

Spirit Realty Capital, Inc.  
Form 10-K  
March 04, 2014

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

FORM 10-K

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

For the fiscal year ended December 31, 2013

OR

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

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

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

Maryland	20-1676382
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
16767 North Perimeter Drive, Suite 210, Scottsdale, Arizona 85260	(480) 606-0820
(Address of principal executive offices; zip code)	(Registrant's telephone number, including area code)

Cole Credit Property Trust II, Inc.  
2325 East Camelback Road, Suite 1100, Phoenix, Arizona 85016  
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of exchange on which registered:
Common Stock, \$0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the  
Act. Yes  No

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 such shorter period that the registrant was  
required to file such reports), and (2) has been subject to such filing requirements for the past 90  
days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if  
any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§  
232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to  
submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this  
chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or

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information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.  Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of June 30, 2013 (the last business day of the registrant's most recently completed second fiscal quarter), the registrant's common stock was not listed on any exchange or over-the-counter market. The registrant's common stock began trading on the New York Stock Exchange on July 18, 2013. As of December 31, 2013, the aggregate market value of the registrant's voting stock held by non-affiliates was approximately \$3.6

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billion based on the number of shares held by non-affiliates as of December 31, 2013, and the last reported sale price of the registrant's common stock on December 31, 2013 of \$9.83.

As of February 24, 2014, there were 370,941,136 shares of common stock, par value \$0.01, of Spirit Realty Capital, Inc. (f/k/a Cole Credit Property Trust II, Inc.) outstanding.

#### Documents Incorporated by Reference

Certain specific portions of the definitive Proxy Statement for Spirit Realty Capital, Inc.'s 2014 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this Annual Report on Form 10-K. Only those portions of the Proxy Statement which are specifically incorporated by reference herein shall constitute a part of this annual report.

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PART I

Unless context requires otherwise, references in this Annual Report on Form 10-K to the terms "registrant," the "Company," "Spirit," "Spirit Realty Capital," "we" or "us" refer to Spirit Realty Capital, Inc. and its consolidated subsidiaries. Spirit has elected to treat certain of its subsidiaries as taxable real estate investment trust subsidiaries, which are referred to herein as the "TRS".

Available Information

Spirit Realty Capital, Inc.'s principal executive offices are located at 16767 North Perimeter Dr., Suite 210, Scottsdale, Arizona 85260. Our telephone number at that location is 480-606-0820. We maintain an Internet Web site at [www.spiritrealty.com](http://www.spiritrealty.com). On the Investor Relations page on our Web site, we post the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the SEC: our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K, and the Section 16 filings of our directors and officers as well as any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All such filings on our Investor Relations Web site are available to be viewed free of charge. Also available on our Web site, free of charge, are our corporate governance guidelines, the charters of the nominating and corporate governance, audit and compensation committees of our board of directors and our code of business conduct and ethics (which applies to all directors and employees, including our principal executive officer, principal financial officer and principal accounting officer). Information contained on or hyperlinked from our website is not incorporated by reference into and should not be considered part of this Annual Report on Form 10-K or our other filings with the SEC. A copy of this Annual Report on Form 10-K is available without charge upon written request to: Investor Relations, Spirit Realty Capital, Inc., 16767 North Perimeter Dr., Suite 210, Scottsdale, Arizona 85260. All reports we will file with the SEC will be available free of charge via EDGAR through the SEC Web site at [www.sec.gov](http://www.sec.gov). In addition, the public may read and copy materials we file with the SEC at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549. Shares of our common stock are traded on the NYSE under the ticker symbol "SRC."

Item 1. Business

The Company

Spirit Realty Capital, Inc., a Maryland corporation formed on September 29, 2004, is a self-administered and self-managed real estate investment trust ("REIT") that seeks to deliver superior risk-adjusted returns, with an emphasis on stable rental revenue, primarily by investing in and managing a portfolio of single-tenant, operationally essential real estate throughout the United States that is generally leased on a long-term, triple-net basis primarily to tenants engaged in retail, service and distribution industries.

As of December 31, 2013, our undepreciated gross investment in real estate and loans totaled approximately \$7.24 billion, representing investments in 2,186 properties and approximately 54.3 million square feet, including properties securing our mortgage loans. Of this amount, 98.4% consisted of our gross investment in real estate, representing ownership of 2,041 properties, and the remaining 1.6% consisted of commercial mortgage and equipment loans receivable secured by the remaining 145 properties or other related assets.

As of December 31, 2013, our owned properties were approximately 99.0% occupied (based on number of properties), and our leases had a weighted average non-cancelable remaining lease term (based on annual rent) of approximately 10.1 years. Our leases are generally long-term, typically with non-cancelable initial terms of 15 to 20 years and tenant renewal options for additional terms. As of December 31, 2013, approximately 86% of our single-tenant leases (based on annual rent) provided for increases in future annual base rent. As of December 31, 2013, our portfolio of 2,041 owned properties were leased to 377 tenants operating across 19 different industries, including: general, specialty and discount retail; restaurants; drug stores; automotive dealers; convenience stores; and supermarkets. Our properties are geographically diversified across 48 states, with only 3 states contributing more than 5% of total revenue as of December 31, 2013.

Our operations are generally carried out through Spirit Realty, L.P., a Delaware limited partnership (the "Operating Partnership"). Although the Operating Partnership is wholly owned by us, in the future, we could to issue equity interests in the Operating Partnership to third parties in exchange for assets owned by such third parties. In general, any equity

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interests of the Operating Partnership issued to third parties would be exchangeable for cash or, shares of our common stock at specified ratios set when equity interests in the Operating Partnership are issued.

As of December 31, 2013, we had 59 employees, as compared to 38 employees as of December 31, 2012. None of these employees are represented by a labor union.

## History

Spirit began operations through a predecessor legal entity in 2003. We became a public company in December 2004 and were subsequently taken private in August 2007 by a consortium of private investors. On September 25, 2012, we completed an initial public offering (the "IPO") of 33.4 million shares of common stock (including shares issued on October 1, 2012 pursuant to the underwriters' option to purchase additional shares).

On July 17, 2013, we completed the acquisition of Cole Credit Property Trust II, Inc. ("Cole II") through a transaction in which our prior legal entity merged into the Cole II legal entity (the "Merger"), and our Board of Directors and executive team managed the surviving entity (as further described below under "Recent Developments"), which was renamed Spirit Realty Capital, Inc. and began trading on the NYSE under the "SRC" ticker symbol. As a result, Cole II was the "legal acquirer" in the Merger for certain legal and regulatory matters and Spirit Realty Capital was deemed the "accounting acquirer" in the Merger for other legal and regulatory matters - including the financial information set forth herein.

The pre-Merger Spirit Realty Capital stockholders received 1.9048 shares of common stock of the post-Merger Spirit Realty Capital for each share held prior to the Merger, resulting in their ownership of approximately 44% of the post-Merger Spirit common stock. pre-Merger Cole II stockholders kept their outstanding shares of common stock of the surviving entity, resulting in their ownership of approximately 56% of the common stock of post-Merger Spirit Realty Capital.

## Business and Growth Strategies

Our objective is to maximize stockholder value by seeking superior risk-adjusted returns, with an emphasis on stable rental revenue, primarily by investing in and managing a portfolio of single-tenant, operationally essential real estate throughout the United States that is generally leased on a long-term, triple-net basis primarily to tenants engaged in retail, service, medical and distribution industries. We generate our revenue primarily by leasing our properties to our tenants.

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. Under a triple-net lease, the tenant is typically responsible for all improvements and is contractually obligated to pay all property operating expenses, such as real estate taxes, insurance premiums and repair and maintenance costs. In support of our primary business of owning and leasing real estate, we have also strategically originated or acquired long-term, commercial mortgage and equipment loans. We view our operations as one segment consisting of triple net leases. We intend to pursue our objective through the following business and growth strategies:

**Focus on Small and Middle Market Companies.** We primarily focus on investing in properties that we net lease to unrated small and middle market companies that we determine have attractive credit characteristics and stable operating histories. Properties leased to small and middle market companies may offer us the opportunity to achieve superior risk-adjusted returns, as a result of our intensive credit and real estate analysis, lease structuring and portfolio construction. Small and middle market companies are often willing to enter into leases with structures and terms that we consider attractive (such as master leases and leases that require ongoing tenant financial reporting) and that we believe increase the security of rental payments. In addition to small and middle market companies, we selectively acquire properties leased to large companies where we believe that we can achieve superior risk-adjusted returns.





