

**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, 2015

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)

2101 L Street NW, Suite 750, Washington, D.C.  
(Address of Principal Executive Offices)

47-2047728  
(IRS Employer Identification No.)

20037  
(Zip Code)

(202) 595-9500  
(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.

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated Filer  (Do not check if smaller reporting company) Smaller Reporting Company

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

At November 5, 2015, the registrant had 24,168,379 shares of common stock, par value \$0.01 per share, outstanding.

**Part I: Financial Information****Item 1: Financial Statements:****Consolidated Financial Statements**

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**Easterly Government Properties, Inc.**  
**Consolidated Balance Sheets**  
(Amounts in thousands, except share amounts)

	September 30, 2015 (unaudited)	December 31, 2014
<b>Assets</b>		
Real estate properties, net	\$ 668,034	\$ —
Real estate investments, at fair value	—	267,683
Cash and cash equivalents	4,466	31,437
Restricted cash	1,810	—
Rents receivable	5,632	—
Accounts receivable	2,856	—
Deferred financing, net	2,856	—
Intangible assets, net	104,657	—
Prepaid expenses and other assets	2,869	1,385
<b>Total assets</b>	<b>\$ 793,180</b>	<b>\$ 300,505</b>
<b>Liabilities</b>		
Revolving credit facility	50,167	—
Mortgage notes payable	68,756	—
Intangible liabilities, net	39,690	—
Accounts payable and accrued liabilities	6,982	3,321
<b>Total liabilities</b>	<b>165,595</b>	<b>3,321</b>
<b>Commitments and contingencies (Note 9)</b>		
<b>Equity</b>		
Common stock, par value \$0.01, 200,000,000 and 100,000 shares authorized, 24,168,379 and 1,000 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	241	—
Additional paid-in capital	391,357	1
Retained (deficit)	(1,799)	—
Cumulative dividends	(7,734)	—
Total stockholders' equity	382,065	1
Members' capital	—	13,336
Non-controlling interest	—	283,847
Non-controlling interest in operating partnership	245,520	—
<b>Total equity</b>	<b>627,585</b>	<b>297,184</b>
<b>Total liabilities and equity</b>	<b>\$ 793,180</b>	<b>\$ 300,505</b>

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

**Easterly Government Properties, Inc.**  
**Consolidated Statements of Operations (unaudited)**  
(Amounts in thousands, except per share amounts)

	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
<b>Revenues</b>				
Rental income	\$ 18,126	\$ —	\$ 45,056	\$ —
Tenant reimbursements	1,689	—	4,037	—
Other income	42	—	111	—
Income from real estate investments	—	1,859	—	4,601
Total revenues	<u>19,857</u>	<u>1,859</u>	<u>49,204</u>	<u>4,601</u>
<b>Operating expenses</b>				
Property operating	3,838	—	9,126	—
Real estate taxes	1,980	—	4,694	—
Depreciation and amortization	9,344	—	23,395	—
Acquisition costs	235	—	1,870	—
Formation expenses	—	—	1,666	—
Corporate general and administrative	2,301	3,318	6,112	4,586
Fund general and administrative	—	154	75	714
Total expenses	<u>17,698</u>	<u>3,472</u>	<u>46,938</u>	<u>5,300</u>
Operating income	<u>2,159</u>	<u>(1,613)</u>	<u>2,266</u>	<u>(699)</u>
<b>Other (expenses) / income</b>				
Interest expense, net	(1,341)	—	(3,362)	—
Net unrealized gain (loss) on investments	—	24,645	(5,122)	71,865
Net income (loss)	<u>818</u>	<u>23,032</u>	<u>(6,218)</u>	<u>71,166</u>
Non-controlling interest in predecessor	—	(26,341)	—	(75,830)
Non-controlling interest in operating partnership	(320)	—	4,419	—
Net income (loss) available to Easterly Government Properties, Inc.	<u>\$ 498</u>	<u>\$ (3,309)</u>	<u>\$ (1,799)</u>	<u>\$ (4,664)</u>
Net income (loss) available to Easterly Government Properties, Inc. per share:				
Basic	\$ 0.02	—	\$ (0.09)	—
Diluted	\$ 0.02	—	\$ (0.09)	—
<b>Weighted- average common shares outstanding</b>				
Basic	24,141,712	—	20,516,184	—
Diluted	25,216,716	—	20,516,184	—

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)**

	<b>For the nine months ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
Cash flows from operating activities		
Net income (loss)	\$ (6,218)	\$ 71,166
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	23,395	—
Straight line rent	(165)	—
Amortization of above- / below-market leases	(3,359)	—
Amortization of loan premium / discount	(59)	—
Amortization of deferred financing costs	541	—
Purchase of investments	—	(30,316)
Deposits for potential new investments	—	668
Contributions to investments	(257)	(1,575)
Distributions from investments	—	5,478
Net unrealized gain (loss) on investments	5,122	(71,865)
Other	1,175	—
Net change in:		
Rents receivable	(4,154)	—
Accounts receivable	(268)	—
Prepaid expenses and other assets	(639)	234
Accounts payable and accrued liabilities	3,657	1,341
Net cash provided by (used in) operating activities	<u>18,771</u>	<u>(24,869)</u>
Cash flows from investing activities		
Real estate acquisitions and deposits	(52,425)	—
Cash assumed in formation	6,187	—
Additions to real estate property	(256)	—
Restricted cash	(172)	—
Net cash (used in) investing activities	<u>(46,666)</u>	<u>—</u>
Cash flows from financing activities		
Payment of deferred financing costs	(3,397)	—
Issuance of common shares	193,545	—
Repurchase of initial shares	(1)	—
Proceeds from private placement	75,638	—
Credit facility draws, net	50,167	—
Repayments of mortgage payable	(1,512)	—
Debt payoff	(293,381)	—
Dividends and distributions paid	(12,732)	—
Contributions	—	65,645
Distributions	(5,441)	(11,082)
Payment of offering costs	(1,962)	—
Net cash provided by financing activities	<u>924</u>	<u>54,563</u>
Net increase (decrease) in cash and cash equivalents	<u>(26,971)</u>	<u>29,694</u>
Cash and cash equivalents, beginning of period	31,437	3,363
Cash and cash equivalents, end of period	<u>\$ 4,466</u>	<u>\$ 33,057</u>

**Easterly Government Properties, Inc.**  
**Consolidated Statements of Cash Flows (unaudited)**  
**(Amounts in thousands)**

Supplemental disclosure of cash flow information is as follows (amounts in thousands):

	For the nine months ended September 30,	
	2015	2014
Cash paid for interest	\$ 2,733	\$ —
Supplemental disclosure of non - cash information		
Additions to real estate property	\$ 41	\$ —
Other	—	342
Easterly properties, debt and net assets contributed for shares and common units	260,687	—
Western Devcon properties and debt contributed for common units	86,397	—

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

## **1. Organization and Basis of Presentation**

Easterly Government Properties, Inc. (which may be referred to in these financial statements as the “Company,” “we,” “us,” or “our”) is a Maryland corporation that intends to qualify as a real estate investment trust (a “REIT”) under the Internal Revenue Code (the “Code”) commencing with its taxable period ending on 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 through the U.S. General Services Administration (the “GSA”). Our objective is to generate attractive risk-adjusted returns for our stockholders over the long term through dividends and capital appreciation.

As of September 30, 2015, we wholly owned 32 properties in the United States, including 29 properties that were leased primarily to U.S. Government tenant agencies and three properties that were entirely leased to private tenants, encompassing approximately 2.3 million square feet in the aggregate. We focus on acquiring, developing, and managing GSA-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 closely with the GSA to meet the needs and objectives of the tenant agency.

We were incorporated in Maryland as a corporation on October 9, 2014 and did not have any meaningful operations until the completion of the formation transactions and our initial public offering on February 11, 2015 (the “IPO”). On February 11, 2015, we completed an initial public offering of 13.8 million shares of our common stock at a price to the public of \$15.00 per share, including 1.8 million shares sold in connection with the full exercise of the option to purchase additional shares granted to the underwriters, resulting in gross proceeds of \$207.0 million. The aggregate net proceeds to the Company after deducting underwriting discounts and commissions and offering expenses payable by the Company, was approximately \$191.6 million. The Company contributed the net proceeds from the IPO to the Operating Partnership in exchange for common units representing limited partnership interests in the Operating Partnership (“common units”).

In connection with the IPO, we engaged in certain formation transactions (the “formation transactions”) pursuant to which the Operating Partnership acquired (i) 15 properties previously owned by the Easterly Funds (as defined below) in exchange for 3,308,000 shares of common stock and 8,635,714 common units (ii) 14 properties previously owned by Western Devcon, Inc., a private real estate company and a series of related entities beneficially owned by Michael P. Ibe (collectively, “Western Devcon”), in exchange for 5,759,819 common units and (iii) all of the ownership interests in the management entities (as defined below) in exchange for 1,135,406 common units.

Concurrent with the IPO, the Company sold an aggregate of 7,033,712 shares of its common stock to the Easterly Funds in a private placement at a price per share of \$15.00 without payment of any underwriting fees, discounts or commissions.

Our predecessor (the “Predecessor”) means Easterly Partners, LLC and its consolidated subsidiaries, including (i) all entities or interests in U.S. Government Properties Income and Growth Fund L.P., U.S. Government Properties Income and Growth Fund REIT, Inc. and the related feeder and subsidiary entities (collectively, “Easterly Fund I,”) (ii) all entities or interests in U.S. Government Properties Income and Growth Fund II, LP, USGP II REIT LP, USGP II (Parallel) Fund, LP and their related feeders and subsidiary entities (collectively, “Easterly Fund II” and, together with Easterly Fund I, the “Easterly Funds”) and (iii) the entities that manage the Easterly Funds, (the “management entities”).

All of the Company’s assets and its operations are primarily conducted through the Operating Partnership. The Company is the sole general partner of the Operating Partnership. The Company owned 60.9% of the Operating Partnership’s common units at September 30, 2015 and the remaining 39.1% was owned by the Easterly Funds and certain members of management.

### *Principle of Combination and 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 and Easterly Government Services, LLC, and the Operating Partnership. All significant intercompany balances and transactions have been eliminated in consolidation.

Upon completion of the IPO and the related formation transactions, the Company succeeded to the operations of the Predecessor. Prior to the IPO, the Predecessor was under the control of Darrell W. Crate, the Chairman of our Board of Directors.

These financial statements reflect the consolidated equity ownership structure of the Company as if the IPO and formation transactions related to the Easterly Funds and management entities had been completed as of January 1, 2014. The formation transactions related to the Easterly Funds and the management entities were accounted for at carryover basis due to the existence of common control.

Prior to the IPO, the Easterly Funds, as controlled by the Predecessor, qualified as investment companies pursuant to *ASC 946 Financial Services – Investment Companies* and, as a result, the Predecessor's consolidated financial statements accounted for the Easterly Funds using specialized investment company accounting based on fair value. Subsequent to the IPO, as the properties contributed to us from the Easterly Funds are no longer held by funds that qualify for investment company accounting, we made a shift, in accordance with GAAP, to account for the properties contributed by the Easterly Funds using historical cost accounting instead of investment company accounting, resulting in a significant change in the presentation of our consolidated financial statements following the formation transactions. The contribution of the Western Devcon properties in the formation transactions has been accounted for as a business combination using the acquisition method of accounting and recognized at the estimated fair value of acquired assets and assumed liabilities on the date of such contribution.

Due to the timing of the IPO and the formation transactions, the Company's financial condition as of December 31, 2014 reflects the financial condition of the Company and the Predecessor and the results of operations for the three and nine months ended September 30, 2014 reflect the financial condition and results of operations of the Predecessor. The Company's financial condition as of September 30, 2015 and results of operations for the nine months ended September 30, 2015 reflect the financial condition and results of operations of the Predecessor combined with the Company for the period prior to February 11, 2015, and the Company's consolidated results for the period from February 11, 2015 through September 30, 2015.

#### *Interim Financial Information*

The information in the Company's combined consolidated financial statements for the three and nine months ended September 30, 2015 and 2014 is unaudited and at December 31, 2014 is audited. All significant inter-company balances and transactions have been eliminated in consolidation. The accompanying financial statements for the three and nine months ended September 30, 2015 and 2014 and at December 31, 2014 include adjustments based on management's estimates (consisting of normal and recurring accruals), which the Company considers necessary for a fair presentation of the results for the periods. The financial information should be read in conjunction with the combined consolidated financial statements contained in the Company's 2014 Annual Report on Form 10-K for the year ended December 31, 2014 and the notes thereto and the final prospectus relating to the IPO, dated February 5, 2015, both of which the Company filed with the Securities and Exchange Commission (the "SEC"). Operating results for the three and nine months ended September 30, 2015 and 2014 are not necessarily indicative of actual operating results for the entire year.

## **2. Summary of Significant Accounting Policies**

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements.

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.

In light of the significant differences that exist between our basis of accounting subsequent to the IPO (historical cost accounting) and the pre-IPO basis of accounting (investment company accounting), we present the significant accounting policies for both periods below.

### ***a) Significant Accounting Policies for the Company post-IPO***

#### ***Real Estate Properties***

Real estate properties comprise all tangible assets we hold for rent. Real property is recognized at cost less accumulated depreciation. Betterments, major renovations and certain costs directly related to the improvement of real properties are capitalized. Maintenance and repair expenses are charged to expense as incurred.

When we acquire properties, we allocate the purchase price to numerous tangible and intangible components. Our process for determining the allocation to these components requires many estimates and assumptions, including the following: (1) determination of market rental rates; (2) estimation of leasing and tenant improvement costs associated with the remaining term of acquired leases;



(3) assumptions used in determining the in-place lease and if-vacant value including the rental rates, period of time that it would take to lease vacant space and estimated tenant improvement and leasing costs; (4) renewal probabilities; and (5) allocation of the if-vacant value between land and building. A change in any of the above key assumptions can materially change not only the presentation of acquired properties in our consolidated financial statements but also our reported results of operations. The allocation to different components affects the following:

- the amount of the purchase price allocated among different categories of assets and liabilities on our consolidated balance sheets; and the amount of costs assigned to individual properties in multiple property acquisitions;
- where the amortization of the components appear over time in our consolidated statements of operations. Allocations to above- and below-market leases are amortized into rental revenue, whereas allocations to most of the other tangible and intangible assets are amortized into depreciation and amortization expense. As a REIT, this is important to us since much of the investment community evaluates our operating performance using non-GAAP measures such as funds from operations, the computation of which includes rental revenue but does not include depreciation and amortization expense; and
- the timing over which the items are recognized as revenue or expense in our consolidated statements of operations. For example, for allocations to the as-if vacant value, the land portion is not depreciated and the building portion is depreciated over a longer period of time than the other components (generally 40 years). Allocations to above- and below-market leases and in-place lease value are amortized over significantly shorter timeframes, and if individual tenants' leases are terminated early, any unamortized amounts remaining associated with those tenants are written off upon termination. These differences in timing can materially affect our reported results of operations.

Tenant improvements are capitalized in real property when we own the improvement. When we are required to provide improvements under the terms of a lease, we need to determine whether the improvements constitute landlord assets or tenant assets. If the improvements are considered landlord assets, we capitalize the cost of the improvements and recognize depreciation expense associated with such improvements over the shorter of the useful life of the assets or the term of the lease and recognize any payments from the tenant as rental revenue over the term of the lease. If the improvements are considered tenant assets, we defer the cost of improvements funded by us as a lease incentive asset and amortize it as a reduction of rental revenue over the term of the lease. Our determination of whether improvements are landlord assets or tenant assets also may affect when we commence revenue recognition in connection with a lease. In determining whether improvements constitute landlord or tenant assets, we consider numerous factors that may require subjective or complex judgments, including: whether the improvements are unique to the tenant or reusable by other tenants; whether the tenant is permitted to alter or remove the improvements without our consent or without compensating us for any lost fair value; whether the ownership of the improvements remains with us or remains with the tenant at the end of the lease term; and whether the economic substance of the lease terms is properly reflected.

Depreciation of an asset begins when it is available for use and is calculated using the straight-line method over the estimated useful lives. Each period, depreciation is charged to expense and credited to the related accumulated depreciation account. A used asset acquired is depreciated over its estimated remaining useful life, not to exceed the life of a new asset. Range of useful lives for depreciable assets are as follows:

<u>Category</u>	<u>Term</u>
Buildings	40 years
Building improvements	5 - 40 years
Tenant improvements	Shorter of remaining life of the lease or useful life
Furniture and equipment	3 - 7 years

We regularly evaluate whether events or changes in circumstances have occurred that could indicate an impairment in the value of long lived assets. If there is an indication that the carrying value of an asset is not recoverable, we estimate the projected undiscounted cash flows to determine if an impairment loss should be recognized. We determine the amount of any impairment loss by comparing the historical carrying value to estimated fair value. We estimate fair value through an evaluation of recent financial performance and projected discounted cash flows using standard industry valuation techniques. In addition to consideration of impairment upon the events or changes in circumstances described above, we regularly evaluate the remaining lives of our long lived assets. If we change our estimate of the remaining lives, we allocate the carrying value of the affected assets over their revised remaining lives.

### ***Cash and Cash Equivalents***

Cash and cash equivalents include all cash and liquid investments that mature three months or less from when they are purchased. Cash equivalents are reported at cost, which approximates fair value. We maintain our cash in bank accounts in amounts

that may exceed federally insured limits at times. We have not experienced any losses in these accounts and believe that we are not exposed to significant credit risk because our accounts are deposited with major financial institutions.

### ***Restricted Cash***

Restricted cash consists of amounts escrowed for future real estate taxes, insurance, capital expenditures and debt service, as required by certain of our mortgage debt agreements.

### ***Deferred Financing Costs***

Deferred financing fees include issuance costs related to borrowings and we amortize those costs over the terms of the related indebtedness. Any unamortized amounts upon early repayment of mortgage notes payable are written off in the period in which repayment occurs. Fully amortized deferred financing fees are removed from the books upon maturity or repayment of the underlying debt. As of September 30, 2015, we recognized \$3.4 million in deferred financing costs associated with entering into a \$400.0 million senior unsecured revolving credit facility upon completion of the IPO. Additionally, for the three and nine months ended September 30, 2015 we recognized \$0.2 million and \$0.5 million, respectively, in accumulated amortization associated with the credit facility.

