

Spirit Realty Capital, Inc.  
Form 10-Q  
August 05, 2016

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

Form 10-Q

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

For the quarterly period ended June 30, 2016

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 001-36004

\_\_\_\_\_  
SPIRIT REALTY CAPITAL, INC.  
(Exact name of registrant as specified in its charter)

\_\_\_\_\_  
Maryland 20-1676382  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

2727 North Harwood Street, Suite 300, Dallas, Texas 75201 (480) 606-0820  
(Address of principal executive offices; zip code) (Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)  
\_\_\_\_\_  
16767 North Perimeter Drive, Suite 210, Scottsdale, Arizona 85260\_\_\_\_\_

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 Exchange Act).  
Yes  No

As of August 1, 2016, there were 479,678,090 shares of common stock, par value \$0.01, of Spirit Realty Capital, Inc. outstanding.

SPIRIT REALTY CAPITAL, INC.  
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GLOSSARY

Definitions:

1031 Exchange	Tax-deferred like-kind exchange of properties held for business or investment purposes, pursuant to Section 1031 of the Code
2013 Credit Facility	\$400.0 million secured credit facility pursuant to the credit agreement between the Operating Partnership and certain lenders dated July 17, 2013
2015 Credit Facility	\$800.0 million unsecured credit facility pursuant to the Credit Agreement
2019 Notes	\$402.5 million convertible notes of the Corporation due in 2019
2021 Notes	\$345.0 million convertible notes of the Corporation due in 2021
AFFO	Adjusted Funds From Operations
Amended Incentive Award Plan	Amended and Restated Spirit Realty Capital, Inc. and Spirit Realty, L.P. 2012 Incentive Award Plan
AOCL	Accumulated Other Comprehensive Loss
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
ATM Program	At the Market equity distribution program, pursuant to which the Corporation may offer and sell registered shares of common stock from time to time
CAM	Tenant Common Area Maintenance costs
CMBS	Commercial Mortgage Backed Securities
Code	Internal Revenue Code of 1986, as amended
Cole II	Cole Credit Property Trust II, Inc.
Cole II Merger	Acquisition on July 17, 2013 of Cole II by the Company, in which the Company merged with and into the Cole II legal entity
Collateral Pools	Pools of collateral assets that are pledged to the indenture trustee for the benefit of the noteholders and secure obligations of issuers under the Spirit Master Funding Program
Company	The Corporation and its consolidated subsidiaries
Convertible Notes	The 2019 Notes and 2021 Notes, together
Corporation	Spirit Realty Capital, Inc., a Maryland corporation
CPI	Consumer Price Index
Credit Agreement	2015 credit facility agreement between the Operating Partnership and certain lenders dated March 31, 2015, or otherwise modified from time to time
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FFO	Funds From Operations
GAAP	Generally Accepted Accounting Principles in the United States
LIBOR	London Interbank Offered Rate
Line of Credit	\$40.0 million secured revolving credit facility pursuant to the loan agreement between an indirect wholly-owned subsidiary of the Corporation and a certain lender dated March 27, 2013, as amended
Master Trust 2013	The net-lease mortgage securitization trust established in December 2013 under the Spirit Master Funding Program
Master Trust 2014	The net-lease mortgage securitization trust established in 2005 and amended and restated in 2014 under the Spirit Master Funding Program
Master Trust Notes	The Master Trust 2013 and Master Trust 2014 notes, together
Master Trust Release	Proceeds from the sale of assets securing the Master Trust Notes held in restricted accounts until a qualifying substitution is made
Moody's	Moody's Investor Services
NAREIT	National Association of Real Estate Investment Trusts



Definitions:

Normalized Rental Revenue	Total rental revenues and earned income from direct financing leases from our owned properties during the final month of the reporting period normalized to exclude total rental revenues and earned income from direct financing leases from our owned properties during the final month of the reporting period contributed by properties sold during that period
Normalized Revenue	Total revenues normalized to exclude total revenues contributed by properties sold during that period
OP Holdings	Spirit General OP Holdings, LLC
Operating Partnership	Spirit Realty, L.P., a Delaware limited partnership
REIT	Real Estate Investment Trust
Revolving Credit Facilities	The 2013 Credit Facility, the 2015 Credit Facility and Line of Credit, together
S&P	Standard & Poor's Rating Services
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
Shopko	Specialty Retail Shops Holding Corp. and certain of its affiliates
Spirit Master Funding Program	The Company's asset-backed securitization program that comprises Master Trust 2013 and Master Trust 2014
Term Loan	\$370.0 million senior unsecured term facility pursuant to the Term Loan Agreement
Term Loan Agreement	Term loan agreement between the Operating Partnership and certain lenders dated November 3, 2015, as amended or otherwise modified from time to time
Total Debt	Principal debt outstanding before discounts, premiums or deferred financing costs
TSR	Total Shareholder Return
Walgreens	Walgreen Company

