

BLOCKBUSTER INC  
Form 8-K  
November 15, 2005

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 8-K**

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Date of report (Date of earliest event reported) November 8, 2005

**BLOCKBUSTER INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or other jurisdiction

of incorporation)

**001-15153**  
(Commission File

Number)

**52-1655102**  
(IRS Employer

Identification No.)

**1201 Elm Street**

**Dallas, Texas**  
(Address of principal executive offices)

**75270**  
(Zip Code)

**(214) 854-3000**

(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

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- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 1.01 Entry Into a Material Definitive Agreement.**

The information included in Item 3.02 of this Current Report on Form 8-K is incorporated by reference into this Item 1.01.

**Item 3.02 Unregistered Sale of Equity Securities.**

On November 8, 2005, Blockbuster Inc. ( Blockbuster ) entered into a purchase agreement for a private offering of 150,000 shares of Series A Cumulative Convertible Perpetual Preferred Stock (the Shares ), pursuant to which the Shares were offered and sold to the initial purchasers party thereto (the Initial Purchasers ). The Initial Purchasers propose to resell the Shares to qualified institutional buyers pursuant to an exemption provided by Rule 144A of the Securities Act of 1933, as amended (the Securities Act ). The Shares were not registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. The purchase agreement is filed as Exhibit 10.1 and incorporated by reference herein.

On November 15, 2005, Blockbuster completed the private offering of the Shares at an aggregate offering price of \$150,000,000. The aggregate discounts and commissions to the Initial Purchasers was \$4,875,000. A copy of the press release announcing the completion of the offering is attached hereto as Exhibit 99.1. The Initial Purchasers have an over-allotment option to purchase an additional 22,500 Shares. Blockbuster intends to use the net proceeds from the offering for the repayment of a portion of the outstanding borrowings under its revolving credit facility and for general corporate purposes, which may include working capital and capital expenditures.

The offering closed simultaneously with the closing of the third amendment to Blockbuster s existing credit agreement. As the third amendment is now effective, and assuming compliance with the applicable debt covenants under the amended credit agreement in future periods, all amounts not due within the next 12 months under the amended credit agreement will be classified as long-term liabilities, as previously disclosed in Blockbuster s filings with the Securities and Exchange Commission.

Each Share is convertible at the option of the holder at a conversion price of \$5.15 per Share, subject to adjustment, which represents an initial conversion rate of approximately 194.1748 shares of Blockbuster s class A common stock, representing a conversion premium of approximately 22 1/2% over Blockbuster s class A common stock closing price on November 8, 2005 of \$4.20 per share. On or after November 20, 2010, Blockbuster may cause the conversion rights to expire if the closing price of the shares of class A common stock exceeds 130% of the conversion price for a specified period. Upon the occurrence of a fundamental change, Blockbuster will, under certain conditions, increase the conversion rate for any Shares converted in connection with such fundamental change.

Dividends of 7 1/2% per year are payable quarterly. Dividends may be payable in cash or, if certain conditions are met, shares of class A common stock or a combination of cash and class A common stock, at Blockbuster s option.

The certificate of designations governing the rights of the Shares is filed as Exhibit 4.1 and incorporated by reference herein.

**Item 9.01 Financial Statements and Exhibits.**

(d) Exhibits.

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<u>Exhibit No.</u>	<u>Description</u>
4.1	Certificate of Designations for Blockbuster Inc. s 7/2% Series A Cumulative Convertible Perpetual Preferred Stock
10.1	Purchase Agreement between [ ], [ ] and Blockbuster Inc., dated as of November 8, 2005
99.1	Blockbuster Inc. press release, dated November 15, 2005, announcing the closing of the offering of Series A Cumulative Convertible Perpetual Preferred Stock

**SIGNATURE**

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

**BLOCKBUSTER INC.**

Date: **November 15, 2005**

By: /s/ Larry J. Zine  
Larry J. Zine

Executive Vice President, Chief

Financial Officer and Chief

Administrative Offer

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**EXHIBIT INDEX**

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one #D9D9D9 ;padding:0pt;">	
100.0	
%	
26.64	
Timberlake East	
Chesterfield	
MO	
2000	
117,036	
117,036	
100.0	
%	

