to the Department of Agriculture (DOA) will expire on January 1, 2026.
- (10) The Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) occupies 8,680 rentable square feet.
- (11) ICE occupies 5,813 rentable square feet.
- (12) Lease contains three five-year renewal options.

Certain of our leases are currently in the “soft-term” period of the lease, meaning that the U.S. Government tenant agency has the right to terminate the lease prior to its stated lease end date. We believe that, from the U.S. Government’s perspective, leases with such provisions are helpful for budgetary purposes. While some of our leases are contractually subject to early termination, we do not believe that our tenant agencies are likely to terminate these leases early given the build-to-suit features at the properties subject to the leases, the average age of these properties (approximately 14.5 years as of June 30, 2017), the mission-critical focus of the properties subject to the leases and the current level of operations at such properties. The following table sets forth a schedule of lease expirations for leases in place as of June 30, 2017.

Year of Lease Expiration (1)	Number of Square		Percent of		Percentage		Annualized Lease Income per Leased Square
	Leases	Footage	Portfolio Square Footage	Annualized	Annualized	of Total	
	Expiring	Expiring	Expiring	Lease Income Expiring	Lease Income Expiring	Foot Expiring	
2017	3	104,889	3.0	% \$4,302,680	3.6	% \$	41.02
2018	4	419,783	12.0	% 12,957,628	10.7	%	30.87
2019	2	215,281	6.1	% 8,828,567	7.3	%	41.01
2020	7	356,677	10.2	% 11,738,603	9.7	%	32.91
2021	7	582,782	16.7	% 17,375,438	14.4	%	29.81
2022	2	47,919	1.4	% 1,647,063	1.4	%	34.37
2023	2	177,620	5.1	% 4,391,603	3.6	%	24.72
2024	6	501,978	14.4	% 17,499,009	14.5	%	34.86
2025	3	108,955	3.1	% 4,978,741	4.1	%	45.70
2026	2	100,258	2.9	% 2,849,059	2.4	%	28.42
Thereafter	11	875,871	25.1	% 34,373,240	28.3	%	39.24
Total / Weighted Average	49	3,492,013	100.0	% \$120,941,631	100.0	% \$	34.63

(1) The year of lease expirations is pursuant to current contract terms. Some tenants have the right to vacate their space during a specified period, or “soft term,” before the stated terms of their leases expire. As of June 30, 2017, four tenants occupying approximately 12.9% of our rentable square feet and contributing approximately 11.8% of our annualized lease income have exercisable rights to terminate their leases before the stated term of their lease expires.

Results of Operations

Comparison of Results of Operations for the Three Months Ended June 30, 2017 and 2016

The financial information presented below summarizes the results of operations of the Company for the three months ended June 30, 2017 and 2016 (dollars in thousands).

	For the three months ended June 30,		
	2017	2016	Change
Revenues			
Rental income	\$27,501	\$22,291	\$5,210
Tenant reimbursements	2,974	2,476	498
Other income	128	154	(26)
Total revenues	30,603	24,921	5,682
Operating Expenses			
Property operating	5,837	5,085	752
Real estate taxes	2,979	2,332	647
Depreciation and amortization	13,462	11,074	2,388
Acquisition costs	456	346	110
Corporate general and administrative	3,142	3,052	90
Total expenses	25,876	21,889	3,987
Operating income	4,727	3,032	1,695
Other expenses			
Interest expense	(3,714)	(1,995)	(1,719)
Net income	\$1,013	\$1,037	\$(24)

Revenues

Total revenue consists primarily of rental income from our properties, tenant reimbursements for real estate taxes and certain other expenses, and project management income.

Total revenue increased by \$5.7 million to \$30.6 million for the three months ended June 30, 2017 compared to \$24.9 million for the three months ended June 30, 2016. The increase was primarily attributable to an additional \$5.5 million of revenue from the seven operating properties acquired since June 30, 2016 as well as a full quarter of operations from the NPS-Omaha acquisition made during the three months ended June 30, 2016.