Unless otherwise indicated or unless the context requires otherwise, all references to "we," "us" or "our" refer to the Corporation and its consolidated subsidiaries, including the Operating Partnership.

## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

## SPIRIT REALTY CAPITAL, INC.

## Consolidated Balance Sheets

(In Thousands, Except Share and Per Share Data)

	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Investments:		
Real estate investments:		
Land and improvements	\$2,716,408	\$ 2,710,888
Buildings and improvements	4,821,840	4,816,481
Total real estate investments	7,538,248	7,527,369
Less: accumulated depreciation	(931,834 )	(860,954 )
	6,606,414	6,666,415
Loans receivable, net	86,165	104,003
Intangible lease assets, net	491,489	526,718
Real estate assets under direct financing leases, net	36,021	44,324
Real estate assets held for sale, net	80,665	85,145
Net investments	7,300,754	7,426,605
Cash and cash equivalents	29,410	21,790
Deferred costs and other assets, net	148,497	179,180
Goodwill	291,421	291,421
Total assets	\$7,770,082	\$ 7,918,996
Liabilities and stockholders' equity		
Liabilities:		
Revolving Credit Facilities	\$—	\$—
Term Loan, net	368,207	322,902
Mortgages and notes payable, net	2,571,844	3,079,787
Convertible Notes, net	696,290	690,098
Total debt, net	3,636,341	4,092,787
Intangible lease liabilities, net	185,811	193,903
Accounts payable, accrued expenses and other liabilities	138,457	142,475
Total liabilities	3,960,609	4,429,165
Commitments and contingencies (see Note 7)		
Stockholders' equity:		
Common stock, \$0.01 par value, 750,000,000 shares authorized: 479,678,090 and 441,819,964 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	4,797	4,418
Capital in excess of par value	5,126,685	4,721,323
Accumulated deficit	(1,321,973 )	(1,234,882 )
Accumulated other comprehensive loss	(36 )	(1,028 )
Total stockholders' equity	3,809,473	3,489,831
Total liabilities and stockholders' equity	\$7,770,082	\$ 7,918,996
See accompanying notes.		



SPIRIT REALTY CAPITAL, INC.  
Consolidated Statements of Operations  
(In Thousands, Except Share and Per Share Data)  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Rentals	\$ 160,506	\$ 159,607	\$ 322,325	\$ 314,125
Interest income on loans receivable	1,625	1,730	3,284	3,452
Earned income from direct financing leases	698	779	1,422	1,574
Tenant reimbursement income	3,200	3,492	7,024	8,123
Other income and interest from real estate transactions	5,697	2,326	6,028	2,947
Total revenues	171,726	167,934	340,083	330,221
Expenses:				
General and administrative	13,850	11,972	25,499	24,572
Restructuring charges	1,813	—	2,462	—
Property costs	6,611	6,414	13,938	13,821
Real estate acquisition costs	979	453	1,036	1,546
Interest	49,172	56,167	102,189	114,081
Depreciation and amortization	64,263	64,671	128,927	130,967
Impairments	12,732	33,766	24,863	35,390
Total expenses	149,420	173,443	298,914	320,377
Income (loss) from continuing operations before other income and income tax expense	22,306	(5,509)	41,169	9,844
Other income:				
Gain on debt extinguishment	14,016	3,377	8,675	2,147
Total other income	14,016	3,377	8,675	2,147
Income (loss) from continuing operations before income tax expense	36,322	(2,132)	49,844	11,991
Income tax expense	(839)	(161)	(920)	(523)
Income (loss) from continuing operations	35,483	(2,293)	48,924	11,468
Discontinued operations:				
(Loss) income from discontinued operations	—	(96)	—	131
Gain on disposition of assets	—	590	—	590
Income from discontinued operations	—	494	—	721
Income (loss) before gain on disposition of assets	35,483	(1,799)	48,924	12,189
Gain on disposition of assets	14,027	62,690	26,589	74,026
Net income attributable to common stockholders	\$ 49,510	\$ 60,891	\$ 75,513	\$ 86,215
Net income per share of common stock—basic:				
Continuing operations	\$ 0.10	\$ 0.14	\$ 0.16	\$ 0.20
Discontinued operations	—	—	—	—
Net income per share attributable to common stockholders—basic	\$ 0.10	\$ 0.14	\$ 0.16	\$ 0.20
Net income per share of common stock—diluted:				
Continuing operations	\$ 0.10	\$ 0.14	\$ 0.16	\$ 0.20
Discontinued operations	—	—	—	—
Net income per share attributable to common stockholders—diluted	\$ 0.10	\$ 0.14	\$ 0.16	\$ 0.20
Weighted average shares of common stock outstanding:				
Basic	473,161,125	436,619,138	457,263,526	423,889,238