### ***Non-Controlling Interests***

Non-controlling interests relate to the common units of the Operating Partnership not owned by the Company. Common units are owned by the limited partners who contributed properties and other assets to the Operating Partnership in exchange for common units. The Company contributed the net proceeds from the IPO to the Operating Partnership in exchange for common units. Fifteen months after the IPO, limited partners of the Operating Partnership, other than the Company, will have the right to require the Operating Partnership to redeem part or all of their common units for cash, based upon the value of an equivalent number of shares of the Company's common stock at the time of the election to redeem, or, at the Company's election, shares of the Company's common stock on a one-for-one basis. Unitholders receive a distribution per unit equivalent to the dividend per share of the Company's common stock. Pursuant to the consolidation accounting standard with respect to the accounting and reporting for non-controlling interest changes and changes in ownership interest of a subsidiary, changes in parent's ownership interest when the parent retains controlling interest in the subsidiary should be accounted for as equity transactions. The carrying amount of the non-controlling interest shall be adjusted to reflect the change in its ownership interest in the subsidiary, with the offset to equity attributable to the Company.

### ***Revenue Recognition***

Rental income includes base rents paid by each tenant in accordance with its lease agreement conditions. We recognize rental income on a straight-line basis over the lease term of the respective leases. For acquisitions of existing buildings, we recognize rental income from leases already in place coincident with the date of property closing. Lease incentives are recorded as a deferred asset and amortized as a reduction of revenue on a straight-line basis over the respective lease term. Tenant reimbursement income (scheduled rent increases based on increases in real estate taxes, operating expenses and utility usage) is recognized by us in the consolidated statements of operations when earned and when their amounts can be reasonably estimated. Above- and below-market leases are amortized into rental income over the terms of the respective leases.

### ***Income Taxes***

We intend to elect and to qualify as a REIT for U.S. federal income tax purposes commencing with the taxable year ending December 31, 2015. So long as we qualify as a REIT, we generally will not be subject to U.S. federal income tax on our net income that we distribute to our stockholders. To maintain our qualification as a REIT, we are required under the Code to distribute at least 90% of our REIT taxable income (without regard to the deduction for dividends paid and excluding net capital gains) to our stockholders and meet certain other requirements. If we fail to qualify as a REIT in any taxable year, we will be subject to U.S. federal income tax on our taxable income at regular corporate rates. Even if we qualify as a REIT, we will be subject to certain U.S. federal, state and local taxes on our income and property, and on taxable income that we do not distribute to our stockholders. In addition, we may provide services that are not customarily provided by a landlord, hold properties for sale and engage in other activities (such as a management business) through Taxable REIT Subsidiaries ("TRSs") and the income of those subsidiaries will be subject to U.S. federal income tax at regular corporate rates. For the period ending September 30, 2015, we did not incur any material tax liability associated with any of the above.

We do not anticipate any potential expense related to uncertain tax positions as we closely monitor our REIT compliance, do not have any prohibited transactions related to property sales, and neither the states in which we operate nor our foreign investors subject us to withholding tax requirements.

### ***Stock Based Compensation***

Prior to the completion of the IPO, our Board of Directors adopted, and our sole stockholder approved, our 2015 Equity Incentive Plan, under which we may grant future cash and equity incentive awards to our executive officers, non-employee directors and eligible employees. See Note 6 (Equity) for further information. The shares issued to officers, employees, and non-employee directors vest over a period of time as determined by the Board of Directors at the date of grant. The Company recognizes compensation expense for non-vested shares granted to officers, employees and non-employee directors on a straight-line basis over the requisite service and/or performance period based upon the fair market value of the shares on the date of grant, as adjusted for forfeitures.

### ***Earnings Per Share of Common Stock Amount***

Basic earnings per share is calculated by dividing net income available to Easterly Government Properties Inc. by the weighted-average number of shares of common stock outstanding during the period, excluding the weighted average number of unvested restricted shares. Diluted earnings per share is calculated by dividing net income by the weighted-average number of shares of common stock outstanding during the period plus other potentially dilutive securities such as stock grants or shares that would be issued in the event that common units of the Operating Partnership are redeemed for shares of common stock of the Company. Unvested restricted shares and LTIP units are considered participating securities which require the use of the two-class method for the computation of basic and diluted earnings per share.

### ***Deferred Offering Costs***

The Company capitalizes certain legal, accounting and other third party fees that are directly associated with in-process equity financings as other assets until such financings are consummated. After consummation of the equity financing, these costs are recorded as a reduction to capital. Should the equity financing no longer be considered probable of being consummated, the deferred offering costs would be expensed immediately as a charge to corporate general and administrative expenses in the accompanying combined statement of operations.

### ***Segments***

The Company manages its operations as a single segment for the purposes of assessing performance and making operating decisions. All revenue has been generated in the United States and all tangible assets are held in the United States.

### ***Application of new accounting standards***

In September 2015, the Financial Accounting Standards Board (“FASB”) issued ASU 2015-16, Simplifying the Accounting for Measurement Period Adjustments (Topic 805). ASU 2015-16 addresses provisional amounts for items in a business combination for which the accounting is incomplete by the end of the reporting period. The guidance requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, calculated as if the accounting had been completed as of the acquisition date and the amounts disclosed either on the face of the financial statements or the notes. This guidance is to be applied prospectively and is effective for fiscal years beginning after December 15, 2015. The Company is currently in the process of evaluating the impact the adoption of ASU 2015-16 will have on the Company’s financial statements.

In April 2015, FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. The guidance requires that all costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the debt. The amortization of these costs will remain under the interest method and will continue to be reported as interest expense. The guidance is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. The new guidance will be applied on a retrospective basis. We have not yet determined the impact, if any, that the adoption of this guidance will have on our consolidated financial statements. In August of 2015, the FASB issued ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (Subtopic 835-30), which clarified the presentation of debt issuance costs related to credit facility arrangements, given the absence of authoritative guidance within ASU 2015-03. Under ASU 2015-15, debt issuance costs paid to third parties other than the lender related to credit facilities may be presented in the balance sheet as an asset, regardless of whether there are any outstanding borrowings on the credit facility. We have not yet determined the impact, if any, that the adoption of this guidance will have on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis. The guidance modifies the analysis a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The guidance does not change the general order in which the consolidation models are applied. A reporting entity that holds an economic interest in, or is

otherwise involved with, another legal entity first determines if the variable interest entity model applies, and if so, whether it holds a controlling financial interest under that model. If the entity being evaluated for consolidation is not a variable interest entity, then the voting model should be applied to determine whether the entity should be consolidated by the reporting entity. Key changes to the guidance include, though are not limited to; (i.) limiting the extent to which related party interests are included in the other economic interest criterion to the decision maker's effective interest holding, (ii.) requiring limited partners of a limited partnership, or the members of a limited liability company that is similar to a limited partnership, to have, at minimum, kick-out or participating rights to demonstrate that the partnership is a voting entity, (iii.) changing the evaluation of whether the equity holders at risk lack decision making rights when decision making is outsourced and (iv.) changing how the economics test is performed. The guidance does not amend the existing disclosure requirements for variable interest entities or voting model entities. The guidance is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. This standard will not have a significant impact as the Company does not have any joint ventures.

## ***b) Significant Accounting Policies of the Company pre-IPO***

### ***Real Estate Investments***

Real estate investments represent investments in real estate entities that own real estate assets and are stated at the fair value of the net equity interest in the real estate investments as discussed below. Subsequent changes in fair value are recorded as unrealized gains or losses. Upon the disposition of a real estate investment, realized gains and losses are determined by deducting the proceeds received by the Predecessor from the basis of the real estate investment; any previously unrealized gains and losses are reversed.

Distributions from real estate entities are recorded as dividend income when received to the extent distributed from the estimated taxable earnings and profits of the underlying investment vehicle and as a return of capital to the extent not in excess of that amount.

Under investment company accounting, the statements of operations reflect the change in fair value of the real estate investments of the Easterly Funds, prior to the IPO, whether realized or unrealized.

### ***Fair Value of Investments***

The fair value of the real estate investments is determined using a fair value hierarchy. The fair value hierarchy is based on the observability of inputs used to measure fair value and requires additional disclosure regarding the fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between marketplace participants at the measurement date (exit price). The fair value of an asset or a liability disregards transaction costs and assumes the asset or liability's highest and best use. As the investments are in entities that invest in real estate, the estimated values are based on the underlying assets, liabilities, and cash flows of the related properties. The three levels of the fair value hierarchy are described below:

- |         |   |
|---------|---|
| Level 1 | Valuation is based upon quoted prices for identical assets or liabilities in an active market.  |
| Level 2 | Valuation is based upon observable inputs: <ol style="list-style-type: none"><li>Quoted prices for similar assets or liabilities in active markets,</li><li>Quoted prices for identical or similar assets or liabilities in not active markets, or</li><li>Model-based valuation techniques for which all significant assumptions are observable in the market.</li></ol>   |
| Level 3 | Valuation is based upon prices or valuation techniques that require assumptions not observable in the market which are significant to the overall fair value measurement. These unobservable inputs reflect the Predecessor's own estimates about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Valuation techniques include the use of discounted cash flow models, and similar techniques. |

### ***Non-Controlling Interest***

Consolidation addresses the accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated capital resulting from operations attributable to the parent and to the non-controlling interest, the changes in a parent's ownership interest, and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated per ASC 810.

Prior to the IPO, all of the partners invested in the Easterly Funds represented a non-controlling interest. In addition, prior to the IPO, a third-party member had invested in Federal Properties, GP, LLC, an entity included within the Predecessor, which also represented a non-controlling interest.

### 3. Real Estate and Intangibles

#### *Formation transactions*

The contribution of the investments of the Easterly Funds to the Operating Partnership pursuant to the formation transactions is accounted for as transactions among entities under common control. As a result, the fair value of the real estate investments at the time of the formation transactions was deemed the initial cost. Such fair value was allocated to the underlying real estate properties, related intangible assets and liabilities and mortgage debt ascribed to the properties. Refer to Note 5 (Fair Value Measurements) for additional discussion on fair value. Prior to the IPO on February 11, 2015, the Easterly Funds qualified as investment companies pursuant to *ASC 946 Financial Services – Investment Companies* and, as a result, the Predecessor's consolidated financial statements accounted for the Easterly Funds using investment company accounting based on fair value. Subsequent to the IPO, as the properties contributed to us from the Easterly Funds are no longer held by funds that qualify for investment company accounting, we made a shift, in accordance with GAAP to account for the properties contributed by the Easterly Funds using historical cost accounting instead of investment company accounting, resulting in a significant change in the presentation of our consolidated financial statements following the formation transactions.

As part of the formation transactions, Western Devcon entered into a contribution agreement with us and the Operating Partnership pursuant to which it contributed its 100% equity interest in each of 14 properties to the Operating Partnership upon completion of the IPO. In exchange for its contribution, Western Devcon received 5,759,819 common units in the Operating Partnership valued at the time of the IPO at \$86.4 million. This contribution has been accounted for as a business combination using purchase accounting. The total estimated purchase price, equal to the aggregate value of the Operating Partnership's common units plus the estimated fair value of debt assumed, was allocated to the net tangible assets and intangible assets based on their estimated fair values as of the completion of the acquisition of the Western Devcon properties.

As part of the formation transactions, we acquired the following properties, as set forth in the table below:

Property	Location	Property Type	Rentable Square Feet
<b>Easterly Portfolio</b>			
IRS - Fresno	Fresno, CA	Office	180,481
PTO- Arlington	Arlington, VA	Office	189,871
FBI - San Antonio	San Antonio, TX	Office	148,584
FBI - Omaha	Omaha, NE	Office	112,196
ICE - Charleston	North Charleston, SC	Office	86,733
DOT - Lakewood	Lakewood, CO	Office	122,225
USFS II - Albuquerque	Albuquerque, TX	Office	98,720
USFS I - Albuquerque	Albuquerque, TX	Office	92,455
AOC - Del Rio	Del Rio, TX	Courthouse/Office	89,880
DEA - Dallas	Dallas, TX	Office	71,827
DEA - Albany	Albany, NY	Office	31,976
FBI - Little Rock	Little Rock, AR	Office	101,977
CBP - Sunburst	Sunburst, MT	Office	33,000
USCG - Martinsburg	Martinsburg, WV	Office	59,547
MEPCOM - Jacksonville	Jacksonville, FL	Office	30,000
		<b>Total</b>	<b>1,449,472</b>

<b>Western Devcon</b>			
CBP - Savannah	Savannah, GA	Laboratory	35,000
AOC - El Centro	El Centro, TX	Courthouse/Office	46,813
DEA - Vista	Vista, CA	Laboratory	54,119
DEA - Santa Ana	Santa Ana, CA	Office	39,905
CBP - Chula Vista	Chula Vista, CA	Office	59,397
DEA - North Highlands	Sacramento, CA	Office	37,975
DEA - Otay	San Diego, CA	Office	32,560
DEA - Riverside	Riverside, CA	Office	34,354
SSA - Mission Viejo	Mission Viejo, CA	Office	11,590
SSA - San Diego	San Diego, CA	Office	11,743
DEA - San Diego	San Diego, CA	Warehouse	16,100
2650 SW 145th Avenue - Parbel of Florida	Miramar, FL	Warehouse/Distribution	81,721
5998 Osceola Court - United Technologies	Midland, GA	Manufacturing Warehouse	105,641
501 East Hunter Street - Lummus Corporation	Lubbock, TX	Distribution	70,078
		<b>Total</b>	<b>636,996</b>

The fair values of the assets acquired and liabilities assumed upon completion of the formation transactions are as follows (dollars in thousands):

	Easterly Portfolio	Western Devcon, Inc.	Total
<b>Real estate</b>			
Land	\$ 43,681	\$ 35,573	\$ 79,254
Building	411,472	107,424	518,896
Acquired tenant improvements	27,441	4,388	31,829
<b>Total real estate</b>	<b>482,594</b>	<b>147,385</b>	<b>629,979</b>
<b>Intangible assets</b>			
In-place leases	61,218	21,308	82,526
Acquired leasing commissions	11,257	4,350	15,607
Above-market leases	2,644	7,763	10,407
<b>Total intangible assets</b>	<b>75,119</b>	<b>33,421</b>	<b>108,540</b>
<b>Intangible liabilities</b>			
Below-market leases	(34,383)	(2,322)	(36,705)
<b>Total intangible liabilities</b>	<b>(34,383)</b>	<b>(2,322)</b>	<b>(36,705)</b>
<b>Debt assumed</b>			
	(271,622)	(92,087)	(363,709)
Net current assets transferred	8,979	—	8,979
<b>Net assets acquired</b>	<b>\$ 260,687</b>	<b>\$ 86,397</b>	<b>\$ 347,084</b>

### Post Formation Acquisition Activities

For the period from February 11, 2015 to September 30, 2015, we acquired three properties, DOE – Lakewood, AOC – Aberdeen, and ICE – Otay for an aggregate purchase price of \$50.9 million. We allocated the purchase prices of these acquisitions based on the estimated fair values of the acquired assets and assumed liabilities as follows:

	<b>Total</b>
<b>Real estate</b>	
Land	\$ 4,776
Building	43,767
Acquired tenant improvements	759
<b>Total real estate</b>	<b>49,302</b>
<b>Intangible assets</b>	
In-place leases	7,060
Acquired leasing commissions	1,736
Above-market leases	48
<b>Total intangible assets</b>	<b>8,844</b>
<b>Intangible liabilities</b>	
Below-market leases	(7,221)
<b>Total intangible liabilities</b>	<b>(7,221)</b>
<b>Purchase price</b>	<b>\$ 50,925</b>

We did not assume any debt upon acquisition of the three properties. The fair value of the assets acquired and liabilities assumed in 2015 are preliminary as we continue to finalize their acquisition date fair value determination.

The intangible assets and liabilities have an aggregate weighted average amortization period of 7.38 years as of September 30, 2015.

For the period of February 11, 2015 to September 30, 2015, we included \$49.2 million of revenues and \$10.4 million of net income in our consolidated statement of operations related to the properties contributed or acquired. During the nine months ended September 30, 2015, we incurred \$1.9 million of acquisition-related costs associated with the contribution of Western Devcon assets and the acquisition of DOE – Lakewood, AOC – Aberdeen and ICE – Otay and \$1.7 million in formation expenses, which include costs associated with the contribution of the investments of the Easterly Funds.

### Pro Forma Financial Information

The unaudited pro forma financial information set forth below presents results for the nine months ended September 30, 2015 and 2014 as if the formation transactions and the acquisitions of DOE – Lakewood, AOC – Aberdeen and ICE – Otay had occurred on January 1, 2014. 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):

Proforma (unaudited)	<b>For the nine months ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
Total rental revenue	\$ 60,356	\$ 60,356
Net income (loss) (1)	3,760	224

(1) The net income for the nine months ended September 30, 2015 excludes \$3.5 million of property acquisition and formation costs incurred in the nine months ended September 30, 2015. Additionally, the net income for the nine months ended September 30, 2014 was adjusted to include these acquisition and formation costs.

Real estate and intangibles consisted of the following as of September 30, 2015 (dollars in thousands):

	<u>Total</u>
<b>Real estate</b>	
Land	\$ 84,030
Building	562,961
Acquired tenant improvements	32,588
Accumulated amortization	(11,545)
Total Real Estate	<u>\$ 668,034</u>
<b>Intangible assets</b>	
In-place leases	\$ 89,586
Acquired leasing commissions	17,343
Above market leases	10,454
Accumulated amortization	(12,726)
Total Intangible assets	<u>\$ 104,657</u>
<b>Intangible liabilities</b>	
Below market leases	\$ (43,926)
Accumulated amortization	4,236
Total Intangible liabilities	<u>\$ (39,690)</u>

The net projected amortization of total intangible assets and intangible liabilities as of September 30, 2015 are as follows (dollars in thousands):

	<u>Total</u>
<b>Intangible assets</b>	
2015	5,263
2016	20,020
2017	18,603
2018	15,199
2019	10,427
Thereafter	35,145
	<u>\$ 104,657</u>
<b>Intangible liabilities</b>	
2015	(1,733)
2016	(6,812)
2017	(6,614)
2018	(6,249)
2019	(4,504)
Thereafter	(13,778)
	<u>\$ (39,690)</u>

#### 4. Debt

At September 30, 2015, our borrowings consisted of the following (dollars in thousands):

	<u>Total</u>
Senior unsecured revolving credit facility	\$ 50,167
Mortgage debt	68,756
Total	<u>\$ 118,923</u>

##### ***a. Senior Unsecured Revolving Credit Facility***

Upon the completion of the IPO on February 11, 2015 we entered into a \$400.0 million senior unsecured revolving credit facility with Raymond James Bank, N.A. and Royal Bank of Canada, as co-syndication agents and Citigroup Capital Markets Inc.,



Raymond James Bank, N.A. and Royal Bank of Canada, as joint lead arrangers and joint book running managers. This credit facility has an accordion feature that provides us with additional capacity, subject to the satisfaction of customary terms and conditions, of up to \$250.0 million, for a total facility size of not more than \$650.0 million. We intend to use the senior unsecured revolving credit facility to repay indebtedness, fund acquisitions, development and redevelopment opportunities, capital expenditures and the costs of securing new and renewal leases and provide working capital.