Operating Expenses

Total expenses increased by \$4.0 million to \$25.9 million for the three months ended June 30, 2017 compared to \$21.9 million for the three months ended June 30, 2016. \$3.9 million of the increase to our property operating expenses, real estate taxes, and depreciation and amortization is primarily attributable to the seven operating properties acquired since June 30, 2016 as well as a full quarter of operations from the NPS-Omaha acquisition made during the three months ended June 30, 2016.

Interest Expense

Interest expense increased \$1.7 million to \$3.7 million for three months ended June 30, 2017 compared to \$2.0 million for the three months ended June 30, 2016.

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This increase is primarily due to a \$1.6 million increase associated with the issuance of the senior unsecured notes and a full quarter of interest expense attributable to our \$100 million senior unsecured term loan facility and interest rate swap. Additionally, there was a \$0.1 million increase in interest expense attributable to an increase in the weighted average interest rate of 2.41% for the three months ended June 30, 2017 compared to 1.84% for the three months ended June 30, 2016 on our senior unsecured revolving credit facility offset by a decrease in the weighted average borrowings under our senior unsecured revolving credit facility from \$193.9 million to \$170.0 million quarter over quarter.

Comparison of Results of Operations for the Six Months Ended June 30, 2017 and 2016

The financial information presented below summarizes the results of operations of the Company for the six months ended June 30, 2017 and 2016 (dollars in thousands).

	For the six months ended		
	June 30,		
	2017	2016	Change
Revenues			
Rental income	\$53,521	\$44,027	\$9,494
Tenant reimbursements	6,602	4,631	1,971
Other income	367	234	133
Total revenues	60,490	48,892	11,598
Operating Expenses			
Property operating	12,186	9,418	2,768
Real estate taxes	5,714	4,700	1,014
Depreciation and amortization	26,522	21,937	4,585
Acquisition costs	988	679	309
Corporate general and administrative	6,586	6,088	498
Total expenses	51,996	42,822	9,174
Operating income	8,494	6,070	2,424
Other (expenses) / income			
Interest expense	(6,131)	(3,924)	(2,207)
Net income (loss)	\$2,363	\$2,146	\$217

Revenues

Total revenue consists primarily of rental income from our properties, tenant reimbursements for real estate taxes and certain other expenses, and project management income.

Total revenue increased by \$11.6 million to \$60.5 million for the six months ended June 30, 2017 compared to \$48.9 million for the six months ended June 30, 2016. The increase was primarily attributable to an additional \$10.0 million of revenue from the seven operating properties acquired since June 30, 2016 as well as a full quarter of operations from the two operating properties acquired during the six months ended June 30, 2016, and a \$1.1 million increase in tenant project reimbursements and the associated project management income.

Operating Expenses

Total expenses increased by \$9.2 million to \$52.0 million for the six months ended June 30, 2017 compared to \$42.8 million for the six months ended June 30, 2016. \$7.2 million of the increase is attributable to our property operating expenses, real estate taxes, and depreciation and amortization associated with the seven operating properties acquired since June 30, 2016 as well as a full quarter of operations from the two operating properties acquired during the six

months ended June 30, 2016, and a \$0.9 million increase in expenses associated with projects and other services that were fully reimbursed by the tenant. Additionally, acquisition costs increased \$0.3 million due to an increase in internal employee costs offset by the capitalization of costs associated with probable acquisitions during the six months ended June 30, 2017 due to the adoption of ASU 2017-01 as of January 1, 2017. Corporate general and administrative costs also increased by \$0.5 million due to an increase in employee costs.

Interest Expense

Interest expense increased \$2.2 million to \$6.1 million for six months ended June 30, 2017 compared to \$3.9 million for the six months ended June 30, 2016.

This increase is primarily due to an increase of \$1.7 million associated with the issuance of the \$100 million senior unsecured term loan facility and interest rate swap, and the issuance of the senior unsecured notes subsequent to the six months ended June 30, 2016. Additionally, there was an \$0.5 million increase in interest expense attributable to the weighted average borrowings from \$183.3 million to \$200.1 million of our senior unsecured revolving credit facility year over year and an increase in weighted average interest rate of 2.28% for the six months ended June 30, 2017 compared to 1.84% for the six months ended June 30, 2016.

