SPIRIT REALTY CAPITAL, INC.
Form 10-Q/A
November 01, 2016

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

Form 10-Q/A

x 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
o 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 incorporation or organization)	(I.R.S. Employer Identification Number)
2727 North Harwood Street, Suite 300, Dallas, Texas 75201	(972) 476-1900
(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 x No o

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 x No o

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	x	Accelerated filer	o
Non-accelerated filer	o (Do not check if smaller reporting company)	Smaller reporting company	o

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

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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Explanatory Note

The Company is restating its interim unaudited consolidated financial statements for the quarter ended June 30, 2016. See the Company's Current Report on Form 8-K filed with the SEC on October 19, 2016 for additional details.

When the Company disposes of real estate assets, if the real estate assets constitute a business, a portion of the Company's goodwill should be allocated to the carrying value of the business disposed of to determine the gain/loss on disposal. Further, when the Company classifies real estate assets that constitute a business as held for sale, the carrying amount used to determine an impairment loss, if any, should include an allocation of goodwill, in accordance with ASC 350 "Intangibles - Goodwill and Other." Historically, the Company did not allocate goodwill resulting from the Cole II Merger to real estate assets disposed of or consider the amount of goodwill attributable to real estate assets held for sale in assessing impairment in the Company's consolidated financial statements as of and for the three and six months ended June 30, 2016.

As explained in Note 2 to the consolidated financial statements included within this Form 10-Q/A (as defined below), the restatement is a correction of an error in the application of the accounting treatment under ASC 350. For each real estate asset that constitutes a business that was disposed of or classified as held for sale, the restatement reflects an allocation of goodwill that has been derived based upon the proportionate fair value of the real estate asset to the fair value of the Company's reporting unit (i.e. the Company's equity).

The allocation of goodwill to real estate assets disposed of resulted in a decrease in gain on disposition of assets of \$2.9 million and \$5.3 million for the three and six months ended June 30, 2016, respectively, and a decrease of \$33.1 million to goodwill as of June 30, 2016. The allocation of goodwill to real estate assets held for sale resulted in an increase of \$0.6 million and \$1.1 million to impairments for the three and six months ended June 30, 2016, respectively, and a decrease of \$1.4 million to real estate assets held for sale, net as of June 30, 2016. Additionally, the correction of these errors resulted in an increase of \$34.4 million to accumulated deficit as of June 30, 2016.

This Amendment No. 1 on Form 10-Q/A ("Form 10-Q/A") to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, initially filed with the SEC on August 5, 2016 (the "Original Filing"), is being filed to reflect the restatement of (i) the Company's consolidated balance sheet at June 30, 2016 and December 31, 2015, (ii) the Company's consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2016 and 2015, (iii) the Company's consolidated statement of stockholders' equity for the six months ended June 30, 2016 and (iv) the Company's consolidated statements of cash flows for the six months ended June 30, 2016 and 2015, and the notes related thereto. For the convenience of the reader, this Form 10-Q/A sets forth the Original Filing in its entirety and only amends and restates Items 1, 2, and 4 of Part I of the Original Filing to reflect the adjustments described above and in Note 2, and the related impact on disclosures. No other information in the Original Filing is amended. For a more detailed description of these matters, see Note 2 to the accompanying consolidated financial statements in this Form 10-Q/A.

Notably, these adjustments did not negatively impact the following metrics of the Company:

- Revenues;
- Cash position or its total cash flows from operating, investing or financing activities;
- Liquidity;
- Funds from operations ("FFO");
- Adjusted funds from operations ("AFFO");
- Reported capitalization rates on the sale of assets; and
- Any metric utilized in the determination of executive compensation.

Additionally, the Company remains in compliance with all of its debt agreements and financial covenants.

Pursuant to the rules of the SEC, Item 6 of Part II of the Original Filing has been amended to contain the currently-dated certifications from our Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of our Chief Executive Officer and Chief Financial Officer are attached to this Form 10-Q/A as Exhibits 31.1, 31.2 and 32.1, respectively.

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.

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PART I — FINANCIAL INFORMATION
Item 1. Financial Statements
SPIRIT REALTY CAPITAL, INC.
Consolidated Balance Sheets (As Restated, see Note 2)
(In Thousands, Except Share and Per Share Data)
(Unaudited)

	June 30, 2016 (Restated)	December 31, 2015 (Restated)
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	79,306	84,259
Net investments	7,299,395	7,425,719
Cash and cash equivalents	29,410	21,790
Deferred costs and other assets, net	148,497	179,180
Goodwill	258,369	264,350
Total assets	$7,735,671	$7,891,039
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 8)		
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	(1,356,384)	(1,262,839)
Accumulated other comprehensive loss	(36)	(1,028)
Total stockholders' equity	3,775,062	3,461,874
Total liabilities and stockholders' equity	$7,735,671	$7,891,039

See accompanying notes.

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SPIRIT REALTY CAPITAL, INC.
Consolidated Statements of Operations (As Restated, see Note 2)
(In Thousands, Except Share and Per Share Data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016 (Restated)	2015 (Restated)	2016 (Restated)	2015 (Restated)
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	13,371	33,771	25,989	35,971
Total expenses	150,059	173,448	300,040	320,958
Income (loss) from continuing operations before other income and income tax expense	21,667	(5,514)	40,043	9,263
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	35,683	(2,137)	48,718	11,410
Income tax expense	(839)	(161)	(920)	(523)
Income (loss) from continuing operations	34,844	(2,298)	47,798	10,887
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	34,844	(1,804)	47,798	11,608
Gain on disposition of assets	11,115	51,149	21,261	60,300
Net income attributable to common stockholders	$45,959	$49,345	$69,059	$71,908
Net income per share of common stock—basic:				
Continuing operations	$0.10	$0.11	$0.15	$0.17
Discontinued operations	—	—	—	—
Net income per share attributable to common stockholders—basic	$0.10	$0.11	$0.15	$0.17
Net income per share of common stock—diluted:				
Continuing operations	$0.10	$0.11	$0.15	$0.17
Discontinued operations	—	—	—	—
Net income per share attributable to common stockholders—diluted	$0.10	$0.11	$0.15	$0.17
Weighted average shares of common stock outstanding:				

Basic	473,161,125	436,619,138	457,263,526	423,889,238
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 (As Restated, see Note 2)
(In Thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016 (Restated)	2015 (Restated)	2016 (Restated)	2015 (Restated)
Net income attributable to common stockholders	$45,959	$ 49,345	$69,059	$ 71,908
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	$47,572	$ 49,766	$70,051	$ 71,794

See accompanying notes.

SPIRIT REALTY CAPITAL, INC.
Consolidated Statement of Stockholders' Equity (As Restated, see Note 2)
(In Thousands, Except Share Data)
(Unaudited)

	Common Stock					
	Shares	Par Value	Capital in Excess of Par Value	Accumulated Deficit	AOCL	Total Stockholders' Equity
Balances, December 31, 2015 (Restated)	441,819,964	$4,418	$4,721,323	$(1,262,839)	$(1,028)	$3,461,874
Net income (Restated)	—	—	—	69,059	—	69,059
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 (Restated)	479,678,090	$4,797	$5,126,685	$(1,356,384)	$(36)	$3,775,062

See accompanying notes.

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SPIRIT REALTY CAPITAL, INC.
Consolidated Statements of Cash Flows (As Restated, see Note 2)
(In Thousands)
(Unaudited)

	Six Months Ended June 30,	
	2016 (Restated)	2015 (Restated)
Operating activities		
Net income attributable to common stockholders	$69,059	$71,908
Adjustments to reconcile net income attributable to common stockholders to net cash provided by operating activities:		
Depreciation and amortization	128,927	130,967
Impairments	25,989	36,005
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	(21,261)	(60,890)
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)
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.

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. Restatement
The restatement of the Company's consolidated financial statements results from the Company's subsequent accounting for goodwill resulting from the Cole II Merger. Previously, the Company did not allocate goodwill to the disposal of real estate assets or held for sale real estate assets that met the definition of a business under GAAP, as required by ASC 350 “Intangibles - Goodwill and Other” in order to determine gain on disposition of assets or impairments, if any, respectively.
For the disposal of real estate assets that constituted a business, goodwill and gain on disposition of assets both should have been reduced by the proportionate amount of goodwill allocated to each disposed real estate asset. The amount of goodwill allocated is derived as the proportionate fair value of the real estate considered to be a business under GAAP at the time of sale to the fair value of the Company’s reporting unit. As a result, the restated consolidated balance sheet includes a reduction to goodwill of $33.1 million at June 30, 2016 and the restated consolidated statement of operations includes a reduction to gain on disposition of assets of $2.9 million and $5.3 million for the three and six months ended June 30, 2016, respectively. The restated consolidated balance sheet includes a reduction to goodwill of $27.1 million at December 31, 2015 and the restated consolidated statement of operations includes a reduction to gain on disposition of assets of $11.5 million and $13.7 million for the three and six months ended June 30, 2015, respectively.
Further, in evaluating the impairment on held for sale real estate assets considered to be a business under GAAP, the proportionate amount of goodwill attributable to the real estate asset held for sale should be considered in determining the amount of impairment, if any. The amount of goodwill attributed is derived as the proportionate fair value of the real estate asset considered to be a business under GAAP held for sale at measurement date to the fair value of the Company’s reporting unit. As a result, the restated consolidated balance sheet includes a reduction to real estate assets held for sale, net of $1.4 million at June 30, 2016 and the restated consolidated statement of operations includes an increase to impairments of $0.6 million and $1.1 million for the three and six months ended June 30, 2016, respectively. The restated consolidated balance sheet includes a reduction to real estate assets held for sale, net of $0.9

million at December 31, 2015 and the restated consolidated statement of operations includes an increase to impairments of $0.01 million and $0.6 million for the three and six months ended June 30, 2015, respectively.

The consolidated financial statements included in this Form 10-Q/A have been restated as of June 30, 2016 and for the three and six months then ended to reflect the adjustments described above. The consolidated financial statements included in this Form 10-Q/A have been restated as of December 31, 2015 and for the three and six months ended June 30, 2015 to reflect the adjustments described above. The following statements present the effect of the restatement on (i) the Company's consolidated balance sheets at June 30, 2016 and December 31, 2015, (ii) the Company's consolidated statements of operations for the three and six months ended June 30, 2016 and 2015 and (iii) the Company's consolidated statements of cash flows for the six months ended June 30, 2016 and 2015. The Company did not present a summary of the effect of the restatement on the consolidated statement of stockholders' equity for any of the above referenced periods because the impact to stockholders' equity is reflected below in the restated consolidated balance sheets. The Company did not present a summary of the effect of the restatement on the consolidated statements of comprehensive income for any of the above referenced periods because the impact to net income is reflected below in the restated consolidated statements of operations and the restatement adjustments did not affect any other component of comprehensive income.

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
June 30, 2016
(Unaudited)

The following table presents the consolidated balance sheet as previously reported, restatement adjustments and the consolidated balance sheet as restated at June 30, 2016 (in thousands, except per share data):

	As Previously Reported	Restatement Adjustments	As Restated
Assets			
Investments:			
Real estate investments:			
Land and improvements	$2,716,408	$ —	$2,716,408
Buildings and improvements	4,821,840	—	4,821,840
Total real estate investments	7,538,248	—	7,538,248
Less: accumulated depreciation	(931,834)	—	(931,834)
	6,606,414	—	6,606,414
Loans receivable, net	86,165	—	86,165
Intangible lease assets, net	491,489	—	491,489
Real estate assets under direct financing leases, net	36,021	—	36,021
Real estate assets held for sale, net	80,665	(1,359)	79,306
Net investments	7,300,754	(1,359)	7,299,395
Cash and cash equivalents	29,410	—	29,410
Deferred costs and other assets, net	148,497	—	148,497
Goodwill	291,421	(33,052)	258,369
Total assets	$7,770,082	$ (34,411)	$7,735,671
Liabilities and stockholders’ equity			
Liabilities:			
Revolving credit facilities	$—	$ —	$—
Term Loan, net	368,207	—	368,207
Mortgages and notes payable, net	2,571,844	—	2,571,844
Convertible Notes, net	696,290	—	696,290
Total debt, net	3,636,341	—	3,636,341
Intangible lease liabilities, net	185,811	—	185,811
Accounts payable, accrued expenses and other liabilities	138,457	—	138,457
Total liabilities	3,960,609	—	3,960,609
Commitments and contingencies (see Note 8)			
Stockholders’ equity:			
Common stock, $0.01 par value	4,797	—	4,797
Capital in excess of par value	5,126,685	—	5,126,685
Accumulated deficit	(1,321,973)	(34,411)	(1,356,384)
Accumulated other comprehensive loss	(36)	—	(36)
Total stockholders’ equity	3,809,473	(34,411)	3,775,062
Total liabilities and stockholders’ equity	$7,770,082	$ (34,411)	$7,735,671

