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Whitestone REIT
Form 10-Q
July 29, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

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 001-34855

WHITESTONE REIT

(Exact Name of Registrant as Specified in Its Charter)

Maryland 76-0594970
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

2600 South Gessner, Suite 500 77063
Houston, Texas
(Address of Principal Executive Offices) (Zip Code)

(713) 827-9595
(Registrant's Telephone Number, Including Area Code)

N/A

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically 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 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):

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Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

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

As of July 25, 2016, there were 28,588,283 common shares of beneficial interest, \$0.001 par value per share, outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Whitestone REIT and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	June 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Real estate assets, at cost		
Property	\$ 844,807	\$ 835,538
Accumulated depreciation	(99,004)	(89,580)
Total real estate assets	745,803	745,958
Cash and cash equivalents	5,927	2,587
Restricted cash	117	121
Marketable securities	467	435
Escrows and acquisition deposits	5,824	6,668
Accrued rents and accounts receivable, net of allowance for doubtful accounts	16,717	15,466
Unamortized lease commissions and loan costs	8,039	8,178
Prepaid expenses and other assets	3,129	2,672
Total assets	\$ 786,023	\$ 782,085
LIABILITIES AND EQUITY		
Liabilities:		
Notes payable	\$ 500,553	\$ 497,955
Accounts payable and accrued expenses	30,182	24,051
Tenants' security deposits	5,578	5,254
Dividends and distributions payable	8,169	7,834
Total liabilities	544,482	535,094
Commitments and contingencies:	—	—
Equity:		
Preferred shares, \$0.001 par value per share; 50,000,000 shares authorized; none issued and outstanding as of June 30, 2016 and December 31, 2015, respectively	—	—
Common shares, \$0.001 par value per share; 400,000,000 shares authorized; 28,138,047 and 26,991,493 issued and outstanding as of June 30, 2016 and December 31, 2015, respectively	28	27
Additional paid-in capital	372,650	359,971
Accumulated deficit	(126,300)	(116,895)
Accumulated other comprehensive loss	(8,448)	(129)
Total Whitestone REIT shareholders' equity	237,930	242,974
Noncontrolling interest in subsidiary	3,611	4,017
Total equity	241,541	246,991
Total liabilities and equity	\$ 786,023	\$ 782,085

See accompanying notes to Consolidated Financial Statements

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Whitestone REIT and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Property revenues				
Rental revenues	\$ 19,649	\$ 17,176	\$ 39,071	\$ 33,641
Other revenues	5,480	4,794	11,493	9,581
Total property revenues	25,129	21,970	50,564	43,222
Property expenses				
Property operation and maintenance	4,683	4,339	9,477	8,422
Real estate taxes	3,304	2,925	6,658	5,829
Total property expenses	7,987	7,264	16,135	14,251
Other expenses (income)				
General and administrative	5,413	4,998	10,249	9,483
Depreciation and amortization	5,521	4,675	10,913	9,239
Interest expense	4,748	3,516	9,552	6,924
Interest, dividend and other investment income	(78)	(162)	(175)	(171)
Total other expense	15,604	13,027	30,539	25,475
Income from continuing operations before gain on sale or disposal of properties or assets and income taxes	1,538	1,679	3,890	3,496
Provision for income taxes	(11)	(91)	(167)	(174)
Gain on sale of properties	—	—	2,890	—
Gain (loss) on sale or disposal of assets	(18)	5	(16)	(100)
Income from continuing operations	1,509	1,593	6,597	3,222
Loss from discontinued operations	—	(33)	—	(41)
Loss from discontinued operations	—	(33)	—	(41)
Net income	1,509	1,560	6,597	3,181
Less: Net income attributable to noncontrolling interests	25	26	116	53
Net income attributable to Whitestone REIT	\$ 1,484	\$ 1,534	\$ 6,481	\$ 3,128

See accompanying notes to Consolidated Financial Statements

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Whitestone REIT and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Basic Earnings Per Share:				
Income from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	\$0.05	\$0.06	\$0.23	\$0.13
Income from discontinued operations attributable to Whitestone REIT	0.00	0.00	0.00	0.00
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$0.05	\$0.06	\$0.23	\$0.13
Diluted Earnings Per Share:				
Income from continuing operations attributable to Whitestone REIT excluding amounts attributable to unvested restricted shares	\$0.05	\$0.06	\$0.22	\$0.12
Income from discontinued operations attributable to Whitestone REIT	0.00	0.00	0.00	0.00
Net income attributable to common shareholders excluding amounts attributable to unvested restricted shares	\$0.05	\$0.06	\$0.22	\$0.12
Weighted average number of common shares outstanding:				
Basic	26,819	22,869	26,712	22,724
Diluted	27,513	23,401	27,501	23,314
Distributions declared per common share / OP unit	\$0.2850	\$0.2850	\$0.5700	\$0.5700
Consolidated Statements of Comprehensive Income (Loss)				
Net income	\$1,509	\$1,560	\$6,597	\$3,181
Other comprehensive gain (loss)				
Unrealized gain (loss) on cash flow hedging activities	(2,450)	43	(8,491)	(276)
Unrealized gain (loss) on available-for-sale marketable securities	36	(139)	31	(98)
Comprehensive income (loss)	(905)	1,464	(1,863)	2,807
Less: Comprehensive income (loss) attributable to noncontrolling interests	(16)	24	(33)	47
Comprehensive income (loss) attributable to Whitestone REIT	\$(889)	\$1,440	\$(1,830)	\$2,760