Liquidity and Capital Resources

We anticipate that our cash flows from the sources listed below will provide adequate capital for the next 12 months for all anticipated liquidity needs, including all scheduled principal and interest payments on our outstanding indebtedness, current and anticipated tenant improvements, stockholder distributions to maintain our qualification as a REIT and other capital obligations associated with conducting our business. At June 30, 2017, we had \$6.1 million available in cash and cash equivalents and there was \$332.0 million available under our senior unsecured revolving credit facility.

Our primary expected sources of capital are as follows:

- cash and cash equivalents;
- operating cash flow;
- available borrowings under our senior unsecured revolving credit facility;
- secured loans collateralized by individual properties;
- issuance of long-term debt;
- issuance of equity, including under our ATM program (as described below); and
- asset sales.

Our short-term liquidity requirements consist primarily of funds to pay for the following:

- development and redevelopment activities, including major redevelopment, renovation or expansion programs at individual properties;
- property acquisitions under contract;
- tenant improvements allowances and leasing costs;
- recurring maintenance capital expenditures;
- debt repayment requirements;
- corporate and administrative costs;
- interest swap payments; and
- distribution payments.

Our long-term liquidity needs, in addition to recurring short-term liquidity needs as discussed above, consist primarily of funds necessary to pay for acquisitions, non-recurring capital expenditures, and scheduled debt maturities.

Although we may be able to anticipate and plan for certain of our liquidity needs, unexpected increases in uses of cash that are beyond our control and which affect our financial condition and results of operations may arise, or our sources of liquidity may be fewer than, and the funds available from such sources may be less than, anticipated or required. As of the date of this filing, there were no known commitments or events that would have a material impact on our liquidity.

Universal Shelf

On March 9, 2016, we filed a universal shelf registration statement on Form S-3 with the Securities and Exchange Commission, or SEC, which was declared effective on May 3, 2016. The universal shelf registration statement allows us, from time to time, to offer and sell up to an additional \$500.0 million of equity securities, including shares of our common stock offered and sold pursuant to the offerings described below. However, there can be no assurance that we will be able to complete any such offerings of securities in the future.

Offering of Common Stock on a Forward Basis

On March 27, 2017, we completed an underwritten public offering of an aggregate of 4,945,000 shares of our common stock, including 645,000 shares sold pursuant the underwriters exercise in full of their option to purchase additional shares. The shares were offered on a forward basis in connection with certain forward sales agreements entered into with certain financial institutions, acting as forward purchasers. Pursuant to the forward sales agreements, the forward purchasers borrowed and the forward sellers, acting as agents for the forward purchasers, sold an aggregate of 4,945,000 shares in the public offering. We did not initially receive any proceeds from the sale of shares of our common stock by the forward sellers in the public offering, but expect to receive gross proceeds of approximately \$94.0 million upon full physical settlement of the forward sales agreements, which we expect will occur no later than September 27, 2017.

ATM Program

On March 3, 2017, we entered into equity distribution agreements with each of Citigroup Global Markets Inc., BTIG, LLC, Jefferies LLC, Raymond James & Associates, Inc., RBC Capital Markets, LLC and SunTrust Robinson Humphrey, Inc., whom we refer to collectively as, the managers, pursuant to which we may issue and sell the shares of our common stock having an aggregate offering price of up to \$100.0 million from time to time through the managers, acting as sales agents and/or principals, which we refer to as our ATM program. The sales of shares of our common stock, under the equity distribution agreements may be made in negotiated transactions or transactions that are deemed to be “at the market” offerings as defined in Rule 415 under the Securities Act. During the three months ended June 30, 2017, we issued an aggregate of 87,048 shares of our common stock through our ATM program, generating proceeds of approximately \$1.9 million, net of offering costs. We used the proceeds for general corporate purposes. As of June 30, 2017, we had approximately \$98.1 million of gross sales of our common stock available under on our ATM program.