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The following chart highlights the tenants that we target based on company size and corporate credit equivalent:

Use Our Developed Underwriting and Risk Management Processes to Structure and Manage Our Portfolio. We seek to maintain the stability of our rental revenue and the long-term return on our investments by using our developed underwriting and risk management processes to structure and manage our portfolio. In particular, our underwriting and risk management processes emphasize the following:

Leases for Operationally Essential Real Estate with Relatively Long-Terms. We seek to own properties that are operationally essential to our tenants, thereby reducing the risk that the 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 non-cancelable initial terms of 15 to 20 years and tenant renewal options for additional terms with attractive rent escalation provisions.

Use of the 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. In a master lease structure, a tenant is responsible for a single lease payment relating to the entire portfolio of leased properties, as opposed to multiple lease payments relating to individually leased properties. The master lease structure prevents a tenant from “cherry picking” locations, where it unilaterally gives up underperforming properties while maintaining its leasehold interest in well-performing properties. As of December 31, 2013, we had 76 active master leases with properties ranging from 2 to 191 and a weighted average non-cancelable remaining lease term (based on total annual revenues) of 12.4 years. Master lease revenues contributed approximately 42.8% of our total annual revenues. One master lease, consisting of 112 properties, contributed 12.9% of our total annual revenues, and our smallest master lease, consisting of 5 properties, contributed less than 1% of our total annual revenues. The average number of properties included under our master leases as of December 31, 2013 was 14.

Active Management and Monitoring of Risks Related to Our Investments. When monitoring existing investments or evaluating new investments, we typically consider two broad categories of risk: (1) tenant financial distress risk; and (2) lease renewal risk. We seek to measure these risks through various processes, including the use of a credit modeling product that we license from Moody’s Analytics that estimates the performance of the leased properties relative to rental payments due under the leases, and a review of current market data and our historical recovery rates on re-leased properties and property dispositions. Our underwriting and risk management processes are designed to structure new investments and manage existing investments to address and mitigate each of the above risks and preserve the long-

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term return on our invested capital. Since our inception, our occupancy has never been below 96.1% (based on number of properties), despite the economic downturn of 2008 through 2010.

**Portfolio Diversification.** We monitor and manage the diversification of our real estate investment portfolio in order to reduce the risks associated with adverse developments affecting a particular tenant, property, industry or region. Our strategy emphasizes a portfolio that (1) derives no more than 10% of its annual rent from any single tenant or more than 2.5% of its annual rent from any single property, (2) is leased to tenants operating in various industries and (3) is located across the United States without significant geographic concentration. While we consider the foregoing when making investments, we have opportunistically made investments in the past that do not meet one or more of these criteria, and we may make additional investments that do not meet one or more of these criteria if we believe the opportunity is sufficiently attractive.

In February 2012, two of our general merchandising tenants, Shopko Stores Operating Co., LLC (“Shopko”), and Pamida Stores Operating Co. LLC (“Pamida”) completed a merger. As a result, the combined company (“Shopko/Pamida”) contributed 19.7% of our total revenues for the year ended December 31, 2013. We lease 181 properties to Shopko/Pamida, 179 of which are leased pursuant to three master leases that, as of December 31, 2013, had a weighted average non-cancelable remaining lease term of approximately 11.8 years. For the quarter ended December 31, 2013, the first full fiscal quarter subsequent to the Merger, Shopko/Pamida contributed 14.8% of our total revenues. No other tenant contributed more than 10% of our total revenues, and no one single property contributed more than 1.8% of our total revenues.

**Enhance Our Portfolio through Contractual Growth.** Approximately 86% of our single-tenant properties (based on annual rent) contain contractual provisions that increase the rental revenue over the term of the lease. Generally, our rent escalators increase rent at specified dates by: (1) a fixed amount; or (2) the lesser of (a) 1 to 1.25 times any increase in the CPI over a specified period, or (b) a fixed percentage, typically 1% to 2% per year.

**Selectively Grow Our Portfolio through Acquisitions.** We plan to selectively make acquisitions that we believe will contribute to our business objective. We believe there will be ample acquisition opportunities in the single-tenant market fitting our underwriting and acquisition criteria, which may include improving our portfolio’s tenant, industry and geographic diversification, among other rationale. Acquisitions of such properties or portfolios may be subject to existing indebtedness or to new indebtedness which may be incurred in connection with acquiring or refinancing these investments.

**Continue to Deleverage Our Portfolio.** Most of our debt is partially amortizing, and its principal amount will be reduced prior to the balloon payments due at maturity. Contractual amortization payments are scheduled to reduce our outstanding principal amount of indebtedness by \$257.6 million prior to January 1, 2019. We also may use any cash from operations in excess of the distributions that we expect to pay to selectively reduce our indebtedness. We believe contractual rent growth, selective growth through acquisitions and the ongoing deleveraging of our portfolio will contribute to our cash available for distributions.

**Disciplined Disposition of Select Assets.** We typically retain and manage real estate assets that fit within our investment criteria, which criteria are subject to change without notice to or vote by our stockholders. However, management may elect to dispose of assets when it believes appropriate in view of our business objective, considering criteria including, but not limited to, tenant credit quality, unit financial performance, local market conditions and lease rates, associated indebtedness, asset location, tenant operation type (e.g., industry, sector, or concept/brand), and asset zoning, as well as potential capital appreciation, potential uses of proceeds and tax considerations, among others.

## Financing Strategy

Our long-term financing strategy is to maintain a leverage profile that creates operational flexibility and generates superior risk-adjusted returns for our stockholders. We intend to employ prudent amounts of debt financing as a means of providing additional funds for the acquisition of assets, to refinance existing debt or for general corporate purposes.

We finance our assets using a variety of methods and determine the amount of equity and debt financing to be used when acquiring an asset by evaluating terms available in the credit markets (such as interest rate, repayment provisions and maturity), our cost of equity capital and our assessment of the particular asset's risk. Historically, a significant

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portion of our debt has been long-term borrowings secured by specific real estate assets or, more typically, pools of real estate assets.

We have approximately \$3.7 billion principal balance of non-recourse mortgage indebtedness outstanding, which had a weighted average maturity of 5.0 years as of December 31, 2013 and an average annual interest rate of approximately 5.88% for the year ended December 31, 2013 (excluding non-cash interest expense attributable to the amortization of deferred financing costs and debt discounts). Prior to January 1, 2016, we have \$275.6 million of balloon payments due at maturity. Approximately \$2.3 billion principal balance of our indebtedness is fully or partially amortizing, providing for an ongoing reduction in principal prior to maturity. Contractual amortization payments are scheduled to reduce our outstanding principal amount of indebtedness by \$114.6 million prior to January 1, 2016. In addition, our borrowing capacity under our existing \$400.0 million Credit Facility and \$40.0 million Line of Credit (each defined below) provide for financial flexibility to help fund future acquisitions and for general corporate purposes.

We anticipate using a number of different sources to finance our acquisitions and operations going forward, including cash from operations and dispositions of assets, issuance of debt securities (including from our Master Funding asset-backed securities program), funds available from the Credit Facility, private financings (such as bank credit facilities, which may or may not be secured by our assets), property-level mortgage debt, common or preferred equity issuances (including pursuant to our shelf registration statement filed on November 8, 2013) or any combination of these sources, to the extent available to us, or other sources that may become available from time to time. To the extent practicable, we expect to maintain a debt profile with manageable near-term maturities.

## Recent Developments

### Completed Merger with Cole II

As referenced above, on July 17, 2013, following the approval by both pre-Merger Spirit and Cole II stockholders, we completed the acquisition of Cole Credit Property Trust II, Inc., or Cole II, through a merger resulting in an surviving entity with a post-closing enterprise value of \$7.4 billion. Under the Agreement and Plan of Merger dated as of January 22, 2013 between Spirit Realty Capital, Inc., the Operating Partnership, Cole II and Cole Operating Partnership II, LP, a Delaware limited partnership (the "Merger Agreement"), our prior legal entity merged with and into the Cole II legal entity (the "Merger") and (a) all seven of our prior Board of Directors members were appointed to the nine-member surviving entity Board of Directors, with two individuals designated by Cole II and reasonably satisfactory to us completing the Board and (b) our executive team managed the surviving entity, which was renamed Spirit Realty Capital, Inc. and began trading on the NYSE under the "SRC" ticker symbol. The surviving entity's charter and bylaws were amended and restated to be substantially identical to those of Spirit prior to the Merger. As a result, Cole II was the "legal acquirer" for certain legal and regulatory matters and pre-Merger Spirit Realty Capital was deemed the "accounting acquirer" for other legal and regulatory matters - including the financial information set forth herein.

The pre-Merger Spirit Realty Capital stockholders received 1.9048 shares of common stock of the post-Merger Spirit for each share held prior to the Merger, resulting in their ownership of approximately 44% of the post-Merger Spirit common stock. Cole II stockholders kept their outstanding shares of common stock of the surviving entity, resulting in their ownership of approximately 56% of the common stock of post-Merger Spirit.