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Diluted	473,164,386	436,923,755	457,267,015	424,343,232
Dividends declared per common share issued	\$0.17500	\$ 0.17000	\$ 0.35000	\$ 0.34000
See accompanying notes.				

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SPIRIT REALTY CAPITAL, INC.  
 Consolidated Statements of Comprehensive Income  
 (In Thousands)  
 (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income attributable to common stockholders	\$49,510	\$60,891	\$75,513	\$86,215
Other comprehensive income:				
Change in net unrealized (losses) gains on cash flow hedges	(317 )	40	(1,173 )	(811 )
Net cash flow hedge losses reclassified to operations	1,930	381	2,165	697
Total comprehensive income	\$51,123	\$61,312	\$76,505	\$86,101
See accompanying notes.				

SPIRIT REALTY CAPITAL, INC.  
Consolidated Statement of Stockholders' Equity  
(In Thousands, Except Share Data)  
(Unaudited)

	Common Stock				AOCL	Total Stockholders' Equity
	Shares	Par Value	Capital in Excess of Par Value	Accumulated Deficit		
Balances, December 31, 2015	441,819,964	\$4,418	\$4,721,323	\$(1,234,882)	\$(1,028)	\$3,489,831
Net income	—	—	—	75,513	—	75,513
Other comprehensive income	—	—	—	—	992	992
Dividends declared on common stock	—	—	—	(161,536 )	—	(161,536 )
Repurchase of shares of common stock	(174,235 )	(2 )	—	(737 )	—	(739 )
Issuance of shares of common stock, net	37,512,260	375	401,578	—	—	401,953
Stock-based compensation, net	520,101	6	3,784	(331 )	—	3,459
Balances, June 30, 2016	479,678,090	\$4,797	\$5,126,685	\$(1,321,973)	\$(36 )	\$3,809,473

See accompanying notes.

SPIRIT REALTY CAPITAL, INC.  
Consolidated Statements of Cash Flows  
(In Thousands)  
(Unaudited)