The Operating Partnership is the borrower under the senior unsecured revolving credit facility and we and certain of our subsidiaries that directly own certain of our properties are guarantors under the credit facility. The senior unsecured revolving credit facility will terminate in approximately four years. In addition, there will be two extension options for the senior unsecured revolving credit facility and each extension option will allow us to extend the senior unsecured revolving credit facility for an additional six months, in each case if certain conditions are satisfied.

Our senior unsecured revolving credit facility bears interest, at our option, either at:

- a fluctuating rate equal to the sum of (a) the highest of (x) Citibank, N.A.'s base rate, (y) the federal funds effective rate plus 0.50% and (z) the one-month LIBOR rate plus 1.00% plus (b) a margin ranging from 0.4% to 0.9%, or
- a Eurodollar rate equal to a periodic fixed rate equal to LIBOR plus, a margin ranging from 1.4% to 1.9%, in each case with a margin based on our leverage ratio.

Our senior unsecured revolving credit facility also contains certain customary financial covenants, as follows: (i) the maximum ratio of consolidated total indebtedness to total asset value (each as defined in the agreement) may not exceed 60.0% on any date, provided that the maximum ratio may be increased to 65.0% for the two consecutive quarters following the date on which a material acquisition (as defined in the agreement) occurs, (ii) the maximum ratio of consolidated secured indebtedness (as defined in the agreement) to total asset value may not exceed 40.0% on any date, (iii) the maximum ratio of consolidated secured recourse indebtedness (as defined in the agreement) to total asset value may not exceed 15% on any date, (iv) the minimum consolidated tangible net worth (as defined in the agreement) may not, on any date, be less than the sum of an amount equal to 75.0% of our consolidated tangible net worth as of the closing date of the facility plus an amount equal to 75.0% of the aggregate net cash proceeds received by us from any offering of our capital stock after the closing date of the facility, (v) the minimum ratio of adjusted consolidated EBITDA to consolidated fixed charges (each as defined in the agreement) may not be less than 1.50 to 1.00 on any date, (vi) the maximum ratio of consolidated unsecured indebtedness to unencumbered asset value (each as defined in the agreement) may not exceed 60% as of any date and (vii) the minimum ratio of adjusted consolidated net operating income from unencumbered assets (as defined in the agreement) to interest payable on unsecured debt (as determined in accordance with the agreement) shall not be less than 1.75 to 1.00 on any date. Additionally, under the revolving credit facility, our distributions may not exceed the greater of (i) 95.0% of our FFO or (ii) the amount required for us to maintain our status as a REIT and avoid the payment of federal or state income or excise tax.

Our senior unsecured revolving credit facility also includes customary limits on the percentage of our total asset value that may be invested in unimproved land, unconsolidated joint ventures, redevelopment and development assets (as defined in the agreement), loans, advances or extensions of credit and investments in mixed used assets and require that we obtain consent for mergers in which the company is not the surviving entity. These financial and restrictive covenants may limit the investments we may make and our ability to make distributions. As of September 30, 2015, we were in compliance with all financial and restrictive covenants under our senior unsecured revolving credit facility.

As of September 30, 2015, the interest rate payable on borrowings under our revolving credit facility was 1.61% and the weighted average annual interest rate for borrowings under our revolving credit facility was 1.60% and 1.59% for three and nine months ended September 30, 2015, respectively. As of September 30, 2015, we had \$50.2 million outstanding and \$349.8 million available under our revolving credit facility.

#### ***b. Letters of Credit***

As of September 30, 2015, the Company had \$0.2 million of standby letters of credit. There were no draws against these letters of credit during the nine months ended September 30, 2015.

#### ***c. Mortgage Debt***

As part of the formation transaction, we completed the repayment or defeasance of, and full satisfaction of our obligations with respect to, \$293.4 million of secured nonrecourse mortgage loans.

The fair value of our mortgage debt was determined at the date of the formation transactions by discounting future contractual principal and interest payments using prevailing market rates for securities with similar terms and characteristics at the date of the IPO. At September 30, 2015, the carrying amount approximated the estimated fair value of the Company's debt instruments net of any

amortization of the notes premium or discount. The table below provides a summary of our mortgage debt at September 30, 2015 (dollars in thousands):

Property	Fixed/Floating	Contractual Interest Rate	Effective Interest Rate	Maturity Date	Principal Balance	Premium/Discount	Carrying Value
CBP - Savannah	Fixed	3.40%	4.12%	July 2033	\$ 15,745	\$ (872)	\$ 14,873
ICE - Charleston	Fixed	4.21%	3.93%	January 2027	22,253	415	22,668
MEPCOM - Jacksonville	Fixed	4.41%	3.89%	October 2025	12,690	335	13,025
USFS II - Albuquerque	Fixed	4.46%	3.92%	July 2026	17,500	690	18,190
Total					\$ 68,188	\$ 568	\$ 68,756

#### d. Aggregate Debt Maturities

The Company's aggregate debt maturities based on outstanding principal as of September 30, 2015 are as follows (dollars in thousands):

	Total
2015	\$ 650
2016	2,857
2017	2,977
2018	3,100
2019	53,396
Thereafter	55,375
	118,355
Unamortized fair value adjustments	568
	<u>\$ 118,923</u>

#### 5. Fair Value Measurements

The following table includes a roll-forward of the amounts of investments classified within Level 3 for the nine months ended September 30, 2015 and 2014. The classification of an investment within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement.

	September 30, 2015
(dollars in thousands)	
Balance at January 1, 2015	\$ 267,683
Purchase of investments	—
Contributions to investments	257
Distributions from investments	—
Net change in realized appreciation	—
Net change in unrealized (depreciation) appreciation	(5,122)
Sale of investments to the Operating Partnership	(262,818)
Balance at February 11, 2015	<u>\$ —</u>
	September 30, 2014
(dollars in thousands)	
Balance at January 1, 2014	\$ 173,099
Purchase of investments	30,316
Contributions to investments	1,575
Distributions from investments	(5,478)
Net change in realized appreciation	—
Net change in unrealized appreciation (depreciation)	71,865
Balance at September 30, 2014	<u>\$ 271,377</u>

## 6. Equity

The following table summarizes the changes in our stockholders equity for the nine months ended September 30, 2015 (dollars in thousands):

	Shares	Common Shares Par Value	Additional Paid-in Capital	Retained (deficit)	Distributions in Excess of Earnings	Non-controlling Interest in Operating Partnership	Member Capital / (Deficit)	Non-controlling Interests	Total Equity
Balance at December 31, 2014	1,000	\$ —	\$ 1	\$ —	\$ —	\$ —	\$ 13,336	\$ 283,847	\$ 297,184
Distributions		—	—	—	—	—	(9)	(5,432)	(5,441)
Exchange of members' capital and non controlling interests for OP units and shares	3,308,000	33	67,312	—	—	194,530	(12,738)	(249,137)	—
Public Offering	13,800,000	138	191,445	—	—	—	—	—	191,583
Proceeds of private placement	7,033,712	70	105,435	—	—	—	(589)	(29,278)	75,638
Contribution of Western Devcon Properties for OP units		—	—	—	—	86,397	—	—	86,397
Stock based compensation		—	209	—	—	966	—	—	1,175
Grant of unvested restricted stock	26,667	—	—	—	—	—	—	—	—
Buyback of common stock	(1,000)	—	(1)	—	—	—	—	—	(1)
Dividends and distributions paid		—	—	—	(7,734)	(4,998)	—	—	(12,732)
Net loss		—	—	(1,799)	—	(4,419)	—	—	(6,218)
Allocation of NCI in Operating Partnership		—	26,956	—	—	(26,956)	—	—	—
Balance at September 30, 2015	<u>24,168,379</u>	<u>\$ 241</u>	<u>\$ 391,357</u>	<u>\$ (1,799)</u>	<u>\$ (7,734)</u>	<u>\$ 245,520</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 627,585</u>

On October 16, 2014, the Company issued 1,000 shares to its sole stockholder, Darrell Crate, for \$1,000, which we repurchased upon the IPO.

On February 11, 2015, we completed an initial public offering of 13.8 million shares of our common stock at a price to the public of \$15.00 per share, including 1.8 million shares sold in connection with the full exercise of the option to purchase additional shares granted to the underwriters, resulting in gross proceeds of \$207.0 million. In connection with the IPO, we engaged in a series of formation transactions by which we acquired 15 properties previously owned by the Easterly Funds and the ownership interests in the management entities in exchange for 9,771,120 common units and 3,308,000 shares of common stock. Additionally, in connection with the IPO, Western Devcon contributed its interest in 14 properties to the Operating Partnership in an exchange for 5,759,819 common units.

Concurrent with the IPO, the Company sold an aggregate of 7,033,712 shares of its common stock to the Easterly Funds in a private placement at a price per share of \$15.00 without payment of any underwriting fees, discounts or commissions.

Prior to the completion of the IPO, our Board of Directors adopted, and our sole stockholder approved, our 2015 Equity Incentive Plan, under which we may grant future cash and equity incentive awards to our executive officers, non-employee directors and eligible employees in order to attract, motivate and retain the talent for which we compete. The 2015 Equity Incentive Plan permits us to make grants of options, stock appreciation rights, restricted stock units, restricted stock, dividend equivalent rights, cash-based awards, performance-based awards and other equity-based awards, including LTIP units, or any combination of the foregoing.

On February 10, 2015, we filed with the SEC a registration statement on Form S-8 covering the shares of our common stock issuable under the 2015 Equity Incentive Plan. The 2015 Equity Incentive Plan is administered by the compensation committee of the Board of Directors. The 2015 Equity Incentive Plan permits the granting of both options to purchase shares of our common stock intended to qualify as incentive stock options under Section 422 of the Code and options that do not so qualify. The option exercise price of each option will be determined by our compensation committee but may not be less than 100% of the fair market value of our common stock on the date of grant. The term of each option will be fixed by our compensation committee and may not exceed ten years from the grant date. Our compensation committee may also grant awards of restricted stock, restricted stock units, performance shares or cash-based awards under the 2015 Equity Incentive Plan that are intended to qualify as "performance based compensation" under Section 162(m) of the Code. Those awards would only vest or become payable upon the attainment of performance goals that are established by our compensation committee and related to established performance criteria. From and after the time that we

become subject to Section 162(m) of the Code, the maximum award that is intended to qualify as “performance-based compensation” under Section 162(m) of the Code that may be made to any one employee during any one calendar year period is 2,273,959 shares of our common stock with respect to stock-based award and \$5.0 million with respect to a cash based award.

The shares issued under the 2015 Equity Incentive Plan are authorized but unissued shares or shares that we reacquire. The shares of our common stock underlying any awards that are forfeited, cancelled, held back upon exercise or settlement of an award to satisfy the exercise price or tax withholding, reacquired by us prior to vesting, satisfied without any issuance of stock, expire or are otherwise terminated (other than by exercise) under the 2015 Equity Incentive Plan are added back to the shares available for issuance under the 2015 Equity Incentive Plan.

We have reserved 2,273,959 shares of our common stock for issuance of awards under the 2015 Equity Incentive Plan, including 26,667 shares of restricted common stock issued to our non-employee directors at the completion of the IPO, which will vest upon the anniversary of the date of grant or the next annual stockholder meeting, as applicable.

On May 6, 2015, the Board approved the issuance of 891,000 LTIP Units of limited partnership interest in the Operating Partnership to members of management under a long-term incentive plan. Earned awards (if any) will vest 50% on February 15, 2018 and 50% on February 6, 2019, subject to the Company achieving certain absolute and relative total shareholder returns and management’s continued employment. Vesting will be accelerated in the event of a change in control, termination of employment by the Company without cause, or termination of employment by the award recipient for good reason, death, disability or retirement. If there is a change of control prior to February 15, 2018, earned awards will be calculated based on total shareholder return performance up to the date of the change of control. The LTIP unit awards (i) are subject to forfeiture to the extent awards are not earned and (ii) prior to the performance measurement date are only entitled to one-tenth (10%) of the regular quarterly distributions payable on common units. The Company measures the LTIP Unit awards at the fair value on date of grant.

We recognized \$0.7 million and \$1.2 million in compensation expense related to the restricted common stock and the LTIP Unit awards for the three and nine months ended September 30, 2015, respectively. As of September 30, 2015 unrecognized compensation expense for both awards was \$6.9 million.

No additional shares of common stock or options were issued under the 2015 Equity Incentive Plan as of September 30, 2015. All shares of our common stock issued to the Easterly Funds as a part of the IPO, the formation transactions and the concurrent private placement will be eligible for future sale following the expiration of the 180-day lock-up period, and certain of such shares held by holders of shares of our common stock and holders of common units in our operating partnership (other than the Company and its affiliates) will have registration rights pursuant to registration rights agreements that we have entered into with those investors. When the restrictions under the lock-up arrangements expire or are waived, the related shares of common stock or securities convertible into, exchangeable for, exercisable for, or repayable with common stock will be available for sale or resale, as the case may be.

Our board of directors declared and paid a dividend for the first quarter of 2015 in the amount of \$0.11 per share of common stock and per common unit of the operating partnership, outstanding to stockholders and common unit holders of record as of the close of business on May 18, 2015. Our board of directors also declared and paid a dividend for the first quarter of 2015 for each LTIP unit in an amount equal to 10% of the dividend paid per common unit of our operating partnership.

On August 4, 2015, the board of directors declared a dividend for the second quarter of 2015 in the amount of \$0.21 per share of common stock and per common unit of our operating partnership, outstanding to stockholders and common unit holders of record as of the close of business on August 18, 2015. Our board of directors also declared a dividend for the second quarter of 2015 for each LTIP unit in an amount equal to 10% of the dividend paid per common unit of our operating partnership. Such dividends were paid on September 3, 2015.

On November 3, 2015, the board of directors declared a dividend for the third quarter of 2015 in the amount of \$0.22 per share of common stock and per common unit of our operating partnership, outstanding to stockholders and common unit holders of record as of the close of business on November 17, 2015. Our board of directors also declared a dividend for the third quarter of 2015 for each LTIP unit in an amount equal to 10% of the dividend paid per common unit of our operating partnership. Such dividends are to be paid on December 3, 2015.

## **7. Earnings Per Share**

Basic earnings or loss per share of common stock (“EPS”) is calculated by dividing net income or loss 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 and LTIP units are considered participating securities which require the use of the two-class method for the

computation of basic and diluted earnings per share. The following table sets for the computation of the Company's basic and diluted earnings per share of common stock for the three and nine months ended September 30, 2015 (amounts in thousands, except per share amounts):

	For the three months ended September 30, 2015	For the nine months ended September 30, 2015
<b>Numerator</b>		
Net income (loss)	\$ 818	\$ (6,218)
Less: Non-controlling interest in predecessor	—	—
Less: Non-controlling interest in operating partnership	(320)	4,419
Net income (loss) available to Easterly Government Properties, Inc.	498	(1,799)
Less: Dividends on participating securities	(24)	(37)
Net income (loss) available to common stockholders	<u>\$ 474</u>	<u>\$ (1,836)</u>
<b>Denominator for basic EPS</b>		
Dilutive effect of share-based compensation awards	12,072	—
Dilutive effect of LTIP units	1,062,932	—
Denominator for basic and diluted EPS	<u>25,216,716</u>	<u>20,516,184</u>
Basic EPS	\$ 0.02	\$ (0.09)
Diluted EPS	\$ 0.02	\$ (0.09)

## 8. Operating Leases

Our rental properties are subject to generally non-cancelable operating leases generating future minimum contractual rent payments due from tenants, which as of September 30, 2015, are as follows (dollars in thousands):

	Payments due by period						
	Total	2015	2016	2017	2018	2019	Thereafter
<b>Operating Leases</b>							
Minimum lease payments	\$ 409,948	13,567	53,323	52,950	50,425	45,302	194,381

The Company's consolidated properties were 100% occupied by 18 tenants at September 30, 2015. We recognized \$16.6 million and \$41.5 million in rental income attributable to base rent for the three and nine months ended September 30, 2015, respectively and recorded a straight-line adjustment of \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2015, respectively. We also recognized \$1.4 million and \$3.4 million in rental income attributable to the amortization of our above- and below-market leases for the three and nine months ended September 30, 2015, respectively.

## 9. Commitments and Contingencies

### a) Operating Leases

We lease 4,731 square feet of office space in Washington, D.C. under an operating lease agreement that commenced February 2012 and expires in March 2016. Upon completion of the IPO, we became responsible for monthly rental payments. 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 2017.

Rent expense incurred under the terms of the corporate office leases, was \$0.1 million and \$0.1 million for the three months ended September 30, 2015 and 2014, respectively, and \$0.2 million and \$0.1 million for the nine months ended September 30, 2015 and 2014, respectively. Future minimum rental payments under the Company's corporate office leases as of September 30, 2015 are summarized as follows (amounts in thousands):

	Payments due by period			
	Total	2015	2016	2017
<b>Corporate office leases</b>				
Minimum lease payments	\$ 325	92	189	44

## **b) Environmental**

As an owner of real estate, the Company is subject to various environmental laws of federal, state, and local governments. The Company's compliance with existing laws has not had a material adverse effect on its financial condition and results of operations, and the Company does not believe it will have a material adverse effect in the future. However, the Company cannot predict the impact of unforeseen environmental contingencies or new or changed laws or regulations on its current properties or on properties that the Company may acquire.