### Financing Activities

In connection with the Merger Agreement, on January 22, 2013, the Company entered into a commitment letter (the Barclays Commitment Letter) with Barclays Bank PLC, pursuant to which Barclays Bank PLC committed to provide, subject to the conditions set forth in the Barclays Commitment Letter, a \$575.0 million secured term loan facility and a \$50.0 million senior secured revolving credit facility. On June 19, 2013, the Barclays Commitment Letter was replaced with commitments for a new \$400.0 million credit facility and two new loan agreements of Commercial

Mortgage Backed Securities ("New CMBS") that provide for extensions of credit aggregating \$203.0 million.

**\$400 Million Credit Facility**

On July 17, 2013, the Operating Partnership entered into a three-year credit agreement ("Credit Facility") with various lenders and Deutsche Bank AG, New York Branch, as lead arranger and administrative agent. Pursuant to the Credit Facility, the Operating Partnership may obtain loans and/or extensions of credit (under a revolving credit facility) in an aggregate amount not to exceed \$400 million. The Operating Partnership's obligations under the Credit Facility are guaranteed by the Spirit Realty Capital, Inc. and certain subsidiaries holding title to assets not otherwise encumbered

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by indebtedness (which subsidiaries' equity securities and assets are also pledged to secure the Credit Facility obligations). The initial term expires on July 17, 2016 and may be extended for an additional 12 months subject to the satisfaction of specified requirements.

The Credit Facility bears interest, at the Operating Partnership's option, of either (i) the "Base Rate" (as defined in the credit agreement) plus 1.00% to 2.00%; or (ii) LIBOR plus 2.00% to 3.00%, depending on the Operating Partnership's leverage ratio. The Operating Partnership is also required to pay a fee on the unused portion of the credit facility at a rate of either 0.25% or 0.35% per annum, based on percentage thresholds for the average daily unused balance during a fiscal quarter. As of December 31, 2013, \$30.0 million was outstanding on the Credit Facility under one advance, with an effective interest rate of 4.34%. In connection with the pledge of properties to support the issuance of new investment grade-rated \$330 million net-lease mortgage notes in December 2013 (discussed below in "Master Trust Notes"), there remain 142 properties securing advances under the Credit Facility, and provide for an additional \$269.3 million in borrowing capacity as of December 31, 2013.

### Line of Credit

In March 2013, a special purpose entity owned by the Company entered into a \$25.0 million secured revolving credit facility, which was subsequently amended to increase the size of the facility to \$40.0 million ("Line of Credit"). The initial term of the Line of Credit expires in March 2016, and each advance under the Line of Credit has a 24 month term. The interest rate is determined on the date of each advance and is the greater of (i) the stated prime rate plus 0.5% or (ii) the floor rate equal to 4.0%. The interest rate with respect to each advance resets on the annual anniversary date of each advance, and is subject to the same terms as above. As of December 31, 2013, \$5.1 million was outstanding under the Line of Credit under one advance, secured by a single property with an effective interest rate of 5.29%.

### Commercial Mortgage Backed Securities

On July 17, 2013, two special purpose entities of the Company entered into separate New CMBS loan agreements with German American Capital Corporation ("GACC") and Barclays Bank PLC ("Barclays") for loan amounts of \$100.9 million and \$102.1 million, respectively. As of December 31, 2013, the GACC and Barclays loans were collateralized by 24 and 26 properties, respectively. As of the date of the agreements, the Operating Partnership entered into a guaranty of certain non-recourse carve out obligations for each special purpose entity under the loan agreements. As of December 31, 2013, the outstanding principal balances outstanding on the GACC and Barclays loans were \$100.5 million and \$101.7 million, respectively, each with an effective interest rate of 5.85%.

### Termination of Previous Credit Facility

In connection with the Merger, the Company terminated its existing secured revolving credit facility that allowed for borrowings of up to \$100.0 million and provided for a maximum additional loan commitment of \$50.0 million.

### Spirit Master Funding Platform and Series 2013-1 Notes and Series 2013-2 Notes

On December 23, 2013 (the "Series Closing Date"), the Operating Partnership, successfully completed the establishment of a net-lease mortgage securitization platform designed to facilitate its financing activities relating to commercial real estate, net leases and mortgage loans. In connection with the establishment of this platform, Spirit Master Funding VII, LLC, an indirectly-owned special-purpose, bankruptcy remote subsidiary of the Company issued \$330 million aggregate principal amount of net-lease mortgage notes, allocated between two series of notes, Series 2013-1, Class A (the "Series 2013-1 Notes") and Series 2013-2, Class A (the "Series 2013-2 Notes" and collectively with the Series 2013-1 Notes, the "Notes"). The Series 2013-1 and the Series 2013-2 Notes were each rated "A+" (sf) by both Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. and Kroll Bond Rating Agency, Inc. The Notes have not been registered under the Securities Act of 1933, as amended (the "Securities Act").

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The Series 2013-1 Notes are comprised of \$125 million initial principal amount of interest-only notes with an anticipated repayment date five years from the Series Closing Date and an interest rate of 3.8868%. The Series 2013-2 Notes are comprised of \$205 million initial principal amount of amortizing (based on a fixed schedule for 30 years) notes with an anticipated repayment date 10 years from the Series Closing Date and an interest rate of 5.2686%. The Notes have a legal final payment date in December 2043 and may be redeemed after February 2016 at any time prior to their anticipated repayment date subject to payment of make-whole consideration (until 12 months and 24 months prior to the Series 2013-1 and Series 2013-2 anticipated repayment dates, respectively, at which time no such make-whole

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payments shall be required). In the event that any series of Notes is not paid in full at its respective anticipated repayment date, subordinate additional interest will begin to accrue on such Notes.

### Shelf Registration Statement

On November 8, 2013, the Company filed an automatic shelf registration statement, as defined in Rule 405 under the Securities Act of 1933, on Form S-3 with the SEC, which become automatically effective. The shelf registration provides for the registration of common and preferred stock, depositary shares, warrants, rights and units by us or selling security holders on a delayed or continuous basis. Proceeds from any future securities sales by the Company under this shelf registration statement may be used by the Company for general corporate purposes, including repayment of borrowings, working capital, capital expenditures and acquisitions, or for such other purposes as may be specified in the applicable prospectus supplement.

### Incentive Award Plan

Under the Company's Incentive Award Plan (the "Plan"), we may grant equity incentive awards to eligible employees, directors and other service providers. Awards under the Plan may be in the form of stock options, restricted stock, dividend equivalents, restricted stock units, stock appreciation rights, performance awards, stock payment awards, performance share awards, LTIP units and other incentive awards. If an award under the Plan is forfeited, expires or is settled for cash, any shares subject to such award may, to the extent of such forfeiture, expiration or cash settlement, be used again for new grants under the Plan.

A total of 5.9 million shares, adjusted for the Merger exchange ratio, were initially registered under the Plan. Pursuant to the Merger Agreement, the Plan was assumed by post-Merger Spirit Realty Capital at the effective time of the Merger and the Company registered 3.1 million of the remaining available shares under the Plan in addition to 45,000 shares of common stock options, which were fully vested and remained unexercised under the Cole II's former non-qualified stock option plan. In connection with the Merger, Company terminated the non-qualified stock option plan, although the outstanding options under this plan continue to be subject to its terms and conditions.

### Executive Bonus Program - Performance Share Awards

On August 1, 2013, the Compensation Committee of the Board of Directors approved a 2013 bonus program to the Company's named executive officers including performance share awards under the Plan designed to align executive compensation with comparative shareholder returns and Company performance under defined metrics set forth therein. Pursuant to the performance share awards, each participant is eligible to vest in and receive a percentage range of a target number of shares of the Company's common stock based on the attainment of total shareholder return during the performance period running from September 20, 2012 (the day of the Company's IPO) through December 31, 2015. The percentage range of performance shares that vests is based on the comparative performance of the Company to a specified peer group of companies. In addition, each performance share award entitles its holder to a cash payment equal to the aggregate dividends that would have been paid on the total number of performance shares that ultimately vest, as if such shares had been outstanding on each dividend record date over the period from August 1, 2013 through the issuance date of the shares. In the event of a non-qualifying termination of a participant prior to the performance period end date, all of the rights to performance shares will be automatically forfeited along with the participants' rights to the cash payment of any dividend equivalent.

### Acquisition and Dispositions

Exclusive of the Cole II Merger, during the year ended December 31, 2013, the Company acquired 194 new properties for a gross investment of \$408.6 million in 40 transactions with an initial cash yield of 7.92% and an average remaining lease term of 16.8 years.