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Debt

At June 30, 2017, our borrowings consisted of the following (dollars in thousands):

Loan	Principal Outstanding	Interest Rate ⁽¹⁾	Maturity Date
Revolving credit facility:			
Senior unsecured revolving credit facility ⁽²⁾	\$ 68,000	L + 140bps	February 2019 ⁽³⁾
Total revolving credit facility	68,000		
Term loan facility:			
Senior unsecured term loan facility	100,000	3.12% ⁽⁴⁾	September 2023
Total term loan facility	100,000		
Less: Total unamortized deferred financing fees	(868)		
Total term loan facility, net	99,132		
Notes payable:			
Senior unsecured notes payable, series A	95,000	4.05%	May 2027
Senior unsecured notes payable, series B	50,000	4.15%	May 2029
Senior unsecured notes payable, series C	30,000	4.30%	May 2032
Total notes payable	175,000		
Less: Total unamortized deferred financing fees	(1,354)		
Total notes payable, net	173,646		
Mortgage notes payable:			
CBP - Savannah	14,562	3.40% ⁽⁵⁾	July 2033
ICE - Charleston	20,369	4.21% ⁽⁵⁾	January 2027
MEPCOM - Jacksonville	11,234	4.41% ⁽⁵⁾	October 2025
USFS II - Albuquerque	17,044	4.46% ⁽⁵⁾	July 2026
DEA - Pleasanton	15,700	L + 150bps ⁽⁵⁾	October 2023
VA - Loma Linda	127,500	3.59%	July 2027
Total mortgage notes payable	206,409		
Less: Total unamortized deferred financing fees	(2,045)		
Less: Total unamortized premium/discount	418		
Total mortgage notes payable, net	204,782		
Total debt	545,560		

(1) At June 30, 2017, the one-month LIBOR (“L”) was 1.23%. The current interest rate is not adjusted to include the amortization of deferred financing fees or debt issuance costs incurred in obtaining debt or any unamortized fair market value premiums. The spread over the applicable rate for the Company's senior unsecured revolving credit facility and senior unsecured term loan facility is based on the Company's consolidated leverage ratio, as defined

in the respective loan agreements.

- (2) Available capacity of \$332.0 million at June 30, 2017 with an accordion feature that provides additional capacity of \$250.0 million, for a total facility size of not more than \$650.0 million.
- (3) Credit facility has two six-month as-of-right extension options subject to certain conditions and the payment of an extension fee.
- (4) Entered into two interest rate swaps with an effective date of March 29, 2017 with an aggregate notional value of \$100 million to effectively fix the interest rate at 3.12% annually.
- (5) Effective interest rates are as follows: CBP - Savannah 4.12%, ICE - Charleston 3.93% , MEPCOM - Jacksonville 3.89%, USFS II - Albuquerque 3.92%, DEA - Pleasanton 1.8%.

On May 25, 2017, the Operating Partnership issued \$175 million of fixed rate, senior unsecured notes, which we refer to as the Notes, in a private placement pursuant to a purchase agreement among the Operating Partnership, the Company and the purchasers of the Notes, which we refer to as the Purchase Agreement. The Notes are unconditionally guaranteed by the Company and various subsidiaries of the Operating Partnership, or the Subsidiary Guarantors.

Subject to the terms of the Purchase Agreement and the Notes, upon certain events of default, including, but not limited to, (i) a default in the payment of any principal, “make-whole” amount or interest under the Notes, and (ii) a default in the payment of certain

other indebtedness of the Operating Partnership or of the Company or of the Subsidiary Guarantors, the principal and accrued and unpaid interest and the make-whole amount on the outstanding Notes will become due and payable at the option of the holders. The Purchase Agreement and Notes also contain various covenants (including, among others, financial covenants with respect to debt service coverage, consolidated net worth, fixed charges and consolidated leverage and covenants relating to liens). If the Operating Partnership or the Company breaches any of these covenants, the principal and accrued and unpaid interest and the make-whole amount on the outstanding Notes will become due and payable at the option of the holders.