	Six Months Ended June 30,	
	2016	2015
Operating activities		
Net income attributable to common stockholders	\$75,513	\$86,215
Adjustments to reconcile net income attributable to common stockholders to net cash provided by operating activities:		
Depreciation and amortization	128,927	130,967
Impairments	24,863	35,424
Amortization of deferred financing costs	4,402	3,973
Payment to terminate interest rate swap	(1,724 )	(64 )
Derivative interest rate amortization and other interest rate swap losses (gains)	1,781	(21 )
Amortization of debt discounts	1,507	1,139
Stock-based compensation expense	3,790	7,288
Gain on debt extinguishment	(8,675 )	(2,147 )
Debt extinguishment costs	(10,625 )	(3,623 )
Gains on dispositions of real estate and other assets, net	(26,589 )	(74,616 )
Non-cash revenue	(11,954 )	(10,551 )
Other	210	(27 )
Changes in operating assets and liabilities:		
Deferred costs and other assets, net	(179 )	(1,641 )
Accounts payable, accrued expenses and other liabilities	(3,620 )	(4,677 )
Accrued restructuring charges	(647 )	—
Net cash provided by operating activities	176,980	167,639
Investing activities		
Acquisitions of real estate	(235,342)	(547,487)
Capitalized real estate expenditures	(5,978 )	(3,175 )
Investments in loans receivable	—	(4,000 )
Collections of principal on loans receivable and real estate assets under direct financing leases	16,783	2,924
Proceeds from dispositions of real estate and other assets	189,023	340,971
Transfers of net sales proceeds from (to) restricted accounts pursuant to 1031 Exchanges	39,867	(40,034 )
Transfers of net sales proceeds (to) from Master Trust Release	(3,862 )	43,442
Net cash provided by (used in) investing activities	491	(207,359)
Financing activities		
Borrowings under Revolving Credit Facilities	357,000	405,000
Repayments under Revolving Credit Facilities	(357,000)	(400,181)
Repayments under mortgages and notes payable	(460,766)	(321,884)
Borrowings under Term Loan	451,000	—
Repayments under Term Loan	(406,000)	—
Deferred financing costs	(1,077 )	(3,782 )
Proceeds from issuance of common stock, net of offering costs	401,953	347,255
Proceeds from exercise of stock options	—	46
Repurchase of shares of common stock	(739 )	(720 )
Dividends paid to equity owners	(154,982)	(141,174)
Transfers from reserve/escrow deposits with lenders	760	18,653
Net cash used in financing activities	(169,851)	(96,787 )

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Net increase (decrease) in cash and cash equivalents	7,620	(136,507)
Cash and cash equivalents, beginning of period	21,790	176,181
Cash and cash equivalents, end of period	\$29,410	\$39,674
See accompanying notes.		

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SPIRIT REALTY CAPITAL, INC.

Notes to Consolidated Financial Statements

June 30, 2016

(Unaudited)

Note 1. Organization

Company Organization and Operations

The Company operates as a self-administered and self-managed REIT that seeks to generate and deliver sustainable and attractive returns for stockholders by investing primarily in and managing a portfolio of single-tenant, operationally essential real estate throughout the U.S. that is generally leased on a long-term, triple-net basis to tenants operating within predominantly retail, but also office and industrial property types. Single tenant, operationally essential real estate generally refers to free-standing, commercial real estate facilities where tenants conduct activities that are essential to the generation of their sales and profits.

The Company's operations are generally carried out through the Operating Partnership. OP Holdings, one of the Corporation's wholly-owned subsidiaries, is the sole general partner and owns 1.0% of the Operating Partnership. The Corporation and a wholly-owned subsidiary are the only limited partners and together own the remaining 99.0% of the Operating Partnership.

As of June 30, 2016, our undepreciated investment in real estate and loans totaled approximately \$8.27 billion, representing investments in 2,654 properties, including properties or other related assets securing mortgage loans made by the Company. Of this amount, 99.0% consisted of our \$8.18 billion investment in real estate, representing ownership of 2,545 properties, and the remaining 1.0% consisted of \$86.2 million in commercial mortgage and other loans receivable, primarily secured by the remaining 109 properties or other related assets.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting and Principles of Consolidation

The accompanying unaudited consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the SEC. In the opinion of management, the unaudited consolidated financial statements include the normal, recurring adjustments necessary for a fair statement of the information required to be set forth therein. The results for interim periods are not necessarily indicative of the results for the entire year. Certain information and note disclosures, normally included in financial statements prepared in accordance with GAAP, have been condensed or omitted from these statements pursuant to SEC rules and regulations and, accordingly, these financial statements should be read in conjunction with the Company's audited consolidated financial statements as filed with the SEC in its Annual Report on Form 10-K for the year ended December 31, 2015.

The unaudited consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company has formed numerous special purpose entities to acquire and hold real estate encumbered by indebtedness (see Note 4). As a result, the majority of the Company's consolidated assets are held in these wholly-owned special purpose entities. Each special purpose entity is a separate legal entity and is the sole owner of its assets and responsible for its liabilities. The assets of these special purpose entities are not available to pay, or otherwise satisfy obligations to, the creditors of any affiliate or owner of another entity unless the special purpose entities have expressly agreed and are permitted under their governing documents. At June 30, 2016 and December 31, 2015, net assets totaling \$3.62 billion and \$4.57 billion, respectively, were held, and net liabilities totaling \$2.67 billion and \$3.19 billion, respectively, were owed by these special purpose entities and are included in the accompanying consolidated balance sheets.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although management believes its estimates

are reasonable, actual results could differ from those estimates.