25.93

121 South 8th Street

Minneapolis

MN

1974

293,460

234,651

80.0

%

24.35

Plaza Seven

Minneapolis

MN

1987

326,757

285,259

87.3

%

35.35

Midwest total

1,549,001

1,413,879

91.3

%



29.41

One Overton Park

Atlanta

GA

2002

387,267

297,886

76.9

%

21.98

Park Ten

Houston

TX

1999

157,460

140,879

89.5

%

28.60

Addison Circle

Addison

TX

1999

289,302

217,179

75.1

%

31.36

Collins Crossing

Richardson

TX

1999

300,887

299,172

99.4

%

25.61

Eldridge Green

Houston

TX

1999

248,399

248,399

100.0

%

30.27

Park Ten Phase II

Houston

TX

2006

156,746

44,704

28.5

%

23.25

Liberty Plaza

Addison

TX

1985

216,851

170,575

78.7

%

22.52

Legacy Tennyson Center

Plano

TX

1999/2008

202,049

174,712

86.5

%

22.96

One Legacy Circle

Plano

TX

2008

214,110

214,110

100.0

%

38.13



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The information presented below provides the weighted average GAAP rent per square foot for the three months ended March 31, 2019 for our properties and weighted occupancy square feet and percentages. GAAP rent includes the impact of tenant concessions and reimbursements. This table does not include information about properties held by our investments in non-consolidated REITs or those to which we have provided Sponsored REIT Loans.

Property Name	City	State	Year Built or Renovated	Net Rentable Square Feet	Weighted Occupied Sq. Ft.	Weighted Occupied Percentage as of March 31, 2019 (a)	Weighted Average Rent per Occupied Square Feet (b)
One Ravinia Drive	Atlanta	GA	1985	386,602	350,493	90.7	% \$ 25.78
Two Ravinia Drive	Atlanta	GA	1987	411,047	309,888	75.4	% 27.07
Westchase I & II	Houston	TX	1983/2008	629,025	511,523	81.3	% 28.90
Pershing Park Plaza	Atlanta	GA	1989	160,145	156,013	97.4	% 36.40
999 Peachtree South Total	Atlanta	GA	1987	621,946	526,726	84.7	% 31.09
380 Interlocken	Broomfield	CO	2000	4,381,836	3,662,259	83.6	% 28.37
1999 Broadway	Denver	CO	1986	240,358	219,855	91.5	% 29.85
1001 17th Street	Denver	CO	1977/2006	677,378	489,880	72.3	% 32.55
600 17th Street Greenwood Plaza	Denver	CO	1982	655,413	630,376	96.2	% 35.17
390 Interlocken	Englewood	CO	2000	608,733	519,858	85.4	% 33.03
West Total	Broomfield	CO	2002	196,236	196,236	100.0	% 26.58
	Broomfield	CO		241,512	237,141	98.2	% 32.69
				2,619,630	2,293,346	87.5	% 32.62
Total Operating Properties				9,495,118	8,180,827	86.2	% 29.63
Redevelopment Properties (c)							
Forest Park	Charlotte	NC	1999	62,212	—	—	% —
Blue Lagoon Drive	Miami	FL	2002	212,619	—	—	% —
801 Marquette Ave	Minneapolis	MN	1923/2017	129,821	20,538	15.8	% 16.45
Total Redevelopment Properties				404,652	20,538	5.1	% 16.45
Grand Total				9,899,770	8,201,365	82.8	% \$ 29.60



- (a) Based on weighted occupied square feet for the three months ended March 31, 2019, including month-to-month tenants, divided by the Property's net rentable square footage.
- (b) Represents annualized GAAP rental revenue for the three months ended March 31, 2019, per weighted occupied square foot.
- (c) Redevelopment Properties include properties in the process of being redeveloped, or are completed but not yet stabilized.

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### Liquidity and Capital Resources

Cash, restricted cash and cash equivalents were \$8.8 million and \$11.2 million at March 31, 2019 and December 31, 2018, respectively. The decrease of \$2.3 million is attributable to \$9.4 million provided by operating activities, less \$17.0 million used by investing activities plus \$5.3 million provided by financing activities. Management believes that existing cash, cash anticipated to be generated internally by operations and our existing debt financing will be sufficient to meet working capital requirements and anticipated capital expenditures for at least the next 12 months. Although there is no guarantee that we will be able to obtain the funds necessary for our future growth, we anticipate generating funds from continuing real estate operations. We believe that we have adequate funds to cover unusual expenses and capital improvements, in addition to normal operating expenses. Our ability to maintain or increase our level of dividends to stockholders, however, depends in significant part upon the level of rental income from our real estate properties.

### Operating Activities

Cash provided by operating activities for the three months ended March 31, 2019 of \$9.4 million is primarily attributable to a net loss of \$1.2 million plus the add-back of \$22.6 million of non-cash expenses and an increase in prepaid and other assets of \$1.5 million. These amounts were partially offset by a decrease to accounts payable and accrued expenses and accrued compensation of \$8.1 million, an increase in payments of deferred leasing commissions of \$4.2 million, an increase in lease acquisition costs of \$0.7 million and a decrease tenant rent receivables of \$0.5 million.