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During the year ended December 31, 2013, the Company re-balanced the portfolio by selling 21 properties for \$392.2 million in gross sales proceeds. Properties sold were closed at an average cap rate of 7.1% and had an average remaining lease term of 6.8 years.

Litigation

See Item 3. "Legal Proceedings" for recent developments related to litigation during 2013.

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### Segment Financial Information and Asset Information

We operate in one reporting segment. See Item 2. "Properties" for property financial information and Item 6. "Selected Financial Data" for additional financial and asset information.

### Competition

We face competition for acquisitions of real property from investors, including traded and non-traded public REITs, private equity investors and institutional investment funds, some of which have greater financial resources than we do, a greater ability to borrow funds to acquire properties and the ability to accept more risk than we can prudently manage. This competition may increase the demand for the types of properties in which we typically invest and, therefore, reduce the number of suitable acquisition opportunities available to us and increase the prices paid for such acquisition properties. This competition will increase if investments in real estate become more attractive relative to other forms of investment.

As a landlord, we compete in the multi-billion dollar commercial real estate market with numerous developers and owners of properties, many of which own properties similar to ours in the same markets in which our properties are located. Some of our competitors have greater economies of scale, have access to more resources and have greater name recognition than we do. If our competitors offer space at rental rates below current market rates or below the rental rates we currently charge our tenants, we may lose our tenants or prospective tenants and we may be pressured to reduce our rental rates or to offer substantial rent abatements, tenant improvement allowances, early termination rights or below-market renewal options in order to retain tenants when our leases expire.

### Legal Proceedings

From time to time, we are party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of our business. We are not currently a party, as plaintiff or defendant, to any legal proceedings that we believe to be material or which, individually or in the aggregate, would be expected to have a material effect on our business, financial condition or results of operation if determined adversely to us.

### Significant Tenants

As discussed above, in February 2012, two of our general merchandising tenants, Shopko and Pamida, completed a merger. As a result, the combined company, "Shopko/Pamida", contributed 19.7% of our total revenue for the year ended December 31, 2013. For the quarter ended December 31, 2013, the first full quarter subsequent to the Merger, Shopko/Pamida contributed 14.8% of our total revenue. We lease 181 properties to Shopko/Pamida, 179 of which are leased pursuant to three master leases that, as of December 31, 2013, had a weighted average non-cancelable remaining lease term of approximately 11.8 years.

For further information on our ten largest tenants and the composition of our tenant base, see "Item 2. Properties - Our Real Estate Investment - Portfolio Diversification by Tenant."

### Regulation

#### General

Our properties are subject to various covenants, laws, ordinances and regulations, including regulations relating to common areas and fire and safety requirements. We believe that each of our properties has the necessary permits and approvals.

#### Americans With Disabilities Act

Pursuant to the Americans with Disabilities Act (the "ADA"), our properties are required to meet federal requirements related to access and use by persons with disabilities. Compliance with the ADA, as well as a number of additional federal, state and local laws, may require modifications to properties we currently own and any properties we purchase, or may restrict renovations of those properties. Noncompliance with these laws or regulations could result in the imposition of fines or an award of damages to private litigants, as well as the incurrence of the costs of making modifications to attain compliance, and future legislation could impose additional financial obligations or restrictions on our properties. Although our tenants are generally responsible for all maintenance and repairs of the property pursuant to triple-net leases, including compliance with the ADA and other similar laws or regulations, we could be held liable as the owner of the property for a failure of one of our tenants to comply with such laws or regulations.



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### Environmental Matters

Federal, state and local environmental laws and regulations regulate, and impose liability for, releases of hazardous or toxic substances into the environment. Under various of these laws and regulations, a current or previous owner, operator or tenant of real estate may be required to investigate and clean up hazardous or toxic substances, hazardous wastes or petroleum product releases or threats of releases at the property, and may be held liable to a government entity or to third parties for property damage and for investigation, clean-up and monitoring costs incurred by those parties in connection with the actual or threatened contamination. These laws typically impose clean-up responsibility and liability without regard to fault, or whether or not the owner, operator or tenant knew of or caused the presence of the contamination. The liability under these laws may be joint and several for the full amount of the investigation, clean-up and monitoring costs incurred or to be incurred or actions to be undertaken, although a party held jointly and severally liable may seek to obtain contributions from other identified, solvent, responsible parties of their fair share toward these costs. These costs may be substantial, and can exceed the value of the property. The presence of contamination, or the failure to properly remediate contamination, on a property may adversely affect the ability of the owner, operator or tenant to sell or rent that property or to borrow using the property as collateral, and may adversely impact our investment in that property.

Some of our properties contain, have contained, or are adjacent to or near other properties that have contained or currently contain storage tanks for the storage of petroleum products or other hazardous or toxic substances. Similarly, some of our properties were used in the past for commercial or industrial purposes, or are currently used for commercial purposes, that involve or involved the use of petroleum products or other hazardous or toxic substances, or are adjacent to or near properties that have been or are used for similar commercial or industrial purposes. These operations create a potential for the release of petroleum products or other hazardous or toxic substances, and we could potentially be required to pay to clean up any contamination. In addition, strict environmental laws regulate a variety of activities that can occur on a property, including the storage of petroleum products or other hazardous or toxic substances, air emissions and water discharges. Such laws may impose fines or penalties for violations. As a result of the foregoing, we could be materially and adversely affected.

Environmental laws also govern the presence, maintenance and removal of asbestos-containing materials (“ACM”). Federal regulations require building owners and those exercising control over a building’s management to identify and warn, through signs and labels, of potential hazards posed by workplace exposure to installed ACM in their building. The regulations also have employee training, record keeping and due diligence requirements pertaining to ACM. Significant fines can be assessed for violation of these regulations. As a result of these regulations, building owners and those exercising control over a building’s management may be subject to an increased risk of personal injury lawsuits by workers and others exposed to ACM. The regulations may affect the value of a building containing ACM in which we have invested. Federal, state and local laws and regulations also govern the removal, encapsulation, disturbance, handling and/or disposal of ACM when those materials are in poor condition or in the event of construction, remodeling, renovation or demolition of a building. These laws may impose liability for improper handling or a release into the environment of ACM and may provide for fines to, and for third parties to seek recovery from, owners or operators of real properties for personal injury or improper work exposure associated with ACM. When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from our tenants, employees of our tenants or others if property damage or personal injury occurs. We are not presently aware of any material adverse indoor air quality issues at our properties that have not been previously addressed or remediated by us.

Before completing any property acquisition, we obtain environmental assessments in order to identify potential environmental concerns at the property. These assessments are carried out in accordance with the Standard Practice for Environmental Site Assessments (ASTM Practice E 1527-05) as set by ASTM International, formerly known as the American Society for Testing and Materials, and generally include a physical site inspection, a review of relevant federal, state and local environmental and health agency database records, one or more interviews with appropriate site-related personnel, review of the property's chain of title and review of historical aerial photographs and other

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information on past uses of the property. These assessments are limited in scope, however, if recommended in the initial assessments, we may undertake additional assessments such as soil and/or groundwater samplings or other limited subsurface investigations and ACM or mold surveys to test for substances of concern. A prior owner or operator of a property or historic operations at our properties may have created a material environmental condition that is not known to us or the independent consultants preparing the site assessments. Material environmental conditions may have arisen after the review was completed or may arise in the future, and future laws, ordinances or regulations may impose material additional environmental liability. If environmental concerns are not satisfactorily resolved in any initial or additional assessments, we may obtain environment insurance policies to insure against potential environmental risk or loss depending on the type of property, the availability and cost of the insurance and various other factors we deem relevant (i.e., an environmental occurrence affects one of our properties where our lessee may not have the financial capability to honor its indemnification obligations to us).

Generally, our leases provide that the lessee will indemnify us for any loss or expense we incur as a result of the presence, use or release of hazardous materials on our property. Our ultimate liability for environmental conditions may exceed the policy limits on any environmental insurance policies we obtain, if any. If we are unable to enforce the indemnification obligations of our lessees or if the amount of environmental insurance we carry is inadequate, our results of operations would be adversely affected.

### Insurance

Our tenants are generally required to maintain liability and property insurance coverage for the properties they lease from us pursuant to triple-net leases. Pursuant to such leases, our tenants are required to name us (and any of our lenders that have a mortgage on the property leased by the tenant) as additional insureds on their liability policies and additional named insured and/or loss payee (or mortgagee, in the case of our lenders) on their property policies.