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## SPIRIT REALTY CAPITAL, INC.

Notes to Consolidated Financial Statements - (continued)

June 30, 2016

(Unaudited)

## Segment Reporting

The Company views its operations as one segment, which consists of net leasing operations. The Company has no other reportable segments.

## Allowance for Doubtful Accounts

The Company provided for reserves for uncollectible amounts related to its rent and other tenant receivables totaling \$12.0 million and \$11.5 million at June 30, 2016 and December 31, 2015, respectively, against accounts receivable balances of \$25.6 million and \$26.3 million, respectively. Receivables are recorded within deferred costs and other assets, net in the accompanying consolidated balance sheets.

The Company established a reserve for losses of \$9.9 million and \$12.2 million at June 30, 2016 and December 31, 2015, respectively, against deferred rental revenue receivables of \$75.4 million and \$68.0 million, respectively.

Deferred rental revenue receivables are recorded within deferred costs and other assets, net in the accompanying consolidated balance sheets.

## Restricted Cash and Escrow Deposits

Restricted cash and deposits in escrow, classified within deferred costs and other assets, net in the accompanying consolidated balance sheets consisted of the following (in thousands):

	June 30, December 31,	
	2016	2015
Collateral deposits <sup>(1)</sup>	\$11,786	\$ 14,475
Tenant improvements, repairs, and leasing commissions <sup>(2)</sup>	9,212	8,362
Master Trust Release <sup>(3)</sup>	15,954	12,091
1031 Exchange proceeds, net	2	39,869
Loan impounds <sup>(4)</sup>	907	1,025
Other <sup>(5)</sup>	706	1,823
	\$38,567	\$ 77,645

<sup>(1)</sup> Funds held in reserve by lenders which can be applied at their discretion to the repayment of debt (any funds remaining on deposit after the debt is paid in full are released to the borrower). During the six months ended June 30, 2016, \$2.3 million of lender reserves were surrendered to lenders in connection with the extinguishment of certain loans in default.

<sup>(2)</sup> Deposits held as additional collateral support by lenders to fund tenant improvements, repairs and leasing commissions incurred to secure a new tenant.

<sup>(3)</sup> Proceeds from the sale of assets pledged as collateral under the Spirit Master Funding Program, which are held on deposit until a qualifying substitution is made or the funds are applied as prepayment of principal.

<sup>(4)</sup> Funds held in lender controlled accounts generally used to meet future debt service or certain property operating expenses.

<sup>(5)</sup> Funds held in lender controlled accounts released after scheduled debt service requirements are met.

## Income Taxes

The Company has elected to be taxed as a REIT under the Code. As a REIT, the Company generally will not be subject to federal income tax provided it continues to satisfy certain tests concerning the Company's sources of income, the nature of its assets, the amounts distributed to its stockholders, and the ownership of Company stock. Management believes the Company has qualified and will continue to qualify as a REIT and therefore, no provision has been made for federal income taxes in the accompanying consolidated financial statements. Even if the Company qualifies for taxation as a REIT, it may be subject to state and local income and franchise taxes, and to federal income tax and excise tax on its undistributed income.



Franchise taxes are included in general and administrative expenses on the accompanying consolidated statements of operations. Taxable income from non-REIT activities managed through the Company's taxable REIT subsidiaries are subject to federal, state, and local taxes, which are not material.

SPIRIT REALTY CAPITAL, INC.

Notes to Consolidated Financial Statements - (continued)

June 30, 2016

(Unaudited)

New Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the FASB or the SEC that are adopted by the Company as of the specified effective date. Unless otherwise discussed, these new accounting pronouncements entail technical corrections to existing guidance or affect guidance related to specialized industries or entities and therefore will have minimal, if any, impact on the Company's financial position or results of operations upon adoption.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes the existing guidance for lease accounting, Leases (Topic 840). ASU 2016-02 requires lessees to recognize leases on their balance sheets, and leaves lessor accounting largely unchanged. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early application is permitted for all entities. ASU 2016-02 requires a modified retrospective approach for all leases existing at, or entered into after, the date of initial application, with an option to elect to use certain transition relief. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies many aspects of accounting for share-based payment transactions under ASC Topic 718, Compensation - Stock Compensation, including income tax consequences, classification of awards as either equity or liability, forfeiture rate calculations and classification on the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted for all entities. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