The Operating Partnership may prepay at any time all, or from time to time any part of, the Notes, in the amount not less than 5% of the aggregate principal amount of the Notes then outstanding at (i) 100% of the principal amount so prepaid, together with accrued interest, and (ii) a make-whole amount that is calculated by discounting the value of the remaining scheduled interest payments that would otherwise be payable through the scheduled maturity date of the applicable Notes on the principal amount being prepaid. The Operating Partnership has the right to make tender offers and is required to make other prepayment offers under the terms set forth in the Purchase Agreement.

On June 28, 2017, the Company, through a wholly-owned subsidiary of the Operating Partnership, entered into a \$127.5 million mortgage loan secured by VA – Loma Linda.

Our unsecured credit facility, unsecured term loans, unsecured notes, and mortgage notes are subject to ongoing compliance with a number of financial and other covenants. As of June 30, 2017, we were in compliance with the applicable financial covenants.

The chart below details our debt capital structure as of June 30, 2017 (dollars in thousands):

Debt Capital Structure	June 30, 2017
Total principal outstanding	\$549,409
Weighted average maturity	8.7 years
Weighted average interest rate	3.6 %
% Variable debt ⁽¹⁾	15.2 %
% Fixed debt ⁽¹⁾	84.8 %
% Secured debt	37.6 %

(1) Our senior unsecured term loan facility is swapped to be fixed and as such is included as fixed rate debt in the table above.

Contractual Obligations

The following table summarizes our contractual obligations as of June 30, 2017 (dollars in thousands):

	Payments due by period						
	Total	2017	2018	2019	2020	2021	Thereafter
Mortgage principal and interest	\$272,420	5,240	10,481	10,481	10,512	11,024	224,682
Senior unsecured revolving credit facility principal and interest	72,530	1,404	2,808	68,318	—	—	—
Senior unsecured term loan facility principal and interest	119,577	1,568	3,135	3,135	3,135	3,135	105,469
Senior unsecured notes payable	257,009	3,606	7,213	7,213	7,213	7,213	224,551

principal and interest							
Corporate office leases	2,079	225	462	479	496	352	65

Dividend Policy

In order to qualify as a REIT, we are required to distribute to our stockholders, on an annual basis, at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains. We anticipate distributing all of our taxable income. We expect to make quarterly distributions to our stockholders in a manner intended to satisfy this requirement. Prior to making any distributions for U.S. federal tax purposes or otherwise, we must first satisfy our operating and debt service obligations. It is possible that it would be necessary to utilize cash reserves, liquidate assets at unfavorable prices or incur additional indebtedness in order to make required distributions. It is also possible that our board of directors could decide to make required distributions in part by using shares of our common stock.

On May 3, 2017, our board of directors declared a dividend for the first quarter of 2017 in the amount of \$0.25 per share of common stock and per common unit outstanding to stockholders and common unit holders of record as of the close of business on

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June 14, 2017. Our board of directors also declared a dividend for the first quarter of 2017 for each LTIP unit in an amount equal to 10% of the dividend paid per common unit. Such dividends were paid on June 29, 2017.

On August 2, 2017, our board of directors declared a dividend for the first quarter of 2017 in the amount of \$0.25 per share of common stock and per common unit outstanding to stockholders and common unit holders of record as of the close of business on September 13, 2017. Our board of directors also declared a dividend for the first quarter of 2017 for each LTIP unit in an amount equal to 10% of the dividend paid per common unit. Such dividends are to be paid on September 28, 2017.

Off-balance Sheet Arrangements

We had no material off-balance sheet arrangements as of June 30, 2017.

Inflation

Substantially all of our leases provide for operating expense escalations. We believe inflationary increases in expenses may be at least partially offset by the operating expenses that are passed through to our tenants and by contractual rent increases. We do not believe inflation has had a material impact on our historical financial position or results of operations.