Tenants are required to maintain casualty coverage and most carry limits at 100% of replacement cost. Depending on the location of the property, losses of a catastrophic nature, such as those caused by earthquakes and floods, may be covered by insurance policies that are held by our tenant with limitations such as large deductibles or co-payments that a tenant may not be able to meet. In addition, losses of a catastrophic nature, such as those caused by wind/hail, hurricanes, terrorism or acts of war, may be uninsurable or not economically insurable. In the event there is damage to our properties that is not covered by insurance and such properties are subject to recourse indebtedness, we will continue to be liable for the indebtedness, even if these properties are irreparably damaged. See “Risk Factors-Risks Related to Our Business and Properties-Insurance on our properties may not adequately cover all losses and uninsured losses could materially and adversely affect us.”

In addition to being a named insured on our tenants’ liability policies, we separately maintain commercial general liability coverage with an aggregate limit of \$52,000,000. We also maintain full property coverage on all untenanted properties and other property coverage as may be required by our lenders which are not required to be carried by our tenants under our leases.

### Item 1A. Risk Factors

#### Special Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws. In particular, statements pertaining to our business and growth strategies, investment, financing and leasing activities and trends in our business, including trends in the market for long-term, triple-net leases of freestanding, single-tenant properties, contain forward-looking statements. When used in this Annual Report on Form 10-K, the words “estimate,” “anticipate,” “expect,” “believe,” “intend,” “may,” “will,” “should,” “seek,” “approximately” or “plan,” or the like, and phrases or similar words or phrases which 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.

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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 factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- general business and economic conditions;
- continued volatility and uncertainty in the credit markets and broader financial markets, including potential fluctuations in the consumer price index;
- our success in implementing our business strategy and our ability to identify, underwrite, finance, consummate, integrate and manage diversifying acquisitions or investments;
- 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 of the leases and our ability to reposition our properties on the same or better terms in the event such leases expire and are not renewed by the tenants or in the event we exercise our rights to replace an existing tenant upon default;
- the impact of any financial, accounting, legal or regulatory issues or litigation that may affect us or our major tenants;
- 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 risk that the anticipated benefits from the Merger may not be realized or may take longer to realize than expected;
- the risk that significant information technology systems conversions that we are undertaking or may undertake in the future may take longer to implement than expected or that anticipated benefits may not be realized;
- our ability and willingness to maintain our qualification as a REIT due to economic, market, legal, tax or other considerations;
- we have incurred substantial expenses related to the Merger and expect to continue to incur substantial expenses related to the integration; and
- our future results may suffer if we do not effectively manage our expanded operations.

You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, of new information, data or methods, future events or other changes, except as required by law.

Set forth below are some (but not all) of the factors that could adversely affect our business and financial performance. Moreover, we operate in a highly competitive and rapidly changing environment. New risk factors emerge from time to time, and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

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### Risks Following the Merger

We have incurred substantial expenses related to the Merger and expect to continue to incur substantial expenses related to the integration.

We have incurred substantial expenses in connection with completing the Merger and expect to incur substantial expenses integrating the business, operations, networks, systems, technologies, policies and procedures of Cole II with those of pre-merger Spirit. There are several systems that must be integrated, including those related to accounting and finance and asset management. While it has been assumed that a certain level of transaction and integration expenses would be incurred, there are a number of factors beyond our control that could affect the total amount or the timing of our integration expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately. As a result, the transaction and integration expenses associated with the Merger could, particularly in the near term, exceed the savings that we expect to achieve from the elimination of duplicative expenses and the realization of economies of scale and cost savings related to the integration of the businesses.

We may be unable to integrate successfully the businesses of Cole II and pre-merger Spirit and realize the anticipated benefits of the Merger or do so within the anticipated timeframe.

The Merger involved the combination of Cole II (a non-traded REIT) and pre-merger Spirit (a publicly traded REIT), which operated independently from each other. Even though the companies were operationally similar, we have been required to and expect to continue to devote significant management attention and resources to integrating each business's respective practices and operations. The Cole II portfolio contained certain multi-tenant assets and double net leased-properties that may require additional resources and management attention than triple net leased properties. Management attention and resources have been expended in the repositioning and sale of certain assets acquired Merger, and additional attention and resources may be required for further dispositions. It is possible that the integration process could result in the distraction of our management, the disruption of our ongoing business or inconsistencies in our operations, services, standards, controls, procedures and policies, any of which could adversely affect our ability to maintain relationships with customers, vendors and employees or to fully achieve the anticipated benefits of the Merger.

Our future results will suffer if we do not effectively manage our expanded operations.

We may continue to expand our operations through additional acquisitions and other strategic transactions, and modernize our information technology and management systems through new systems implementations, some of which may involve complex challenges. Our future success will depend, in part, upon our ability to manage our expansion opportunities, integrate new operations into our existing business in an efficient and timely manner, successfully monitor our operations, costs and regulatory compliance and develop and maintain other necessary systems, processes and internal controls. We cannot assure you that our expansion or acquisition opportunities will be successful, or that we will realize their expected operating efficiencies, cost savings, revenue enhancements, synergies or other benefits.

We rely heavily on information technology in our operations and any material failure, weakness, interruption or breach of security could prevent us from effectively operating our business.

We rely on several information systems across our operations and corporate functions including finance and accounting that we depend on to ensure payment of obligations, collection of cash, data warehousing to support analytics and other various processes and procedures. Our ability to efficiently and effectively manage our business depends significantly on the reliability and capacity of these systems. The failure of these systems to operate effectively, maintenance problems, upgrading or transitioning to new platforms, or a breach in security of these



systems could result in reduced efficiency in our operations and accuracy in our internal and external financial reporting. Remediation of such problems could result in significant unplanned expenditures.

In response to our dramatic expansion as a result of the Merger, we are continuing the process of implementing a finance and accounting system to meet our long-term vision of continued growth. Large-scale system implementations, however, are complex and time-consuming projects that are capital intensive and can span a year or more. Certain business and financial processes will also require transformation in order to effectively leverage the systems benefits. Our business and results of operations may be adversely affected if we experience system usage problems and/or cost overruns during the implementation process, or if associated process changes do not give rise to the benefits that we expect. Additionally, if we do not effectively implement systems as planned or if any system does not operate

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as intended, it could adversely affect the effectiveness of our internal controls over financial reporting and disclosure controls and procedures.

### Risks Related to Our Business and Properties

We are subject to risks related to commercial real estate ownership that could reduce the value of our properties.

Our core business is the ownership of real estate that is leased to retail, service and distribution companies on a triple-net basis. Accordingly, our performance is subject to risks incident to the ownership of commercial real estate, including:

- inability to collect rents from tenants due to financial hardship, including bankruptcy;
- changes in local real estate conditions in the markets in which we operate, including the availability and demand for single-tenant retail space;
- changes in consumer trends and preferences that affect the demand for products and services offered by our tenants;
- inability to lease or sell properties upon expiration or termination of existing leases;
- environmental risks related to the presence of hazardous or toxic substances or materials on our properties;
- the subjectivity of real estate valuations and changes in such valuations over time;
- the illiquid nature of real estate compared to most other financial assets;
  - changes in laws and governmental regulations, including those governing real estate usage and zoning;
- changes in interest rates and the availability of financing; and
- changes in the general economic and business climate.

The occurrence of any of the risks described above may cause the value of our real estate to decline, which could materially and adversely affect us.

Global market and economic conditions may materially and adversely affect us and our tenants.

In the United States, market and economic conditions have improved, but continue to be challenging as many companies struggle to recover from the recent economic crisis, which resulted in increased unemployment, large-scale business failures and tight credit markets. Our results of operations are sensitive to changes in the overall economic conditions that impact our tenants' financial condition and leasing practices. Adverse economic conditions such as high unemployment levels, interest rates, tax rates and fuel and energy costs may have an impact on the results of operations and financial conditions of our tenants. During periods of economic slowdown, rising interest rates and declining demand for real estate may result in a general decline in rents or an increased incidence of defaults under existing leases. Rental rates and valuations for retail space, which have decreased over the past few years, have not fully recovered to pre-recession levels and we are unable to predict when they may do so. Continued volatility in the United States and global markets makes it difficult to determine the breadth and duration of the impact of the recent economic and financial market crises and the ways in which our tenants and our business may be affected. A continuation of the recent lack of demand for rental space could adversely affect our ability to maintain our current tenants and gain new tenants, which may affect our growth and profitability. Accordingly, the prolonged continuation or further worsening of recent financial conditions could materially and adversely affect us.

Our business is dependent upon our tenants successfully operating their businesses and their failure to do so could materially and adversely affect us.

Generally, each of our properties is operated and occupied by a single tenant. Therefore, the success of our investments is materially dependent on the financial stability of our tenants. The success of any one of our tenants is dependent on its individual business and its industry, which could be adversely affected by economic conditions in general, changes in consumer trends and preferences and other factors over which neither they nor we have control. Our portfolio consists primarily of properties leased to single tenants that operate in multiple locations, which means

we own numerous properties operated by the same tenant. To the extent we finance numerous properties operated by one company, the general failure of that single tenant or a loss or significant decline in its business could materially and adversely affect us.