## **c) Tax Protection Agreement**

Concurrent with the completion of the IPO, the Company also entered into a tax protection agreement with Michael P. Ibe, a director and our Executive Vice President—Development and Acquisitions, under which we agreed to indemnify Mr. Ibe for any taxes incurred as a result of a taxable sale of the properties contributed by Western Devcon in the formation transactions for a period of eight years after the closing of the IPO and the formation transactions. The Company also agreed in the tax protection agreement with Mr. Ibe to use the "traditional method" of making allocations under Section 704(c) of the Code for the eight-year period.

## **10. 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 through the GSA or other federal agencies or nongovernmental tenants. At September 30, 2015, the GSA and other federal agency accounted for approximately 96% of rental income and nongovernmental tenants accounted for the remaining approximately 4%.

Twelve of our 32 properties are located in California, accounting for approximately 25% of our total rentable square feet and approximately 33% of our total annualized lease income as of September 30, 2015. 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 negatively impacted.

## **11. Related Party**

Upon completion of the IPO, we were responsible for reimbursing Easterly Capital less than \$0.1 million for the three months ended September 30, 2015 and \$0.3 million for the nine months ended September 30, 2015 for a portion of rent and office expense at their Beverly, MA office and for the services of certain employees. Additionally, during the three and nine months ended September 30, 2015, Western Devcon was responsible for reimbursing us less than \$0.1 million and \$0.2 million, respectively, for payroll expenses and interest and defeasance costs at closing that we paid on their behalf.

## **12. Subsequent Events**

For its consolidated financial statements as of September 30, 2015, the Company evaluated subsequent events and noted the following significant events in addition to the dividends declared by the board of directors for the third quarter of 2015 (see Note 6):

On October 21, 2015, the Company acquired a 42,480 square foot Drug Enforcement Administration regional laboratory in Pleasanton, CA that was built in 2015 and is leased to the GSA for a 20-year term. The property was acquired from an entity indirectly owned by Michael P. Ibe, a director and the Company's Executive Vice President—Development and Acquisitions. Concurrently with the acquisition, the Company also entered into a tax protection agreement with Mr. Ibe, under which the Company agreed to indemnify Mr. Ibe for any taxes incurred as a result of a taxable sale of the DEA – Pleasanton property for a period of eight years after the closing of the acquisition and to offer Mr. Ibe and certain affiliates of Mr. Ibe the opportunity to guarantee, in the aggregate, up to approximately \$15.7 million of indebtedness of the Operating Partnership for two years following the contribution of the DEA – Pleasanton property and up to approximately \$7.2 million of indebtedness thereafter until the eighth anniversary of the closing of the acquisition, subject to certain conditions. The Company also agreed in the tax protection agreement with Mr. Ibe to use the "traditional method" of making allocations under Section 704(c) of the Code for the eight-year period. The Company also entered into a registration rights agreement pursuant to which Mr. Ibe will have the right to cause the Company to register with the SEC the resale or primary issuance of the shares of common stock that Mr. Ibe or his affiliates may receive in exchange for the common units received in the DEA – Pleasanton acquisition and facilitate the offering and sale of such shares.

*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 past 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, 2014 and 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 that the market price of our common stock may be negatively impacted by increased selling activity following the liquidation of certain private investment funds that contributed assets in our initial public offering;
- the risk we may lose one or more major tenants;
- failure of acquisitions or development projects to 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.

*While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, of new information, future events or other changes. 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, 2014.*

## **Overview**

References to "Easterly," "we," "our," "us" and "our 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 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 September 30, 2015, we wholly owned 32 properties in the United States, including 29 properties that were leased primarily to U.S. Government tenant agencies and three properties that were entirely leased to private tenants, encompassing approximately 2.3 million square feet in the aggregate. We focus on acquiring, developing and managing GSA-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 closely with the GSA to meet the needs and objectives of the tenant agency.

We were incorporated in Maryland as a corporation on October 9, 2014 and did not have any meaningful operations until the completion of the formation transactions and our initial public offering on February 11, 2015. In connection with our initial public offering, we engaged in certain formation transactions, or the formation transactions, pursuant to which our operating partnership acquired (i) 15 properties previously owned by the Easterly Funds (as defined below), (ii) 14 properties previously owned by Western Devcon, Inc., a private real estate company and a series of related entities beneficially owned by Michael P. Ibe, which we refer to collectively as Western Devcon and (iii) all of the ownership interests in the management entities (as defined below).

Our predecessor means Easterly Partners, LLC and its consolidated subsidiaries, including (i) all entities or interests in U.S. Government Properties Income and Growth Fund L.P., U.S. Government Properties Income and Growth Fund REIT, Inc. and the related feeder and subsidiary entities, which we refer to, collectively, as Easterly Fund I, (ii) all entities or interests in U.S. Government Properties Income and Growth Fund II, LP, USGP II REIT LP, USGP II (Parallel) Fund, LP and their related feeders and subsidiary entities, which we refer to, collectively, as Easterly Fund II and, together with Easterly Fund I, we refer to as the Easterly Funds and (iii) the entities that manage the Easterly Funds, which we refer to as the management entities.

Our operating partnership, holds substantially all of our assets and conducts substantially all of our business. As of September 30, 2015, we owned approximately 60.9% of the aggregate operating partnership units in our operating partnership. We intend to elect to be taxed as a REIT and operate in a manner that we believe allows us to qualify as a REIT for federal income tax purposes commencing with our taxable year ended December 31, 2015.

## **Properties**

As of September 30, 2015, we wholly owned 32 properties, including 29 properties with approximately 2.0 million rentable square feet that were leased primarily to U.S. Government tenants and three properties with approximately 0.3 million rentable square feet that were entirely leased to private tenants. As of September 30, 2015, our properties were 100% leased with a weighted average annualized lease income per leased square foot of \$32.2 and a weighted average age of approximately 11.2 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.



Information about our properties as of September 30, 2015 is set forth in the table below:

Property Name	Location	Property Type	Tenant Lease Expiration Year (1)	Rentable Square Feet	Annualized Lease Income	Percentage of Total Annualized Lease Income	Annualized Lease Income per Leased Square Foot
<b>U.S Government Leased</b>							
IRS - Fresno	Fresno, CA	Office	2018	180,481	\$ 7,383,918	10.0%	\$ 40.91
PTO - Arlington	Arlington, VA	Office	2019 / 2020 (2)	189,871	6,478,209	8.9%	34.12
FBI - San Antonio	San Antonio, TX	Office	2021	148,584	4,980,626	6.7%	33.52
FBI - Omaha	Omaha, NE	Office	2024	112,196	4,568,474	6.2%	40.72
ICE - Charleston (3)	North Charleston, SC	Office	2019 / 2027 (4)	86,733	3,617,320	4.9%	41.71
DOT - Lakewood	Lakewood, CO	Office	2024	122,225	3,345,895	4.5%	27.37
AOC - El Centro (5)	El Centro, CA	Courthouse/Office	2019	46,813	3,037,113	4.1%	64.88
USFS II - Albuquerque	Albuquerque, NM	Office	2026 (6)	98,720	2,771,855	3.7%	28.08
DEA - Vista	Vista, CA	Laboratory	2020	54,119	2,752,688	3.7%	50.86
AOC - Del Rio (5)	Del Rio, TX	Courthouse/Office	2024	89,880	2,658,810	3.6%	29.58
USFS I - Albuquerque	Albuquerque, NM	Office	2021 (7)	92,455	2,628,206	3.5%	28.43
MEPCOM - Jacksonville	Jacksonville, FL	Office	2025	30,000	2,161,861	2.9%	72.06
FBI - Little Rock	Little Rock, AR	Office	2021	101,977	2,135,642	2.9%	20.94
CBP - Savannah	Savannah, GA	Laboratory	2033	35,000	2,107,714	2.8%	60.22
DEA - Santa Ana	Santa Ana, CA	Office	2024	39,905	2,091,509	2.8%	52.41
DOE - Lakewood	Lakewood, CO	Office	2029	115,650	2,058,570	2.8%	17.80
ICE - Otay	San Diego, CA	Office	2017 - 2026 (8)	52,881	1,785,842	2.4%	33.77
DEA - Dallas	Dallas, TX	Office	2021	71,827	1,771,987	2.4%	24.67
CBP - Chula Vista	Chula Vista, CA	Office	2025	59,397	1,748,955	2.4%	29.45
DEA - North Highlands	Sacramento, CA	Office	2017	37,975	1,709,309	2.3%	45.01
USCG - Martinsburg	Martinsburg, WV	Office	2027	59,547	1,569,666	2.1%	26.36
CBP - Sunburst	Sunburst, MT	Office	2028	33,000	1,568,287	2.1%	47.52
AOC - Aberdeen (5)	Aberdeen, MS	Courthouse/Office	2025	46,979	1,452,906	2.0%	30.93
DEA - Albany	Albany, NY	Office	2025	31,976	1,331,405	1.8%	41.64
DEA - Riverside	Riverside, CA	Office	2017	34,354	1,275,320	1.7%	37.12
DEA - Otay (9)	San Diego, CA	Office	2017	32,560	1,261,886	1.7%	38.76
SSA - Mission Viejo	Mission Viejo, CA	Office	2020	11,590	533,129	0.7%	46.00
SSA - San Diego	San Diego, CA	Office	2017	11,743	429,473	0.6%	36.57
DEA - San Diego	San Diego, CA	Warehouse	2016	16,100	399,908	0.5%	24.84
Subtotal				2,044,538	\$ 71,616,483	96.7%	\$ 35.03
<b>Privately Leased</b>							
2650 SW 145th Avenue - Parbel of Florida	Miramar, FL	Warehouse/Distribution	2022 (10)	81,721	1,476,569	2.0%	18.07
5998 Osceola Court - United Technologies	Midland, GA	Manufacturing/Warehouse	2023 (11)	105,641	545,028	0.7%	5.16
501 East Hunter Street - Lummus Corporation	Lubbock, TX	Warehouse/Distribution	2028 (12)	70,078	417,875	0.6%	5.96
Subtotal				257,440	\$ 2,439,472	3.3%	\$ 9.48
Total / Weighted Average				2,301,978	\$ 74,055,955	100.0%	\$ 32.17

- (1) The year of lease expiration does not include renewal options. All leases with renewal options are noted in the following footnotes to this table.
- (2) 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.
- (3) This property is only partially leased to the U.S. Government. LifePoint, Inc. occupies 21,609 rentable square feet.
- (4) 21,609 rentable square feet leased to LifePoint, Inc. will expire on September 30, 2019, and 65,124 rentable square feet leased to ICE will expire on January 31, 2027.
- (5) 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.
- (6) Lease contains one five-year renewal option.
- (7) Lease contains one five-year renewal option.
- (8) 12,644 rentable square feet leased to ICE will expire on May 11, 2017, 11,555 rentable square feet leased to ICE will expire on August 18, 2021, 16,286 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 DOA will expire on January 1, 2026.
- (9) ICE occupies 5,813 rentable square feet.
- (10) Lease contains two five-year renewal options.
- (11) Lease contains three five-year renewal options.
- (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 GSA’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 13.8 years), 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 September 30, 2015.

<b>Year of Lease Expiration (1)</b>	<b>Number of Leases Expiring</b>	<b>Square Footage of Leases Expiring</b>	<b>Percent of Portfolio Square Footage of Leases Expiring</b>	<b>Annualized Lease Income</b>	<b>Percentage of Total Annualized Lease Income</b>	<b>Annualized Lease Income per Leased Square Foot</b>
Signed leases not commenced	0	N/A	N/A	N/A	N/A	N/A
2015	0	N/A	N/A	N/A	N/A	N/A
2016	1	16,100	0.7%	\$ 399,908	0.5%	\$ 24.84
2017	5	129,276	5.6%	5,159,115	7.0%	39.91
2018	2	239,878	10.5%	9,132,873	12.3%	38.07
2019	3	236,890	10.3%	9,250,091	12.5%	39.05
2020	3	87,112	3.8%	4,048,489	5.5%	46.47
2021	5	426,398	18.6%	11,934,024	16.2%	27.99
2022	3	105,441	4.6%	2,313,158	3.1%	21.94
2023	1	105,641	4.6%	545,028	0.7%	5.16
2024	4	364,206	15.8%	12,664,688	17.1%	34.77
2025	3	108,955	4.7%	4,946,172	6.7%	45.40
Thereafter	8	478,657	20.8%	13,662,409	18.4%	28.54
<b>Total / Weighted Average</b>	<b>38</b>	<b>2,298,554</b>	<b>100.0%</b>	<b>\$ 74,055,955</b>	<b>100.0%</b>	<b>\$ 32.22</b>

(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 September 30, 2015, seven tenants occupying approximately 18.4% of our rentable square feet and contributing approximately 20.8% of our annualized lease income have exercisable rights to terminate their leases before the stated term of their lease expires. In 2016 and 2017 early termination rights become exercisable by other tenants who currently occupy an additional approximately 1.0% and 5.1% of our rentable square feet and contribute an additional 1.1% and 3.8% of our annualized lease income, respectively.

## Results of Operations

Prior to our initial public offering on February 11, 2015, the Easterly Funds, as controlled by our predecessor, qualified as investment companies pursuant to *ASC 946 Financial Services – Investment Companies* and, as a result, our predecessor’s consolidated financial statements accounted for the Easterly Funds using investment company accounting based on fair value. Subsequent to the initial public offering, as the properties contributed to us from the Easterly Funds are no longer held by funds that qualify for investment company accounting, we made a shift, in accordance with GAAP to account for the properties contributed by Easterly Funds and Western Devcon using historical cost accounting instead of investment company accounting, resulting in a significant change in the presentation of our consolidated financial statements following the formation transactions. The contribution of the investments of the Easterly Funds controlled by our predecessor to our operating partnership pursuant to the formation transactions is accounted for as transactions among entities under common control.

The contribution of the Western Devcon properties in the formation transactions has been accounted for as a business combination using the acquisition method of accounting and recognized at the estimated fair value of acquired assets and assumed liabilities on the date of such contribution.

The financial information analyzed below summarizes the combined results of operations for both Easterly (for the period subsequent to the initial public offering of February 11, 2015 through September 30, 2015) and our predecessor for the three and nine months ended September 30, 2015 and 2014.

**Comparison of Results of Operations for the Three Months Ended September 30, 2015 and September 30, 2014**

(Amounts in thousands)	For the three months ended September 30,		
	2015	2014	Change
<b>Revenues</b>			
Rental income	\$ 18,126	\$ —	\$ 18,126
Tenant reimbursements	1,689	—	1,689
Other income	42	—	42
Income from real estate investments	—	1,859	(1,859)
Total revenues	19,857	1,859	17,998
<b>Operating Expenses</b>			
Property operating	3,838	—	3,838
Real estate taxes	1,980	—	1,980
Depreciation and amortization	9,344	—	9,344
Acquisition costs	235	—	235
Offering costs	—	—	—
Corporate general and administrative	2,301	3,318	(1,017)
Fund general and administrative	—	154	(154)
Total expenses	17,698	3,472	14,226
Operating income	2,159	(1,613)	3,772
<b>Other (expenses) / income</b>			
Interest expense	(1,341)	—	(1,341)
Net unrealized gain (loss) on investments	—	24,645	(24,645)
Net income (loss)	\$ 818	\$ 23,032	\$ (22,214)

**Revenues**

Our rental income, tenant reimbursements, and other income for the three months ended September 30, 2015 represents income from the 29 properties contributed to us by the Easterly Funds and Western Devcon on February 11, 2015, the two properties acquired in the second quarter of 2015, and the one property acquired in the third quarter of 2015. These properties were 100% leased as of September 30, 2015. We earned \$16.6 million in rental income attributable to base rent and recorded a \$0.1 million straight-line adjustment for the three months ended September 30, 2015. We also recognized \$1.4 million of amortization associated with our above- and below-market leases within rental income for the three months ended September 30, 2015. Many of our tenants are also responsible for a portion of our operating expenses and real estate taxes. This is billed in accordance with each tenant's lease. We recognized \$1.7 million in tenant reimbursements for the three months ended September 30, 2015.

Income from real estate investments for the three months ended September 30, 2015 is attributable to distributions from real estate entities that are recorded as dividend income to the extent distributed from estimated taxable earnings and profits of the underlying investment vehicle and as a return of capital to the extent not in excess of estimated taxable earnings and profits.

**Operating Expenses**

Similar to rental income, our property operating expenses, real estate taxes, and depreciation and amortization recognized for the three months ended September 30, 2015, represents expenses incurred from the operations of the properties contributed to us in connection with the formation transactions, the two properties acquired in the second quarter of 2015, and the one property acquired in the third quarter of 2015.

During the three months ended September 30, 2015, the Company also incurred \$0.2 million in costs associated with our acquisition activity.

Corporate general and administrative costs decreased \$1.0 million during the three months ended September 30, 2015 compared to the three months ended September 30, 2014 due to offering costs incurred in the three months ended September 30, 2014 offset by an increase in compensation expense in the three months ended September 30, 2015 as a result of an increase in the number of employees and non-cash charges for restricted stock and LTIPs.

Fund general and administrative expenses decreased \$0.2 million during the three months ended September 30, 2015 compared to the three months ended September 30, 2014 as the Company succeeded to the operations of the predecessor upon completion of the initial public offering.

### **Interest Expense**

Interest expense for the three months ended September 30, 2015 represents the interest incurred on mortgage debt encumbered on four of our properties and on our senior revolving credit facility. For the three months ended September 30, 2015, we recorded \$1.3 million in interest expense related to our mortgage debt and senior revolving credit facility. The weighted average interest rate of the mortgage debt and the senior revolving credit facility was 4.12% and 1.60%, respectively, for the three months ended September 30, 2015. In accordance with GAAP, we also recorded amortization of deferred financing fees associated with the senior revolving credit facility of \$0.2 million to interest expense for the three months ended September 30, 2015.

Our predecessor accounted for property level debt through the fair value of their net equity interest in their real estate investments, and as such, mortgage debt was not recognized on our predecessor's consolidated books.

### **Net Unrealized Gain (Loss) on Investments**

The unrealized gain or loss on investments represents the change in fair value of our predecessor's real estate investments. Our predecessor recognized a gain of \$24.6 million for the three months ended September 30, 2014 primarily due to changes in market conditions including a decrease in residual capitalization rates and discount rates.

Following our initial public offering, we will not have unrealized gains as the accounting for the properties contributed by the Easterly Funds from the property owning subsidiaries to us in connection with the formation transactions have changed from investment company accounting to historical cost accounting.