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
June 30, 2016
(Unaudited)

The following table presents the consolidated balance sheet as previously reported, restatement adjustments and the consolidated balance sheet as restated at December 31, 2015 (in thousands, except per share data):

	As Previously Reported	Restatement Adjustments	As Restated
Assets			
Investments:			
Real estate investments:			
Land and improvements	$2,710,888	$ —	$2,710,888
Buildings and improvements	4,816,481	—	4,816,481
Total real estate investments	7,527,369	—	7,527,369
Less: accumulated depreciation	(860,954)	—	(860,954)
	6,666,415	—	6,666,415
Loans receivable, net	104,003	—	104,003
Intangible lease assets, net	526,718	—	526,718
Real estate assets under direct financing leases, net	44,324	—	44,324
Real estate assets held for sale, net	85,145	(886)	84,259
Net investments	7,426,605	(886)	7,425,719
Cash and cash equivalents	21,790	—	21,790
Deferred costs and other assets, net	179,180	—	179,180
Goodwill	291,421	(27,071)	264,350
Total assets	$7,918,996	$ (27,957)	$7,891,039
Liabilities and stockholders’ equity			
Liabilities:			
Revolving credit facilities	$—	$ —	$—
Term Loan, net	322,902	—	322,902
Mortgages and notes payable, net	3,079,787	—	3,079,787
Convertible Notes, net	690,098	—	690,098
Total debt, net	4,092,787	—	4,092,787
Intangible lease liabilities, net	193,903	—	193,903
Accounts payable, accrued expenses and other liabilities	142,475	—	142,475
Total liabilities	4,429,165	—	4,429,165
Commitments and contingencies (see Note 8)			
Stockholders’ equity:			
Common stock, $0.01 par value	4,418	—	4,418
Capital in excess of par value	4,721,323	—	4,721,323
Accumulated deficit	(1,234,882)	(27,957)	(1,262,839)
Accumulated other comprehensive loss	(1,028)	—	(1,028)
Total stockholders’ equity	3,489,831	(27,957)	3,461,874
Total liabilities and stockholders’ equity	$7,918,996	$ (27,957)	$7,891,039

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
June 30, 2016
(Unaudited)

The following table presents the consolidated statement of operations as previously reported, restatement adjustments and the consolidated statement of operations as restated for the three months ended June 30, 2016 (in thousands, except share and per share data):

	As Previously Reported	Restatement Adjustments	As Restated
Revenues:			
Rentals	$ 160,506	$ —	$ 160,506
Interest income on loans receivable	1,625	—	1,625
Earned income from direct financing leases	698	—	698
Tenant reimbursement income	3,200	—	3,200
Other income and interest from real estate transactions	5,697	—	5,697
Total revenues	171,726	—	171,726
Expenses:			
General and administrative	13,850	—	13,850
Restructuring charges	1,813	—	1,813
Property costs	6,611	—	6,611
Real estate acquisition costs	979	—	979
Interest	49,172	—	49,172
Depreciation and amortization	64,263	—	64,263
Impairments	12,732	639	13,371
Total expenses	149,420	639	150,059
Income from continuing operations before other income and income tax expense	22,306	(639)	21,667
Other income:			
Gain on debt extinguishment	14,016	—	14,016
Total other income	14,016	—	14,016
Income from continuing operations before income tax expense	36,322	(639)	35,683
Income tax expense	(839)	—	(839)
Income from continuing operations	35,483	(639)	34,844
Income before gain on disposition of assets	35,483	(639)	34,844
Gain on disposition of assets	14,027	(2,912)	11,115
Net income attributable to common stockholders	$ 49,510	$ (3,551)	$ 45,959
Net income per share of common stock—basic:			
Continuing operations	$ 0.10	$ —	$ 0.10
Net income per share attributable to common stockholders—basic	$ 0.10	$ —	$ 0.10
Net income per share of common stock—diluted:			
Continuing operations	$ 0.10	$ —	$ 0.10
Net income per share attributable to common stockholders—diluted	$ 0.10	$ —	$ 0.10
Weighted average shares of common stock outstanding:			
Basic	473,161,125	—	473,161,125
Diluted	473,164,386	—	473,164,386

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
June 30, 2016
(Unaudited)

The following table presents the consolidated statement of operations as previously reported, restatement adjustments and the consolidated statement of operations as restated for the three months ended June 30, 2015 (in thousands, except share and per share data):

	As Previously Reported	Restatement Adjustments	As Restated
Revenues:			
Rentals	$ 159,607	$ —	$ 159,607
Interest income on loans receivable	1,730	—	1,730
Earned income from direct financing leases	779	—	779
Tenant reimbursement income	3,492	—	3,492
Other income and interest from real estate transactions	2,326	—	2,326
Total revenues	167,934	—	167,934
Expenses:			
General and administrative	11,972	—	11,972
Property costs	6,414	—	6,414
Real estate acquisition costs	453	—	453
Interest	56,167	—	56,167
Depreciation and amortization	64,671	—	64,671
Impairments	33,766	5	33,771
Total expenses	173,443	5	173,448
Loss from continuing operations before other income and income tax expense	(5,509)	(5)	(5,514)
Other income:			
Gain on debt extinguishment	3,377	—	3,377
Total other income	3,377	—	3,377
Loss from continuing operations before income tax expense	(2,132)	(5)	(2,137)
Income tax expense	(161)	—	(161)
Loss from continuing operations	(2,293)	(5)	(2,298)
Discontinued operations:			
Loss from discontinued operations	(96)	—	(96)
Gain on disposition of assets	590	—	590
Income from discontinued operations	494	—	494
Loss before gain on disposition of assets	(1,799)	(5)	(1,804)
Gain on disposition of assets	62,690	(11,541)	51,149
Net income attributable to common stockholders	$ 60,891	$ (11,546)	$ 49,345
Net income per share of common stock—basic:			
Continuing operations	$ 0.14	$ (0.03)	$ 0.11
Discontinued operations	—	—	—
Net income per share attributable to common stockholders—basic	$ 0.14	$ (0.03)	$ 0.11
Net income per share of common stock—diluted:			
Continuing operations	$ 0.14	$ (0.03)	$ 0.11
Discontinued operations	—	—	—
Net income per share attributable to common stockholders—diluted	$ 0.14	$ (0.03)	$ 0.11
Weighted average shares of common stock outstanding:			
Basic	436,619,138	—	436,619,138

Diluted	436,923,755	—	436,923,755

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SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
June 30, 2016
(Unaudited)

The following table presents the consolidated statement of operations as previously reported, restatement adjustments and the consolidated statement of operations as restated for the six months ended June 30, 2016 (in thousands, except share and per share data):

	As Previously Reported	Restatement Adjustments	As Restated
Revenues:			
Rentals	$ 322,325	$ —	$ 322,325
Interest income on loans receivable	3,284	—	3,284
Earned income from direct financing leases	1,422	—	1,422
Tenant reimbursement income	7,024	—	7,024
Other income and interest from real estate transactions	6,028	—	6,028
Total revenues	340,083	—	340,083
Expenses:			
General and administrative	25,499	—	25,499
Restructuring charges	2,462	—	2,462
Property costs	13,938	—	13,938
Real estate acquisition costs	1,036	—	1,036
Interest	102,189	—	102,189
Depreciation and amortization	128,927	—	128,927
Impairments	24,863	1,126	25,989
Total expenses	298,914	1,126	300,040
Income from continuing operations before other income and income tax expense	41,169	(1,126)	40,043
Other income:			
Gain on debt extinguishment	8,675	—	8,675
Total other income	8,675	—	8,675
Income from continuing operations before income tax expense	49,844	(1,126)	48,718
Income tax expense	(920)	—	(920)
Income from continuing operations	48,924	(1,126)	47,798
Income before gain on disposition of assets	48,924	(1,126)	47,798
Gain on disposition of assets	26,589	(5,328)	21,261
Net income attributable to common stockholders	$ 75,513	$ (6,454)	$ 69,059
Net income per share of common stock—basic:			
Continuing operations	$ 0.16	$ (0.01)	$ 0.15
Net income per share attributable to common stockholders—basic	$ 0.16	$ (0.01)	$ 0.15
Net income per share of common stock—diluted:			
Continuing operations	$ 0.16	$ (0.01)	$ 0.15
Net income per share attributable to common stockholders—diluted	$ 0.16	$ (0.01)	$ 0.15
Weighted average shares of common stock outstanding:			
Basic	457,263,526	—	457,263,526
Diluted	457,267,015	—	457,267,015

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
June 30, 2016
(Unaudited)

The following table presents the consolidated statement of operations as previously reported, restatement adjustments and the consolidated statement of operations as restated for the six months ended June 30, 2015 (in thousands, except share and per share data):

	As Previously Reported	Restatement Adjustments	As Restated
Revenues:			
Rentals	$ 314,125	$ —	$ 314,125
Interest income on loans receivable	3,452	—	3,452
Earned income from direct financing leases	1,574	—	1,574
Tenant reimbursement income	8,123	—	8,123
Other income and interest from real estate transactions	2,947	—	2,947
Total revenues	330,221	—	330,221
Expenses:			
General and administrative	24,572	—	24,572
Property costs	13,821	—	13,821
Real estate acquisition costs	1,546	—	1,546
Interest	114,081	—	114,081
Depreciation and amortization	130,967	—	130,967
Impairments	35,390	581	35,971
Total expenses	320,377	581	320,958
Income from continuing operations before other income and income tax expense	9,844	(581)	9,263
Other income:			
Gain on debt extinguishment	2,147	—	2,147
Total other income	2,147	—	2,147
Income from continuing operations before income tax expense	11,991	(581)	11,410
Income tax expense	(523)	—	(523)
Income from continuing operations	11,468	(581)	10,887
Discontinued operations:			
Income from discontinued operations	131	—	131
Gain on disposition of assets	590	—	590
Income from discontinued operations	721	—	721
Income before gain on disposition of assets	12,189	(581)	11,608
Gain on disposition of assets	74,026	(13,726)	60,300
Net income attributable to common stockholders	$ 86,215	$ (14,307)	$ 71,908
Net income per share of common stock—basic:			
Continuing operations	$ 0.20	$ (0.03)	$ 0.17
Discontinued operations	—	—	—
Net income per share attributable to common stockholders—basic	$ 0.20	$ (0.03)	$ 0.17
Net income per share of common stock—diluted:			
Continuing operations	$ 0.20	$ (0.03)	$ 0.17
Discontinued operations	—	—	—
Net income per share attributable to common stockholders—diluted	$ 0.20	$ (0.03)	$ 0.17
Weighted average shares of common stock outstanding:			

Basic	423,889,238	—	423,889,238
Diluted	424,343,232	—	424,343,232

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SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
June 30, 2016
(Unaudited)

The following table presents the consolidated statement of cash flows as previously reported, restatement adjustments and the consolidated statement of cash flows as restated for the six months ended June 30, 2016 (in thousands):

	As Previously Reported	Restatement Adjustments	As Restated
Operating activities			
Net income attributable to common stockholders	$ 75,513	$ (6,454)	$ 69,059
Adjustments to reconcile net income attributable to common stockholders to net cash provided by operating activities:			
Depreciation and amortization	128,927	—	128,927
Impairments	24,863	1,126	25,989
Amortization of deferred financing costs	4,402	—	4,402
Payment to terminate interest rate swap	(1,724)	—	(1,724)
Derivative interest rate amortization and other interest rate swap losses	1,781	—	1,781
Amortization of debt discounts	1,507	—	1,507
Stock-based compensation expense	3,790	—	3,790
Gain on debt extinguishment	(8,675)	—	(8,675)
Debt extinguishment costs	(10,625)	—	(10,625)
Gains on dispositions of real estate and other assets, net	(26,589)	5,328	(21,261)
Non-cash revenue	(11,954)	—	(11,954)
Other	210	—	210
Changes in operating assets and liabilities:			
Deferred costs and other assets, net	(179)	—	(179)
Accounts payable, accrued expenses and other liabilities	(3,620)	—	(3,620)
Accrued restructuring charges	(647)	—	(647)
Net cash provided by operating activities	176,980	—	176,980
Investing activities			
Acquisitions of real estate	(235,342)	—	(235,342)
Capitalized real estate expenditures	(5,978)	—	(5,978)
Collections of principal on loans receivable and real estate assets under direct financing leases	16,783	—	16,783
Proceeds from dispositions of real estate and other assets	189,023	—	189,023
Transfers of net sales proceeds from restricted accounts pursuant to 1031 Exchanges	39,867	—	39,867
Transfers of net sales proceeds to Master Trust Release	(3,862)	—	(3,862)
Net cash provided by investing activities	491	—	491
Financing activities			
Borrowings under Revolving Credit Facilities	357,000	—	357,000
Repayments under Revolving Credit Facilities	(357,000)	—	(357,000)
Repayments under mortgages and notes payable	(460,766)	—	(460,766)
Borrowings under Term Loan	451,000	—	451,000
Repayments under Term Loan	(406,000)	—	(406,000)
Deferred financing costs	(1,077)	—	(1,077)
Proceeds from issuance of common stock, net of offering costs	401,953	—	401,953
Repurchase of shares of common stock	(739)	—	(739)