At any given time, any tenant may experience a downturn in its business that may weaken its operating results or the overall financial condition of individual properties or its business as whole. As a result, a tenant may delay lease

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commencement, fail to make rental payments when due, decline to extend a lease upon its expiration, become insolvent or declare bankruptcy. We depend on our tenants to operate the properties we own in a manner which generates revenues sufficient to allow them to meet their obligations to us, including their obligations to pay rent, maintain certain insurance coverage, pay real estate taxes and maintain the properties in a manner so as not to jeopardize their operating licenses or regulatory status. The ability of our tenants to fulfill their obligations under our leases may depend, in part, upon the overall profitability of their operations. Cash flow generated by certain tenant businesses may not be sufficient for a tenant to meet its obligations to us. Although our occupied properties are generally operationally essential to our tenants, meaning the property is essential to the tenant's generation of sales and profits, this does not guarantee that a tenant's operations at a particular property will be successful or that the tenant will meet all of its obligations to us. We could be materially and adversely affected if a number of our tenants were unable to meet their obligations to us.

Single-tenant leases involve significant risks of tenant default.

Our strategy focuses primarily on investing in single-tenant triple-net leased properties throughout the United States. The financial failure of, or default in payment by, a single tenant under its lease is likely to cause a significant or complete reduction in our rental revenue from that property and a reduction in the value of the property. We may also experience difficulty or a significant delay in re-leasing or selling such property. This risk is magnified in situations where we lease multiple properties to a single tenant under a master lease. A tenant failure or default under a master lease could reduce or eliminate rental revenue from multiple properties and reduce the value of such properties. Although the master lease structure may be beneficial to us because it restricts the ability of tenants to remove individual underperforming assets, there is no guarantee that a tenant will not default in its obligations to us or decline to renew its master lease upon expiration. The default of a tenant that leases multiple properties from us could materially and adversely affect us.

A substantial number of our properties are leased to one tenant, which may result in increased risk due to tenant and industry concentrations.

Currently, we lease 181 properties to Shopko/Pamida, primarily pursuant to three master leases. The Shopko/Pamida leases are guaranteed by Specialty Retail Shops Holding Corp., the parent company of Shopko/Pamida (the "Shopko Guarantor"). Subsequent to the Merger, revenues generated from Shopko/Pamida represented 14.8% of the Company's total revenues for the three months ended December 31, 2013. Because a significant portion of our revenues are derived from rental revenues received from Shopko/Pamida, defaults, breaches or delay in payment of rent by it may materially and adversely affect us.

As a result of the significant number of properties leased to Shopko/Pamida, our results of operations and financial condition will be closely tied to Shopko/Pamida's performance under its leases, which is ultimately tied to the performance of its stores and the retail industry in which it operates. Shopko/Pamida operates as a multi-department general merchandise retailer and retail health services provider primarily in mid-size and larger communities in the Midwest, Pacific Northwest, North Central and Western Mountain states. Shopko/Pamida is subject to the following risks, as well as other risks that we are not currently aware of, that could adversely affect its ability to pay rent to us:

The retail industry in which it operates is highly competitive, which could limit growth opportunities and reduce profitability. Shopko/Pamida competes with other discount retail merchants as well as mass merchants, catalog merchants, internet retailers and other general merchandise, apparel and household merchandise retailers. It faces strong competition from large national discount retailers, such as Walmart, Kmart and Target, and mid-tier merchants such as Kohl's and JCPenney.

Shopko/Pamida stores are geographically located in a limited number of regions, particularly in the Midwest, Pacific Northwest, North Central and Western Mountain states. Adverse economic conditions in these regions may materially and adversely affect its results of operations, retail sales and ability to make payments to us under the leases.

Fluctuations in quarterly performance and seasonality in retail operations may cause Shopko/Pamida's results of operations to vary considerably from quarter to quarter and could adversely affect its cash flows.

Shopko/Pamida stores are dependent on the efficient functioning of its distribution networks. Problems that cause delays or interruptions in the distribution networks could materially and adversely affect its results of operations.

Shopko/Pamida stores depend on attracting and retaining quality employees. Many employees are entry level or part-time employees with historically high rates of turnover.

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If Shopko/Pamida experiences declines in its business, financial condition or results of operations, it may request discounts or deferrals on the rents it pays to us, seek to terminate its master leases with us or close certain of its stores, all of which could decrease the amount of revenue we receive from it. Decreases in the amount of revenue received from Shopko/Pamida could materially and adversely affect us.

A substantial portion of our properties are leased to unrated tenants, and the tools we use to measure credit quality may not be accurate.

A substantial portion our properties are leased to unrated tenants whom we determine, through our internal underwriting and credit analysis, to be creditworthy. Many of our tenants are required to provide corporate-level financial information, which includes balance sheet, income statement and cash flow statement data on a quarterly and or annual basis, and approximately 50% of our lease investment portfolio require the tenant to provide property-level performance information, which includes income statement data on a quarterly and or annual basis. To assist in our determination of a tenant's credit quality, we license a product from Moody's Analytics that provides an estimated default frequency ("EDF") and a "shadow rating," and we evaluate a lease's property-level rent coverage ratio. An EDF is only an estimate of default probability based, in part, on assumptions incorporated into the product. A shadow rating does not constitute a published credit rating and lacks the extensive company participation that is typically involved when a rating agency publishes a rating; accordingly, a shadow rating may not be as indicative of creditworthiness as a rating published by Moody's Investment Services, Inc. ("Moody's"), Standard & Poor's ("S&P"), or another nationally recognized statistical rating organization. Our calculations of EDFs, shadow ratings and rent coverage ratios are based on financial information provided to us by our tenants and prospective tenants without independent verification on our part, and we must assume the appropriateness of estimates and judgments that were made by the party preparing the financial information. If our assessment of credit quality proves to be inaccurate, we may be subject to defaults, and investors may view our cash flows as less stable. The ability of an unrated tenant to meet its obligations to us may not be considered as well assured as that of rated tenant.

The decrease in demand for retail and restaurant space may materially and adversely affect us.

As of December 31, 2013, leases representing approximately 37.5% and 16.7% of our annual rent were with tenants in the retail and restaurant industries, respectively. In the future we may acquire additional retail and restaurant properties. Accordingly, decreases in the demand for retail and/or restaurant spaces may have a greater adverse effect on us than if we had fewer investments in these industries. The market for retail and restaurant space has previously been, and could continue to be, adversely affected by weakness in the national, regional and local economies, the adverse financial condition of some large retail and restaurant companies, the ongoing consolidation in the retail and restaurant industries, the excess amount of retail and restaurant space in a number of markets and, in the case of the retail industry, increasing consumer purchases through catalogs or the Internet. To the extent that these conditions continue, they are likely to negatively affect market rents for retail and restaurant space and could materially and adversely affect us.

A high concentration of our properties in a particular geographic area would magnify the effects of downturns in that geographic area or industry.

As of December 31, 2013, 12.6% of our portfolio (as a percentage of rent) was located in the state of Texas, the state representing the highest concentration of our assets at that time. Any adverse developments in the economy or real estate market in Texas and the surrounding region, or any state or region in which we develop a substantial concentration of assets in the future, or any decrease in demand for net leased commercial space in such geographic locations resulting from regulatory or business environment could materially and adversely affect us.

We may be unable to renew leases, lease vacant space or re-lease space as leases expire on favorable terms or at all. Our results of operations depend on our ability to continue to strategically lease space in our properties, including renewing expiring leases, leasing vacant space and re-leasing space in properties where leases are expiring, optimizing our tenant mix or leasing properties on more economically favorable terms. As of December 31, 2013, leases representing approximately 2.1% of our annual rent will expire during 2014. As of December 31, 2013, 21 of our

properties, representing approximately 1.0% of our total number of owned properties, were vacant. Current tenants may decline, or may not have the financial resources available, to renew current leases and we cannot assure you that leases that are renewed will have terms that are as economically favorable to us as the expiring lease terms. If tenants do not renew the leases as they expire, we will have to find new tenants to lease our properties and there is

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no guarantee that we will be able to find new tenants or that our properties will be re-leased at rental rates equal to or above the current average rental rates or that substantial rent abatements, tenant improvement allowances, early termination rights or below-market renewal options will not be offered to attract new tenants. We may experience significant costs in connection with re-leasing a significant number of our properties, which could materially and adversely affect us.

Our ability to realize future rent increases will vary depending on changes in the CPI.