### **Comparison of Results of Operations for the Nine Months Ended September 30, 2015 and September 30, 2014**

(Amounts in thousands)

	For the nine months ended September 30,		
	2015	2014	Change
<b>Revenues</b>			
Rental income	\$ 45,056	\$ —	\$ 45,056
Tenant reimbursements	4,037	—	4,037
Other income	111	—	111
Income from real estate investments	—	4,601	(4,601)
Total revenues	<u>49,204</u>	<u>4,601</u>	<u>44,603</u>
<b>Operating Expenses</b>			
Property operating	9,126	—	9,126
Real estate taxes	4,694	—	4,694
Depreciation and amortization	23,395	—	23,395
Acquisition costs	1,870	—	1,870
Offering costs	1,666	—	1,666
Corporate general and administrative	6,112	4,586	1,526
Fund general and administrative	75	714	(639)
Total expenses	<u>46,938</u>	<u>5,300</u>	<u>41,638</u>
Operating income (loss)	<u>2,266</u>	<u>(699)</u>	<u>2,965</u>
<b>Other (expenses) / income</b>			
Interest expense	(3,362)	—	(3,362)
Net unrealized gain (loss) on investments	(5,122)	71,865	(76,987)
Net income (loss)	<u>\$ (6,218)</u>	<u>\$ 71,166</u>	<u>\$ (77,384)</u>

## **Revenues**

Our rental income, tenant reimbursements, and other income for the nine months ended September 30, 2015 represents income from the 29 properties contributed to us by the Easterly Funds and Western Devcon on February 11, 2015, the two properties acquired in the second quarter of 2015, and the one property acquired in the third quarter of 2015. These properties were 100% leased as of September 30, 2015. We earned \$41.5 million in rental income attributable to base rent and recorded a \$0.2 million straight-line adjustment for the nine months ended September 30, 2015. We also recognized \$3.4 million of amortization associated with our above- and below-market leases within rental income for the nine months ended September 30, 2015. Many of our tenants are also responsible for a portion of our operating expenses and real estate taxes. This is billed in accordance with each tenant's lease. We recognized \$4.0 million in tenant reimbursements for the nine months ended September 30, 2015.

Income from real estate investments for the nine months ended September 30, 2014 is attributable to distributions from real estate entities that are recorded as dividend income to the extent distributed from estimated taxable earnings and profits of the underlying investment vehicle and as a return of capital to the extent not in excess of estimated taxable earnings and profits.

## **Operating Expenses**

Similar to rental income, our property operating expenses, real estate taxes, and depreciation and amortization recognized for the nine months ended September 30, 2015, represents expenses incurred from the operations of the properties contributed to us in connection with the formation transactions, the two properties acquired in the second quarter of 2015, and the one property acquired in the third quarter of 2015.

The Company also incurred \$1.8 million in acquisition costs during the nine months ended September 30, 2015 associated with the properties contributed by Western Devcon in exchange for common units on February 11, 2015 and our acquisition activity. The Company also incurred \$1.7 million in formation costs, such as, organizational, legal, and other administrative costs, during the nine months ended September 30, 2015, associated with our initial public offering and the contribution of the properties from the Easterly Funds.

Corporate general and administrative costs increased \$1.5 million during the nine months ended September 30, 2015 compared to nine months ended September 30, 2014, respectively, due to a significant increase in audit, legal, and other administrative expenses associated with the formation of the Company and an increase in compensation expense as a result of an increase in the number of employees and non-cash charges for restricted stock and LTIP units.

Fund general and administrative expenses decreased \$0.6 million during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 as the Company succeeded to the operations of the predecessor upon completion of the initial public offering.

## **Interest Expense**

Interest expense for the nine months ended September 30, 2015 represents the interest incurred on mortgage debt encumbered on four of our properties and on our senior revolving credit facility. For the nine months ended September 30, 2015, we recorded \$3.4 million in interest expense related to our mortgage debt and senior revolving credit facility. The weighted average interest rate of the mortgage debt and the senior revolving credit facility was 4.12% and 1.59%, respectively, for nine months ended September 30, 2015. In accordance with GAAP, we also recorded amortization of deferred financing fees associated with the senior revolving credit facility of \$0.5 million to interest expense for the nine months ended September 30, 2015.

Our predecessor accounted for property level debt through the fair value of their net equity interest in their real estate investments, and as such, mortgage debt was not recognized on our predecessor's consolidated books.

## **Net Unrealized Gain (Loss) on Investments**

The unrealized gain or loss on investments represents the change in fair value of our predecessor's real estate investments. During the nine months ended September 30, 2015 and prior to our initial public offering, our predecessor had recognized a net unrealized loss of \$5.1 million attributable to an increase in the debt valuation to approximate the actual costs to pay-off debt using the proceeds received from the IPO and a portion of borrowings under the senior unsecured revolving credit facility. Our predecessor recognized a gain of \$71.9 million for the nine months ended September 30, 2014 primarily due to changes in market conditions including a decrease in residual capitalization rates and discount rates.

Following our initial public offering, we will not have unrealized gains as the accounting for the properties contributed by the Easterly Funds from the property owning subsidiaries to us in connection with the formation transactions have changed from investment company accounting to historical cost accounting.

## **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 uses, 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 September 30, 2015, we had approximately \$4.5 million available in cash and cash equivalents and there was \$349.8 million available under our senior unsecured revolving credit facility.

Our primary expected sources and uses of capital are as follows:

### *Sources*

- 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; and
- asset sales.

### *Uses*

#### *Short term:*

- redevelopments;
- tenant improvements allowances and leasing costs;
- recurring maintenance capital expenditures;
- debt repayment requirements;
- corporate and administrative costs; and
- distribution payments.

#### *Long term:*

- major redevelopment, renovation or expansion programs at individual properties;
- development;
- acquisitions; and
- 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 liquidity.

### *Initial Public Offering*

We completed our initial public offering on February 11, 2015, pursuant to which we registered and sold 13,800,000 shares of our common stock for an aggregate offering amount of \$207.0 million. The net proceeds of our initial public offering were approximately \$191.6 million after deducting underwriting discounts and commissions of approximately \$13.5 million and estimated

offering expenses of approximately \$1.9 million. Citigroup Global Markets Inc., Raymond James & Associates, Inc. and RBC Capital Markets, LLC acted as joint book-running managers for our initial public offering and as representatives of the underwriters. Concurrently with the completion of our initial public offering, we sold an aggregate of 7,033,712 shares of our common stock to the Easterly Funds in a private placement at a price per share of \$15.0 without payment of any underwriting fees, discounts or commissions. We received proceeds of approximately \$105.5 million from the concurrent private placement. In connection with the formation transactions, each of the Easterly Funds and the owner of the management entities contributed their interests in their property-owning subsidiaries to our operating partnership in exchange for 3,308,000 shares of common stock and 9,771,120 common units of our operating partnership. Western Devcon contributed its interest in 14 properties to our operating partnership in exchange for 5,759,819 common units of our operating partnership.

We contributed the net proceeds from the offering and the concurrent private placement to our operating partnership in exchange for common units and our operating partnership used the net proceeds received from us and a portion of the borrowings under the senior unsecured revolving credit facility, described below, to repay approximately \$293.4 million in outstanding indebtedness including applicable repayment costs, defeasance costs, settlement of interest rate swap liabilities and other costs and fees associated with such repayments and approximately \$1.9 million in costs related to our acquisition of Western Devcon. We intend to use any remaining net proceeds for general corporate purposes, including capital expenditures and potential future acquisition, development and redevelopment opportunities.

#### *Senior Unsecured Revolving Credit Facility*

Upon the completion of our initial public offering on February 11, 2015 we entered into a \$400.0 million senior unsecured revolving credit facility with Raymond James Bank, N.A. and Royal Bank of Canada, as co-syndication agents and Citigroup Capital Markets Inc. Raymond James Bank, N.A. and Royal Bank of Canada, as joint lead arrangers and joint book running managers. This credit facility has an accordion feature that provides us with additional capacity, subject to the satisfaction of customary terms and conditions, of up to \$250.0 million, for a total facility size of not more than \$650.0 million. We intend to use the senior unsecured revolving credit facility to repay indebtedness, fund acquisitions, development and redevelopment opportunities, capital expenditures and the costs of securing new and renewal leases and provide working capital.

Our operating partnership is the borrower under the senior unsecured revolving credit facility and we and certain of our subsidiaries that directly own certain of our properties are guarantors under the credit facility. The senior unsecured revolving credit facility will terminate in approximately four years. In addition, there will be two extension options for the senior unsecured revolving credit facility and each extension option will allow us to extend the senior unsecured revolving credit facility for an additional six months, in each case if certain conditions are satisfied.

Our senior unsecured revolving credit facility bears interest, at our option, either at:

- a fluctuating rate equal to the sum of (a) the highest of (x) Citibank, N.A.'s base rate, (y) the federal funds effective rate plus 0.50% and (z) the one-month LIBOR rate plus 1.00% plus (b) a margin ranging from 0.4% to 0.9%, or
- a Eurodollar rate equal to a periodic fixed rate equal to LIBOR plus, a margin ranging from 1.4% to 1.9%, in each case with a margin based on our leverage ratio.

Our senior unsecured revolving credit facility also contains certain customary financial covenants, as follows: (i) the maximum ratio of consolidated total indebtedness to total asset value (each as defined in the agreement) may not exceed 60.0% on any date, provided that the maximum ratio may be increased to 65.0% for the two consecutive quarters following the date on which a material acquisition (as defined in the agreement) occurs, (ii) the maximum ratio of consolidated secured indebtedness (as defined in the agreement) to total asset value may not exceed 40.0% on any date, (iii) the maximum ratio of consolidated secured recourse indebtedness (as defined in the agreement) to total asset value may not exceed 15% on any date, (iv) the minimum consolidated tangible net worth (as defined in the agreement) may not, on any date, be less than the sum of an amount equal to 75.0% of our consolidated tangible net worth as of the closing date of the facility plus an amount equal to 75.0% of the aggregate net cash proceeds received by us from any offering of our capital stock after the closing date of the facility, (v) the minimum ratio of adjusted consolidated EBITDA to consolidated fixed charges (each as defined in the agreement) may not be less than 1.50 to 1.00 on any date, (vi) the maximum ratio of consolidated unsecured indebtedness to unencumbered asset value (each as defined in the agreement) may not exceed 60% as of any date and (vii) the minimum ratio of adjusted consolidated net operating income from unencumbered assets (as defined in the agreement) to interest payable on unsecured debt (as determined in accordance with the agreement) shall not be less than 1.75 to 1.00 on any date. Additionally, under the senior unsecured revolving credit facility, our distributions may not exceed the greater of (i) 95.0% of our FFO or (ii) the amount required for us to maintain our status as a REIT and avoid the payment of federal or state income or excise tax.

Our senior unsecured revolving credit facility also includes customary limits on the percentage of our total asset value that may be invested in unimproved land, unconsolidated joint ventures, redevelopment and development assets (as defined in the agreement),

loans, advances or extensions of credit and investments in mixed used assets and require that we obtain consent for mergers in which the company is not the surviving entity. These financial and restrictive covenants may limit the investments we may make and our ability to make distributions. As of September 30, 2015, we were in compliance with all financial and restrictive covenants under our senior unsecured revolving credit facility.

As of September 30, 2015, the interest rate payable on borrowings under our revolving credit facility was 1.61% and the weighted average annual interest rate for borrowings under our revolving credit facility was 1.60% and 1.59% for three and nine months ended September 30, 2015, respectively. As of September 30, 2015, we had \$50.2 million outstanding and \$349.8 million available under our revolving credit facility.

#### *Mortgage Debt*

The table below presents our mortgage debt obligation at September 30, 2015 (dollars in thousands):

<u>Property</u>	<u>Fixed/Floating</u>	<u>Contractual Interest Rate</u>	<u>Effective Interest Rate</u>	<u>Maturity Date</u>	<u>Principal Balance</u>
CBP- Savannah	Fixed	3.40%	3.89%	July 2033	\$ 15,745
ICE - Charleston	Fixed	4.21%	3.93%	January 2027	22,253
MEPCOM - Jacksonville	Fixed	4.41%	3.89%	October 2025	12,690
USFS II - Albuquerque	Fixed	4.46%	3.92%	July 2026	17,500
Total					\$ 68,188

#### *Contractual Obligations*

The following table summarizes our contractual obligations as of September 30, 2015 (amounts in thousands):

	<u>Payments due by period</u>						
	<u>Total</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Thereafter</u>
Mortgage principal and interest	\$ 91,133	1,350	5,587	5,587	5,587	5,587	67,435
Senior unsecured revolving credit facility principal and interest	56,541	474	1,895	1,895	1,895	50,382	—
Corporate office lease	325	92	189	44	—	—	—

#### *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 the board of directors could decide to make required distributions in part by using shares of our common stock.

Our board of directors declared and paid a dividend for the first quarter of 2015 in the amount of \$0.11 per share of common stock and per common unit of the operating partnership, outstanding to stockholders and common unit holders of record as of the close of business on May 18, 2015. Our board of directors also declared and paid a dividend for the first quarter of 2015 for each LTIP unit in an amount equal to 10% of the dividend paid per common unit of our operating partnership.

On August 4, 2015, the board of directors declared a dividend for the second quarter of 2015 in the amount of \$0.21 per share of common stock and per common unit of our operating partnership, outstanding to stockholders and common unit holders of record as of the close of business on August 18, 2015. Our board of directors also declared a dividend for the second quarter of 2015 for each LTIP unit in an amount equal to 10% of the dividend paid per common unit of our operating partnership. Such dividends were paid on September 3, 2015.

On November 3, 2015, the board of directors declared a dividend for the third quarter of 2015 in the amount of \$0.22 per share of common stock and per common unit of our operating partnership, outstanding to stockholders and common unit holders of record as of the close of business on November 17, 2015. Our board of directors also declared a dividend for the third quarter of 2015 for each LTIP unit in an amount equal to 10% of the dividend paid per common unit of our operating partnership. Such dividends are to be paid on December 3, 2015.



## Off-balance Sheet Arrangements

We had no material off-balance sheet arrangements as of September 30, 2015.

## 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 Flow

As noted above, following the completion of our initial public offering, our predecessor no longer uses investment company accounting to account for the assets contributed from the private real estate funds that our predecessor controlled. Instead, we now account for these assets using historical cost accounting. Moving from investment company accounting to historical cost accounting has resulted in a significant change in the classification of our cash flows. We indirectly own all of the assets of the Easterly Funds acquired in the formation transactions and we account for these assets using historical cost accounting. The classification of our cash flows following the formation transactions differs significantly from, and is not comparable with, the historical classification of our predecessor's cash flows. For example, the purchase and sale of investments by the Easterly Funds historically was treated as an operating activity per investment company accounting and such purchases and sales were shown net of any related mortgage debt entered into upon acquisition or repaid upon sale. In addition, the net income for our predecessor historically reflected significant unrealized gains or losses relating to properties owned by these funds. Any unrealized gains or losses are reversed to arrive at net cash flow provided by or used in operating activities. Gains or losses arising from sales of properties owned by us directly or through our consolidated subsidiaries are only recognized by us when realized. Once historical cost accounting is applied, the acquisition of investments and the proceeds of sales are reflected in net cash provided by investing activities.

The following table sets forth a summary of cash flows for the nine months ended September 30, 2015 and 2014:

	For the nine months ended September 30,	
	2015	2014
	(amounts in thousands)	
Net cash (used in) provided by:		
Operating activities	\$ 18,771	\$ (24,869)
Investing activities	(46,666)	—
Financing activities	924	54,563

### Operating Activities

*Nine months ended September 30, 2015 and September 30, 2014*

The company generated \$18.8 million of cash for operating activities during the nine months ended September 30, 2015 and used \$24.9 million during the nine months ended September 30, 2014. Net cash provided by operating activities for the nine months ended September 30, 2015 included a \$20.2 million increase in net cash from net income/(loss) offset by \$1.4 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 nine months ended September 30, 2014 included \$30.3 million for net real estate fund investments due to the purchase of two new investments, PTO – Arlington and FBI – Little Rock, offset by \$5.4 million in distributions from investments. As noted above, activities such as these engaged in directly or through our consolidated subsidiaries will be reflected as investing activities following the formation transactions.

### Investing Activities

*Nine months ended September 30, 2015 and September 30, 2014*

The company used \$46.7 million of cash for investing activities during the nine months ended September 30, 2015. No cash was attributed to investing activities during the nine months ended September 30, 2014. Net cash used for investing activities for the nine months ended September 30, 2015 included \$52.4 million related to acquisition deposits and the purchase of three new properties, DOE – Lakewood, AOC – Aberdeen, and ICE – Otay offset by \$6.2 million in cash assumed in formation.

## **Financing Activities**

*Nine months ended September 30, 2015 and September 30, 2014*

\$0.9 million in cash was provided by financing activities during the nine months ended September 30, 2015 and \$54.6 million during the nine months ended September 30, 2014. Net cash provided by financing activities for the nine months ended September 30, 2015 includes \$193.5 million net proceeds from the initial public offering, \$75.6 million of contributions related to the private placement, and \$50.2 million in credit facility draws offset by \$293.4 million in mortgage debt repayment, \$ 5.4 million in distributions, \$3.4 million in deferred financing costs paid, \$12.7 million in dividends and \$2.0 million of offering costs. Net cash provided by financing activities for the nine months ended September 30, 2014 includes \$65.6 million of contributions from investors in the Easterly Funds, offset by \$11.0 million of distributions to investors in the Easterly Funds.

## **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 generally 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. We may also exclude other items from FFO, as Adjusted that we believe may help investors compare our results.

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 nine months ended September 30, 2015 (in thousands):

	For the three months ended September 30, 2015	For the nine months ended September 30, 2015
Net Income (loss)	\$ 818	\$ (6,218)
Depreciation and amortization	9,344	23,395
Net unrealized (loss) on investments	—	5,122
Funds From Operations	10,162	22,299
Adjustments to FFO:		
Acquisition costs	235	1,870
Offering costs	—	1,666
Straight-line rent	(66)	(165)
Above-/below-market leases	(1,383)	(3,359)
Non-cash interest expense	191	482
Non-cash compensation	663	1,175
Funds from Operations, as Adjusted	<u>\$ 9,802</u>	<u>\$ 23,968</u>

### 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 may 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 will be to reduce our floating rate exposure and we do not intend to enter into hedging arrangements for speculative purposes.