In May 2016, the FASB issued ASU 2016-12, Narrow-Scope Improvements and Practical Expedients, which amends certain aspects of the guidance under ASU 2014-09, Revenue from Contracts with Customers: Topic 606. ASU 2016-12. is effective for annual reporting periods beginning after December 15, 2017 with early application permitted for annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments, which requires more timely recognition of credit losses associated with financial assets. ASU 2016-13 requires financial assets (or a group of financial assets) measured at an amortized cost basis to be presented at the net amount expected to be collected. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

Note 3. Investments

Real Estate Investments

As of June 30, 2016, the Company's gross investment in real estate properties and loans totaled approximately \$8.27 billion, representing investments in 2,654 properties, including 109 properties or other related assets securing mortgage loans. The gross investment is comprised of land, buildings, lease intangible assets and lease intangible liabilities, as adjusted for any impairment, and the carrying amount of loans receivable, real estate assets held under direct financing leases and real estate assets held for sale. The portfolio is geographically dispersed throughout 49 states with only one state, Texas, with a real estate investment of 12.2%, accounting for more than 10.0% of the total

dollar amount of the Company's real estate investment portfolio.

The properties that the Company owns are leased to tenants under long-term operating leases that typically include one or more renewal options. The leases are generally triple-net, which provides that the lessee is responsible for the payment of all property operating expenses, including property taxes, maintenance and repairs, and insurance costs. Therefore, the Company is generally not responsible for repairs or other capital expenditures related to its properties, unless the property is not subject to a triple-net lease agreement or becomes vacant. Generally, the Company's single-tenant leases contain contractual provisions increasing the rental revenue over the term of the lease at specified dates

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## SPIRIT REALTY CAPITAL, INC.

Notes to Consolidated Financial Statements - (continued)

June 30, 2016

(Unaudited)

by: (1) a fixed amount or (2) increases in CPI over a specified period (typically subject to ceilings) or (b) a fixed percentage.

During the six months ended June 30, 2016, the Company had the following real estate and loan activity, net of accumulated depreciation and amortization:

	Number of Properties			Dollar Amount of Investments		
	Owned (4)	Financed	Total	Owned	Financed	Total
				(In Thousands)		
Gross balance, December 31, 2015	2,485	144	2,629	\$8,199,571	\$104,003	\$8,303,574
Acquisitions/improvements <sup>(1) (3) (5)</sup>	125	—	125	241,321	—	241,321
Dispositions of real estate <sup>(2) (3)</sup>	(65 )	—	(65 )	(227,470 )	—	(227,470 )
Principal payments and payoffs <sup>(5)</sup> (Impairments)/recoveries	—	(35 )	(35 )	—	(16,726 )	(16,726 )
Write-off of gross lease intangibles	—	—	—	(25,187 )	324	(24,863 )
Loan premium amortization and other	—	—	—	(6,182 )	—	(6,182 )
Gross balance, June 30, 2016	2,545	109	2,654	\$8,182,013	\$86,165	\$8,268,178
Accumulated depreciation and amortization				(1,154,525 )	—	(1,154,525 )
Other non-real estate assets held for sale				1,290	—	1,290
Net balance, June 30, 2016				\$7,028,778	\$86,165	\$7,114,943

<sup>(1)</sup> Includes investments of \$5.2 million in revenue producing capitalized expenditures, as well as \$0.7 million of non-revenue producing capitalized maintenance expenditures. Capitalized maintenance expenditures are not included in the Company's investment in real estate disclosed elsewhere.

<sup>(2)</sup> The total accumulated depreciation and amortization associated with dispositions of real estate was \$37.2 million.

<sup>(3)</sup> During the six months ended June 30, 2016, pursuant to 1031 Exchanges, the Company sold 5 properties for \$24.4 million. Of this amount, and including \$39.9 million of 2015 proceeds, \$64.3 million was used to partially fund 11 property acquisitions.

<sup>(4)</sup> At June 30, 2016 and December 31, 2015, 43 and 36, respectively, of the Company's properties were vacant and in the Company's possession; of these vacant properties, 10 and 12, respectively, were held for sale.