Most of our leases contain rent escalators, or provisions that periodically increase the base rent payable by the tenant under the lease. Although some of our rent escalators increase rent at a fixed amount on fixed dates, most of our rent escalators increase rent by the lesser of (a) 1 to 1.25 times any increase in the CPI over a specified period or (b) a fixed percentage. If the product of any increase in the CPI multiplied by the applicable factor is less than the fixed percentage, the increased rent we are entitled to receive will be less than what we otherwise would have been entitled to receive if the rent escalator was based solely on a fixed percentage. Therefore, during periods of low inflation or deflation, small increases or decreases in the CPI will subject us to the risk of receiving lower rental revenue than we otherwise would have been entitled to receive if our rent escalators were based solely on fixed percentages or amounts. Conversely, if the product of any increase in the CPI multiplied by the applicable factor is more than the fixed percentage, the increased rent we are entitled to receive will be less than what we otherwise would have been entitled to receive if the rent escalator was based solely on an increase in CPI. Therefore, periods of high inflation will subject us to the risk of receiving lower rental revenue than we otherwise would have been entitled to receive if our rent escalators were based solely on CPI increases.

The bankruptcy or insolvency of any of our tenants could result in the termination of such tenant's lease and material losses to us.

The occurrence of a tenant bankruptcy or insolvency could diminish the income we receive from that tenant's lease or leases. If a tenant becomes bankrupt or insolvent, federal law may prohibit us from evicting such tenant based solely upon such bankruptcy or insolvency. In addition, a bankrupt or insolvent tenant may be authorized to reject and terminate its lease or leases with us. Any claims against such bankrupt tenant for unpaid future rent would be subject to statutory limitations that would likely result in our receipt of rental revenues that are substantially less than the contractually specified rent we are owed under the lease or leases. In addition, any claim we have for unpaid past rent, if any, may not be paid in full. We may also be unable to re-lease a terminated or rejected space or to re-lease it on comparable or more favorable terms. As a result, tenant bankruptcies may materially and adversely affect us.

Tenants who are considering filing for bankruptcy protection may request that we agree to amendments of their master leases to remove certain of the properties they lease from us under such master leases. We cannot guarantee that we will be able to sell or re-lease properties that we agree to release from tenants' leases in the future or that lease termination fees, if any, received in exchange for such releases will be sufficient to make up for the rental revenues lost as a result of lease amendments.

Property vacancies could result in significant capital expenditures.

The loss of a tenant, either through lease expiration or tenant bankruptcy or insolvency, may require us to spend significant amounts of capital to renovate the property before it is suitable for a new tenant and cause us to incur significant costs. Many of the leases we enter into or acquire are for properties that are especially suited to the particular business of our tenants. Because these properties have been designed or physically modified for a particular tenant, if the current lease is terminated or not renewed, we may be required to renovate the property at substantial costs, decrease the rent we charge or provide other concessions in order to lease the property to another tenant. In addition, in the event we are required to sell the property, we may have difficulty selling it to a party other than the tenant due to the special purpose for which the property may have been designed or modified. This potential illiquidity may limit our ability to quickly modify our portfolio in response to changes in economic or other conditions, including tenant demand. These limitations may materially and adversely affect us.

We may be unable to identify and complete acquisitions of suitable properties, which may impede our growth, and our future acquisitions may not yield the returns we expect.

Our ability to expand through acquisitions requires us to identify and complete acquisitions or investment opportunities that are compatible with our growth strategy and to successfully integrate newly acquired properties into



our portfolio. We continually evaluate investment opportunities and may acquire properties when strategic opportunities exist. Our

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ability to acquire properties on favorable terms and successfully operate them may be constrained by the following significant risks:

- we face competition from other real estate investors with significant capital, including REITs and institutional investment funds, which may be able to accept more risk than we can prudently manage, including risks associated with paying higher acquisition prices;
- we face competition from other potential acquirers which may significantly increase the purchase price for a property we acquire, which could reduce our growth prospects;
- we may incur significant costs and divert management attention in connection with evaluating and negotiating potential acquisitions, including ones that we are subsequently unable to complete;
- we may acquire properties that are not accretive to our results upon acquisition, and we may be unsuccessful in managing and leasing such properties in accordance with our expectations;
- our cash flow from an acquired property may be insufficient to meet our required principal and interest payments with respect to debt used to finance the acquisition of such property;
- we may discover unexpected items, such as unknown liabilities, during our due diligence investigation of a potential acquisition or other customary closing conditions may not be satisfied, causing us to abandon an acquisition opportunity after incurring expenses related thereto;
- we may fail to obtain financing for an acquisition on favorable terms or at all;
- we may spend more than budgeted amounts to make necessary improvements or renovations to acquired properties;
- market conditions may result in higher than expected vacancy rates and lower than expected rental rates; or
- we may acquire properties subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities such as liabilities for clean-up of undisclosed environmental contamination, claims by tenants, vendors or other persons dealing with the former owners of the properties, liabilities incurred in the ordinary course of business and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

If any of these risks are realized, we may be materially and adversely affected.

Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties and harm our financial condition.

The real estate investments made, and expected to be made, by us are relatively difficult to sell quickly. As a result, our ability to promptly sell one or more properties in our portfolio in response to changing economic, financial or investment conditions is limited. Return of capital and realization of gains, if any, from an investment generally will occur upon disposition or refinancing of the underlying property. We may be unable to realize our investment objective by sale, other disposition or refinancing at attractive prices within any given period of time or may otherwise be unable to complete any exit strategy. In particular, these risks could arise from weakness in or even the lack of an established market for a property, changes in the financial condition or prospects of prospective purchasers, changes in national or international economic conditions, such as the economic downturn of 2008 through 2010, and changes in laws, regulations or fiscal policies of the jurisdiction in which a property is located.

In addition, the Code imposes restrictions on a REIT's ability to dispose of properties that are not applicable to other types of real estate companies. In particular, the tax laws applicable to REITs effectively require that we hold our properties for investment, rather than primarily for sale in the ordinary course of business, which may cause us to forgo or defer sales of properties that otherwise would be in our best interest. Therefore, we may not be able to vary our portfolio in response to economic or other conditions promptly or on favorable terms, which may materially and adversely affect us.

We face significant competition for tenants, which may decrease or prevent increases of the occupancy and rental rates of our properties, and competition for acquisitions may reduce the number of acquisitions we are able to

complete and increase the costs of these acquisitions.

We compete with numerous developers, owners and operators of properties, many of which own properties similar to ours in the same markets in which our properties are located. If our competitors offer space at rental rates below current market rates or below the rental rates we currently charge our tenants, we may lose existing or potential tenants

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and we may be pressured to reduce our rental rates or to offer more substantial rent abatements, tenant improvements, early termination rights or below-market renewal options in order to retain tenants when our leases expire.

Competition for tenants could decrease or prevent increases of the occupancy and rental rates of our properties, which could materially and adversely affect us.

We also face competition for acquisitions of real property from investors, including traded and non-traded public REITs, private equity investors and institutional investment funds, some of which have greater financial resources than we do, a greater ability to borrow funds to acquire properties and the ability to accept more risk than we can prudently manage. This competition may increase the demand for the types of properties in which we typically invest and, therefore, reduce the number of suitable acquisition opportunities available to us and increase the prices paid for such acquisition properties. This competition will increase if investments in real estate become more attractive relative to other types of investment. Accordingly, competition for the acquisition of real property could materially and adversely affect us.

The loss of a borrower or the failure of a borrower to make loan payments on a timely basis will reduce our revenues, which could lead to losses on our investments and reduced returns to our stockholders.

We have originated or acquired long-term, commercial mortgage and equipment loans. The success of our loan investments is materially dependent on the financial stability of our borrowers. The success of our borrowers is dependent on each of their individual businesses and their industries, which could be affected by economic conditions in general, changes in consumer trends and preferences and other factors over which neither they nor we have control. A default of a borrower on its loan payments to us that would prevent us from earning interest or receiving a return of the principal of our loan could materially and adversely affect us. In the event of a default, we may also experience delays in enforcing our rights as lender and may incur substantial costs in collecting the amounts owed to us and in liquidating any collateral.

Foreclosure and other similar proceedings used to enforce payment of real estate loans are generally subject to principles of equity, which are designed to relieve the indebted party from the legal effect of that party's default. Foreclosure and other similar laws may limit our right to obtain a deficiency judgment against the defaulting party after a foreclosure or sale. The application of any of these principles may lead to a loss or delay in the payment on loans we hold, which in turn could reduce the amounts we have available to make distributions. Further, in the event we have to foreclose on a property, the amount we receive from the foreclosure sale of the property may be inadequate to fully pay the amounts owed to us by the borrower and our costs incurred to foreclose, repossess and sell the property which could materially and adversely affect us.