Dividends paid to equity owners	(154,982)	—	(154,982)
Transfers from reserve/escrow deposits with lenders	760	—	760
Net cash used in financing activities	(169,851)	—	(169,851)
Net increase in cash and cash equivalents	7,620	—	7,620
Cash and cash equivalents, beginning of period	21,790	—	21,790
Cash and cash equivalents, end of period	$ 29,410	$ —	$ 29,410

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SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
June 30, 2016
(Unaudited)

The following table presents the consolidated statement of cash flows as previously reported, restatement adjustments and the consolidated statement of cash flows as restated for the six months ended June 30, 2015 (in thousands):

	As Previously Reported	Restatement Adjustments	As Restated
Operating activities			
Net income attributable to common stockholders	$ 86,215	$ (14,307)	$71,908
Adjustments to reconcile net income attributable to common stockholders to net cash provided by operating activities:			
Depreciation and amortization	130,967	—	130,967
Impairments	35,424	581	36,005
Amortization of deferred financing costs	3,973	—	3,973
Payment to terminate interest rate swap	(64)	—	(64)
Derivative interest rate amortization and other interest rate swap gains	(21)	—	(21)
Amortization of debt discounts	1,139	—	1,139
Stock-based compensation expense	7,288	—	7,288
Gain on debt extinguishment	(2,147)	—	(2,147)
Debt extinguishment costs	(3,623)	—	(3,623)
Gains on dispositions of real estate and other assets, net	(74,616)	13,726	(60,890)
Non-cash revenue	(10,551)	—	(10,551)
Other	(27)	—	(27)
Changes in operating assets and liabilities:			
Deferred costs and other assets, net	(1,641)	—	(1,641)
Accounts payable, accrued expenses and other liabilities	(4,677)	—	(4,677)
Net cash provided by operating activities	167,639	—	167,639
Investing activities			
Acquisitions of real estate	(547,487)	—	(547,487)
Capitalized real estate expenditures	(3,175)	—	(3,175)
Investments in loans receivable	(4,000)	—	(4,000)
Collections of principal on loans receivable and real estate assets under direct financing leases	2,924	—	2,924
Proceeds from dispositions of real estate and other assets	340,971	—	340,971
Transfers of net sales proceeds to restricted accounts pursuant to 1031 Exchanges	(40,034)	—	(40,034)
Transfers of net sales proceeds from Master Trust Release	43,442	—	43,442
Net cash used in investing activities	(207,359)	—	(207,359)
Financing activities			
Borrowings under Revolving Credit Facilities	405,000	—	405,000
Repayments under Revolving Credit Facilities	(400,181)	—	(400,181)
Repayments under mortgages and notes payable	(321,884)	—	(321,884)
Deferred financing costs	(3,782)	—	(3,782)
Proceeds from issuance of common stock, net of offering costs	347,255	—	347,255
Proceeds from exercise of stock options	46	—	46
Repurchase of shares of common stock	(720)	—	(720)
Dividends paid to equity owners	(141,174)	—	(141,174)
Transfers from reserve/escrow deposits with lenders	18,653	—	18,653

Net cash used in financing activities	(96,787)	—	(96,787)
Net decrease in cash and cash equivalents	(136,507)	—	(136,507)
Cash and cash equivalents, beginning of period	176,181	—	176,181
Cash and cash equivalents, end of period	$ 39,674	$ —	$ 39,674

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
June 30, 2016
(Unaudited)

Note 3. 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/A 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 5). 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.
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.

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
June 30, 2016
(Unaudited)

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

[(1)] 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.
[(2)] Deposits held as additional collateral support by lenders to fund tenant improvements, repairs and leasing commissions incurred to secure a new tenant.
[(3)] 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.
[(4)] Funds held in lender controlled accounts generally used to meet future debt service or certain property operating expenses.
[(5)] 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.

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.

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
June 30, 2016
(Unaudited)

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

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
June 30, 2016
(Unaudited)

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

	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	$8,198,685	$104,003	$8,302,688
Acquisitions/improvements [1] [3] [5]	125	—	125	241,321	—	241,321
Dispositions of real estate [2] [3]	(65)	—	(65)	(226,817)	—	(226,817)
Principal payments and payoffs [5]	—	(35)	(35)	—	(16,726)	(16,726)
(Impairments)/recoveries	—	—	—	(26,313)	324	(25,989)
Write-off of gross lease intangibles	—	—	—	(6,182)	—	(6,182)
Loan premium amortization and other	—	—	—	(40)	(1,436)	(1,476)
Gross balance, June 30, 2016	2,545	109	2,654	$8,180,654	$86,165	$8,266,819
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				$7,027,419	$86,165	$7,113,584

[1] 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.
[2] The total accumulated depreciation and amortization associated with dispositions of real estate was $37.2 million.
[3] 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.
[4] 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.
[5] 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.

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

	June 30, 2016	December 31, 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, 2016	December 31, 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.

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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, as restated (dollars in thousands):

	Number of Properties	Carrying Value
Balance, December 31, 2015	36	$84,259
Transfers from real estate investments	31	80,245
Sales	(34)	(85,198)
Balance, June 30, 2016	33	$79,306

Impairments

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Real estate and intangible asset impairment	$8,707	$33,735	$21,337	$35,354
Write-off of lease intangibles due to lease terminations, net	4,663	43	4,972	555
Loans receivable recovery	—	—	(324)	—
Total impairments from real estate investment net assets	13,370	33,778	25,985	35,909
Other impairment	1	(7)	4	96
Total impairment loss in continuing and discontinued operations	$13,371	$33,771	$25,989	$36,005

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Note 5. Debt
The Company's debt is summarized below:

	Weighted Average Effective Interest Rates [1]		Weighted Average Stated Rates [2]		Weighted Average Maturity [3]	June 30, 2016		December 31, 2015	
					(in Years)	(In Thousands)			
Revolving Credit Facilities	NM		—		2.7	$ —		$ —	
Term Loan	3.61	%	1.80	%	2.3	370,000		325,000	
Master Trust Notes	5.59	%	5.03	%	6.7	1,682,542		1,692,094	
CMBS - fixed-rate	5.10	%	5.63	%	3.0	925,930		1,360,215	
CMBS - variable-rate [4]	2.99	%	—		0.0	—		61,758	
Convertible Notes	5.32	%	3.28	%	3.8	747,500		747,500	
Total debt	5.32	%	4.51	%	4.8	3,725,972		4,186,567	
Debt discount, net						(51,783	)	(52,203	)
Deferred financing costs, net [5]						(37,848	)	(41,577	)
Total debt, net						$ 3,636,341		$ 4,092,787	

NM - The average outstanding principal balance of the Revolving Credit Facilities was not significant during the three months ended June 30, 2016, resulting in an effective interest rate that was not meaningful.
[1] The effective interest rates include amortization of debt discount/premium, amortization of deferred financing costs and credit facility fees, where applicable, calculated for the three months ended June 30, 2016 and based on the average principal balance outstanding during the period.
[2] Represents the weighted average stated interest rate based on the outstanding principal balance as of June 30, 2016.
[3] Represents the weighted average maturity based on the outstanding principal balance as of June 30, 2016.
[4] Variable-rate notes are predominantly hedged with interest rate swaps (see Note 6).
[5] The Company records deferred financing costs for its 2015 Credit Facility in deferred costs and other assets, net on its consolidated balance sheets.

Revolving Credit Facilities

2015 Credit Facility

On March 31, 2015, the Operating Partnership entered into the Credit Agreement that established a new $600.0 million unsecured credit facility and terminated its secured $400.0 million 2013 Credit Facility. The 2015 Credit Facility matures on March 31, 2019 (extendable at the Operating Partnership's option to March 31, 2020, subject to satisfaction of certain requirements) and includes an accordion feature to increase the committed facility size to up to $1.0 billion, subject to satisfying certain requirements and obtaining additional lender commitments. On April 27, 2016, the Company expanded the borrowing capacity under the 2015 Credit Facility from $600.0 million to $800.0 million by partially exercising the accordion feature under the terms of the Credit Agreement. The 2015 Credit Facility also includes a $50.0 million sublimit for swingline loans and up to $60.0 million available for issuances of letters of credit. Swingline loans and letters of credit reduce availability under the 2015 Credit Facility on a dollar-for-dollar basis. On November 3, 2015, the Company entered into a first amendment to the Credit Agreement. The amendment conforms certain of the terms and covenants to those in the Term Loan Agreement, including limiting the requirement of subsidiary guarantees to material subsidiaries (as defined in the Credit Agreement) meeting certain conditions. At June 30, 2016, there were no subsidiaries meeting this requirement.
Borrowings bear interest at either a specified base rate or LIBOR plus an applicable margin, at the Operating Partnership's option. Per the amendment, the Operating Partnership’s election to change the grid pricing from leverage

based to credit rating based pricing will initially require at least two credit ratings of BBB- or better from S&P or Fitch or Baa3 or better from Moody's. In April 2016, the Corporation received a first time rating of BBB- from Fitch and was upgraded to a BBB- corporate issuer rating by S&P. As a result, the Operating Partnership elected to change the interest rate grid from leverage based pricing to credit rating based pricing in the second quarter of 2016. Under credit rating based pricing, the 2015 Credit Facility bears interest at a rate equal to LIBOR plus 0.875% to 1.55% per annum or a

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specified base rate plus 0.0% to 0.55% and requires a facility fee in an amount equal to the aggregate revolving credit commitments (whether or not utilized) multiplied by a rate equal to 0.125% to 0.30% per annum, in each case depending on the Corporation's credit rating. As of June 30, 2016, the 2015 Credit Facility bore interest at LIBOR plus 1.25% based on the Company's credit rating and incurred a facility fee of 0.25% per annum.
The Operating Partnership may voluntarily prepay the 2015 Credit Facility, in whole or in part, at any time, without premium or penalty, but subject to applicable LIBOR breakage fees, if any. Payment of the 2015 Credit Facility is unconditionally guaranteed by the Corporation and material subsidiaries that meet certain conditions (as defined in the Credit Agreement). The 2015 Credit Facility is full recourse to the Operating Partnership and the aforementioned guarantors.

As a result of entering into the 2015 Credit Facility and expanding the borrowing capacity, the Company incurred costs of $4.8 million. These deferred financing costs are being amortized to interest expense over the remaining initial term of the 2015 Credit Facility. As of June 30, 2016 and December 31, 2015, the unamortized deferred financing costs relating to the 2015 Credit Facility were $3.6 million and $3.2 million, respectively, and recorded in deferred costs and other assets, net on the accompanying consolidated balance sheets.

As of June 30, 2016, no borrowings were outstanding, $0.3 million of letters of credit were issued and $799.7 million of borrowing capacity was available under the 2015 Credit Facility. The Operating Partnership's ability to borrow under the 2015 Credit Facility is subject to ongoing compliance with a number of customary financial covenants and other customary affirmative and negative covenants. As of June 30, 2016, the Corporation and the Operating Partnership were in compliance with these financial covenants.

2013 Credit Facility

On March 31, 2015, the secured 2013 Credit Facility was terminated and its outstanding borrowings were repaid with proceeds from the 2015 Credit Facility. Properties securing this facility became unencumbered upon its termination. The 2013 Credit Facility's borrowing margin was LIBOR plus 2.50% based on the Company's leverage, with an unused fee of 0.35%. Upon terminating the 2013 Credit Facility, the Company recognized debt extinguishment costs of $2.0 million, resulting from the write-off of unamortized deferred financing costs.

Line of Credit

A special purpose entity indirectly owned by the Corporation had access to a $40.0 million secured revolving line of credit, which expired on March 27, 2016.

Term Loan

On November 3, 2015, the Company entered into a Term Loan Agreement among the Operating Partnership, as borrower, the Company as guarantor and the lenders that are parties thereto. The Term Loan Agreement provides for a $325.0 million senior unsecured term facility that has an initial maturity date of November 2, 2018, which may be extended at the Company's option pursuant to two one-year extension options, subject to the satisfaction of certain conditions and payment of an extension fee. In addition, an accordion feature allows the facility to be increased to up to $600.0 million, subject to obtaining additional lender commitments. During the fourth quarter of 2015, upon obtaining additional lender commitments, the Company increased the term facility from $325.0 million to $370.0 million.

