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Equity Commonwealth  
Form 10-Q  
November 04, 2014  
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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 September 30, 2014  
OR

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

Commission File Number 1-9317

EQUITY COMMONWEALTH

(Exact Name of Registrant as Specified in Its Charter)

Maryland

04-6558834

(State or Other Jurisdiction of Incorporation or Organization)

(IRS Employer Identification No.)

Two North Riverside Plaza, Suite 600, Chicago, IL

60606

(Address of Principal Executive Offices)

(Zip Code)

(312) 646-2800

(Registrant's Telephone Number, Including Area Code)

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Number of registrant's common shares of beneficial interest, \$0.01 par value per share, outstanding as of October 27, 2014: 128,893,552.

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EQUITY COMMONWEALTH

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September 30, 2014

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References in this Quarterly Report on Form 10-Q to the “Company”, “EQC”, “we”, “us” or “our” refer to Equity Commonwealth and its consolidated subsidiaries, as of September 30, 2014, unless the context indicates otherwise.

EXPLANATORY NOTE

EQC is a self-managed and self-advised real estate investment trust (REIT). The financial information presented in this Quarterly Report on Form 10-Q (Quarterly Report) includes the results of operations of Select Income REIT, or SIR, for periods prior to July 2, 2013 when SIR was EQC’s consolidated subsidiary, unless the context indicates otherwise. SIR is itself a public company that has common shares registered under the Securities Exchange Act of 1934, as amended. On July 2, 2013, SIR completed an underwritten public offering of its common shares, at which time we ceased to own a majority of SIR’s common shares. Accordingly, following July 2, 2013, we did not consolidate our investment in SIR, but instead accounted for such investment under the equity method. On July 9, 2014, we sold our entire stake of 22,000,000 common shares of SIR and thus no longer hold any interest in SIR.

For further information about SIR, please see SIR’s periodic reports and other filings with the Securities and Exchange Commission, or the SEC, which are available at the SEC’s website at [www.sec.gov](http://www.sec.gov). References in this Quarterly Report to SIR’s filings with the SEC are included as textual references only, and the information in SIR’s filings with the SEC is not incorporated by reference into this Quarterly Report.

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## PART I. Financial Information

## Item 1. Financial Statements.

## EQUITY COMMONWEALTH

## CONDENSED CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

(unaudited)

	September 30, 2014	December 31, 2013
<b>ASSETS</b>		
Real estate properties:		
Land	\$740,448	\$699,135
Buildings and improvements	5,145,916	4,838,030
	5,886,364	5,537,165
Accumulated depreciation	(988,323	) (895,059
	4,898,041	4,642,106
Properties held for sale	—	573,531
Acquired real estate leases, net	212,584	255,812
Equity investments	—	517,991
Cash and cash equivalents	597,405	222,449
Restricted cash	15,554	22,101
Rents receivable, net of allowance for doubtful accounts of \$7,013 and \$7,885, respectively	238,207	223,769
Other assets, net	209,005	188,675
Total assets	\$6,170,796	\$6,646,434
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Revolving credit facility	\$—	\$235,000
Senior unsecured debt, net	1,823,182	1,855,900
Mortgage notes payable, net	619,760	914,510
Liabilities related to properties held for sale	—	28,734
Accounts payable and accrued expenses	163,075	165,855
Assumed real estate lease obligations, net	28,950	33,935
Rent collected in advance	26,197	27,553
Security deposits	13,648	11,976
Distributions payable	6,981	—
Due to related persons	—	9,385
Total liabilities	2,681,793	3,282,848
Shareholders' equity:		
Preferred shares of beneficial interest, \$0.01 par value: 50,000,000 shares authorized; Series D preferred shares; 6 1/2% cumulative convertible; 4,915,497 and 15,180,000 shares issued and outstanding, respectively, aggregate liquidation preference of \$122,887 and \$379,500, respectively	119,266	368,270
Series E preferred shares; 7 1/4% cumulative redeemable on or after May 15, 2016; 11,000,000 shares issued and outstanding, aggregate liquidation preference \$275,000	265,391	265,391
	1,289	1,184

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Common shares of beneficial interest, \$0.01 par value: 350,000,000 shares  
authorized; 128,893,552 and 118,386,918 shares issued and outstanding, respectively

Additional paid in capital	4,484,552	4,213,474	
Cumulative net income	2,392,413	2,209,840	
Cumulative other comprehensive loss	(39,765	) (38,331	)
Cumulative common distributions	(3,111,868	) (3,082,271	)
Cumulative preferred distributions	(622,275	) (573,971	)
Total shareholders' equity	3,489,003	3,363,586	
Total liabilities and shareholders' equity	\$6,170,796	\$6,646,434	

See accompanying notes.