### Investing Activities

Cash used by investing activities for the three months ended March 31, 2019 of \$17.0 million is primarily attributable to the purchases of other real estate assets and office equipment investments of approximately \$15.2 million and an investment in related party mortgage loan receivable of \$2.4 million. These uses were partially offset by repayments received from one related party mortgage receivable of \$0.3 million and proceeds received from a liquidating trust of \$0.3 million.

### Financing Activities

Cash provided by financing activities for the three months ended March 31, 2019 of \$5.3 million is primarily attributable to net borrowings on the BAML Revolver (as defined below) of \$15.0 million and was partially offset by distributions paid to stockholders of \$9.7 million.

### JPM Term Loan

On August 2, 2018, the Company entered into an Amended and Restated Credit Agreement with JPMorgan Chase Bank, N.A., as administrative agent and lender (“JPMorgan”), and the other lending institutions party thereto (the “JPM Credit Agreement”), which provides a single unsecured bridge loan in the aggregate principal amount of \$150 million (the “JPM Term Loan”) that remains fully advanced and outstanding. The JPM Term Loan matures on November 30, 2021. The JPM Term Loan was previously evidenced by a Credit Agreement, dated November 30, 2016, among the Company, JPMorgan, as administrative agent and lender, and the other lending institutions party thereto, as amended by a First Amendment, dated October 18, 2017.

The JPM Term Loan bears interest at either (i) a number of basis points over a LIBOR-based rate depending on the Company’s credit rating (125.0 basis points over the LIBOR-based rate at March 31, 2019) or (ii) a number of basis points over the base rate depending on the Company’s credit rating (25.0 basis points over the base rate at March 31, 2019).

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Although the interest rate on the JPM Term Loan is variable under the JPM Credit Agreement, the Company fixed the LIBOR-based rate on a portion of the JPM Term Loan by entering into interest rate swap transactions. On March 7, 2019, the Company entered into ISDA Master Agreements with various financial institutions to hedge a \$100 million portion of the future LIBOR-based rate risk under the JPM Credit Agreement. Effective March 29, 2019, the Company fixed the LIBOR-based rate at 2.44% per annum on a \$100 million portion of the JPM Term Loan until November 30, 2021. Accordingly, based upon the Company's credit rating, as of March 31, 2019, the effective interest rate on a \$100 million portion of the JPM Term Loan was 3.69% per annum.

Based upon the Company's credit rating, as of March 31, 2019, the effective interest rate on the unhedged \$50 million portion of the JPM Term Loan was 3.75% per annum. The weighted average interest rate on the unhedged \$50 million portion of the JPM Term Loan during the three months ended March 31, 2019 was approximately 3.79% per annum. The weighted average interest rate on the JPM Term Loan during the year ended December 31, 2018 was approximately 3.33% per annum.

The JPM Credit Agreement contains customary affirmative and negative covenants for credit facilities of this type, including limitations with respect to indebtedness, liens, investments, mergers and acquisitions, disposition of assets, changes in business, certain restricted payments, the requirement to have subsidiaries provide a guaranty in the event that they incur recourse indebtedness and transactions with affiliates. The JPM Credit Agreement also contains financial covenants that require the Company to maintain a minimum tangible net worth, a minimum fixed charge coverage ratio, a maximum secured leverage ratio, a maximum leverage ratio, a maximum unencumbered leverage ratio, and minimum unsecured interest coverage. The JPM Credit Agreement provides for customary events of default with corresponding grace periods, including failure to pay any principal or interest when due, certain cross defaults and a change in control of the Company (as defined in the JPM Credit Agreement). In the event of a default by the Company, the administrative agent may, and at the request of the requisite number of lenders shall, declare all obligations under the JPM Credit Agreement immediately due and payable, and enforce any and all rights of the lenders or administrative agent under the JPM Credit Agreement and related documents. For certain events of default related to bankruptcy, insolvency, and receivership, all outstanding obligations of the Company will become immediately due and payable. The Company was in compliance with the JPM Term Loan financial covenants as of March 31, 2019.

## BMO Term Loan

On September 27, 2018, the Company entered into a Second Amended and Restated Credit Agreement with the lending institutions party thereto and Bank of Montreal ("BMO"), as administrative agent (the "BMO Credit Agreement"). The BMO Credit Agreement provides for a single, unsecured term loan borrowing in the amount of \$220 million (the "BMO Term Loan") that remains fully advanced and outstanding. The BMO Term Loan consists of a \$55 million tranche A term loan and a \$165 million tranche B term loan. The tranche A term loan matures on November 30, 2021 and the tranche B term loan matures on January 31, 2024. The BMO Credit Agreement also includes an accordion feature that allows up to \$100 million of additional loans, subject to receipt of lender commitments and satisfaction of

certain customary conditions.