The Term Loan Agreement provides that borrowings bear interest at either LIBOR plus 1.35% to 1.80% per annum or a specified base rate plus 0.35% to 0.80% per annum, at the Operating Partnership's option. In each case, the applicable margin is determined based upon the Corporation’s leverage ratio. If the Corporation obtains at least two credit ratings on its senior unsecured long-term indebtedness of BBB- from S&P or Fitch, Inc. or Baa3 from Moody's, the Operating Partnership may make an irrevocable election to have the margin based upon the Corporation's credit ratings. In April 2016, the Corporation received a first time rating of BBB- from Fitch and was upgraded to a BBB- corporate issuer rating by S&P. As a result, the Operating Partnership elected to change the interest rate grid from leverage based pricing to credit rating based pricing in the second quarter of 2016. Under credit rating based pricing, borrowings bear interest at either LIBOR plus 0.90% to 1.75% per annum or a specified base rate plus 0.0% to 0.75% per annum, in

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each case depending on the Corporation's credit ratings. As of June 30, 2016, the Term Loan bore interest at LIBOR plus 1.35% based on the Company's credit rating.

The Operating Partnership may voluntarily prepay the Term Loan, in whole or in part, at any time, without premium or penalty, but subject to applicable LIBOR breakage fees. Borrowings may be repaid without premium or penalty, and may be reborrowed within 30 days up to the then available loan commitment and subject to occurrence limitations within any twelve month period. Payment of the Term Loan is unconditionally guaranteed by the Corporation and, under certain circumstances, by one or more material subsidiaries (as defined in the Term Loan Agreement) of the Corporation. The obligations of the Corporation and any guarantor under the Term Loan are full recourse to the Corporation and each guarantor.

As a result of entering into the Term Loan, the Company incurred origination costs of $2.3 million. These deferred financing costs are being amortized to interest expense over the remaining initial term of the Term Loan. As of June 30, 2016 and December 31, 2015, the unamortized deferred financing costs relating to the Term Loan were $1.8 million and $2.1 million, respectively, and recorded net against the principal balance of the Term Loan on the accompanying consolidated balance sheets.

As of June 30, 2016, the Term Loan was fully drawn. The Operating Partnership's ability to borrow under the Term Loan is subject to ongoing compliance with a number of customary financial covenants and other customary affirmative and negative covenants. The Corporation has unconditionally guaranteed all obligations of the Operating Partnership under the Term Loan Agreement. As of June 30, 2016, the Corporation and the Operating Partnership were in compliance with these financial covenants.

Master Trust Notes

The Company has access to an asset-backed securitization platform, the Spirit Master Funding Program, to raise capital through the issuance of non-recourse net-lease mortgage notes collateralized by commercial real estate, net-leases and mortgage loans. The Spirit Master Funding Program consists of two separate securitization trusts, Master Trust 2013 and Master Trust 2014, each of which have one or multiple bankruptcy-remote, special purpose entities as issuers or co-issuers of the notes. Each issuer is an indirect wholly-owned special purpose entity of the Corporation.

The Master Trust Notes are summarized below:

	Stated Rates (1)	Maturity	June 30, 2016	December 31, 2015
		(in Years)	(in Thousands)	
Series 2014-1 Class A1	5.1 %	4.0	$59,556	$ 65,027
Series 2014-1 Class A2	5.4 %	4.1	253,300	253,300
Series 2014-2	5.8 %	4.7	228,004	229,674
Series 2014-3	5.7 %	5.7	312,051	312,276
Series 2014-4 Class A1	3.5 %	3.6	150,000	150,000
Series 2014-4 Class A2	4.6 %	13.6	360,000	360,000
Total Master Trust 2014 notes	5.1 %	7.0	1,362,911	1,370,277
Series 2013-1 Class A	3.9 %	2.5	125,000	125,000
Series 2013-2 Class A	5.3 %	7.5	194,631	196,817
Total Master Trust 2013 notes	4.7 %	5.5	319,631	321,817
Total Master Trust Notes			1,682,542	1,692,094

Debt discount, net	(20,864)	(22,909)
Deferred financing costs, net	(17,894)	(19,345)
Total Master Trust Notes, net	$ 1,643,784	$ 1,649,840

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(1) Represents the individual series stated interest rate as of June 30, 2016 and the weighted average stated rate of the total Master Trust Notes, based on the collective series outstanding principal balances as of June 30, 2016.

As of June 30, 2016, the Master Trust 2014 notes were secured by 898 owned and financed properties issued by five indirect wholly-owned subsidiaries of the Corporation. The notes issued under Master Trust 2014 are cross-collateralized by the assets of all issuers within this trust. As of June 30, 2016, the Master Trust 2013 notes were secured by 309 owned and financed properties issued by a single indirect wholly-owned subsidiary of the Corporation.

CMBS

As of June 30, 2016, indirect wholly-owned special purpose entity subsidiaries of the Corporation were borrowers under 102 fixed-rate non-recourse loans, excluding one loan in default, which have been securitized into CMBS and are secured by the borrowers' respective leased properties and related assets. The stated interest rates of the loans as of June 30, 2016, excluding the defaulted loan, ranged from 3.90% to 6.62% with a weighted average stated interest rate of 5.45%. As of June 30, 2016, these fixed-rate loans were secured by 232 properties. As of June 30, 2016 and December 31, 2015, the unamortized deferred financing costs associated with these fixed-rate loans were $5.1 million and $5.5 million, respectively, and recorded net against the principal balance of the mortgages and notes payable on the accompanying consolidated balance sheets. The deferred financing costs are being amortized to interest expense over the term of the respective loans.

As of June 30, 2016, a borrower was in default under the loan agreement relating to one CMBS fixed-rate loan where the four properties securing the respective loan were no longer generating sufficient revenue to pay the scheduled debt service. The default interest rate on this loan was 9.85%. The borrower is a bankruptcy remote special purpose entity and the sole owner of the collateral securing the loan obligations. As of June 30, 2016, the aggregate principal balance under the defaulted loan was $36.5 million, which includes $7.9 million of interest added to principal. In addition, approximately $10.4 million of lender controlled restricted cash is being held in connection with this loan that may be applied to reduce amounts owed.

Convertible Notes

In May 2014, the Corporation issued $402.5 million aggregate principal amount of 2.875% convertible notes due in 2019 and $345.0 million aggregate principal amount of 3.75% convertible notes due in 2021. Interest on the Convertible Notes is payable semiannually in arrears on May 15 and November 15 of each year. The 2019 Notes will mature on May 15, 2019 and the 2021 Notes will mature on May 15, 2021.

The Convertible Notes are convertible only during certain periods and, subject to certain circumstances, into cash, shares of the Corporation's common stock, or a combination thereof. The initial conversion rate applicable to each series is 76.3636 per $1,000 principal note (equivalent to an initial conversion price of $13.10 per share of common stock, representing a 22.5% premium above the public offering price of the common stock offered concurrently at the time the Convertible Notes were issued). The conversion rate is subject to adjustment for certain anti-dilution events, including special distributions and regular quarterly cash dividends exceeding $0.16625 per share. Earlier conversion may be triggered if shares of the Corporation's common stock trades higher than the established thresholds, if the Convertible Notes trade below established thresholds, or certain corporate events occur.

In connection with the issuance of the Convertible Notes, the Company recorded a discount of $56.7 million, which represents the estimated value of the embedded conversion feature for each of the Convertible Notes. The discount is being amortized to interest expense using the effective interest method over the term of each of the 2019 Notes and 2021 Notes. As of June 30, 2016 and December 31, 2015, the unamortized discount was $38.1 million and $42.7 million, respectively. The discount is shown net against the aggregate outstanding principal balance of the Convertible Notes on the accompanying consolidated balance sheets. The equity component of the conversion feature is recorded in capital in excess of par value in the accompanying consolidated balance sheets, net of financing transaction costs.

In connection with the offering, the Company also incurred $19.6 million in deferred financing costs. This amount has been allocated on a pro-rata basis to each of the Convertible Notes and is being amortized to interest expense over

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the term of each note. As of June 30, 2016 and December 31, 2015, the unamortized deferred financing costs relating to the Convertible Notes were $13.1 million and $14.7 million, respectively, and recorded net against the Convertible Notes principal balance on the accompanying consolidated balance sheets.

Debt Extinguishment

During the six months ended June 30, 2016, the Company extinguished a total of $495.2 million aggregate principal amount of senior mortgage indebtedness with a weighted average contractual interest rate of 6.28%. As a result of these transactions, the Company recognized a net gain on debt extinguishment of approximately $8.7 million. The gain was primarily attributable to the extinguishment of four defaulted mortgage loans upon transferring the properties collateralizing these loans to the lender.

During the six months ended June 30, 2015, the Company extinguished a total of $336.8 million aggregate principal amount of senior mortgage indebtedness with a weighted average contractual interest rate of 5.64% and terminated the 2013 Credit Facility. As a result of these transactions, the Company recognized a net gain on debt extinguishment of approximately $2.1 million. The gain was primarily attributable to the write-off of net debt premiums and the reduction of $17.5 million of debt using net sale proceeds of $14.0 million from the sale of four properties securing a portion of a defaulted CMBS loan, partially offset by defeasance costs.

Debt Maturities

As of June 30, 2016, scheduled debt maturities of the Company's Revolving Credit Facilities, Term Loan, mortgages and notes payable and Convertible Notes, including balloon payments, are as follows (in thousands):

	Scheduled Principal	Balloon Payment	Total
Remainder of 2016 [1]	$ 12,525	$ 42,892	$ 55,417
2017	26,903	499,563	526,466
2018	42,115	552,779	594,894
2019	44,325	452,000	496,325
2020	39,096	413,206	452,302
Thereafter	249,794	1,350,774	1,600,568
Total	$ 414,758	$ 3,311,214	$ 3,725,972

[1] The balloon payment balance in 2016 includes $36.5 million, including $7.9 million of capitalized interest, for the acceleration of principal payable following an event of default under one non-recourse CMBS loan with a stated maturity in 2017.

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Interest Expense

The following table is a summary of the components of interest expense related to the Company's borrowings (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest expense – Revolving Credit Facilities[1]	$895	$586	$1,352	$1,389
Interest expense – Term Loan	322	—	2,069	—
Interest expense – mortgages and notes payable	38,817	46,863	80,547	95,271
Interest expense – Convertible Notes	6,128	6,128	12,255	12,255
Non-cash interest expense:				
Amortization of deferred financing costs	2,236	1,901	4,402	3,973
Amortization of net losses related to interest rate swaps	27	26	57	54
Amortization of debt (premium)/discount, net	747	663	1,507	1,139
Total interest expense	$49,172	$56,167	$102,189	$114,081

(1) Includes facility fees of approximately $0.5 million and $0.4 million for the three months ended June 30, 2016 and 2015, respectively, and approximately $1.0 million and $0.8 million for the six months ended June 30, 2016 and 2015, respectively.

Note 6. Derivative and Hedging Activities

The Company uses interest rate derivative contracts to manage its exposure to changes in interest rates on its variable rate debt. These derivatives are considered cash flow hedges and are recorded on a gross basis at fair value. Assessments of hedge effectiveness are performed quarterly using regression analysis and the measurement of hedge ineffectiveness is based on the hypothetical derivative method. The effective portion of changes in fair value are recorded in AOCL and subsequently reclassified to earnings when the hedged transactions affect earnings. The ineffective portion is recorded immediately in earnings in general and administrative expenses.

The Company is exposed to credit risk in the event of non-performance by its derivative counterparties. The Company evaluates counterparty credit risk through monitoring the creditworthiness of counterparties, which includes review of debt ratings and financial performance. To mitigate its credit risk, the Company enters into agreements with counterparties it considers credit-worthy, such as large financial institutions with favorable credit ratings.

The following table summarizes the notional amount and fair value of the Company’s derivative instruments (dollars in thousands):

						Fair Value of Liability	
Derivatives Designated as Hedging Instruments	Balance Sheet Location	Notional Amount	Fixed Interest Rate	Effective Date	Maturity Date	June 30, 2016	December 31, 2015
Interest Rate Swaps[1]	Accounts payable, accrued expenses and other liabilities	$61,758	5.14 %	01/02/14	12/13/18	$ —	$ (934)
						$ —	$ (934)

(1) Represents a tranche of eight individual interest rate swap agreements with notional amounts ranging from $7.6 million to $7.9 million. The payment terms, stated interest rate, effective date, and maturity date of these swaps are consistent with the terms of the debt.

During June 2016, the Company terminated the remaining interest rate swap agreements upon the repayment of eight CMBS variable-rate loans. The Company paid $1.7 million to terminate these interest rate swap agreements and recognized a loss of $1.7 million, which is included in general and administrative expenses.