See accompanying notes to Consolidated Financial Statements

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Whitestone REIT and Subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)
(in thousands)

	Common Shares	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount				Units Dollars	
Balance, December 31, 2015	26,991	\$ 27	\$359,971	\$(116,895)	\$ (129)	\$ 242,974	497 \$4,017 \$246,991
Exchange of noncontrolling interest OP units for common shares	13	—	105	—	(7)	98	(13) (98) —
Issuance of shares under dividend reinvestment plan	4	—	53	—	—	53	— — 53
Issuance of common shares, net of offering costs	736	1	10,599	—	—	10,600	— — 10,600
Repurchase of common shares ⁽¹⁾	(139)	—	(1,922)	—	—	(1,922)	— — (1,922)
Share-based compensation	533	—	3,844	—	—	3,844	— — 3,844
Distributions	—	—	—	(15,886)	—	(15,886)	— (276) (16,162)
Unrealized loss on change in value of cash flow hedge	—	—	—	—	(8,342)	(8,342)	— (149) (8,491)
Unrealized gain on change in fair value of available-for-sale marketable securities	—	—	—	—	30	30	— 1 31
Net income	—	—	—	6,481	—	6,481	— 116 6,597
Balance, June 30, 2016	28,138	\$ 28	\$372,650	\$(126,300)	\$ (8,448)	\$ 237,930	484 \$3,611 \$241,541

(1)

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During the six months ended June 30, 2016, the Company acquired common shares held by employees who tendered owned common shares to satisfy the tax withholding on the lapse of certain restrictions on restricted common shares.

See accompanying notes to Consolidated Financial Statements

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Whitestone REIT and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income from continuing operations	\$6,597	\$3,222
Net income (loss) from discontinued operations	—	(41)
Net income	6,597	3,181
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,913	9,239
Amortization of deferred loan costs	784	601
Amortization of notes payable discount	145	149
Gain on sale of marketable securities	—	(44)
Loss (gain) on sale or disposal of assets and properties	(2,874)	100
Bad debt expense	763	771
Share-based compensation	3,844	3,359
Changes in operating assets and liabilities:		
Escrows and acquisition deposits	844	(772)
Accrued rent and accounts receivable	(2,014)	(1,767)
Unamortized lease commissions	(1,133)	(610)
Prepaid expenses and other assets	459	323
Accounts payable and accrued expenses	(2,537)	(235)
Tenants' security deposits	324	267
Net cash provided by operating activities	16,115	14,603
Net cash used in operating activities of discontinued operations	—	(41)
Cash flows from investing activities:		
Acquisitions of real estate	—	(51,800)
Additions to real estate	(11,055)	(5,009)
Proceeds from sales of properties	3,957	—
Proceeds from sales of marketable securities	—	496
Net cash used in investing activities	(7,098)	(56,313)
Net cash used in investing activities of discontinued operations	—	—
Cash flows from financing activities:		
Distributions paid to common shareholders	(15,497)	(13,127)
Distributions paid to OP unit holders	(277)	(224)
Proceeds from issuance of common shares, net of offering costs	10,600	49,725
Proceeds from revolving credit facility, net	3,000	9,500
Repayments of notes payable	(1,585)	(1,336)
Change in restricted cash	4	—
Repurchase of common shares	(1,922)	(772)
Net cash provided by (used in) financing activities	(5,677)	43,766
Net cash used in financing activities of discontinued operations	—	—
Net increase in cash and cash equivalents	3,340	2,015
Cash and cash equivalents at beginning of period	2,587	4,236
Cash and cash equivalents at end of period	\$5,927	\$6,251

See accompanying notes to Consolidated Financial Statements

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Whitestone REIT and Subsidiaries
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)
 (in thousands)

	Six Months Ended June 30,	
	2016	2015
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$9,169	\$6,409
Cash paid for taxes	\$284	\$315
Non cash investing and financing activities:		
Disposal of fully depreciated real estate	\$253	\$48
Financed insurance premiums	\$1,060	\$1,057
Value of shares issued under dividend reinvestment plan	\$53	\$47
Value of common shares exchanged for OP units	\$98	