The BMO Term Loan bears interest at either (i) a number of basis points over LIBOR depending on the Company's credit rating (125 basis points over LIBOR at March 31, 2019) or (ii) a number of basis points over the base rate depending on the Company's credit rating (25 basis points over the base rate at March 31, 2019).

Although the interest rate on the BMO Term Loan is variable under the BMO Credit Agreement, the Company fixed the base LIBOR interest rate by entering into interest rate swap transactions. On August 26, 2013, the Company entered into an ISDA Master Agreement with Bank of Montreal that fixed the base LIBOR interest rate on the BMO Term Loan at 2.32% per annum until August 26, 2020. On February 20, 2019, the Company entered into ISDA Master Agreements with a group of banks that fixed the base LIBOR interest rate on the BMO Term Loan at 2.39% per annum for the period beginning on August 26, 2020 and ending January 31, 2024. Accordingly, based upon the Company's credit rating, as of March 31, 2019, the effective interest rate on the BMO Term Loan was 3.57% per annum.

The BMO Credit Agreement contains customary affirmative and negative covenants for credit facilities of this type, including limitations with respect to indebtedness, liens, investments, mergers and acquisitions, disposition of assets, changes

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in business, certain restricted payments, the requirement to have subsidiaries provide a guaranty in the event that they incur recourse indebtedness and transactions with affiliates. The BMO Credit Agreement also contains financial covenants that require the Company to maintain a minimum tangible net worth, a maximum leverage ratio, a maximum secured leverage ratio, a minimum fixed charge coverage ratio, a maximum unencumbered leverage ratio, and minimum unsecured interest coverage. The BMO Credit Agreement provides for customary events of default with corresponding grace periods, including failure to pay any principal or interest when due, certain cross defaults and a change in control of the Company (as defined in the BMO Credit Agreement). In the event of a default by the Company, the administrative agent may, and at the request of the requisite number of lenders shall, declare all obligations under the BMO Credit Agreement immediately due and payable, terminate the lenders' commitments to make loans under the BMO Credit Agreement, and enforce any and all rights of the lenders or the administrative agent under the BMO Credit Agreement and related documents. For certain events of default related to bankruptcy, insolvency, and receivership, the commitments of lenders will be automatically terminated and all outstanding obligations of the Company will become immediately due and payable. The Company was in compliance with the BMO Term Loan financial covenants as of March 31, 2019.

The Company may use the proceeds of the loans under the BMO Credit Agreement to finance the acquisition of real properties and for other permitted investments; to finance investments associated with Sponsored REITs to refinance or retire indebtedness and for working capital and other general business purposes, in each case to the extent permitted under the BMO Credit Agreement.

## BAML Credit Facility

On July 21, 2016, the Company entered into a First Amendment (the "BAML First Amendment"), and on October 18, 2017, the Company entered into a Second Amendment (the "BAML Second Amendment"), to the Second Amended and Restated Credit Agreement dated October 29, 2014 among the Company, the lending institutions party thereto and Bank of America, N.A., as administrative agent, L/C Issuer and Swing Line Lender (as amended by the BAML First Amendment and the BAML Second Amendment, the "BAML Credit Facility") that continued an existing unsecured revolving line of credit (the "BAML Revolver") and an existing term loan (the "BAML Term Loan").

## BAML Revolver Highlights

- The BAML Revolver is for borrowings, at the Company's election, of up to \$600 million. Borrowings made pursuant to the BAML Revolver may be revolving loans, swing line loans or letters of credit, the combined sum of which may not exceed \$600 million outstanding at any time.
- Borrowings made pursuant to the BAML Revolver may be borrowed, repaid and reborrowed from time to time until the maturity date of January 12, 2022. The Company has the right to extend the maturity date of the BAML Revolver by two additional 6 month periods, or until January 12, 2023, upon payment of a fee and satisfaction of certain customary conditions.

The BAML Credit Facility includes an accordion feature that allows for an aggregate amount of up to \$500 million of additional borrowing capacity applicable to the BAML Revolver and/or the BAML Term Loan, subject to receipt of lender commitments and satisfaction of certain customary conditions.

As of March 31, 2019, there were borrowings of \$40 million outstanding under the BAML Revolver. The BAML Revolver bears interest at either (i) a margin over LIBOR depending on the Company's credit rating (1.20% over LIBOR at March 31, 2019) or (ii) a margin over the base rate depending on the Company's credit rating (0.20% over the base rate at March 31, 2019). The BAML Credit Facility also obligates the Company to pay an annual facility fee in an amount that is also based on the Company's credit rating. The facility fee is assessed against the total amount of the BAML Revolver, or \$600 million (0.25% at March 31, 2019).