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The following tables provide information about the amounts recorded in AOCL, as well as the loss recorded in operations, when reclassified out of AOCL or recognized in earnings immediately, for the three and six months ended June 30, 2016 and 2015, respectively (in thousands):

	Amount of Gain or (Loss) Recognized in AOCL on Derivative (Effective Portion)			
	Three Months Ended June 30,		Six Months Ended June 30,	
Derivatives in Cash Flow Hedging Relationships	2016	2015	2016	2015
Interest rate swaps	$(317)	$40	$(1,173)	$(811)

	Amount of Loss Reclassified from AOCL into Operations (Effective Portion)			
	Three Months Ended June 30,		Six Months Ended June 30,	
Location of Loss Reclassified from AOCL into Operations	2016	2015	2016	2015
Interest expense	$(224)	$(305)	$(459)	$(621)

	Amount of Loss Recognized in Operations on Derivative (Ineffective Portion) [1]			
	Three Months Ended June 30,		Six Months Ended June 30,	
Location of Loss Recognized in Operations on Derivatives	2016	2015	2016	2015
General and administrative expense	$(1,706)	$(75)	$(1,706)	$(78)

	Amount of Loss Recognized in Operations on Derivative			
Derivatives Not Designated as Hedging instruments	Three Months Ended June 30,		Six Months Ended June 30,	
Location of Loss Recognized in Operations on Derivatives	2016	2015	2016	2015
General and administrative expense	$(18)	$—	$(18)	$—

[1] Amounts for the three months and six months ended June 30, 2016 and 2015, respectively, includes losses of $1.7 million and $76.0 thousand that were reclassified from accumulated other comprehensive loss in the balance sheet resulting from hedged transactions that were no longer probable of occurring as the swaps were terminated prior to their respective maturity dates.

Approximately $35.0 thousand of the remaining balance in AOCL is estimated to be reclassified as an increase to interest expense during the next twelve months. The Company does not enter into derivative contracts for speculative or trading purposes.

Note 7. Stockholders’ Equity

Issuance of Common Stock

On April 15, 2016, the Company completed an underwritten public offering of 34.5 million shares of its common stock, at $11.15 per share, including 4.5 million shares sold pursuant to the underwriters' option to purchase additional shares, for gross proceeds of approximately $384.7 million. Net proceeds were approximately $368.9 million after deducting underwriter discounts and offering costs paid by the Company. The net proceeds were initially used to reduce amounts outstanding under the Term Loan.

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ATM Program

During the six months ended June 30, 2016, the Corporation sold 3.0 million shares of its common stock under its ATM Program, at a weighted average share price of $11.17, for aggregate gross proceeds of $33.6 million and aggregate net proceeds of $33.0 million after payment of commissions and other issuance costs of $0.6 million. The net proceeds were used to fund acquisitions, repay borrowings under the Revolving Credit Facilities and for general corporate purposes. As of June 30, 2016, $69.9 million in gross proceeds capacity remained available under the ATM Program.

Stock Repurchase Program

In February 2016, the Company's Board of Directors approved a stock repurchase program, which authorizes the Company to purchase up to $200.0 million of its common stock in the open market or through private transactions from time to time over the next 18 months. The stock repurchase program does not obligate the Company to repurchase any specific number of shares and may be suspended at any time at the Company's discretion. The Company intends to fund any repurchases with the net proceeds from asset sales, cash flows from operations, existing cash on the balance sheet and other sources. During the six months ended June 30, 2016, no stock was repurchased under the stock repurchase program.

Repurchase of Shares of Common Stock

During the six months ended June 30, 2016, portions of awards of restricted common stock and performance share awards granted to certain of the Company's officers and other employees vested. The vesting of these awards, granted pursuant to the Amended Incentive Award Plan, resulted in federal and state income tax liabilities for the recipients. As permitted by the terms of the Amended Incentive Award Plan and the award grants, certain executive officers and employees elected to surrender 0.2 million shares of common stock valued at $0.7 million, solely to pay the associated minimum statutory tax withholdings during the six months ended June 30, 2016. The Company records its repurchased shares of common stock using the cost method. Shares repurchased are considered retired under Maryland law and the cost of the stock repurchased is recorded as a reduction to common stock and accumulated deficit on the consolidated balance sheets.

Dividends Declared

For the six months ended June 30, 2016, the Corporation's Board of Directors declared the following dividends:

Declaration Date	Dividend Per Share	Record Date	Total Amount [1] (in thousands)	Payment Date
March 15, 2016	$0.17500	March 31, 2016	$ 77,596	April 15, 2016
June 15, 2016	$0.17500	June 30, 2016	$ 83,940	July 15, 2016

(1) Net of estimated forfeitures of approximately $4,000 and $9,000 during the three and six months ended June 30, 2016, respectively, for dividends declared on employee restricted stock awards that are reported in general and administrative on the accompanying consolidated statements of operations.

The dividend declared on June 15, 2016 was paid on July 15, 2016 and is included in accounts payable, accrued expenses and other liabilities as of June 30, 2016.

Note 8. Commitments and Contingencies

The Company is periodically subject to claims or litigation in the ordinary course of business, including claims generated from business conducted by tenants on real estate owned by the Company. In these instances, the Company is typically indemnified by the tenant against any losses that might be suffered, and the Company and/or the tenant are typically insured against such claims.

On September 8, 2015, Haggen Holdings, LLC and a number of its affiliates, including Haggen Operations Holdings, LLC, (collectively, the "Debtors") filed petitions for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware. At the time of the filing, Haggen Operations Holdings, LLC

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leased 20 properties on a triple net basis from a subsidiary of the Company under a master lease with initial monthly rents of $1.4 million and an initial lease expiration date of February 28, 2035. Haggen Holdings, LLC is the guarantor of the tenant’s obligations under that master lease. A subsidiary of the Company and the Debtors entered into a settlement agreement whereby the subsidiary consented to the partial assumption and partial rejection of the master lease permitting (a) the assumption of nine stores subject to the lease and their assignment to three unaffiliated grocery operators with winning bids in an auction of the respective leaseholds, (b) the rejection of the leasehold with respect to six of the stores and their return to the Company's possession, and (c) the assumption and continued operation by the tenant of five of the stores. Under the settlement agreement, the subsidiary of the Company received an unsecured stipulated damages claim for $21.0 million against each of Haggen Operations Holdings, LLC and Haggen Holdings, LLC, as well as certain agreed upon fees, expenses and cure payments in the bankruptcy. The court approved the settlement agreement in an order entered November 25, 2015.

During the three months ended June 30, 2016, the bankruptcy court approved a settlement agreement, by and between our subsidiary, the Debtors and Albertson’s LLC, which provides for (a) the partial assignment of the existing Haggen Operations Holdings, LLC master lease to Albertson’s LLC with respect to four of the five properties under the master lease, (b) the rejection of the leasehold with respect to the one store not included in the master lease assignment, (c) the execution of a new lease or leases between the subsidiary of the Company and Albertson’s LLC with respect to the four assigned stores, including a $0.35 million annual rent reduction for one store, and (d) the reimbursement of certain of the Company's fees, expenses and cure amounts solely with respect to the assigned stores. In return for the rent concession, Albertson’s LLC paid the Company $3.0 million upon execution of the amended leases during the three months ended June 30, 2016 and the Debtors have agreed to grant the Company an allowed administrative claim of $0.8 million. The $3.0 million payment has been recorded to other liabilities on the balance sheet and will be amortized to rent over the remaining lease term. In return for the rejected store, the Company has been granted an incremental allowed unsecured claim of $2.6 million, of which $1.8 million is entitled to administrative priority, against each of Haggen Operations Holdings, LLC and Haggen Holdings, LLC.

Pursuant to the terms of the settlement agreement, the Company collected and recognized $2.5 million of the $21.0 million original stipulated damages claim following the property assignments to Albertsons's LLC, and the remaining amounts will be recognized when collected. The amount of the settlement claim was negotiated based on lost rent relating to rejected properties and below market rents on properties assigned to new operators through bankruptcy. As a result, a portion of the collections are recorded in interest income and other in the income statement, and the remainder is recorded in other liabilities on the balance sheet and amortized to rent over the remaining lease term. Of the $2.5 million noted above, $1.8 million was recognized as lease termination income with the remainder recorded on the balance sheet. As of June 30, 2016, the bankruptcy proceeding remains ongoing and there is no guaranty that the remaining claims will be paid or otherwise satisfied in full.

As of June 30, 2016, there were no outstanding claims against the Company that are expected to have a material adverse effect on the Company’s financial position, results of operations or cash flows.

As of June 30, 2016, the Company had commitments totaling $56.4 million, of which $31.7 million relates to future acquisitions with the remainder to fund improvements on properties the Company currently owns. Commitments related to acquisitions contain standard cancellation clauses contingent on the results of due diligence. Of the $56.4 million of total commitments, $56.0 million is expected to be funded during fiscal year 2016. In addition, the Company is contingently liable for $5.7 million of debt owed by one of its tenants and is indemnified by that tenant for any payments the Company may be required to make on such debt.

The Company estimates future costs for known environmental remediation requirements when it is probable that the Company has incurred a liability and the related costs can be reasonably estimated. The Company considers various factors when estimating its environmental liabilities, and adjustments are made when additional information becomes available that affects the estimated costs to study or remediate any environmental issues. When only a wide range of estimated amounts can be reasonably established and no other amount within the range is better than another, the low end of the range is recorded in the consolidated financial statements.

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Notes to Consolidated Financial Statements - (continued)
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Note 9. Fair Value Measurements
Recurring Fair Value Measurements
The Company's assets and liabilities that are required to be measured at fair value in the accompanying consolidated financial statements are summarized below. The following table sets forth the Company's financial liabilities that were accounted for at fair value on a recurring basis (in thousands):

		Fair Value Hierarchy Level		
	Fair Value	Level 1	Level 2	Level 3
December 31, 2015				
Derivatives:				
Interest rate swaps financial liabilities	$ (934)	$ —	$ (934)	$ —

The interest rate swaps are measured using a market approach, using prices obtained from a nationally recognized pricing service and pricing models with market observable inputs such as interest rates and volatilities. These measurements are classified as Level 2 of the fair value hierarchy.
Nonrecurring Fair Value Measurements
Fair value measurement of an asset on a nonrecurring basis occurs when events or changes in circumstances related to an asset indicate that the carrying amount of the asset is no longer recoverable. The following table sets forth the Company's assets that were accounted for at fair value on a nonrecurring basis (in thousands):

			Fair Value Hierarchy Level			
Description	Fair Value	Dispositions	Level 1	Level 2	Level 3	Impairment Charges [1] (Restated)
June 30, 2016						
Retail	$ 6,308	$ —	$ —	$ —	$ 6,308	$ (7,235)
Industrial	1,362	—	—	—	1,362	(2,329)
Long-lived assets held and used by asset type	7,670	—	—	—	7,670	(9,564)
Lease intangible assets	2,940	—	—	—	2,940	(5,926)
Other assets	—	—	—	—	—	324
Long-lived assets held for sale	19,761	(21,874)	—	—	41,635	(10,823)
						$ (25,989)
December 31, 2015						
Retail	$ 29,626	$ (3,207)	$ —	$ —	$ 32,833	$ (20,727)
Industrial	9,598	—	—	—	9,598	(16,182)
Office	21,074	—	—	—	21,074	(14,093)
Long-lived assets held and used by asset type	60,298	(3,207)	—	—	63,505	(51,002)
Lease intangible assets	3,843	—	—	—	3,843	(3,825)
Other assets	—	—	—	—	—	(324)
Long-lived assets held for sale	15,957	(33,563)	—	—	49,520	(15,578)
						$ (70,729)

[1] Impairment charges are presented for the six months ended June 30, 2016 and for the year ended December 31, 2015.

The fair values of impaired real estate and intangible assets were determined by using the following information, depending on availability, in order of preference: signed purchase and sale agreements or letters of intent; judicial foreclosure price; sales prices for comparable properties; estimates of cash flow, which consider, among other things, contractual and forecasted rental revenues, leasing assumptions, and expenses based upon market conditions; and

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expectations for the use of the real estate. Based on these inputs, the Company determined that its valuation of the impaired real estate and intangible assets falls within Level 3 of the fair value hierarchy.

During the six months ended June 30, 2016 and for the year ended December 31, 2015, we determined that four and eighteen long-lived assets held and used, respectively, were impaired. The Company estimated the fair value of these properties using weighted average sales price per square foot of comparable properties for all of the impaired properties during the six months ended June 30, 2016 and for thirteen of the eighteen impaired properties during the year ended December 31, 2015.

The following table provides information about the weighted average sales price per square foot of comparable properties used to estimate fair value (price per square foot in dollars).