Cash Flows

The following table sets forth a summary of cash flows for the six months ended June 30, 2017 and 2016:

	For the six months ended June 30,	
	2017	2016
	(amounts in thousands)	
Net cash (used in) provided by:		
Operating activities	\$24,544	\$21,042
Investing activities	(256,217)	(129,883)
Financing activities	232,933	104,369

Operating Activities

The Company generated \$24.5 million and \$21.0 million of cash from operating activities during the six months ended June 30, 2017 and 2016, respectively. Net cash provided by operating activities for the six months ended June 30, 2017 includes a \$26.1 million increase in net cash from rental activities net of expenses offset by \$1.5 million related to the change in rents receivable, accounts receivable, prepaid and other assets, and accounts payable and accrued liabilities. Net cash from operating activities for the six months ended June 30, 2016 includes \$22.5 million in rental activities net of expenses offset by \$1.4 million related to the change in rents receivable, accounts receivable, prepaid and other assets, and accounts payable and accrued liabilities.

Investing Activities

The Company used \$256.2 million and \$129.9 million in cash for investing activities during the six months ended June 30, 2017 and 2016, respectively. Net cash used in investing activities for the six months ended June 30, 2017

includes \$253.7 million in real estate acquisitions related to the purchase of OSHA – Sandy, VA – Loma Linda and FDA – Lenexa. Net cash used for investing activities for the six months ended June 30, 2016 primarily includes \$77.8 million in deposits on acquisitions and \$52.0 million in real estate acquisitions related to the purchase of ICE – Albuquerque and NPS – Omaha.

Financing Activities

The Company generated \$232.9 million and \$104.4 million in cash from financing activities during the six months ended June 30, 2017 and 2016, respectively. Net cash provided by financing activities for the six months ended June 30, 2017 includes \$100.0 million in draws under our senior unsecured term loan facility, \$175.0 million in proceeds from the issuance of senior unsecured notes, \$127.5 million in mortgage notes and \$1.9 million in gross proceeds from our ATM program, offset by \$144.2 million in net pay downs under our senior unsecured revolving credit facility, \$22.6 million in dividends, \$3.2 million in payment of deferred financing costs and \$1.5 million in mortgage debt repayment. Net cash generated by financing activities for the six months ended June 30, 2016 includes \$84.9 million in proceeds from the issuance of shares of our common stock and \$43.8 million in draws under our senior unsecured revolving credit facility offset by \$19.0 million in dividends, \$3.9 million in offering costs and \$1.4 million in mortgage debt repayment.

Non-GAAP Financial Measures

We use and present funds from operations, or FFO, and FFO, as Adjusted as supplemental measures of our performance. The summary below describes our use of FFO and FFO, as Adjusted, provides information regarding why we believe these measures are meaningful supplemental measures of our performance and reconciles these measures from net income (loss), presented in accordance with GAAP.

Funds from Operations and Funds from Operations, as Adjusted

Funds from Operations, or FFO, is a supplemental measure of our performance. We present FFO calculated in accordance with the current National Association of Real Estate Investment Trusts, or NAREIT, definition. In addition, we present FFO, as Adjusted for certain other adjustments that we believe enhance the comparability of our FFO across periods and to the FFO reported by other publicly traded REITs. FFO is a supplemental performance measure that is commonly used in the real estate industry to assist investors and analysts in comparing results of REITs.

FFO is defined by NAREIT as net income (loss), calculated in accordance with GAAP, excluding gains or losses from sales of property and impairment losses on depreciable real estate, plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. We present FFO because we consider it an important supplemental measure of our operating performance, and we believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting results.

We adjust FFO to present FFO, as Adjusted as an alternative measure of our operating performance, which, when applicable, excludes the impact of acquisition costs, straight-line rent, above-/below-market leases, non-cash interest expense and non-cash compensation. By excluding income and expense items such as straight-line rent, above-/below-market leases, non-cash interest expense and non-cash compensation from FFO, as Adjusted, we believe we provide useful information as these items have no cash impact. In addition, by excluding acquisition related costs we believe FFO, as Adjusted provides useful information that is comparable across periods and more accurately reflects the operating performance of our properties.

FFO and FFO, as Adjusted are presented as supplemental financial measures and do not fully represent our operating performance. Other REITs may use different methodologies for calculating FFO and FFO, as Adjusted or use other definitions of FFO and FFO, as Adjusted and, accordingly, our presentation of these measures may not be comparable to other REITs. Neither FFO nor FFO, as Adjusted is intended to be a measure of cash flow or liquidity. Please refer to our financial statements, prepared in accordance with GAAP, for purposes of evaluating our financial condition, results of operations and cash flows.