<sup>(5)</sup> During the six months ended June 30, 2016, the Company transferred cash and mortgage notes receivable secured by 35 properties to acquire the fee simple interest of those properties.

Scheduled minimum future contractual rent to be received under the remaining non-cancelable term of the operating leases at June 30, 2016 (in thousands):

Remainder of 2016	\$311,429
2017	618,687
2018	605,423
2019	588,134
2020	567,348
Thereafter	4,489,458
Total future minimum rentals	\$7,180,479

Because lease renewal periods are exercisable at the option of the lessee, the preceding table presents future minimum lease payments due during the initial lease term only. In addition, the future minimum rentals do not include any contingent rentals based on a percentage of the lessees' gross sales or lease escalations based on future changes in the CPI or other stipulated reference rate.

Certain of the Company's leases contain purchase options. Most of these options are at or above fair market value at the time the option is exercisable, and none of these purchase options represent bargain purchase options.

## SPIRIT REALTY CAPITAL, INC.

Notes to Consolidated Financial Statements - (continued)

June 30, 2016

(Unaudited)

## Loans Receivable

The following table details loans receivable, net of premium and allowance for loan losses (in thousands):

	June 30, December 31,	
	2016	2015
Mortgage loans - principal	\$73,503	\$ 90,096
Mortgage loans - premium	8,550	9,986
Mortgages loans, net	82,053	100,082
Other note receivables - principal	4,112	4,245
Allowance for loan losses	—	(324 )
Other note receivables, net	4,112	3,921
Total loans receivable, net	\$86,165	\$ 104,003

The mortgage loans are secured by single-tenant commercial properties and generally have fixed interest rates over the term of the loans. There are two other notes receivable, one \$3.8 million note is secured by tenant assets and stock and the other is unsecured.

## Allowance for Loan Losses

At June 30, 2016, there was no allowance for loan losses compared to an allowance for loan losses on an unsecured note receivable of \$0.3 million at December 31, 2015. At June 30, 2016, there were no mortgages or notes receivable on non-accrual status compared to no mortgage loans and one note receivable with a balance of \$0.3 million on non-accrual status at December 31, 2015.

## Lease Intangibles, Net

The following table details lease intangible assets and liabilities, net of accumulated amortization (in thousands):

	June 30, December 31,	
	2016	2015
In-place leases	\$637,073	\$ 649,182
Above-market leases	93,532	98,056
Less: accumulated amortization	(239,116 )	(220,520 )
Intangible lease assets, net	\$491,489	\$ 526,718

Below-market leases	\$233,392	\$ 238,039
Less: accumulated amortization	(47,581 )	(44,136 )
Intangible lease liabilities, net	\$185,811	\$ 193,903

The amounts amortized as a net increase to rental revenue for capitalized above- and below-market leases were \$3.0 million and \$2.8 million for the six months ended June 30, 2016 and 2015, respectively, and \$1.5 million and \$1.4 million for the three months ended June 30, 2016 and 2015, respectively. The value of in-place leases amortized and included in depreciation and amortization expense was \$23.5 million and \$25.4 million for the six months ended June 30, 2016 and 2015, respectively, and \$11.6 million and \$12.6 million for the three months ended June 30, 2016 and 2015, respectively.

SPIRIT REALTY CAPITAL, INC.

Notes to Consolidated Financial Statements - (continued)

June 30, 2016

(Unaudited)

Real Estate Assets Under Direct Financing Leases

The components of real estate investments held under direct financing leases were as follows (in thousands):

	June 30, 2016	December 31, 2015
Minimum lease payments receivable	\$10,793	\$ 12,702
Estimated residual value of leased assets	35,640	43,789
Unearned income	(10,412 )	(12,167 )
Real estate assets under direct financing leases, net	\$36,021	\$ 44,324

Real Estate Assets Held for Sale

The following table shows the activity in real estate assets held for sale for the six months ended June 30, 2016 (dollars in thousands):

	Number of Properties	Carrying Value
Balance, December 31, 2015	36	\$85,145
Transfers from real estate investments	31	81,371
Sales	(34 )	(85,851 )
Balance, June 30, 2016	33	\$80,665

Impairments

The following table summarizes total impairment losses recognized in continuing and discontinued operations on the accompanying consolidated statements of operations (in thousands):

Three Months Ended June 30, 2016	Six Months Ended June 30, 2015	2016