	June 30, 2016			December 31, 2015		
	Range	Weighted Average	Square Footage	Range	Weighted Average	Square Footage
Long-lived assets held and used by asset type						
Retail	$62.84 - $214.29	$ 114.16	70,539	$41.21 - $168.30	$ 79.90	153,008
Industrial	$2.50 - $3.45	$ 3.17	55,613	$17.77 - $22.00	$ 19.40	375,076
Office	N/A	N/A	N/A	$58.17 - $133.61	$ 104.53	204,936

Estimated Fair Value of Financial Instruments

Financial assets and liabilities for which the carrying values approximate their fair values include cash and cash equivalents, restricted cash and escrow deposits, and accounts receivable and payable. Generally, these assets and liabilities are short-term in duration and are recorded at cost, which approximates fair value, on the accompanying consolidated balance sheets.

In addition to the disclosures for assets and liabilities required to be measured at fair value at the balance sheet date, companies are required to disclose the estimated fair values of all financial instruments, even if they are not carried at their fair values. The fair values of financial instruments are estimates based upon market conditions and perceived risks at June 30, 2016 and December 31, 2015. These estimates require management's judgment and may not be indicative of the future fair values of the assets and liabilities.

The estimated fair values of the loans receivable, Revolving Credit Facilities, Term Loan, Convertible Notes and the fixed-rate mortgages and notes payable have been derived based on market quotes for comparable instruments or discounted cash flow analyses using estimates of the amount and timing of future cash flows, market rates and credit spreads. The loans receivable, Revolving Credit Facilities, Term Loan, Convertible Notes and mortgages and notes payable were measured using a market approach from nationally recognized financial institutions with market observable inputs such as interest rates and credit analytics. These measurements are classified as Level 2 of the fair value hierarchy. The following table discloses fair value information for these financial instruments (in thousands):

	June 30, 2016		December 31, 2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Loans receivable, net	$86,165	$ 89,734	$104,003	$ 110,019
Term Loan, net [(1)]	368,207	369,182	322,902	338,366
Mortgages and notes payable, net [(1)]	2,571,844	2,673,824	3,079,787	3,220,239
Convertible Notes, net [(1)]	696,290	818,775	690,098	713,095

[(1)] The carrying value of the debt instruments are net of unamortized deferred financing costs and certain debt discounts/premiums.

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Notes to Consolidated Financial Statements - (continued)
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Note 10. Significant Credit and Revenue Concentration

As of June 30, 2016 and December 31, 2015, the Company’s real estate investments are operated by 443 and 438 tenants, respectively, that operate within retail, office and industrial property types across various industries throughout the U.S. Shopko operates in the general merchandise industry and is the Company’s largest tenant as a percentage of Normalized Revenue. Total rental revenues from properties leased to Shopko for the three months ended June 30, 2016 and 2015, contributed 8.2% and 10.4% of the Company's Normalized Revenue from continuing operations, respectively. No other tenant contributed 4% or more of the Company’s Normalized Revenue during any of the periods presented. As of June 30, 2016 and December 31, 2015, the Company's net investment in Shopko properties represents approximately 6.5% and 6.9%, respectively, of the Company’s total assets and the Company's real estate investment in Shopko represents approximately 8.4% and 9.0%, respectively, of the Company's total real estate investment portfolio.

Note 11. Supplemental Cash Flow Information
The following table presents the supplemental cash flow disclosures (in thousands):

	Six Months Ended June 30, 20162015
Supplemental Disclosures of Non-Cash Investing and Financing Activities:	
Reduction of debt through sale of certain real estate properties	$—$7,155
Reduction of debt in exchange for collateral assets	47,5904
Net real estate and other collateral assets surrendered to lender	31,8384
Accrued interest capitalized to principal [(1)]	2,137,551
Accrued performance share dividend rights	33088

[(1)] Accrued and overdue interest on certain CMBS notes that have been intentionally placed in default.

Note 12. Incentive Award Plan
On May 11, 2016, the stockholders of the Company approved the Amended Incentive Award Plan, which increased the number of shares of common stock reserved for issuance thereunder by 5,500,000 shares. As of June 30, 2016, 6.3 million shares remained available for award under the Amended Incentive Award Plan.
Restricted Shares of Common Stock
During the six months ended June 30, 2016, the Company granted 0.5 million restricted shares under the Amended Incentive Award Plan to certain executive officers and employees. The Company recorded $5.2 million in deferred compensation associated with these grants, which will be recognized in expense over the service period of the awards. As of June 30, 2016, there were approximately 0.7 million unvested restricted shares outstanding.
Performance Share Awards
During the six months ended June 30, 2016, the Board of Directors or committee thereof approved an initial target grant of 269,035 performance shares, net of forfeitures of 52,514, to executive officers of the Company. The performance period of this grant runs from January 1, 2016 through December 31, 2018. Potential shares of the Corporation's common stock that each participant is eligible to receive is based on the initial target number of shares granted multiplied by a percentage range between 0% and 250%. Grant date fair value was calculated using the Monte Carlo simulation model, which incorporated stock price correlation, projected dividend yields and other variables over the time horizons matching the performance periods. Stock-based compensation expense associated with unvested

performance share awards is recognized on a straight-line basis over the minimum required service period, which is generally three years. Based on the grant date fair value, the Corporation expects to recognize $4.3 million in compensation expense on a straight-line basis over the requisite service period associated with this market-based grant.

Approximately $0.4 million and $0.2 million in dividend rights have been accrued for non-vested performance share awards outstanding as of June 30, 2016 and December 31, 2015, respectively. For outstanding non-vested awards at June 30, 2016, 0.4 million shares would have been released based on the Corporation's TSR relative to the specified peer groups through that date. During the six months ended June 30, 2016, 53,533 shares were released at target in connection with qualifying terminations of participants.

Stock-based Compensation Expense

For the three months ended June 30, 2016 and 2015, the Company recognized $1.5 million and $3.5 million, respectively, in stock-based compensation expense, which is included in general and administrative expenses in the accompanying consolidated statements of operations. For the six months ended June 30, 2016 and 2015, the Company recognized $3.8 million and $7.3 million, respectively, in stock-based compensation expense.

As of June 30, 2016, the remaining unamortized stock-based compensation expense, including amounts relating to the performance share awards, totaled $12.3 million, including $6.4 million related to restricted stock awards and $5.9 million related to performance share awards, which is recognized as the greater of the amount amortized on a straight-line basis over the service period of each applicable award or the amount vested over the vesting periods.

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Notes to Consolidated Financial Statements - (continued)
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Note 13. Income Per Share

Income per share has been computed using the two-class method. Income per common share under the two-class method is computed by dividing the sum of distributed earnings to common stockholders and undistributed earnings allocated to common stockholders by the weighted average number of shares of common stock outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both shares of common stock and participating securities based on the weighted average shares outstanding during the period. Classification of the Company's unvested restricted stock, which contain rights to receive nonforfeitable dividends, are deemed participating securities under the two-class method. Under the two-class method, earnings attributable to unvested restricted shares are deducted from income from continuing operations in the computation of net income attributable to common stockholders. The table below is a reconciliation of the numerator and denominator used in the computation of basic and diluted net income per share computed using the two-class method, as restated (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Basic and diluted income:				
Income (loss) from continuing operations	$34,844	$ (2,298)	$47,798	$ 10,887
Gain on disposition of assets	11,115	51,149	21,261	60,300
Less: income attributable to unvested restricted stock	(111)	(225)	(238)	(434)
Income used in basic and diluted income per share from continuing operations	45,848	48,626	68,821	70,753
Income from discontinued operations	—	494	—	721
Net income attributable to common stockholders used in basic and diluted income per share	$45,848	$ 49,120	$68,821	$ 71,474
Basic weighted average shares of common stock outstanding:				
Weighted average shares of common stock outstanding	473,907,406	437,921,663	457,970,316	425,129,740
Less: unvested weighted average shares of restricted stock	(746,281)	(1,302,525)	(706,790)	(1,240,502)
Weighted average shares of common stock outstanding used in basic income per share	473,161,125	436,619,138	457,263,526	423,889,238
Net income per share attributable to common stockholders—basic	$0.10	$ 0.11	$0.15	$ 0.17
Diluted weighted average shares of common stock outstanding: [1]				
Unvested performance shares	—	301,007	—	448,691
Stock options	3,261	3,610	3,489	5,303
Weighted average shares of common stock outstanding used in diluted income per share	473,164,386	436,923,755	457,267,015	424,343,232
Net income per share attributable to common stockholders—diluted	$0.10	$ 0.11	$0.15	$ 0.17
Potentially dilutive shares of common stock				
Unvested shares of restricted stock	113,649	452,791	90,679	455,024
Total	113,649	452,791	90,679	455,024

[1] Assumes the most dilutive issuance of potentially issuable shares between the two-class and treasury stock method unless the result would be anti-dilutive.

The Corporation intends to satisfy its exchange obligation for the principal amount of the Convertible Notes to the note holders entirely in cash, therefore, the "if-converted" method does not apply and the treasury stock method is being used. As the Corporation's stock price is below the conversion price, there are no potentially dilutive shares associated with the Convertible Notes.

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Note 14. Costs Associated With Restructuring Activities

On November 16, 2015, the Company's Board of Directors approved the strategic decision to relocate its headquarters from Scottsdale, Arizona to Dallas, Texas. The Company began occupying temporary office space in the new headquarters in the spring of 2016, and the Company anticipates the move will be finalized by the end of 2016. As a result of moving its corporate headquarters, the Company is incurring various restructuring charges, including employee separation and relocation costs. Restructuring charges incurred for the three and six months ended June 30, 2016 totaled $1.8 million and $2.5 million, respectively, and are included within restructuring charges on the accompanying consolidated statements of operations. Restructuring charges for the three and six months ended June 30, 2016 were reduced for $0.2 million of straight-line rent payable that was previously recognized for the Company's Scottsdale headquarters in association with lease termination. To date, the Company has incurred restructuring charges totaling $9.5 million.

The following table presents a reconciliation of the liability attributable to restructuring charges incurred as of June 30, 2016, which is recorded within accounts payable, accrued expenses and other liabilities in the accompanying consolidated balance sheets (in thousands):

	Employee Separation/Relocation Costs	Other Restructuring Costs	Total
Beginning balance, as of December 31, 2015	$ 5,754	$ 172	$5,926
Accruals	400	2,266	2,666
Payments	(2,055)	(1,258)	(3,313)
Ending balance, as of June 30, 2016	$ 4,099	$ 1,180	$5,279

The Company currently anticipates to incur total relocation related costs of approximately $19.5 million, of which $11.6 million is restructuring, $4.4 million is capitalizable costs related to tenant improvements and fixtures for the new corporate headquarters and $3.5 million represents other relocation costs primarily for redundant office space and employee salaries and benefits of departing employees during the transition phase.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Restatement

As discussed in the Explanatory Note to this Form 10-Q/A and in Note 2 to the consolidated financial statements included in Part I, Item 1 of this Form 10-Q/A, we are restating our consolidated financial statements and related disclosures for the quarter ended June 30, 2016. The following discussion and analysis of our financial condition and results of operations incorporates the restated amounts. For this reason, the data set forth in this Item 2 may not be comparable to the discussion and data in our previously filed Quarterly Report on Form 10-Q for the quarter ended June 30, 2016.

Special Note Regarding Forward-looking Statements

This quarterly report contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. When used in this quarterly report, the words "estimate," "anticipate," "expect," "believe," "intend," "may," "will," "should," "seek," "approximately" or "plan," or the negative of these words and phrases or words or phrases that are predictions of or indicate future events or trends and which do not relate solely to historical matters are intended to identify forward-looking statements. You can also identify forward-looking statements by discussions of strategy, plans or intentions of management.

Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods which may be incorrect or imprecise and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all). The following risks and uncertainties, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- industry and economic conditions;
- volatility and uncertainty in the financial markets, including potential fluctuations in the CPI;
- our success in implementing our business strategy and our ability to identify, underwrite, finance, consummate, integrate and manage diversifying acquisitions or investments;
- our ability to diversify our tenant base and reduce the concentration of our significant tenant;
- the nature and extent of future competition;
- increases in our costs of borrowing as a result of changes in interest rates and other factors;
- our ability to access debt and equity capital markets;
- our ability to pay down, refinance, restructure and/or extend our indebtedness as it becomes due;
- our ability and willingness to renew our leases upon expiration and to reposition our properties on the same or better terms upon expiration in the event such properties are not renewed by tenants or we exercise our rights to replace existing tenants upon default;
- the impact of any financial, accounting, legal or regulatory issues or litigation that may affect us or our major tenants;
- our ability to manage our expanded operations;
- risks related to the relocation of our corporate headquarters to Dallas, Texas;
- our ability and willingness to maintain our qualification as a REIT; and
- other risks inherent in the real estate business, including tenant defaults, potential liability relating to environmental matters, illiquidity of real estate investments and potential damages from natural disasters.