As of September 30, 2015, \$68.2 million, or 57.6% of our debt, excluding unamortized premiums and discounts, had fixed interest rates and \$50.2 million, or 42.4% 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 \$0.3 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 September 30, 2015. Based on this evaluation our principal executive officer and principal financial officer concluded that, as of September 30, 2015, 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 September 30, 2015 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 2014 Annual Report on Form 10-K for the year ended December 31, 2014.

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

On February 5, 2015, the SEC declared effective our Registration Statement on Form S-11 (File No. 333- 201251) in connection with our initial public offering, pursuant to which we registered and sold 13,800,000 shares of our common stock for an aggregate offering amount of \$207.0 million. The offering was completed on February 11, 2015. The net proceeds of our initial public offering were approximately \$191.6 million after deducting underwriting discounts and commissions of approximately \$13.5 million and estimated offering expenses of approximately \$1.9 million. Citigroup Global Markets Inc., Raymond James & Associates, Inc. and RBC Capital Markets, LLC acted as joint book-running managers for our initial public offering and as representatives of the underwriters.

We contributed the net proceeds from the offering to our operating partnership in exchange for common units and our operating partnership used the net proceeds received from us and a portion of the borrowings under the senior unsecured revolving credit facility to repay approximately \$293.4 million in outstanding indebtedness including applicable repayment costs, defeasance costs, settlement of interest rate swap liabilities and other costs and fees associated with such repayments and approximately \$1.9 million related to our acquisition of Western Devcon. We intend to use any remaining net proceeds for general corporate purposes, including capital expenditures and potential future acquisition, development and redevelopment opportunities.

**Item 3. Defaults Upon Senior Securities**

Not applicable

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information**

None

**Item 6. Exhibits**

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

<u>Exhibit</u>	<u>Exhibit Description</u>
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)
10.1*	Tax Protection Agreement among Easterly Government Properties LP, West Pleasanton Lab, LLC and Michael P. Ibe, dated October 21, 2015
10.2*	Registration Rights Agreement among Easterly Government Properties, Inc. and the persons named therein, dated October 21, 2015
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 the three months ended September 30, 2015 formatted in XBRL (eXtensible Business Reporting Language): (i) the Combined Consolidated Balance Sheets, (ii) the Combined Consolidated Statements of Operations, (iii) the Combined Consolidated Statements of Equity, (iv) the Combined Consolidated Statements of Cash Flows and (v) the related notes to these combined consolidated financial statements.

\* File 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: November 5, 2015

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

Date: November 5, 2015

/s/ Alison M. Bernard  
Alison M. Bernard  
Chief Financial Officer  
(Principal Financial Officer)

**TAX PROTECTION AGREEMENT**

This Tax Protection Agreement (this “Agreement”) is entered into as of October 21, 2015, by and among Easterly Government Properties LP, a Delaware limited partnership (“EGPLP”), and West Pleasanton Lab, LLC (“Contributor”), an entity wholly-owned by Michael Ibe (“Ibe”), in connection with the contribution of certain property (the “Property”) by Contributor to EGPLP or one of its subsidiaries in exchange for limited partnership units in EGPLP pursuant to the Contribution Agreement (“Contribution Agreement”) between the Contributor and EGPLP as of the date hereof. This Agreement is being entered into for the benefit of the WP Indemnified Parties (as defined below).

**Section 1 Definitions.**

(a) “Applicable Tax Liability” shall mean, with respect to each WP Indemnified Party, an amount equal to (i) in the case of a breach of Section 2(a), the amount of Built-In Gain allocated to such WP Indemnified Party as a result of such breach *multiplied* by the Effective Tax Rate, and (ii) in the case of a breach of Section 2(c) or 2(d), the amount of Built-In Gain recognized by such WP Indemnified Party as a result of such breach *multiplied* by the Effective Tax Rate.

(b) “Built-In Gain” shall mean, with respect to the Property: (i) the amount by which the fair market value of the Property, as determined for federal income tax purposes, exceeds the WP Limited Partners’ basis in the Property for federal income tax purposes, immediately prior to the time the WP Limited Partners contributed the Property to EGPLP, the amount of which is set forth on Annex A, *minus* (ii) the amortization of such amount on account of the reductions in the so-called “book-tax” disparity properly attributable to the Property due to Code Section 704(c) allocations and reverse Code Section 704(c) allocations described in Treasury Regulations Section 1.704-3(a)(6). For the avoidance of doubt, Built-In Gain shall be reduced by any Built-In Gain that is recognized for federal income tax purposes during the Protected Period, including, without limitation, any Built-in Gain without duplication thereof, recognized by the WP Indemnified Parties as a result of a prior breach by EGPLP of its obligations under this Agreement provided the WP Indemnified Parties were properly indemnified pursuant to Section 4(a) for such prior breach.

(c) “Closing Date” means the date on which the Property is contributed to EGPLP.

(d) “Code” means the Internal Revenue Code of 1986, as amended.

(e) “Effective Tax Rate” shall mean the highest effective federal, state and local income tax rate applicable to individuals resident in San Diego, California, taking into account the character and type of the income recognized in the transaction giving rise to such taxes and the deductibility of state and local taxes for federal income tax purposes (unless and to the extent that such WP Indemnified Party demonstrates to the reasonable satisfaction of EGPLP that such WP Indemnified Party is unable to deduct the state or local taxes for federal income tax purposes either because it is actually subject to the Federal alternative minimum tax for the relevant taxable year or because such deductions are otherwise limited with respect to the WP

Indemnified Party); provided, however, that if a WP Indemnified Party to whom the Effective Tax Rate is being applied is a resident for state and local income tax purposes in a city other than San Diego, California, then the state and local income tax rate for purposes of determining the Effective Tax Rate for such WP Indemnified Party shall be the rate applicable in the state and city in which such WP Indemnified Party is resident.

(f) “Government Entity” means any nation or government, any state, province or other political subdivision thereof, and any agency, authority, department, board, tribunal, commission or instrumentality thereof, and any person exercising executive, legislative, judicial, regulatory or administration functions of or pertaining to any of the foregoing.

(g) “Initial Guarantee Loan” shall mean that certain loan from PNC Bank, National Association in the maximum principal amount of Fifteen Million Seven Hundred Thousand Dollars (\$15,700,000).

(h) “OPUs” means any limited partnership interests in EGPLP that were received on account of the contribution of the Property.

(i) “Person” means an individual, partnership, corporation (including a business trust), limited liability company, joint stock company, trust, unincorporated association, joint venture or other entity, or a government or any political subdivision or agency thereof.

(j) “Protected Period” shall mean the period commencing on the Closing Date and ending on the eighth (8th) anniversary of the Closing Date.

(k) “Protected Property” shall mean each of (i) the Property, (ii) any direct or indirect interest in any entity through which EGPLP owns a direct or indirect interest in any Property, and (iii) any property received by EGPLP or any entity in which EGPLP holds a direct or indirect interest as “substituted basis property” as defined in Code Section 7701(a)(42) with respect to a Protected Property.

(l) “WP Indemnified Party” shall mean Ibe and any entities wholly-owned by Ibe that are subject to U.S. federal income tax on the Built-In Gain.

(m) “WP Limited Partner” shall mean Ibe and any entities wholly-owned by Ibe that hold OPUs.

## **Section 2 Restrictions on Dispositions of Protected Properties and Debt Protection.**

(a) Subject to Section 2(b), during the Protected Period, neither EGPLP nor any entity in which EGPLP holds a direct or indirect interest will consummate, directly or indirectly, a sale, transfer, exchange, or other disposition of any Protected Property or any interest therein in a transaction that results in the recognition by any WP Indemnified Party of all or any portion of the Built-In Gain.



(b) Section 2(a) shall not apply to any sale or transfer as a result of the condemnation or other taking of any Protected Property by a Government Entity in an eminent domain proceeding or otherwise.

(c) EGPLP shall make available to the WP Limited Partner and Ibe the opportunity (a “Guarantee Opportunity”) to make, on or before the Closing Date, a guarantee of the entire outstanding balance of the Initial Guarantee Loan, provided that such guarantee shall be made in substantially the same form set forth in Exhibit A hereto. Subject to Section 4(b), (i) EGPLP shall not pay down any of the initial principal amount on the Initial Guarantee Loan during the two year period beginning on the date the Property is contributed to EGPLP pursuant to the Contribution Agreement, and (ii) EGPLP shall maintain an outstanding balance of at least \$7,221,127 on the Initial Guarantee Loan for the entire Protected Period, provided in the case of clause (ii) that EGPLP may refinance the Initial Guarantee Loan in accordance with Section 2(d).

(d) Subject to Section 4(b), in the event that, during the Protected Period but after the end of the two year period beginning on the date the Property is contributed to EGPLP, EGPLP desires to refinance, repay or replace the Initial Guarantee Loan or any indebtedness subsequently guaranteed pursuant to this Section 2(d), or substitute another loan for the Initial Guarantee Loan or such subsequently guaranteed indebtedness, EGPLP shall make available to each WP Limited Partner and Ibe that has guaranteed such previous indebtedness a new Guarantee Opportunity to make a guarantee of such new indebtedness in an amount equal to at least \$7,221,127; provided, however, that any Guarantee Opportunity offered under this Section 2(d) shall be presented to the WP Limited Partner(s) and Ibe no less than 10 business days prior to the date the previously guaranteed indebtedness is refinanced, substituted or replaced.

(e) EGPLP does not make any representation or warranty to WP Limited Partner or any WP Indemnified Party that providing a guarantee entered into pursuant to Section 2(c) or Section 2(d) will be respected for federal income tax purposes as providing WP Limited Partner or any WP Indemnified Party with an allocation of any such liability for purposes of Code Section 752 or as causing WP Limited Partner or any WP Indemnified Party to be “at risk” with respect to such liability for purposes of Code Section 465, including as a result of the lender’s acceptance or non-acceptance of such guarantee; provided, however, EGPLP shall report debt so guaranteed as allocable for such purposes unless, solely as a result of a change in law occurring after the date hereof, EGPLP is advised by Goodwin Procter LLP or other nationally recognized tax counsel that EGPLP would not be permitted to take such reporting position under the Code, and in such event, EGPLP shall provide prompt prior notice of such change in reporting position to the WP Limited Partners, and if the WP Limited Partners dispute the requirement that such change be made, the matter will be subject to resolution under Section 4(d).

**Section 3 Elections.** During the Protected Period, EGPLP shall elect to use the “traditional method” of making allocations under Code Section 704(c) with respect to the Built-In Gain with respect to each Protected Property as provided in Treasury Regulations Section 1.704-3(b).

## Section 4 Indemnification; Liability.

(a) Indemnification for Breach. If a breach by EGPLP of any of its obligations or agreements under this Agreement during the Protected Period results in any WP Indemnified Party recognizing all or any portion of the Built-In Gain for income tax purposes, then EGPLP shall indemnify, defend, hold harmless and, not later than 90 days following such breach, pay to such WP Indemnified Party an amount equal to the sum of (1) the Applicable Tax Liability, plus (2) an amount equal to the aggregate federal, state, and local income taxes payable by the WP Indemnified Party as a result of the receipt of any payment required under clause (1) and this clause (2) of this Section 4(a) (the "Gross-up Amount"), calculated by applying the Effective Tax Rate to any such additional income. The amount of the payments due under this Section 4(a), including the Gross-up Amount, shall be computed without regard to any losses, credit, or other tax attributes that such WP Indemnified Party might have that would reduce its actual tax liability.

(b) Exclusive Remedy. The parties hereto agree and acknowledge that the indemnity, defense and hold harmless obligations of EGPLP pursuant to Section 4(a) hereof shall constitute liquidated damages for any breach by EGPLP of this Agreement, and shall be the sole remedy of the WP Indemnified Parties or WP Limited Partners for any such breach of this Agreement. No WP Indemnified Party or WP Limited Partner shall bring any claim for specific performance under this Agreement for any breach of this Agreement, other than a claim for performance of the payment obligations set forth in this Section 4.

(c) Limitations.

(i) For the avoidance of doubt, EGPLP shall not be liable to any WP Indemnified Party for any income or gain (i) allocated to such WP Indemnified Party with respect to OPU that is not the result of a breach by EGPLP of its obligations or agreements under this Agreement, or (ii) resulting from distributions by EGPLP made with respect to the class of limited partnership units in EGPLP that includes the OPUs that are made to all holders of units of such class.

(ii) No officer, director, limited partner or employee of EGPLP or any of its affiliates (other than the general partner of EGPLP) shall have any liability for any breach of the obligations and agreements of EGPLP under this Agreement.

(d) Process for Resolving Disputes. If EGPLP has breached or violated any of the covenants set forth in this Agreement (or a WP Indemnified Party or a WP Limited Partner asserts that EGPLP has breached or violated any of the covenants set forth in this Agreement), EGPLP, the WP Limited Partners and the WP Indemnified Party agree to negotiate in good faith to resolve any disagreements regarding any such breach or violation and the amount of damages, if any, payable to such WP Indemnified Party under Section 4(a). If any such disagreement cannot be resolved by EGPLP and such WP Limited Partner and such WP Indemnified Party within sixty (60) days after the receipt of a notice of disagreement from either party, EGPLP and the WP Indemnified Party and WP Limited Partner shall jointly retain a nationally recognized independent public accounting firm (an "Accounting Firm") to act as an arbitrator to resolve as expeditiously as possible all points of any such disagreement (including, without limitation,

whether a breach of any of the covenants set forth in this Agreement has occurred and, if so, the amount of damages to which the WP Indemnified Party is entitled as a result thereof, determined as set forth in Section 4(a)). All determinations made by the Accounting Firm with respect to the resolution of any breach or violation of any of the covenants set forth in this Agreement and the amount of damages payable to the WP Indemnified Party under Section 4(a) shall be final, conclusive and binding on EGPLP and the WP Indemnified Party and WP Limited Partner. The fees and expenses of any Accounting Firm incurred in connection with any such determination shall be shared 50% by EGPLP and 50% by the WP Indemnified Party and WP Limited Partners, provided that if the amount determined by the Accounting Firm to be owed by EGPLP to the WP Indemnified Party (i) is equal to or greater than the amount proposed by the WP Indemnified Party or WP Limited Partner prior to the submission of the matter to the Accounting Firm, then all of the fees and expenses of any Accounting Firm incurred in connection with any such determination shall be paid by EGPLP or (ii) is equal to or less than the amount proposed by the EGPLP prior to the submission of the matter to the Accounting Firm, then all of the fees and expenses of any Accounting Firm incurred in connection with any such determination shall be paid by the WP Indemnified Party and WP Limited Partner.

## **Section 5. Tax Treatment and Reporting; Tax Proceedings.**

(a) **Appointment of Representative.** Each WP Indemnified Party that is or becomes a beneficiary to this Agreement, as a condition to becoming a beneficiary to this Agreement, agrees for EGPLP's benefit that Michael P. Ibe (the "Representative") alone will represent and act on behalf of the WP Indemnified Parties (and each hereby irrevocably appoints the Representative as his, her, or its representative) for the purpose of giving any notice, consent, approval or waiver required or contemplated in this Agreement, and each agrees that EGPLP shall be fully entitled to rely conclusively on any such notice, consent, approval, waiver or other determination by the Representative as an action by the appointed and authorized representative of the WP Indemnified Parties. In addition, each WP Indemnified Party acknowledges and agrees that wherever, in this Agreement, EGPLP is required to make a payment to any of the WP Indemnified Parties, so long as EGPLP has delivered the payment in question to the Representative or an account designated by the Representative in writing for the benefit of the WP Indemnified Parties, as applicable, EGPLP shall be deemed to have fully satisfied the payment obligation in question.

(b) **Tax Treatment of Transaction.** For U.S. federal income tax purposes, each of the parties hereto shall treat the contribution of the Property to EGPLP as a tax free contribution under Code Section 721 to the extent made in exchange for the OPUs, and a taxable exchange to the extent made for cash. No party hereto shall, at any time during or with respect to the Protected Period, take any contrary or inconsistent position in any federal or state income tax returns or for any income tax purposes, except pursuant to a final determination (as defined in Code Section 1313(a)) with a Government Entity.

(c) **Notice of Tax Audits.** If any claim, demand, assessment (including a notice of proposed assessment) or other assertion is made with respect to taxes against any WP Indemnified Party, WP Limited Partner or EGPLP the calculation of which involves a matter covered in this Agreement ("Tax Claim") or if EGPLP, a WP Indemnified Party or a WP Limited Partner receives any notice from any jurisdiction with respect to any current or future

audit, examination, investigation or other proceeding (“Proceeding”) involving the WP Indemnified Parties, WP Limited Partners or EGPLP that otherwise could involve a matter covered in this Agreement, then EGPLP, the WP Limited Partners or the WP Indemnified Parties, as applicable, shall promptly notify the other parties of such Tax Claim or Proceeding.

(d) Participation in Tax Proceedings. EGPLP shall have the right to participate, at its own expense, in any tax audits or proceedings of the WP Limited Partners and WP Indemnified Parties that relate to a matter that is covered by this Agreement, and the WP Limited Partners or WP Indemnified Parties (as applicable) shall not settle or otherwise resolve any such matter without EGPLP’s prior written consent, which consent shall not be unreasonably withheld or delayed. The WP Limited Partners and the WP Indemnified Parties (as applicable) shall keep EGPLP reasonably informed of the details and status of any such tax audits and proceedings (including providing EGPLP with copies of all written correspondence regarding such matter).

## **Section 7 Miscellaneous.**

### 1.

(a) Assignment. No WP Limited Partner or WP Indemnified Party shall assign this Agreement or its rights hereunder to any Person without the prior written consent of EGPLP, which consent EGPLP may grant or withhold in its sole discretion, and any such assignment undertaken without such consent shall be null and void; provided, however, that a WP Limited Partner or WP Indemnified Party may assign its rights hereunder to any other WP Limited Partner or WP Indemnified Party without the consent of EGPLP.