Based upon the Company's credit rating, as of March 31, 2019 the interest rate on the BAML Revolver was 3.69% per annum. The weighted average interest rate on all amounts outstanding on the BAML Revolver during the three months ended March 31, 2019 was approximately 3.69% per annum. As of December 31, 2018, there were borrowings of \$25 million outstanding under the BAML Revolver at an interest rate of 3.63% per annum.

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### BAML Term Loan Highlights

- The BAML Term Loan is for \$400 million.
- The BAML Term Loan matures on January 12, 2023.
- The BAML Credit Facility includes an accordion feature that allows for an aggregate amount of up to \$500 million of additional borrowing capacity to the BAML Revolver and/or the BAML Term Loan, subject to receipt of lender commitments and satisfaction of certain customary conditions.
- On September 27, 2012, the Company drew down the entire \$400 million under the BAML Term Loan and such amount remains fully advanced and outstanding under the BAML Term Loan.

The BAML Term Loan bears interest at either (i) a margin over LIBOR depending on the Company's credit rating (1.35% over LIBOR at March 31, 2019) or (ii) a margin over the base rate depending on the Company's credit rating (0.35% over the base rate at March 31, 2019).

Although the interest rate on the BAML Credit Facility is variable, the Company fixed the base LIBOR interest rate on the BAML Term Loan by entering into an interest rate swap agreement. On July 22, 2016, the Company entered into ISDA Master Agreements with a group of banks that fixed the base LIBOR interest rate on the BAML Term Loan at 1.12% per annum for the period beginning on September 27, 2017 and ending on September 27, 2021. Accordingly, based upon the Company's credit rating, as of March 31, 2019, the effective interest rate on the BAML Term Loan was 2.47% per annum.

### BAML Credit Facility General Information

The BAML Credit Facility contains customary affirmative and negative covenants for credit facilities of this type, including limitations with respect to indebtedness, liens, investments, mergers and acquisitions, disposition of assets, changes in business, certain restricted payments, the requirement to have subsidiaries provide a guaranty in the event that they incur recourse indebtedness and transactions with affiliates. The BAML Credit Facility also contains financial covenants that require the Company to maintain a minimum tangible net worth, a maximum leverage ratio, a maximum secured leverage ratio, a minimum fixed charge coverage ratio, a maximum unencumbered leverage ratio, and minimum unsecured interest coverage. The BAML Credit Facility provides for customary events of default with corresponding grace periods, including failure to pay any principal or interest when due, certain cross defaults and a change in control of the Company (as defined in the BAML Credit Facility). In the event of a default by the Company, the administrative agent may, and at the request of the requisite number of lenders shall, declare all obligations under the BAML Credit Facility immediately due and payable, terminate the lenders' commitments to make loans under the BAML Credit Facility, and enforce any and all rights of the lenders or administrative agent under the BAML Credit Facility and related documents. For certain events of default related to bankruptcy, insolvency, and receivership, the commitments of lenders will be automatically terminated and all outstanding obligations of the Company will become immediately due and payable. The Company was in compliance with the BAML Credit Facility financial covenants as of March 31, 2019.



The Company may use the proceeds of the loans under the BAML Credit Facility to finance the acquisition of real properties and for other permitted investments; to finance investments associated with Sponsored REITs, to refinance or retire indebtedness and for working capital and other general business purposes, in each case to the extent permitted under the BAML Credit Facility.

#### Senior Notes

On October 24, 2017, the Company entered into a note purchase agreement (the “Note Purchase Agreement”) with the various purchasers named therein (the “Purchasers”) in connection with a private placement of senior unsecured notes. Under the Note Purchase Agreement, the Company agreed to sell to the Purchasers an aggregate principal amount of \$200 million of senior unsecured notes consisting of (i) 3.99% Series A Senior Notes due December 20, 2024 in an aggregate principal amount of \$116 million (the “Series A Notes”) and (ii) 4.26% Series B Senior Notes due December 20, 2027 in an aggregate principal amount of \$84 million (the “Series B Notes,” and, together with the Series A Notes, the “Senior Notes”). On December 20, 2017, the Senior Notes were funded and proceeds were used to reduce the outstanding balance of the BAML Revolver.