The factors included in this quarterly report, including the documents incorporated by reference, and documents we subsequently file with the SEC and incorporate by reference, are not exhaustive and additional factors could adversely affect our business and financial performance. For a discussion of additional risk factors, see the factors included under the caption “Risk Factors” in our most recent Annual Report on Form 10-K/A. All forward-looking statements are based on information that was available, and speak only, as of the date on which they were made. We assume no obligation to update any forward-looking statement that becomes untrue because of subsequent events, new information or otherwise, except to the extent we are required to do so in connection with our ongoing requirements under federal securities laws.

Overview

Spirit Realty Capital, Inc. is a New York Stock Exchange listed company under the ticker symbol "SRC". We are a self-administered and self-managed REIT with in-house capabilities including acquisition, portfolio management, asset management, credit research, real estate research, legal, finance and accounting and capital markets. We primarily invest in single-tenant, operationally essential real estate assets throughout the U.S., which are generally acquired through strategic sale-leaseback transactions and subsequently leased on long-term, triple-net basis to high-quality tenants with business operations within predominantly retail, but also office and industrial property types. Single tenant, operationally essential real estate consists of properties that are generally free-standing, commercial real estate facilities where our tenants conduct activities that are essential to the generation of their sales and profits. In support of our primary business of owning and leasing real estate, we have also strategically originated or acquired long-term, commercial mortgage and other loans to provide a range of financing solutions to our tenants.

We generate our revenue primarily by leasing our properties to our tenants. 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 and other assets securing our mortgage loans. Of this amount, 99.0% consisted of investment in real estate, representing ownership of 2,545 properties, and the remaining 1.0% consisted of commercial mortgage and other loans receivable primarily secured by the remaining 109 real properties or other related assets.

Our operations are primarily carried out through the Operating Partnership. OP Holdings, one of our wholly owned subsidiaries, is the sole general partner and owns 1.0% of the Operating Partnership. We and one of our wholly-owned subsidiaries are the only limited partners, and together own the remaining 99.0% of the Operating Partnership. Although the Operating Partnership is wholly-owned by us, in the future, we may issue partnership interests in the Operating Partnership to third parties in exchange for property owned by such third parties. In general, any partnership interests in the Operating Partnership issued to third parties would be exchangeable for cash or, at our election, shares of our common stock at specified ratios set when such partnership interests in the Operating Partnership are issued.

We have elected to be taxed as a REIT for federal income tax purposes commencing with our taxable year ended December 31, 2005. We believe that we have been organized and have operated in a manner that has allowed us to qualify as a REIT for federal income tax purposes commencing with such taxable year, and we intend to continue operating in such a manner.
As of June 30, 2016, our owned properties were approximately 98.3% occupied (based on number of properties), and our leases had a weighted average non-cancelable remaining lease term (based on total rental revenue) of approximately 10.7 years. Our leases are generally originated with long lease terms, typically non-cancelable initial terms of 15 to 20 years and tenant renewal options for additional years. As of June 30, 2016, approximately 89% of our single-tenant properties (based on Normalized Rental Revenue) provided for increases in future annual base contractual rent.

2016 Highlights

For the second quarter ended June 30, 2016:
- Generated revenues of $171.7 million, a 2.3% increase over revenues reported during the second quarter of 2015.
- Generated net income of $0.10 per diluted share, AFFO of $0.22 per diluted share, and FFO of $0.24 per diluted share.
- Closed 14 real estate transactions totaling $165.0 million, which added 110 properties to our portfolio, earning an initial weighted average cash yield of approximately 7.61% under leases with a weighted average term of 15.9 years.
- Disposed of 32 properties generating gross proceeds of $138.2 million, with a weighted average capitalization rate of 6.38%, resulting in an overall gain on sale of $11.1 million. Included in gross proceeds was $35.3 million of principal and interest that was extinguished as a full or partial settlement of debt related to the transfer of four vacant real estate properties securing four CMBS fixed-rate loans that were in default.
- Issued 34.5 million shares of common stock, including the underwriter's option to purchase additional shares, in an underwritten public offering at $11.15 per share, raising net proceeds of $368.9 million.
- Sold 1.7 million shares of common stock under our ATM program, at a weighted average share price of $11.22, generating aggregate net proceeds of $19.1 million.
- Expanded the borrowing capacity under our 2015 Credit Facility from $600.0 million to $800.0 million by partially exercising the accordion feature under the terms of the Credit Agreement.
- Extinguished $391.4 million of high coupon debt that had a 6.16% weighted average rate.
- Declared cash dividends in the second quarter of $0.175 per share, which equates to an annualized dividend of $0.700 per share.

For the six months ended June 30, 2016:
- Generated revenues of $340.1 million, a 3.0% increase over the revenues reported during the first six months of 2015.
- Generated net income of $0.15 per diluted share, AFFO of $0.44 per diluted share, and FFO of $0.44 per diluted share.
- Closed 23 real estate transactions totaling $240.6 million, which added 125 properties to our portfolio, earning an initial weighted average cash yield of approximately 7.76% under leases with a weighted average term of 15.8 years.
- Disposed of 65 properties generating gross proceeds of $244.4 million, with a weighted average capitalization rate of 6.37%, resulting in an overall gain on sale of $21.3 million. Included in gross proceeds was $50.1 million of principal and interest that was extinguished as a full or partial settlement of debt related to the transfer of six vacant real estate properties securing four CMBS fixed-rate loans that were in default.
- Issued 34.5 million shares of common stock, including the underwriter's option to purchase additional shares, in an underwritten public offering at $11.15 per share, raising net proceeds of $368.9 million.
- Sold 3.0 million shares of common stock under our ATM program, at a weighted average share price of $11.17, generating aggregate net proceeds of $33.0 million.
- Reduced Shopko concentration to 8.2% of Normalized Revenue from 9.1% at December 31, 2015.
- Extinguished $495.2 million of high coupon secured debt that had a 6.28% weighted average rate.

Factors that May Influence Our Operating Results

Acquisitions

Our principal line of business is acquiring commercial real estate properties and leasing these properties to our tenants. Our ability to grow revenue and produce superior risk adjusted returns will principally depend on our ability to acquire additional properties that meet our investment criteria at a yield sufficiently in excess of our cost of capital. We primarily focus on opportunities to acquire attractive commercial real estate by providing capital to small and middle-market companies that we conclude have stable and proven operating histories and attractive credit characteristics, but lack the access to capital that large companies often have. Small and middle-market companies are often willing to enter into leases with structures and terms that we consider appealing (such as master leases and leases that require ongoing tenant financial reporting) and that we believe increase the security of rental payments.

Operationally Essential Real Estate with Long-Term Leases

We seek to own properties that are operationally essential to our tenants, thereby reducing the risk that our tenant would choose not to renew an expiring lease or reject a lease in bankruptcy. In addition, we seek to enter into leases with relatively long terms, typically with initial terms of 15 to 20 years and tenant renewal options for additional terms with attractive rent escalation provisions. As of June 30, 2016, our leases had a weighted average remaining lease term (based on rental revenue) of approximately 10.7 years compared to approximately 10.8 years as of June 30, 2015.

Portfolio Diversification

Our strategy emphasizes a portfolio that (1) derives no more than 10% of its annual rent from any single tenant and no more than 1.0% of its annual rent from any single property, (2) is leased to tenants operating in various industries and (3) is located across the U.S. without significant geographic concentration.

As of June 30, 2016, Shopko represents our most significant tenant at 8.2% of Normalized Revenue. Following the 2014 restructuring of the Shopko master lease and defeasance of the related secured indebtedness, we have continued our objective to reduce the tenant concentration of Shopko. During the twelve months ended June 30, 2016, we sold 18 Shopko properties having an investment value of $124.8 million. These sales, coupled with our increased rental revenue from real estate investments of $575.7 million acquired during the twelve months ended June 30, 2016, have reduced our current Shopko tenant concentration to 8.2% for the six months ended June 30, 2016 compared to 10.4% for the same period in 2015.

As of June 30, 2016, 84 Properties, LLC, with a 2.8% tenant concentration, is our second most significant tenant. As of June 30, 2016, there were 108 properties under a master lease. The master lease was subject to senior mortgage debt, which was repaid during the three months ended June 30, 2016. The master lease agreement includes a purchase option, which upon 180 days prior written notice, 84 Properties, LLC can elect to purchase all of the properties from us prior to the end of the 10th, 15th and 20th years of the lease. The purchase option does not allow for a purchase of less than all of the properties. The option purchase price is equal to 100% of our gross purchase price of approximately $200.6 million in May 2007, plus any subsequent improvements and other capitalized costs incurred in connection with the properties (as defined in the master lease agreement). 84 Properties, LLC will be eligible to execute its first purchase option in May 2017 and, if it elects to exercise it, 84 Properties, LLC will need to provide written notice in December 2016 of their intent to purchase the properties.

We believe that our experience, in-depth market knowledge and extensive network of long-standing relationships in the real estate industry will continue to provide us access to an ongoing pipeline of attractive acquisitions. However, because we primarily use external financing to fund acquisitions, periods of volatility in the credit and capital markets that may negatively affect the amounts, sources and cost of capital available to us could force us to limit our acquisition activity. Additionally, to the extent that we access capital at a higher cost (reflected in higher interest rates for debt financing or lower stock price for equity financing), our financial results could be adversely affected.

Our Leases

Rent Escalators

Generally, our single-tenant leases contain contractual provisions increasing the rental revenue over the term of the

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lease at specified dates by: (1) a fixed amount or (2) the lesser of (a) 1 to 1.25 times any increase in CPI over a specified period or (b) a fixed percentage, typically 1% to 2% per year. The percentage of our single-tenant properties (based on Normalized Rental Revenue) containing rent escalators remained consistent at approximately 89% as of both June 30, 2016 and June 30, 2015, respectively.

Master Lease Structure

Where appropriate, we seek to enter into master leases, pursuant to which we lease multiple properties to a single tenant on an “all or none” basis. We seek to use the master lease structure to prevent a tenant from unilaterally giving up underperforming properties while retaining well-performing properties. Master lease revenue contributed approximately 45% of our Normalized Rental Revenue as of both June 30, 2016 and June 30, 2015, respectively.

Triple-Net Leases

Our leases are predominantly triple-net which require the tenant to pay all property operating expenses such as real estate taxes, insurance premiums and repair and maintenance costs. As of June 30, 2016, approximately 86.2% of our single-tenant properties (based on Normalized Rental Revenue) are subject to triple-net leases compared to approximately 86.4% as of June 30, 2015.

Asset Management

The stability of the rental revenue generated by our properties depends principally on our and our tenants’ ability to 1) pay rent and our ability to collect rent due, 2) renew expiring leases or re-lease space upon expiration or other termination, 3) lease currently vacant properties, and 4) maintain or increase rental rates. Each of these could be negatively impacted by adverse economic conditions, particularly those that affect the markets in which our properties are located, downturns in our tenants’ industries, increased competition for our tenants at our property locations, or the bankruptcy of one or more of our tenants. We seek to manage these risks by using our developed underwriting and risk management processes to structure and manage our portfolio.

On September 8, 2015, Haggen Holdings, LLC and a number of its affiliates, including Haggen Operations Holdings, LLC, (collectively, the "Debtors") filed petitions for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware. At the time of the filing, Haggen Operations Holdings, LLC leased 20 properties on a triple net basis from a subsidiary of ours under a master lease with initial monthly rents of $1.4 million and an initial lease expiration date of February 28, 2035. Haggen Holdings, LLC is the guarantor of the tenant’s obligations under that master lease. Our subsidiary and the Debtors entered into a settlement agreement whereby our subsidiary consented to the partial assumption and partial rejection of the master lease permitting (a) the assumption of nine stores subject to the lease and their assignment to three unaffiliated grocery operators with winning bids in an auction of the respective leaseholds, (b) the rejection of the leasehold with respect to six of the stores and their return to our possession, and (c) the assumption and continued operation by the tenant of five of the stores. Under the settlement agreement, our subsidiary received an unsecured stipulated damages claim for $21.0 million against each of Haggen Operations Holdings, LLC and Haggen Holdings, LLC, as well as certain agreed upon fees, expenses and cure payments in the bankruptcy. The bankruptcy court approved the settlement agreement in an order entered November 25, 2015.

During the second quarter of 2016, the bankruptcy court approved a settlement agreement, by and between our subsidiary, the Debtors and Albertson’s LLC, which provides for (a) the partial assignment of the existing Haggen Operations Holdings, LLC master lease to Albertson’s LLC with respect to four of the five properties under the master lease, (b) the rejection of the leasehold with respect to the one store not included in the master lease assignment, (c) the execution of a new lease or leases between our subsidiary and Albertson’s LLC with respect to the four assigned stores, including a $0.35 million annual rent reduction for one store, and (d) the reimbursement of certain of our fees, expenses and cure amounts solely with respect to the assigned stores. In return for the rent concession, Albertson's LLC paid us $3.0 million upon execution of the amended lease or leases and the Debtors have agreed to grant us an allowed administrative claim of $0.8 million. In return for the rejected store, we have been granted an incremental allowed unsecured claim of $2.6 million, of which $1.8 million is entitled to administrative priority, against each of Haggen Operations Holdings, LLC and Haggen Holdings, LLC.