(b) Integration, Waiver. This Agreement (including any Annex hereto) and that certain Contribution Agreement, dated as of October 7, 2015, entered into by and among, *inter alia*, EGPLP and the Contributor, embody and constitute the entire understanding among the parties hereto with respect to the subject matter hereof and supersede all prior agreements, understandings, representations and statements, whether oral or written. Neither this Agreement nor any provision hereof may be waived, modified, amended, discharged or terminated except by an instrument signed by the party against whom the enforcement of such waiver, modification, amendment, discharge or termination is sought, and then only to the extent set forth in such instrument. No waiver by a party hereto of any failure or refusal by any other party to comply with its obligations hereunder shall be deemed a waiver of any other or subsequent failure or refusal to so comply.

(c) Governing Law. This Agreement shall be governed by, and construed in accordance with, the law of the State of Delaware, without regard to principles of conflicts of laws.

(d) Captions Not Binding; Annexes. The captions in this Agreement are inserted for reference only and in no way define, describe or limit the scope or intent of this Agreement or of any of the provisions hereof. All Annexes attached hereto shall be incorporated by reference as if set out herein in full.

(e) Binding Effect. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.

(f) Severability. If any term or provision of this Agreement or the application thereof to any Persons or circumstances shall, to any extent, be invalid or unenforceable, the remainder of this Agreement or the application of such term or provision to Persons or circumstances other than those as to which it is held invalid or unenforceable shall not be affected thereby, and each term and provision of this Agreement shall be valid and enforced to the fullest extent permitted by law.

(g) Notices. Any notice to be given hereunder by any party to the other shall be given in writing by either (i) personal delivery, (ii) registered or certified mail, postage prepaid, return receipt requested, or (iii) facsimile transmission (provided such facsimile is followed by an original of such notice by mail or personal delivery as provided herein), and any such notice shall be deemed communicated as of the date of delivery (including delivery by overnight courier, certified mail or facsimile). Mailed notices shall be addressed as set forth below, but any party may change the address set forth below by written notice to other parties in accordance with this paragraph.

*As to EGPLP:* c/o Easterly Government Properties, Inc.  
2101 L Street NW, Suite 750  
Washington, DC 20037  
Attention: William C. Trimble, III  
Phone: (202) 595-9500  
Facsimile: (617) 581-1440

*And to:* Goodwin Procter LLP  
53 State Street  
Boston, Massachusetts 02109-2802  
Attention: Mark S. Opper, Esq.  
Phone: 617-570-1000  
Facsimile: 617-523-1231

*As to Contributor, Representative and  
WP Limited Partners:* Michael P. Ibe  
c/o Western Devcon, Inc.  
10525 Vista Sorrento Parkway, Suite 110  
San Diego, California 92121  
Phone: (858) 587-9999  
Facsimile: (858) 587-1954

*And to:* Seltzer Caplan McMahon Vitek  
750 B Street, Suite 2100  
San Diego, California 92101  
Attention: David J. Dorne, Esq.  
Phone: (619) 685-3027  
Facsimile: (619) 702-6806

(h) Counterparts. This Agreement may be executed in counterparts, each of which shall be an original and all of which counterparts taken together shall constitute one and the same agreement. The signature page of any counterpart may be detached therefrom without impairing the legal effect of the signature(s) thereon provided such signature page is attached to any other counterpart identical thereto except having additional signature pages executed by other parties to this Agreement attached thereto.

(i) Construction. The parties acknowledge that each party and its counsel have reviewed and revised this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any amendment or Annex hereto.

(j) Attorneys' Fees. In the event that it becomes necessary for either party to employ counsel in connection with any action arising out of this Agreement, the prevailing party shall be entitled to receive all reasonable costs and expenses (including reasonable attorneys' fees) incurred by such prevailing party in connection with such action or proceeding. A party entitled to recover costs and expenses under this Section shall also be entitled to recover all costs and expenses (including reasonable attorneys' fees) incurred in the enforcement of any judgment or settlement obtained in such action or proceeding and provision (and in any such judgment provision shall be made for the recovery of such post-judgment costs and expenses).

*[signature page follows]*

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

**EASTERLY GOVERNMENT PROPERTIES LP**, a Delaware limited partnership

By: Easterly Government Properties, Inc.,  
a Maryland corporation, its general partner

By:

William C. Trimble, III

Name: William C. Trimble, III

Title: Chief Executive Officer and President

/s/

*[Signatures continue on following page]*

*[Signature Page to Tax Protection Agreement]*

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“CONTRIBUTOR”

**WEST PLEASANTON LAB, LLC,**  
a California limited liability company

By: /s/ Michael P. Ibe  
Name: Michael P. Ibe  
Title: Sole Member

**Michael Ibe**

/s/ Michael Ibe

*[Signature Page to Tax Protection Agreement]*

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ANNEX A

PROTECTED PROPERTY

<b><u>Protected Property</u></b>	<b><u>Tax Basis</u></b>	<b><u>Built-In Gain Immediately prior to Contribution</u></b>
<u>DEA - Pleasanton</u>	<u>\$19,767,434</u>	<u>\$12,232,566</u>

**REGISTRATION RIGHTS AGREEMENT**

**BY AND AMONG**

**EASTERLY GOVERNMENT PROPERTIES, INC. AND**

**THE HOLDERS NAMED HEREIN**

**DATED: OCTOBER 21, 2015**

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## REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this “Agreement”) is entered into as of October 21, 2015 by and among Easterly Government Properties, Inc., a Maryland corporation (the “Company”), and the persons named on Exhibit A hereto (collectively with any Assignee pursuant to Section 15 hereof, the “Holders”).

WHEREAS, the Company is the sole general partner of Easterly Government Properties LP, a Delaware limited partnership (the “Partnership”);

WHEREAS, pursuant to that certain Contribution Agreement, dated as of October 7, 2015, by and among the Operating Partnership and West Pleasanton Lab, LLC, a California limited liability company (the “Contributor”), the Contributor is contributing its interest in the property located at 6880 Koll Center Parkway, Pleasanton, Alameda County, California to the Partnership or, at the Partnership’s election, a subsidiary of the Partnership (the “Contribution”) in exchange for Units (as defined below);

WHEREAS, in connection with the Contribution, the Company desires to grant certain registration rights to the Holders with respect to the shares of Common Stock that may be received by Holders pursuant to any conversion of Units (as defined below) into shares of Common Stock, whether by exercise of a redemption right or otherwise;

NOW, THEREFORE, in consideration of the foregoing, the mutual promises and agreements set forth herein, and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

### **SECTION 1.                    CERTAIN DEFINITIONS.**

As used in this Agreement, in addition to the other terms defined herein, the following capitalized defined terms, as used herein, have the following meanings:

“Affiliate” of any Person means any other Person directly or indirectly controlling or controlled by or under common control with such Person. For the purposes of this definition, “control” when used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Agreement” has the meaning set forth in the preamble to this Agreement.

“Assignee” has the meaning set forth in Section 15 hereof.

“Business Day” means any day except a Saturday, Sunday or other day on which commercial banks in New York, New York are authorized or required by law to be closed.

“Commission” means the Securities and Exchange Commission.

“Common Stock” has the meaning set forth in the recitals to this Agreement.

“Company” has the meaning set forth in the preamble to this Agreement.

“Company Offering” has the meaning set forth in Section 9 hereof.

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“Contribution” has the meaning set forth in the recitals to this Agreement.

“Contributor” has the meaning set forth in the recitals to this Agreement.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

“Holder” has the meaning set forth in the preamble to this Agreement.

“Indemnified Party” has the meaning set forth in Section 8 hereof.

“Indemnifying Party” has the meaning set forth in Section 8 hereof.

“Issuance Registration Statement” has the meaning set forth in Section 3(a) hereof.

“NYSE” means the New York Stock Exchange.

“Offering Blackout Period” has the meaning set forth in Section 9 hereof.

“Partnership” has the meaning set forth in the recitals to this Agreement.

“Partnership Agreement” means the Amended and Restated Agreement of Limited Partnership of the Partnership, dated as of February 11, 2015, as the same may be amended, modified or restated from time to time.

“Permitted Free Writing Prospectus” has the meaning set forth in Section 3(b) hereof.

“Person” means an individual or a corporation, partnership, limited liability company, association, trust, or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“Prospectus” means the prospectus included in a Registration Statement, including any preliminary prospectus (including any Permitted Free Writing Prospectus), as amended or supplemented by any prospectus supplement with respect to the terms of the offering of any portion of the Registrable Shares covered by such Registration Statement, and by all other amendments and supplements to such prospectus, including post-effective amendments, and in each case including all material incorporated by reference therein.

“Registrable Shares” means the Shares; provided, however, that, with respect to any Holder, Registrable Shares shall not include (i) Shares for which a Registration Statement relating to the sale thereof has become effective under the Securities Act and which have been disposed of under such Registration Statement, (ii) Shares sold pursuant to Rule 144 or (iii) a Holder’s Shares if all such Shares may be sold by such Holder in one transaction pursuant to Rule 144.

“Registration Expenses” means any and all expenses incident to the performance of or compliance with this Agreement, which shall be borne by the Company as provided below, including without limitation: (i) all registration and filing fees, (ii) printing expenses, (iii) internal expenses of the Company (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), (iv) the fees and expenses

incurred in connection with the listing of the Registrable Shares, (v) the fees and disbursements of legal counsel for the Company and customary fees and expenses for independent certified public accountants retained by the Company, and any transfer agent and registrar fees and (vi) the reasonable fees and expenses of any special experts retained by the Company; provided, however, that Registration Expenses shall not include, and the Company shall not have any obligation to pay, any transfer taxes or underwriting, brokerage or other similar fees, discounts, or commissions attributable to the sale of such Registrable Shares, any legal fees and expenses of counsel to any Holder and any underwriter engaged by any Holder or any other expenses incurred in connection with the performance by any Holder of its obligations under the terms of this Agreement.

“Registration Statement” means any registration statement of the Company which covers the issuance or resale of any of the Registrable Shares under the Securities Act on an appropriate form, and all amendments and supplements to such registration statement, including post-effective amendments, in each case including the Prospectus contained therein, all exhibits thereto and all materials incorporated by reference therein.

“Resale Shelf Registration Statement” has the meaning set forth in Section 3(b) hereof.

“Rule 144” means Rule 144 promulgated under the Securities Act, as amended from time to time, or any similar successor rule thereto that may be promulgated by the Commission.

“Rule 415” means Rule 415 promulgated under the Securities Act, as amended from time to time, or any similar successor rule thereto that may be promulgated by the Commission.

“Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Shares” means all Common Stock issued or issuable to all Holders upon redemption of, or in exchange for, Units held by such Holders pursuant to the Partnership Agreement and any other Common Stock which may be issued in respect of, in exchange for, or in substitution for, any Common Stock, whether by reason of any stock split, stock dividend, reverse stock split, recapitalization, combination or otherwise.

“Suspension Event” has the meaning set forth in Section 9 hereof.

“Units” means the units of limited partner interests in the Partnership held by the Holders and issued in respect of the Contribution (or any other interests issued on account of those units as a result of a unit split, combination, distribution or other similar recapitalization event applying to all such units).

“WKSI” has the meaning set forth in Section 3(a) hereof.

**SECTION 2.                    [INTENTIONALLY OMITTED].**

**SECTION 3.                    REGISTRATION.**

(a)                                    Filing of Issuance Registration Statement. Subject to the provisions of Section 3(b) hereof, the Company will file with the Commission a Registration Statement on

Form S-3, or such other form as may be appropriate and available (the “Issuance Registration Statement”), under Rule 415 relating to the issuance to the Holders of the Shares upon redemption of, or in exchange for, the Units issued in the Formation Transactions and shall use its reasonable efforts to cause the Issuance Registration Statement to become or be declared effective by the Commission for all of the Registrable Shares covered thereby within fifteen (15) months after the closing of the Contribution. Notwithstanding the availability of rights under Section 3(b), in the event that the Company determines to comply with Section 3(b) in lieu of this section after an Issuance Registration Statement has become effective, the Company shall continue to use its reasonable best efforts to cause the Issuance Registration Statement to remain effective until such time as the Company causes a Resale Shelf Registration Statement (as hereinafter defined) to become effective in accordance with Section 3(b). The Company agrees to use its reasonable best efforts to keep the Issuance Registration Statement (or a successor Registration Statement filed with respect to the Registrable Shares) continuously effective until the date on which all Holders have tendered their Units for redemption or exchange and the redemption or exchange price therefor (whether paid in cash or in Common Stock) has been delivered to the Holders. To the extent the Company is a well-known seasoned issuer (as defined in Rule 405 under the Securities Act) (a “WKSI”) at the time that an Issuance Registration Statement is to be filed, the Company may file an automatic shelf registration statement which covers such Registrable Shares or, in lieu of filing a new Issuance Registration Statement, may file a Prospectus pursuant to Rule 424(b) under the Securities Act (or any successor provision) or post-effective amendment, as applicable, to include, in accordance with Rule 430B under the Securities Act (or any successor provision), the registration of the issuance of such Registrable Shares in an automatic shelf registration statement previously filed by the Company (in each case, such Prospectus together with such previously filed Registration Statement will be considered the Issuance Registration Statement).

(b) Registration Statement Covering Resale of Common Stock. In lieu of complying with the provisions of Section 3(a) hereof, the Company may file with the Commission a Registration Statement on Form S-3, or such other form as may be appropriate and available (a “Resale Shelf Registration Statement”), under Rule 415 relating to the resale by the Holders of their Registrable Shares. The Company shall use its reasonable efforts to cause such Resale Shelf Registration Statement to become or be declared effective by the Commission for all of the Registrable Shares covered thereby within fifteen (15) months after the closing of the Contribution. The Company agrees to use its reasonable best efforts to keep the Resale Shelf Registration Statement (or a successor Registration Statement filed with respect to the Registrable Shares), after its date of effectiveness, continuously effective until all Registrable Shares have been disposed of by the Holders or shall have otherwise ceased to be Registrable Shares. After the Company has filed the Resale Shelf Registration Statement, any obligation of the Company to file an Issuance Registration Statement pursuant to Section 3(a) with respect to the Registrable Shares covered thereby registered by the Resale Shelf Registration Statement shall be suspended for as long as the Resale Shelf Registration Statement (or a successor Registration Statement filed with respect to the Registrable Shares) remains effective. To the extent the Company is a WKSI at the time that a Resale Registration Statement is to be filed, the Company may file an automatic shelf registration statement which covers such Registrable Shares or, in lieu of filing a new Resale Registration Statement, may file a Prospectus pursuant to Rule 424(b) under the Securities Act (or any successor provision) or post-effective amendment, as applicable, to include, in accordance with Rule 430B under the Securities Act (or any successor provision), the registration of the resale of such Registrable Shares by the Holder in an

automatic shelf registration statement previously filed by the Company (in each case, such Prospectus together with such previously filed Registration Statement will be considered the Resale Registration Statement). The Holder will not offer or sell, without the Company's consent, any Registrable Shares by means of any "free writing prospectus" (as defined in Rule 405 under the Securities Act) that is required to be filed by the Holder with the Commission pursuant to Rule 433 under the Securities Act (any free writing prospectus consented to by the Company, a "Permitted Free Writing Prospectus").

(c) Notification and Distribution of Materials. The Company shall notify the Holder of the effectiveness of any Registration Statement applicable to the Shares and shall furnish to the Holders such number of copies of such Registration Statement (including any amendments, supplements and exhibits), the Prospectus contained therein (including each preliminary prospectus and all related amendments and supplements, if any) and any documents incorporated by reference in such Registration Statement or such other documents as the Holders may reasonably request in order to facilitate the sale of the Registrable Shares in the manner described in such Registration Statement.

(d) Amendments and Supplements. The Company shall prepare and file with the Commission from time to time such amendments and supplements to each Registration Statement and Prospectus used in connection therewith as may be necessary to keep such Registration Statement (or a successor Registration Statement filed with respect to such Registrable Shares) effective and to comply with the provisions of the Securities Act with respect to the disposition of the Registrable Shares covered thereby until the earlier of (i) such time as all of the Registrable Shares have been issued pursuant to an Issuance Registration Statement or disposed of in accordance with the intended methods of disposition by the Holders pursuant to a Resale Shelf Registration Statement, as applicable, or (ii) the date on which the Registration Statement is no longer required to be effective under the terms of this Agreement. Upon twenty (20) Business Days' notice, the Company shall file any supplement or post-effective amendment to a Registration Statement with respect to the plan of distribution or a Holder's ownership interests in his, her or its Registrable Shares (including an Assignee becoming a Holder hereunder) that is reasonably necessary to permit the sale of such Holder's Registrable Shares pursuant to such Registration Statement. The Company shall file any necessary listing applications or amendments to the existing applications to cause the Shares registered under any Registration Statement to be then listed or quoted on the NYSE or such other primary exchange or quotation system on which the Common Stock is then listed or quoted.

(e) Notice of Certain Events. The Company shall promptly notify each Holder in writing of the filing of any Registration Statement or Prospectus, amendment or supplement related thereto or any post-effective amendment to a Registration Statement and the effectiveness of any post-effective amendment, provided, however, that this Section 3(e) shall not apply to (i) an amendment or supplement relating solely to securities other than the Registrable Shares, and (ii) an amendment or supplement by means of an Annual Report on Form 10-K, a Quarterly Report on Form 10-Q, a Proxy Statement on Schedule 14A, a Current Report on Form 8-K or a Registration Statement on Form 8-A or any amendments thereto filed with the Commission under the Exchange Act and incorporated or deemed to be incorporated by reference into a Registration Statement or prospectus.

At any time when a Prospectus relating to a Registration Statement is required to be delivered under the Securities Act by a Holder to a transferee, the Company shall immediately notify the Holders of the happening of any event as a result of which the Company believes the Prospectus included in such Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. In such event, the Company shall promptly prepare and, if applicable, furnish to the Holders a reasonable number of copies of a supplement to or an amendment of such Prospectus as may be necessary so that, as thereafter delivered to the purchasers of Registrable Shares sold under the Prospectus, such Prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they are made, not misleading. The Company shall, if necessary, promptly amend the Registration Statement of which such Prospectus is a part to reflect such amendment or supplement. Each Holder agrees that, upon receipt of any notice from the Company of the occurrence of an event as set forth above, such Holder will forthwith discontinue disposition of Registrable Shares pursuant to any Registration Statement covering such Registrable Shares until such Holder's receipt of written notice from the Company that the use of the Registration Statement may be resumed. Each Holder also agrees that such Holder will treat as confidential the receipt of any notice from the Company of the occurrence of an event as set forth above and shall not disclose or use the information contained in such notice without the prior written consent of the Company until such time as the information contained therein is or becomes available to the public generally, other than as a result of disclosure by a Holder in breach of the terms of this Agreement.