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The Note Purchase Agreement contains customary financial covenants, including a maximum leverage ratio, a maximum secured leverage ratio, a minimum fixed charge coverage ratio, and a maximum unencumbered leverage ratio. The Note Purchase Agreement also contains restrictive covenants that, among other things, restrict the ability of the Company and its subsidiaries to enter into transactions with affiliates, merge, consolidate, create liens, make certain restricted payments, enter into certain agreements or prepay certain indebtedness. Such financial and restrictive covenants are substantially similar to the corresponding covenants contained in the BAML Credit Facility, the BMO Credit Agreement and the JPM Credit Agreement. The Senior Notes financial covenants require, among other things, the maintenance of a fixed charge coverage ratio of at least 1.50; a maximum leverage ratio and an unsecured leverage ratio of no more than 60% (65% if there were a significant acquisition for a short period of time). In addition, the Note Purchase Agreement provides that the Note Purchase Agreement will automatically incorporate additional financial and other specified covenants (such as limitations on investments and distributions) that are effective from time to time under the existing credit agreements, other material indebtedness or certain other private placements of debt of the Company and its subsidiaries. The Note Purchase Agreement contains customary events of default, including payment defaults, cross defaults with certain other indebtedness, breaches of covenants and bankruptcy events. In the case of an event of default, the Purchasers may, among other remedies, accelerate the payment of all obligations.

## Equity Securities

As of March 31, 2019, we had an automatic shelf registration statement on Form S-3 with the Securities and Exchange Commission relating to the offer and sale, from time to time, of an indeterminate amount of our debt securities, common stock, preferred stock or depository shares. From time to time, we expect to issue debt securities, common stock, preferred stock or depository shares under our existing automatic shelf registration statements or a different registration statement to fund the acquisition of additional properties, to pay down any existing debt financing and for other corporate purposes.

## Contingencies

From time to time, we may provide financing to Sponsored REITs in the form of a construction loan and/or a revolving line of credit secured by a mortgage. As of March 31, 2019, we were committed to fund up to \$79.5 million to three Sponsored REITs under such arrangements for the purpose of funding construction costs, capital expenditures, leasing costs or for other purposes, of which \$72.8 million has been drawn and is outstanding. We anticipate that advances made under these facilities will be repaid at their maturity date or earlier from refinancing, long term financings of the underlying properties, cash flows from the underlying properties or another other capital event.

We may be subject to various legal proceedings and claims that arise in the ordinary course of our business. Although occasional adverse decisions (or settlements) may occur, we believe that the final disposition of such matters will not

have a material adverse effect on our financial position or results of operations.

#### Related Party Transactions

We intend to draw on the BAML Credit Facility in the future for a variety of corporate purposes, including the acquisition of properties that we acquire directly for our portfolio and for Sponsored REIT Loans as described below.

#### Loans to Sponsored REITs

#### Sponsored REIT Loans

From time to time we may make secured loans (“Sponsored REIT Loans”) to Sponsored REITs in the form of mortgage loans or revolving lines of credit to fund construction costs, capital expenditures, leasing costs and for other purposes. We anticipate that each Sponsored REIT Loan will be repaid at maturity or earlier from refinancing, long term financings of the underlying properties, cash flows from the underlying properties or some other capital event. Each Sponsored REIT Loan is secured by a mortgage on the underlying property and has a term of approximately two to three years. Except for two mortgage loans which bear interest at a fixed rate, advances under each Sponsored REIT Loan bear

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interest at a rate equal to the 30-day LIBOR rate plus an agreed upon amount of basis points and advances also require a 50 basis point draw fee.

Our Sponsored REIT Loans subject us to credit risk. However, we believe that our position as asset manager of each of the Sponsored REITs helps mitigate that risk by providing us with unique insight and the ability to rely on qualitative analysis of the Sponsored REITs. Before making a Sponsored REIT Loan, we consider a variety of subjective factors, including the quality of the underlying real estate, leasing, the financial condition of the applicable Sponsored REIT and local and national market conditions. These factors are subject to change and we do not apply a formula or assign relative weights to the factors. Instead, we make a subjective determination after considering such factors collectively.

Additional information about our Sponsored REIT Loans outstanding as of March 31, 2019, including a summary table of our Sponsored REIT Loans, is incorporated herein by reference to Part I, Item 1, Note 2, “Related Party Transactions and Investments in Non-Consolidated Entities, Management fees and interest income from loans”, in the Notes to Consolidated Financial Statements included in this report.

## Other Considerations

We generally pay the ordinary annual operating expenses of our properties from the rental revenue generated by the properties. For the three months ended March 31, 2019 and 2018, respectively, the rental income exceeded the expenses for each individual property, with the exception of one property located in Houston, Texas and one property located in Minneapolis, Minnesota for each of the three months ended March 31, 2019 and 2018, respectively.