The following table sets forth a reconciliation of our net income to FFO and FFO, as Adjusted for the three and six months ended June 30, 2017 and 2016 (dollars in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Net income	\$1,013	\$1,037	\$2,363	\$2,146
Depreciation and amortization	13,462	11,074	26,522	21,937
Funds From Operations	14,475	12,111	28,885	24,083
Adjustments to FFO:				

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Acquisition costs	456	346	988	679
Straight-line rent	(350)	45	(493)	33
Above-/below-market leases	(2,106)	(1,711)	(4,218)	(3,409)
Non-cash interest expense	244	194	474	389
Non-cash compensation	740	723	1,467	1,422
Funds from Operations, as Adjusted	\$13,459	\$11,708	\$27,103	\$23,197

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss from adverse changes in market prices and interest rates. Our future earnings, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Our primary market risk results from our indebtedness, which bears interest at both fixed and variable rates. We manage and may continue to manage our market risk on variable rate debt by entering into swap arrangements to, in effect, fix the rate on all or a portion of the debt for varying periods up to maturity. This in turn, reduces the risks of variability of cash flows created by variable rate debt and mitigates the risk of increases in interest rates. Our objective when undertaking such arrangements is to reduce our floating rate exposure and we do not intend to enter into hedging arrangements for speculative purposes.

28

As of June 30, 2017, \$465.7 million, or 84.8% of our debt, excluding unamortized premiums and discounts, had fixed interest rates and \$83.7 million, or 15.2% had variable interest rates. If market rates of interest on our variable rate debt fluctuate by 25 basis points, interest expense would increase or decrease, depending on rate movement, future earnings and cash flows, by \$0.2 million annually.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation required by the Exchange Act, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) and Rule 15d-15 of the Exchange Act, as of June 30, 2017. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of June 30, 2017, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the 1935 Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2017 that have materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II

Item 1. Legal
Proceedings

We are not currently involved in any material litigation nor, to our knowledge, is any material litigation currently threatened against us.

Item 1A. Risk Factors

There have been no material changes to the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

30

Item 6.Exhibits

The following exhibits are included, or incorporated by reference, in this Quarterly Report on Form 10-Q:

Exhibit Exhibit Description

- 3.1 Amended and Restated Articles of Amendment and Restatement of Easterly Government Properties, Inc. (previously filed as Exhibit 3.1 to Amendment No. 2 to the Company's Registration Statement on Form S-11 on January 30, 2015 and incorporated herein by reference)
- 3.2 Amended and Restated Bylaws of Easterly Government Properties, Inc. (previously filed as Exhibit 3.2 to Amendment No. 2 to the Company's Registration Statement on Form S-11 on January 30, 2015 and incorporated herein by reference)
- 4.1 Specimen Certificate of Common Stock of Easterly Government Properties, Inc. (previously filed as Exhibit 4.1 to Amendment No. 2 to the Company's Registration Statement on Form S-11 on January 30, 2015 and incorporated herein by reference)
- 31.1* Certification of Chief Executive Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
- 31.2* Certification of Chief Financial Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
- 32.1** Certification of Chief Executive Officer and Chief Financial Officer Required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended
- 101* The following materials from Easterly Government Properties, Inc.'s Quarterly Report on Form 10-Q for six months ended June 30, 2017 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Equity, (iv) the Consolidated Statements of Cash Flows and (v) the related notes to these consolidated financial statements

* Filed herewith

**Furnished herewith

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Easterly Government Properties, Inc.

Date: August 8, 2017

/s/ William C. Trimble, III
William C. Trimble, III
Chief Executive Officer and President

(Principal Executive Officer)

Date: August 8, 2017

/s/ Meghan G. Baivier
Meghan G. Baivier
Executive Vice President, Chief Financial Officer and Chief Operating Officer

(Principal Financial Officer)