#### **SECTION 4. STATE SECURITIES LAWS.**

The parties hereto hereby acknowledge that, generally, pursuant to Section 18 of the Securities Act, no state securities laws requiring, or with respect to, registration or qualification of securities or securities transactions will apply to a security that is a "covered security" (as defined therein). "Covered securities," for purposes of Section 18 of the Securities Act, includes securities listed or authorized for listing on the NYSE (or certain other national securities exchanges) and securities of the same issuer that are equal in seniority or senior to such securities. The Company will use its reasonable efforts to cause the Shares to constitute covered securities by maintaining the listing of the Common Stock on the NYSE or such other qualifying national securities exchange. In the event that the Shares cease to constitute covered securities, subject to the conditions set forth in this Agreement, the Company shall, at the expense of the Company, file such documents as may be necessary to register or qualify the Registrable Shares under the securities or "blue sky" laws of such states as the Holders may reasonably request, and use its reasonable efforts to cause such filings to become effective in a timely manner; *provided, however*, that the Company shall not be obligated to qualify as a foreign corporation to do business under the laws of any such state in which it is not then qualified or to file any general consent to service of process in any such state. Once such filings are effective, the Company shall use its reasonable efforts, at the expense of the Company, to keep such filings effective until the earlier of (i) such time as all of the Registrable Shares have been disposed of by the Holders, (ii) in the case of a particular state, the Holders have notified the Company that it no longer requires an effective filing in such state in accordance with its original request for filing or (iii) the date on which the Shares covered by such filing cease to constitute Registrable Shares.



**SECTION 5. EXPENSES.**

The Company shall bear all Registration Expenses incurred in connection with the registration of the Registrable Shares pursuant to this Agreement and the Company's performance of its other obligations under the terms of this Agreement. The Holders shall bear all underwriting fees, discounts, commissions, or taxes (including transfer taxes) attributable to the sale of securities by the Holders, or any legal fees and expenses of counsel to the Holders and any underwriter engaged by Holders and all other expenses incurred in connection with the performance by the Holders of their obligations under the terms of this Agreement.

**SECTION 6. INDEMNIFICATION BY THE COMPANY.**

The Company agrees to defend, indemnify and hold harmless each Holder of Registrable Shares, its officers, directors, agents, partners, members, employees, managers, advisors, attorneys, representatives and Affiliates, and each Person, if any, who controls such Holder within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act from and against, as incurred, any and all losses, claims, damages and liabilities (or actions in respect thereof) that arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in any registration statement, preliminary prospectus, prospectus, or free writing prospectus relating to the Registrable Shares (in each case, as amended or supplemented if the Company shall have furnished any amendments or supplements thereto), or that arise out of or are based upon any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, (with respect to any preliminary prospectus, prospectus or free writing prospectus, in light of the circumstances under which they were made), not misleading, except insofar as such losses, claims, damages or liabilities arise out of or are based upon any such untrue statement or omission or alleged untrue statement or omission included in reliance upon and in conformity with information furnished in writing to the Company by such Holder or on such Holder's behalf expressly for inclusion therein.

**SECTION 7. COVENANTS OF HOLDERS.**

Each of the Holders hereby agrees (i) to cooperate with the Company and to furnish to the Company all such information concerning its plan of distribution and ownership interests with respect to its Registrable Shares in connection with the preparation of a Registration Statement with respect to such Holder's Registrable Shares and any filings pursuant to state securities laws as the Company may reasonably request, (ii) to deliver or cause delivery of the Prospectus contained in such Registration Statement (other than an Issuance Registration Statement) to any purchaser of the shares covered by such Registration Statement from such Holder and (iii) severally but not jointly or jointly and severally, to indemnify and hold harmless the Company, its officers, directors, agents, employees, attorneys, representatives and Affiliates, and each Person, if any, who controls the Company within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act to the same extent as the foregoing indemnity from the Company to such Holder, but only with respect to information relating to such Holder included in reliance upon and in conformity with information furnished in writing by such Holder or on such Holder's behalf expressly for use in any registration statement, preliminary prospectus, prospectus or free writing prospectus relating to the Registrable Shares, or any amendment or supplement thereto; provided that the liability of each Holder shall be limited to the gross proceeds received by such Holder from the sale of its Registrable Shares pursuant to any such registration statement. In case any action or proceeding shall be brought against the Company or its officers, directors, agents, employees, attorneys, representatives or Affiliates or any such controlling person, in respect of which indemnity may be sought against such Holder, such Holder shall have the rights and duties given to the

Company, and the Company or its officers, directors, agents, employees, attorneys, representatives or Affiliates or such controlling person shall have the rights and duties given to such Holder, by Section 8 hereof.

**SECTION 8. INDEMNIFICATION PROCEDURES.**

In case any proceeding (including any governmental investigation) shall be instituted involving any Person in respect of which indemnity may be sought pursuant to Section 6 or Section 7 hereof, such Person (an “Indemnified Party”) shall promptly notify the Person against whom such indemnity may be sought (an “Indemnifying Party”) in writing and the Indemnifying Party shall assume the defense thereof, including the employment of counsel reasonably satisfactory to such Indemnified Party, and shall assume the payment of all fees and expenses; provided that the failure of any Indemnified Party to give such notice will not relieve such Indemnifying Party of any obligations under Section 6 or Section 7, except to the extent such Indemnifying Party is materially prejudiced by such failure; provided further, that the failure to notify an Indemnifying Party shall not relieve it from any liability that it may have to an Indemnified Party otherwise under Section 6 or Section 7. In any such proceeding, any Indemnified Party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party unless (i) the Indemnifying Party and the Indemnified Party shall have mutually agreed to the retention of such counsel or (ii) representation of the Indemnified Party by the counsel retained by the Indemnifying Party would be inappropriate due to actual or potential differing interests between the Indemnifying Party and the Indemnified Party. It is understood that the Indemnifying Party shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the reasonable fees and expenses of more than one separate firm of attorneys (in addition to any local counsel) at any time for all such Indemnified Parties, and that all such fees and expenses shall be reimbursed as they are incurred. In the case of any such separate firm for the Indemnified Parties, such firm shall be designated in writing by (a) in the case of Persons indemnified pursuant to Section 6 hereof, the Holders which owned a majority of the Registrable Shares sold under the applicable registration statement and (b) in the case of Persons indemnified pursuant to Section 7, the Company. The Indemnifying Party shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent, or if there be a final judgment for the plaintiff, the Indemnifying Party shall indemnify and hold harmless such Indemnified Parties from and against any loss or liability (to the extent stated above) by reason of such settlement or judgment. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending or threatened proceeding in respect of which any Indemnified Party is or could have been a party and indemnity could have been sought hereunder by such Indemnified Party, unless such settlement includes an unconditional release of such Indemnified Party from all liability arising out of such proceeding without any admission of liability by such Indemnified Party.

**SECTION 9. SUSPENSION OF REGISTRATION REQUIREMENT; RESTRICTION ON SALES.**

The Company shall promptly notify each Holder in writing of the issuance by the Commission of any stop order suspending the effectiveness of a Registration Statement with respect to such Holder’s Registrable Shares or the initiation of any proceedings for that purpose. The Company shall use its reasonable best efforts to obtain the withdrawal of any order suspending the effectiveness of such a Registration Statement as promptly as practicable after the issuance thereof.

Notwithstanding anything to the contrary set forth in this Agreement, the Company's obligation under this Agreement to file, amend or supplement a Registration Statement, or to cause a Registration Statement, or any filings under any state securities laws, to become or remain effective shall be suspended, for up to two periods in any 12-month period, each not to exceed 60 days, in the event of pending negotiations relating to, or consummation of, a transaction or the occurrence of an event that (i) would require additional disclosure of material information by the Company in the Registration Statement or such filing, as to which the Company has a bona fide business purpose for preserving confidentiality, or (ii) render the Company unable to comply with Commission requirements, or (iii) would otherwise make it impractical or unadvisable to cause the Registration Statement or such filings to be filed, amended or supplemented or to become effective (any such circumstances being hereinafter referred to as a "Suspension Event"). The Company shall notify the Holders of the existence of any Suspension Event by promptly delivering to each Holder a certificate signed by an executive officer of the Company stating that a Suspension Event has occurred and is continuing.

Each Holder agrees that, following the effectiveness of any Registration Statement relating to Registrable Shares of such Holder, such Holder will not effect any dispositions of any of the Shares pursuant to such Registration Statement or any filings under any state securities laws at any time after such Holder has received notice from the Company to suspend dispositions as a result of the occurrence or existence of any Suspension Event or so that the Company may correct or update the Registration Statement or such filing. The Holders may recommence effecting dispositions of the Shares pursuant to the Registration Statement or such filings, and all other obligations which are suspended as a result of a Suspension Event shall no longer be so suspended, following further notice to such effect from the Company, which notice shall be given by the Company promptly after the conclusion of any such Suspension Event.

Each Holder of Registrable Shares further agrees, if requested by the Company in the case of a Company-initiated non-underwritten offering registered under the Securities Act (excluding any offerings or issuances registered on Form S-8 or any similar registration form) if requested by the managing underwriter or underwriters in a Company-initiated underwritten offering (each, a "Company Offering"), not to effect any disposition of any of the Shares during the period (the "Offering Blackout Period") beginning upon receipt by such Holder of written notice from the Company, but in any event no earlier than the fifteenth (15th) day preceding the anticipated date of pricing of such Company Offering, and ending no later than ninety (90) days after the closing date of such Company Offering; provided that in no event shall any individual Offering Blackout Period extend for longer than one hundred and twenty (120) days. Such Offering Blackout Period notice shall be in writing in a form reasonably satisfactory to the Company and, if applicable, the managing underwriter or underwriters. The Company agrees that the Holders shall not be restricted as set forth in this paragraph with respect to more than two (2) Offering Blackout Periods in any 12-month period; provided that any Offering Blackout Period that is terminated within twenty (20) days of its initiation shall not be counted for purposes of this paragraph. The Company agrees that if it shall commence an Offering Blackout Period and thereafter determine not to proceed with the offering giving rise to such Offering Blackout Period, the Company shall promptly advise the Holders of such determination and terminate the Offering Blackout Period.

Each Holder agrees that such Holder will treat as confidential the receipt of any notice from the Company of the occurrence of an event relating to a Suspension Event or an Offering

Blackout Period and shall not disclose or use the information contained in such notice without the prior written consent of the Company unless otherwise required by law or subpoena until such time as the information contained therein is or becomes available to the public generally, other than as a result of disclosure by a Holder in breach of the terms of this Agreement.

**SECTION 10. ADDITIONAL SHARES.**

The Company, at its option, may register, under any Registration Statement and any filings under any state securities laws filed pursuant to this Agreement, any number of unissued, treasury, Common Stock or other securities of or owned by the Company and any of its subsidiaries or any Common Stock or other securities of the Company owned by any other security holder or security holders of the Company.

**SECTION 11. CONTRIBUTION.**

If the indemnification provided for in Sections 6 and 7 hereof is unavailable to an Indemnified Party with respect to any losses, claims, damages, actions, liabilities, costs or expenses referred to therein or is insufficient to hold the Indemnified Party harmless as contemplated therein, then the Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such losses, claims, damages, actions, liabilities, costs or expenses in such proportion as is appropriate to reflect the relative fault of the Company, on the one hand, and the Indemnified Party, on the other hand, in connection with the statements or omissions which resulted in such losses, claims, damages, actions, liabilities, costs or expenses as well as any other relevant equitable considerations. The relative fault of the Company, on the one hand, and of the Indemnified Party, on the other hand, shall be determined by reference to, among other factors, whether the untrue or alleged untrue statement of a material fact or omission to state a material fact relates to information supplied by the Company or by the Indemnified Party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; provided, however, that in no event shall the obligation of any Indemnifying Party to contribute under this Section 11 exceed the amount that such Indemnifying Party would have been obligated to pay by way of indemnification if the indemnification provided for under Sections 6 or 7 hereof had been available under the circumstances.

The Company and the Holders agree that it would not be just and equitable if contribution pursuant to this Section 11 were determined by pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to in the immediately preceding paragraph.

Notwithstanding the provisions of this Section 11, no Holder shall be required to contribute any amount in excess of the amount by which the gross proceeds from the sale of Shares exceeds the amount of any damages that such Holder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission. No Indemnified Party guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Indemnifying Party who was not guilty of such fraudulent misrepresentation. The obligations of a Holder to contribute pursuant to this Section 11, if any, are several in proportion to the proceeds actually received by such Holder bears to the total proceeds received by all holders and not joint.

**SECTION 12. NO OTHER OBLIGATION TO REGISTER.**

Except as otherwise expressly provided in this Agreement, the Company shall have no obligation to the Holders to

register the Registrable Shares under the Securities Act. The Holders acknowledge and agree that (i) the Company's obligations under this Agreement to register the Registrable Shares shall only apply to the extent that the Company issues Common Stock in satisfaction of the Holders' election to redeem Units pursuant to Section 8.5 of the Partnership Agreement, (ii) the Company shall have no such obligations prior to the date that is 15 months from the date of the closing of the Contribution unless agreed to by the Company, in its sole and absolute discretion, and (iii) the Company shall have no such obligations if it satisfies such redemption right by paying such Holders cash in accordance with Section 8.5 of the Partnership Agreement.

**SECTION 13. AMENDMENTS AND WAIVERS.**

The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, in each case without the prior written consent of the Company and the Holders (including Assignees) that are parties to this Agreement and hold a majority of the aggregate of the outstanding Registrable Shares and Units that are redeemable for Registrable Shares held by such Holders; provided that, for the purpose of this Section 13, Units that are redeemable for Registrable Shares are to be counted as if all such Units were redeemed in exchange for Common Stock.

**SECTION 14. NOTICES.**

Except as set forth below, all notices and other communications provided for or permitted hereunder shall be in writing and shall be deemed to have been duly given when and if delivered personally or sent by facsimile (with respect to notice by facsimile, on a Business Day between the hours of 8:00 a.m. and 5:00 p.m., New York time), five (5) Business Days after being sent if mailed by registered or certified mail (return receipt requested), postage prepaid, or one Business Day after being sent if sent by courier or overnight delivery service to the respective parties at the following addresses (or at such other address for any party as shall be specified by like notice, provided that notices of a change of address shall be effective only upon receipt thereof), and further provided that in case of directions to amend the Registration Statement pursuant to Section 3(e) or Section 7 hereof, the Holder must confirm such notice in writing by overnight express delivery with confirmation of receipt:

If to the Company: Easterly Government Properties, Inc.  
2101 L Street NW  
Suite 750  
Washington, D.C. 20037  
Fax: (617) 581-1440  
Attn: William C. Trimble, III

With a copy to (which shall not constitute notice):

Goodwin Procter LLP  
53 State Street  
Boston, Massachusetts 02109-2802  
Facsimile: (617) 523-1231  
Attention: Mark S. Opper, Esq.

If to the Holders: At the respective addresses set forth on Exhibit A.

**SECTION 15. SUCCESSORS AND ASSIGNS.**

The Holders and each other holder of Registrable Shares who is or becomes party to this Agreement may transfer its rights under this Agreement with respect to any or all of its Registrable Shares to any Person in connection with a transfer of such Registrable Shares to such Person (an “Assignee”). Any such Assignee must agree in writing to be bound by the provisions of this Agreement (and execute a counterpart signature page or joinder agreement hereto setting forth such obligations) in order to become a party to this Agreement. Except as set forth in this Section 15, the rights under this Agreement are not transferable.

**SECTION 16. COUNTERPARTS.**

This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

**SECTION 17. GOVERNING LAW.**

This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York without regard to the choice of law or conflict of law provisions thereof.

**SECTION 18. SEVERABILITY.**

In the event that any one or more of the provisions contained herein, or the application thereof in any circumstances, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions contained herein shall not be in any way impaired thereby, it being intended that all of the rights and privileges of the parties hereto shall be enforceable to the fullest extent permitted by law.

**SECTION 19. ENTIRE AGREEMENT.**

This Agreement is intended by the parties as a final expression of their agreement and intended to be the complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein and therein. This Agreement supersedes all prior agreements and understandings between the parties with respect to such subject matter.

[SIGNATURE PAGES FOLLOW]

**IN WITNESS WHEREOF**, the parties hereto have executed this Agreement as of the date first written above.

EASTERLY GOVERNMENT PROPERTIES, INC.,  
a Maryland corporation

By: /s/ William C. Trimble, III  
Name: William C. Trimble, III  
Title: Chief Executive Officer and President

**[Signature Page to Registration Rights Agreement]**

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HOLDER:

WEST OP HOLDINGS, LLC

By: /s/ Michael P. Ibe

Name: Michael O. Ibe

Title: Sole Member

**[Signature Page to Registration Rights Agreement]**

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**Exhibit A**

West OP Holdings, LLC  
c/o Western Devcon, Inc.  
10525 Vista Sorrento Parkway, Suite 110  
San Diego, California 92121

**Certification of Chief Executive Officer**  
**Pursuant to Rule 13a-14(a) and Rule 15d-14(a)**

I, William C. Trimble, III, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Easterly Government Properties, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2015

/s/ William C. Trimble, III  
\_\_\_\_\_  
William C. Trimble, III  
Chief Executive Officer and President  
(Principal Executive Officer)

**Certification of Chief Financial Officer**  
**Pursuant to Rule 13a-14(a) and Rule 15d-14(a)**

I, Alison M. Bernard, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Easterly Government Properties, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2015

/s/ Alison M. Bernard  
\_\_\_\_\_  
Alison M. Bernard  
Chief Financial Officer  
(Principal Financial Officer)

**Certification**  
**Pursuant to 18 U.S.C. Section 1350**

The undersigned officers, who are the Chief Executive Officer and Chief Financial Officer of Easterly Government Properties, Inc. (the "Company"), each hereby certifies to the best of his or her knowledge, that the Company's Quarterly Report on Form 10-Q to which this certification is attached (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William C. Trimble, III

William C. Trimble, III  
Chief Executive Officer and President

November 5, 2015

/s/ Alison M. Bernard

Alison M. Bernard  
Executive Vice President and Chief Financial Officer

November 5, 2015