Our property located at 801 Marquette Avenue in Minneapolis, Minnesota (“801 Marquette Avenue”) had approximately 170,000 square feet of rentable space and became vacant in January 2016. On June 30, 2016, we commenced a redevelopment plan for the property and substantially completed the redevelopment in the second quarter of 2017. Redevelopment of 801 Marquette Avenue resulted in approximately 129,800 of net rentable square feet for the property. As of March 31, 2019, we have signed leases for 48,000 square feet, or 37% of rentable square feet at the property including two tenants that now occupy 20,500 square feet, or 15.8% of rentable square feet at the property. As a result, we had rental income of \$84,000 and operating expenses of \$286,000 during the three months ended March 31, 2019; and we had no rental income and operating expenses of \$37,000 during the three months ended March 31, 2018.

The property located in Houston, Texas has approximately 157,000 square feet of rentable space and became substantially vacant on April 30, 2017 when two tenants vacated 155,000 square feet of space. The property has signed leases for approximately 103,000 square feet, or 65.5% of the square feet of the property and is moving tenants in. For the three months ended March 31, 2019, we had rental income of \$262,000 and operating expenses of

\$375,000. For the three months ended March 31, 2018, we had rental income of \$2,000 and operating expenses of \$370,000.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

#### Market Rate Risk

We are exposed to changes in interest rates primarily from our floating rate borrowing arrangements. We use interest rate derivative instruments to manage exposure to interest rate changes. As of March 31, 2019 and December 31, 2018, if market rates on our outstanding borrowings under the BAML Revolver and the floating rate portion of the JPM Term Loan increased by 10% at maturity, or approximately 37 and 38 basis points, respectively, over the current variable rate, the increase in interest expense would decrease future earnings and cash flows by \$0.3 million and \$0.7 million annually, respectively. Based upon our credit rating, the interest rate on the BAML Revolver as of March 31, 2019 was LIBOR plus 120 basis points, or 3.69% per annum. Based upon our credit rating, the interest rate on the \$50 million portion of the JPM Term Loan that is not subject to interest rate swap transactions as of March 31, 2019 was the LIBOR-based rate plus 125 basis points, or 3.75% per annum. We do not believe that the interest rate risk on the BAML Revolver and the JPM Term Loan is material as of March 31, 2019.

Although the interest rates on the BMO Term Loan, the BAML Term Loan and the JPM Term Loan are variable, the Company fixed the base LIBOR interest rates on the BMO Term Loan and the BAML Term Loan, and the LIBOR-based rate

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on a \$100 million portion of the JPM Term Loan, by entering into interest rate swap agreements. On July 22, 2016, the Company fixed the interest rate for the period beginning on September 27, 2017 and ending on September 27, 2021 on the BAML Term Loan with multiple interest rate swap agreements (the “2017 Interest Rate Swap”). On August 26, 2013, the Company fixed the interest rate until August 26, 2020 on the BMO Term Loan with an interest rate swap agreement (the “2013 BMO Interest Rate Swap”). On March 7, 2019, the Company fixed the interest rate for the period beginning on March 29, 2019 and ending on November 30, 2021 for the notional value of \$100 million on the JPM Term Loan (the “2019 JPM Interest Rate Swap”). On February 20, 2019, the Company fixed the interest rate for the period beginning August 26, 2020 and ending January 31, 2024 on the BMO Term Loan (the “2019 BMO Interest Rate Swap”). Accordingly, based upon our credit rating, as of March 31, 2019, the interest rate on the BAML Term Loan was 2.47% per annum, the interest rate on the BMO Term Loan was 3.57% per annum, and the interest rate on \$100 million of the JPM Term Loan was 3.69% per annum. The fair value of these interest rate swaps are affected by changes in market interest rates. We believe that we have mitigated interest rate risk with respect to the BAML Term Loan through the 2017 Interest Rate Swap from September 27, 2017 until September 27, 2021. We believe that we have mitigated interest rate risk with respect to the BMO Term Loan through the 2013 BMO Interest Rate Swap and the 2019 BMO Interest Rate Swap until January 31, 2024. We believe that we have mitigated the interest rate risk on a \$100 million portion of the JPM Term Loan until November 30, 2021 with the 2019 JPM Interest Rate Swap. These interest rate swaps were our only derivative instruments as of March 31, 2019.

The table below lists our derivative instruments, which are hedging variable cash flows related to interest on our BAML Term Loan, BMO Term Loan and a portion of the JPM Term Loan as of March 31, 2019 (in thousands):

(in thousands)	Notional Value	Strike Rate	Effective Date	Expiration Date	Fair Value
2017 Interest Rate Swap	\$ 400,000	1.12 %	Sep-17	Sep-21	\$ 10,469
2013 BMO Interest Rate Swap	\$ 220,000	2.32 %	Aug-13	Aug-20	\$ (1,888)
2019 JPM Interest Rate Swap	\$ 100,000	2.44 %	Mar-19	Nov-21	\$ (604)
2019 BMO Interest Rate Swap (1)	\$ 220,000	2.39 %	Aug-20	Jan-24	\$ (4)

(1) The Notional Value will decrease to \$165 million on November 30, 2021.