During the six months ended June 30, 2016, we sold three of the seven rejected stores for $20.8 million, with the remaining four rejected stores being marketed for sale or lease. In June 2016, we collected $2.5 million of the $21.0 million original stipulated damages claim. We anticipate collecting the balance of each of the aforementioned claims within the next several quarters, although the bankruptcy proceeding remains ongoing, and there is no guaranty that the remaining claims will be paid or otherwise satisfied in full.

Active Management and Monitoring of Risks Related to Our Investments

We seek to measure tenant financial distress risk and lease renewal risk through various processes. Many of our tenants are required to provide corporate-level and or unit-level financial information, which includes balance sheet, income statement and cash flow statement data on a quarterly and/or annual basis. Our underwriting and risk management processes are designed to structure new investments and manage existing investments to mitigate tenant credit quality risks and preserve the long-term return on our invested capital. Since our inception, our occupancy has never been below 96.1% (based on number of properties). As of June 30, 2016 and June 30, 2015, the percentage of our properties that were occupied was 98.3% and 98.7%, respectively.

Capital Recycling

We continuously evaluate opportunities for the potential disposition of properties in our portfolio when we believe such disposition is appropriate in view of our business objectives, considering criteria including, but not limited to, tenant concentration, tenant credit quality, unit financial performance, local market conditions and lease rates, associated indebtedness, asset location and tenant operation type (e.g., industry, sector, or concept/brand), as well as potential uses of proceeds and tax considerations. As part of this strategy, we attempt at times to enter into 1031 Exchanges, when possible, to defer some or all of the taxable gains on the dispositions, if any, for federal and state income tax purposes.

The timing of any potential dispositions will depend on market conditions and other factors, including but not limited to, our capital needs and ability to defer some or all of the taxable gains on the sales. We can provide no assurance that we will dispose of any additional properties or that future acquisitions and/or dispositions, if any, will qualify as 1031 Exchanges. Furthermore, we can provide no assurance that we will deploy the proceeds from future dispositions in a manner that produces comparable or better yields.

Capital Funding

Our principal demands for funds are for property acquisitions, payment of principal and interest on our outstanding indebtedness, operating and property maintenance expenses and distributions to our stockholders. Generally, cash needs for payments of principal and interest, operating and property maintenance expenses and distributions to stockholders will be generated from cash flows from operations, which are primarily driven by the rental income received from our leased properties, interest income earned on loans receivable and interest income on our cash balances. We generally temporarily fund the acquisition of real estate utilizing our Revolving Credit Facilities or Term Loan, followed by permanent financing through asset level financing or by issuing debt or equity securities.

Interest Costs

Our fixed-rate debt structure provides us with a stable and predictable cash requirement related to our debt service. Any changes to our debt structure, including borrowings under our 2015 Credit Facility, Term Loan or debt financing associated with property acquisitions, could materially influence our operating results depending on the terms of any such indebtedness. A significant amount of our debt provides for scheduled principal payments. As principal is repaid, our interest expense decreases. Changing interest rates will increase or decrease the interest expense we incur on unhedged variable interest rate debt and may impact our ability to refinance maturing debt.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP requires our management to use judgment in the application of accounting policies, including making estimates and assumptions. We base estimates on the best information available to us at the time, our experience and on various other assumptions believed to be reasonable under the circumstances. These estimates affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions or other matters had been different, it is possible that different accounting would have been applied, resulting in a different presentation of our consolidated financial statements. From time to time, we re-evaluate our estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current estimates and assumptions about matters that are inherently uncertain. A summary of our critical accounting policies is included in our Annual Report on Form 10-K/A for the year ended December 31, 2015 in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." We have not made any material changes to these policies during the periods covered by this quarterly report.

Results of Operations

Comparison of Three Months Ended June 30, 2016 to Three Months Ended June 30, 2015

The following discussion includes the results of our continuing operations as summarized in the table below:

	Three Months Ended June 30,			
	2016	2015	Change	% Change
	(In Thousands)			
	(Restated)	(Restated)		
Revenues:				
Rentals	$160,506	$159,607	$899	0.6 %
Interest income on loans receivable	1,625	1,730	(105)	(6.1)%
Earned income from direct financing leases	698	779	(81)	(10.4)%
Tenant reimbursement income	3,200	3,492	(292)	(8.4)%
Other income and interest from real estate transactions	5,697	2,326	3,371	NM
Total revenues	171,726	167,934	3,792	2.3 %
Expenses:				
General and administrative	13,850	11,972	1,878	15.7 %
Restructuring charges	1,813	—	1,813	NM
Property costs	6,611	6,414	197	3.1 %
Real estate acquisition costs	979	453	526	NM
Interest	49,172	56,167	(6,995)	(12.5)%
Depreciation and amortization	64,263	64,671	(408)	(0.6)%
Impairments	13,371	33,771	(20,400)	(60.4)%
Total expenses	150,059	173,448	(23,389)	(13.5)%
Income (loss) from continuing operations before other income and income tax expense	21,667	(5,514)	27,181	NM
Other income:				
Gain on debt extinguishment	14,016	3,377	10,639	NM
Total other income	14,016	3,377	10,639	NM
Income (loss) from continuing operations before income tax expense	35,683	(2,137)	37,820	NM
Income tax expense	(839)	(161)	(678)	NM
Income (loss) from continuing operations	$34,844	$(2,298)	$37,142	NM
Gain on disposition of assets	$11,115	$51,149	$(40,034)	(78.3)%

NM - Percentages over 100% are not displayed.

Revenues

For the three months ended June 30, 2016, approximately 93.9% of our total revenue was attributable to long-term leases. The year-over-year increase of 2.3% in total revenue was due primarily to the recognition of other tenant income recorded in other income and interest from real estate transactions.

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Rentals

Rental revenue for the comparative period remained flat as increases in base rent were partially offset by rental reserves on certain tenants in the casual dining industry. Our base rental revenue between periods increased 1.6%, which was attributable to the acquisition of 209 properties representing an investment in real estate of $575.7 million during the twelve-month period ended June 30, 2016. This increase was partially offset by the sale of 118 properties during the same period having an investment value of $422.8 million. Non-cash rentals for the three months ended June 30, 2016 and 2015 were $6.0 million and $6.4 million, respectively. These amounts represent approximately 3.7% and 4.0% of total rental revenue from continuing operations for the three months ended June 30, 2016 and 2015, respectively.

As of June 30, 2016, 98.3% of our owned properties were occupied (based on number of properties). The majority of our nonperforming properties were in the manufacturing, grocery and restaurants - casual dining industries. As of June 30, 2016 and 2015, respectively, 43 and 33 of our properties, representing approximately 1.7% and 1.3% of our owned properties, were vacant and not generating rent. Of the 43 vacant properties, 10 were held for sale as of June 30, 2016.

Tenant reimbursement income

We have a number of leases that require our tenants to reimburse us for certain property costs we incur. Tenant reimbursement income is driven by the tenant reimbursable property costs described below.

Other income and interest from real estate transactions

The year-over-year increase was due primarily to $3.1 million in fee income associated with the prepayment of certain mortgage loans receivable and $1.8 million in lease termination income received from the Haggen settlement. The positive change from these revenue items was reduced by lease settlement fee income of $2.2 million recognized during the comparable prior period.

Expenses

General and administrative

The year-over-year increase in general and administrative expenses is primarily due to a $1.7 million increase in professional fees and office expenses and a $1.7 million charge for the termination of our interest rate swaps. Higher professional fees include legal, consulting and temporary services attributable to our relocation to Dallas and certain financing activities. These increases were partially offset by the reversal of $0.8 million in previously recognized non-cash stock compensation following the departure of an executive officer.
As a result of our relocation to Dallas, we anticipate an increase in compensation costs and certain professional fees.
Restructuring charges

During the fourth quarter of 2015, we made the strategic decision to relocate our headquarters from Scottsdale, Arizona to Dallas, Texas. During the three months ended June 30, 2016, we incurred $1.8 million in restructuring charges related to our relocation. Of this amount, $1.6 million related to professional fees, consulting services and a lease loss reserve for our prior headquarters, while the balance was for employee related charges and other restructuring charges. There were no such costs incurred during the three months ended June 30, 2015.
Property costs

For the three months ended June 30, 2016, property costs were $6.6 million (including $3.2 million in tenant reimbursables) as compared to $6.4 million (including $3.5 million in tenant reimbursables) for the same period in 2015. Total property costs and the related reimbursable amounts remained relatively flat during the comparable periods, mostly due to consistency in the portfolio between periods.

Interest

The year-over-year decrease in interest expense is primarily due to the extinguishment of $695.0 million of mortgage debt with a weighted average interest rate of 6.16% during the twelve months ended June 30, 2016. This decrease was partially offset by an increase in interest from our Term Loan that was entered into during November 2015.

The following table summarizes our interest expense on related borrowings from continuing operations:

	Three Months Ended June 30,	
	2016	2015
	(In Thousands)	
Interest expense – Revolving Credit Facilities[1]	$895	$586
Interest expense – Term Loan	322	—
Interest expense – mortgages and notes payable	38,817	46,863
Interest expense – Convertible Notes	6,128	6,128
Non-cash interest expense:		
Amortization of deferred financing costs	2,236	1,901
Amortization of net losses related to interest rate swaps	27	26
Amortization of debt (premium)/discount, net	747	663
Total interest expense	$49,172	$56,167

[1] Includes interest expense associated with facility fees of approximately $0.5 million and $0.4 million for the three months ended June 30, 2016 and 2015, respectively.

Depreciation and amortization

During the twelve months ended June 30, 2016, we acquired 209 properties, representing an investment in real estate of $575.7 million. During that same period we disposed of 118 properties with a gross investment of $422.8 million. Despite our net acquisitions during this period, our year-over-year depreciation expense decreased primarily as a result of a reduction in our real estate investment value due to impairment charges during the twelve-month period ended June 30, 2016 on properties that remain in our portfolio and the real estate value of properties held for sale throughout the current period, which were not classified as such during the comparable period. Properties held for sale are no longer depreciated. The following table summarizes our depreciation and amortization expense from continuing operations:

	Three Months Ended June 30,	
	2016	2015
	(In Thousands)	
Depreciation of real estate assets	$52,533	$51,952
Other depreciation	97	94
Amortization of lease intangibles	11,633	12,625
Total depreciation and amortization	$64,263	$64,671

Impairments

Impairment charges for the three months ended June 30, 2016 includes $2.3 million on a single property within the distribution industry, $6.3 million in properties held for sale and $4.7 million from intangible lease write-offs. For the same period in 2015, we recorded impairment losses of $27.5 million on 14 vacant or underperforming properties within the education, restaurant-casual dining and sporting goods industry. In addition, of the properties held for sale, seven had impairment losses totaling $6.3 million.

Gain on debt extinguishment

During the three months ended June 30, 2016, we extinguished $391.4 million of mortgage debt representing 47 loans and recorded a gain on debt extinguishment of $14.0 million. The gain was primarily attributable to the extinguishment of four defaulted mortgage loans upon transferring the properties collateralizing these loans to the lender. For the same period in 2015, we extinguished $174.0 million of mortgage debt and recorded a gain on debt extinguishment of $3.4 million.

Gain on disposition of assets

For the three months ended June 30, 2016, the gain on disposition of 32 properties included $4.5 million from the sale of five Shopko properties and $4.5 million from the sale of nine quick service and five casual dining restaurants. For the same period in 2015, the gain on disposition of assets was primarily attributable to a $47.5 million gain from the sale of 16 Shopko properties.

Results of Operations

Comparison of Six Months Ended June 30, 2016 to Six Months Ended June 30, 2015

The following discussion includes the results of our continuing operations as summarized in the table below:

	Six Months Ended June 30,			
	2016	2015	Change	% Change
	(In Thousands)			
	(Restated)	(Restated)		
Revenues:				
Rentals	$322,325	$314,125	$8,200	2.6 %
Interest income on loans receivable	3,284	3,452	(168)	(4.9)%
Earned income from direct financing leases	1,422	1,574	(152)	(9.7)%
Tenant reimbursement income	7,024	8,123	(1,099)	(13.5)%
Other income and interest from real estate transactions	6,028	2,947	3,081	NM
Total revenues	340,083	330,221	9,862	3.0 %
Expenses:				
General and administrative	25,499	24,572	927	3.8 %
Restructuring charges	2,462	—	2,462	NM
Property costs	13,938	13,821	117	0.8 %
Real estate acquisition costs	1,036	1,546	(510)	(33.0)%
Interest	102,189	114,081	(11,892)	(10.4)%
Depreciation and amortization	128,927	130,967	(2,040)	(1.6)%
Impairments	25,989			