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## EQUITY COMMONWEALTH

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(amounts in thousands, except per share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Revenues:				
Rental income	\$174,216	\$170,908	\$518,663	\$592,221
Tenant reimbursements and other income	42,379	43,293	130,386	146,780
Total revenues	216,595	214,201	649,049	739,001
Expenses:				
Operating expenses	99,392	102,350	293,824	310,585
Depreciation and amortization	57,213	56,465	168,693	182,494
General and administrative	47,450	25,742	96,395	63,454
Loss on asset impairment	—	124,253	17,922	124,253
Acquisition related costs	—	(436)	5	337
Total expenses	204,055	308,374	576,839	681,123
Operating income (loss)	12,540	(94,173)	72,210	57,878
Interest and other income	406	227	1,071	931
Interest expense (including net amortization of debt discounts, premiums and deferred financing fees of \$(91), \$(608), \$(700) and \$265, respectively)	(35,245)	(39,236)	(111,079)	(134,452)
Gain (loss) on early extinguishment of debt	6,699	—	6,699	(60,027)
Gain on sale of equity investment	171,754	—	171,721	66,293
Gain on issuance of shares by an equity investee	—	—	17,020	—
Income (loss) from continuing operations before income tax expense and equity in earnings of investees	156,154	(133,182)	157,642	(69,377)
Income tax expense	(703)	(785)	(2,166)	(2,527)
Equity in earnings of investees	1,072	10,492	24,460	14,913
Income (loss) from continuing operations	156,523	(123,475)	179,936	(56,991)
Discontinued operations:				
Income from discontinued operations	95	95	8,220	1,732
Gain (loss) on asset impairment from discontinued operations	122	(92,827)	(2,238)	(101,362)
Loss on early extinguishment of debt from discontinued operations	—	—	(3,345)	—
Net gain on sale of properties from discontinued operations	—	—	—	3,359
Income (loss) before gain on sale of properties	156,740	(216,207)	182,573	(153,262)
Gain on sale of properties	—	—	—	1,596
Net income (loss)	156,740	(216,207)	182,573	(151,666)
Net income attributable to noncontrolling interest in consolidated subsidiary	—	(108)	—	(20,093)
Net income (loss) attributable to Equity Commonwealth	156,740	(216,315)	182,573	(171,759)
Preferred distributions	(6,981)	(11,151)	(25,114)	(33,453)
Distribution on conversion of preferred shares	—	—	(16,205)	—

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Net income (loss) available for Equity Commonwealth common shareholders	\$ 149,759	\$(227,466 )	\$ 141,254	\$(205,212 )
Amounts available for Equity Commonwealth common shareholders:				
Income (loss) from continuing operations	\$ 149,542	\$(134,734 )	\$ 138,617	\$(108,941 )
Income from discontinued operations	95	95	8,220	1,732
Gain (loss) on asset impairment from discontinued operations	122	(92,827 )	(2,238 )	(101,362 )
Loss on early extinguishment of debt from discontinued operations	—	—	(3,345 )	—
Net gain on sale of properties from discontinued operations	—	—	—	3,359
Net income (loss)	\$ 149,759	\$(227,466 )	\$ 141,254	\$(205,212 )
Weighted average common shares outstanding — basic	128,880	118,328	123,736	110,353
Weighted average common shares outstanding — diluted	131,243	118,328	123,736	110,353
Basic and diluted earnings per common share available for Equity Commonwealth common shareholders:				
Income (loss) from continuing operations	\$ 1.16	\$(1.14 )	\$ 1.12	\$(0.99 )
Income (loss) from discontinued operations	\$—	\$(0.78 )	\$ 0.02	\$(0.87 )
Net income (loss) available for common shareholders	\$ 1.16	\$(1.92 )	\$ 1.14	\$(1.86 )
Distributions declared per common share	\$			