Our BMO Term Loan, BAML Term Loan and JPM Term Loan hedging transactions used derivative instruments that involve certain additional risks such as counterparty credit risk, the enforceability of hedging contracts and the risk that unanticipated and significant changes in interest rates will cause a significant loss of basis in either or both of the contracts. We require our derivatives contracts to be with counterparties that have investment grade ratings. As a result, we do not anticipate that any counterparty will fail to meet its obligations. However, there can be no assurance that we will be able to adequately protect against the foregoing risks or that we will ultimately realize an economic benefit that exceeds the related amounts incurred in connection with engaging in such hedging strategies.

The Company's derivatives are recorded at fair value in other liabilities in the consolidated balance sheets, the effective portion of the derivatives' fair value is recorded to other comprehensive income in the consolidated statements of other comprehensive income (loss) and the ineffective portion of the derivatives' fair value is recognized directly into earnings as Other in the consolidated statements of income.

The following table presents, as of March 31, 2019, our contractual variable rate borrowings under our BAML Revolver, which matures on January 12, 2022, under our JPM Term Loan, which matures on November 30, 2021, under our BAML Term Loan, which matures on January 12, 2023, under our BMO Term Loan, for which tranche A matures on November 30, 2021 and tranche B matures on January 31, 2024, under our Series A Notes, which mature on December 20, 2024, and under our Series B Notes, which mature on December 20, 2027. Under the BAML Revolver, we have the right to

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extend the initial maturity date with two additional six month extensions, or until January 12, 2023, upon payment of a fee and satisfaction of certain customary conditions.

	Payment due by period						
	(in thousands)						
	Total	2019	2020	2021	2022	2023	Thereafter
BAML Revolver	\$ 40,000	\$ —	\$ —	\$ —	\$ 40,000	\$ —	\$ —
JPM Term Loan	150,000	—	—	150,000	—	—	—
BAML Term Loan	400,000	—	—	—	—	400,000	—
BMO Term Loan							
Tranche A	55,000	—	—	55,000	—	—	—
BMO Term Loan							
Tranche B	165,000	—	—	—	—	—	165,000
Series A Notes	116,000	—	—	—	—	—	116,000
Series B Notes	84,000	—	—	—	—	—	84,000
Total	\$ 1,010,000	\$ —	\$ —	\$ 205,000	\$ 40,000	\$ 400,000	\$ 365,000

## Item 4. Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2019. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of March 31, 2019, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

## Changes in Internal Control Over Financial Reporting



No change in our internal control over financial reporting occurred during the quarter ended March 31, 2019, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be subject to legal proceedings and claims that arise in the ordinary course of our business. Although occasional adverse decisions (or settlements) may occur, we believe that the final disposition of such matters will not have a material adverse effect on our financial position, cash flows or results of operations.

Item 1A. Risk Factors

As of March 31, 2019, there have been no material changes to the risk factors disclosed in Part I, “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2018. In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in the Annual Report on Form 10-K for the year ended December 31, 2018, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K for the year ended December 31, 2018 are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit No.	Description
3.1 (1)	<u>Articles of Incorporation.</u>
3.2 (2)	<u>Amended and Restated By-laws.</u>
31.1*	<u>Certification of FSP Corp.'s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Certification of FSP Corp.'s Chief Financial Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002.</u>
32.1*	<u>Certification of FSP Corp.'s Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2*	<u>Certification of FSP Corp.'s Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101*	The following materials from FSP Corp.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Income; (iii) the Consolidated Statements of Cash Flows; (iv) the Consolidated Statements of Other Comprehensive Income; and (v) the Notes to Consolidated Financial Statements.

Footnotes	Description
(1)	Incorporated by reference to FSP Corp.'s Form 8-A, filed on April 5, 2005 (File No. 001-32470).
(2)	Incorporated by reference to FSP Corp.'s Current Report on Form 8-K, filed on February 6, 2018 (File No. 001-32470).
*	Filed herewith.

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SIGNATURES

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

FRANKLIN STREET PROPERTIES CORP.

Date	Signature	Title
Date: April 30, 2019	/s/ George J. Carter George J. Carter	Chief Executive Officer and Director (Principal Executive Officer)
Date: April 30, 2019	/s/ John G. Demeritt John G. Demeritt	Chief Financial Officer (Principal Financial Officer)