If we invest in mortgage loans, these investments may be affected by unfavorable real estate market conditions, including interest rate fluctuations, which could decrease the value of those loans.

If we invest in mortgage loans, we will be at risk of defaults by the borrowers and, in addition, will be subject to interest rate risks. To the extent we incur delays in liquidating defaulted mortgage loans, we may not be able to obtain all amounts due to us under such loans. Further, we will not know whether the values of the properties securing the mortgage loans will remain at the levels existing on the dates of origination of those mortgage loans or the dates of our investment in the loans. If the values of the underlying properties decline, the value of the collateral securing our mortgage loans will also decline and if we were to foreclose on any of the properties securing the mortgage loans, we may not be able to sell or lease them for an amount equal to the unpaid amounts due to us under the mortgage loans. As a result, defaults on mortgage loans in which we invest may materially and adversely affect us.

Inflation may materially and adversely affect us and our tenants.

Increased inflation could have a negative impact on variable-rate debt we currently have or that we may incur in the future. During times when inflation is greater than the increases in rent provided by many of our leases, rent increases will not keep up with the rate of inflation. Increased costs may have an adverse impact on our tenants if increases in their operating expenses exceed increases in revenue, which may adversely affect the tenants' ability to pay rent owed to us.

Our growth depends on external sources of capital that are outside of our control and may not be available to us on commercially reasonable terms or at all.

In order to maintain our qualification as a REIT, we are required under the Code, among other things, to distribute annually at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and

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excluding any net capital gain. In addition, we will be subject to income tax at regular corporate rates to the extent that we distribute less than 100% of our REIT taxable income, determined without regard to the dividends paid deduction and including any net capital gain. Because of these distribution requirements, we may not be able to fund future capital needs, including any necessary acquisition financing, from operating cash flow. Consequently, we may rely on third-party sources to fund our capital needs. We may not be able to obtain the financing on favorable terms or at all. Any additional debt we incur will increase our leverage and likelihood of default. Our access to third-party sources of capital depends, in part, on:

- general market conditions;
- the market's perception of our growth potential;
- our current debt levels;
- our current and expected future earnings;
- our cash flow and cash distributions; and
- the market price per share of our common stock.

If we cannot obtain capital from third-party sources, we may not be able to acquire properties when strategic opportunities exist, meet the capital and operating needs of our existing properties, satisfy our debt service obligations or make the cash distributions to our stockholders necessary to maintain our qualification as a REIT.

Historically, we have raised a significant amount of debt capital through our master trust facility and the CMBS market. We have generally used the proceeds from these financings to repay debt and fund real estate acquisitions. As of December 31, 2013, we had issued notes under our master trust facility in six different classes over four separate issuances with an aggregate outstanding principal balance of \$1.24 billion. These notes mature in December 2018, July 2020 (two classes), March 2021, March 2022, and December 2023, respectively. As of December 31, 2013, we also had CMBS loans with an aggregate outstanding principal balance of \$2.5 billion and an average maturity of 3.7 years. Our obligations under these loans are generally secured by liens on certain of our properties. In the case of our master trust facility, subject to certain conditions, we may substitute real estate collateral from time to time. No assurance can be given that the CMBS market will be available to us in the future, whether to refinance existing debt or to raise additional debt capital. Moreover, we view our ability to substitute collateral under our master trust facility favorably, and no assurance can be given that financing facilities offering similar flexibility will be available to us in the future.

Failure to hedge effectively against interest rate changes may materially and adversely affect us.

We attempt to mitigate our exposure to interest rate volatility by using interest rate hedging arrangements. However, these arrangements involve risks and may not be effective in reducing our exposure to interest rate changes. In addition, the counterparties to our hedging arrangements may not honor their obligations. Failure to hedge effectively against changes in interest rates relating to the interest expense of our future borrowings may materially and adversely affect us.

Loss of our key personnel with long-standing business relationships could materially impair our ability to operate successfully.

Our continued success and our ability to manage anticipated future growth depend, in large part, upon the efforts of key personnel, particularly our Chief Executive Officer and Chairman of our board of directors, Thomas H. Nolan, Jr., our President and Chief Operating Officer, Peter M. Mavroides, and our Executive Vice President and Chief Investment Officer, Gregg A. Seibert, who have extensive market knowledge and relationships and exercise substantial influence over our operational, financing, acquisition and disposition activity. Among the reasons that they are important to our success is that each has a national or regional industry reputation that attracts business and investment opportunities and assists us in negotiations with lenders, existing and potential tenants and industry personnel.

Many of our other key executive personnel, particularly our senior managers, also have extensive experience and strong reputations in the real estate industry and have been instrumental in setting our strategic direction, operating

our business, identifying, recruiting and training key personnel and arranging necessary financing. In particular, the extent and nature of the relationships that these individuals have developed with financial institutions and existing and prospective tenants is critically important to the success of our business. The loss of services of one or more members of our senior management team, or our inability to attract and retain highly qualified personnel, could adversely affect

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our business, diminish our investment opportunities and weaken our relationships with lenders, business partners, existing and prospective tenants and industry personnel, which could materially and adversely affect us.

We have a limited operating history as a public company and our past experience may not be sufficient to allow us to successfully operate as a public company going forward.

We have a limited operating history as a publicly traded company. Prior to the public offering in September 2012, we had not been publicly traded since 2007. We cannot assure you that our past experience will be sufficient to successfully operate our company as a publicly traded company, including the requirements to timely meet disclosure requirements of the SEC, and comply with the Sarbanes-Oxley Act of 2002. We are required to develop and implement control systems and procedures in order to satisfy our periodic and current reporting requirements under applicable SEC regulations and comply with the NYSE, listing standards, and this transition could place a significant strain on our management systems, infrastructure and other resources. Failure to operate successfully as a public company could materially and adversely affect us.

We may become subject to litigation, which could materially and adversely affect us.

In the future we may become subject to litigation, including claims relating to our operations, security offerings (see litigation related to the Merger discussed in "Item 3. Legal Proceedings" below) and otherwise in the ordinary course of business. Some of these claims may result in significant defense costs and potentially significant judgments against us, some of which are not, or cannot be, insured against. We generally intend to vigorously defend ourselves.

However, we cannot be certain of the ultimate outcomes of any claims that may arise in the future. Resolution of these types of matters against us may result in our having to pay significant fines, judgments, or settlements, which, if uninsured, or if the fines, judgments, and settlements exceed insured levels, could adversely impact our earnings and cash flows, thereby materially and adversely affecting us. Certain litigation or the resolution of certain litigation may affect the availability or cost of some of our insurance coverage, which could materially and adversely impact us, expose us to increased risks that would be uninsured, and materially and adversely impact our ability to attract directors and officers.

If we fail to maintain an effective system of internal control over financial reporting and disclosure controls, we may not be able to accurately and timely report our financial results.

Effective internal control over financial reporting and disclosure controls are necessary for us to provide reliable financial reports and effectively prevent fraud and to operate successfully as a public company. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results would be harmed. Beginning with our 2014 Annual Report on Form 10-K to be filed in 2015, we will be required to perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on, and our independent registered public accounting firm to attest to, the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002. To date, the audit of our consolidated financial statements by our independent registered public accounting firm has included a consideration of internal control over financial reporting as a basis of designing their audit procedures but not for the purpose of expressing an opinion (as will be required pursuant to Section 404 of the Sarbanes-Oxley Act of 2002) on the effectiveness of our internal control over financial reporting. As a result of material weaknesses or significant deficiencies that may be identified in our internal control over financial reporting, we may also identify certain deficiencies in some of our disclosure controls and procedures that we believe require remediation. If we or our independent registered public accounting firm discover weaknesses, we will make efforts to improve our internal control over financial reporting and disclosure controls. However, there is no assurance that we will be successful. Any failure to maintain effective controls or timely effect any necessary improvement of our internal control over financial reporting and disclosure controls could harm operating results or cause us to fail to meet our reporting obligations, which could affect the listing of our common stock on the NYSE. Ineffective internal control over financial reporting and disclosure controls could also cause investors to lose confidence in our reported financial information, which would likely have a negative effect on the per share trading price of our common stock.

The costs of compliance with or liabilities related to environmental laws may materially and adversely affect us.

The properties we own or have owned in the past may subject us to known and unknown environmental liabilities.

Under various federal, state and local laws and regulations relating to the environment, as a current or former owner or



operator of real property, we may be liable for costs and damages resulting from the presence or discharge of hazardous or toxic substances, waste or petroleum products at, on, in, under or migrating from such property, including

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costs to investigate, clean up such contamination and liability for harm to natural resources. We may face liability regardless of:

- our knowledge of the contamination;
- the timing of the contamination;
- the cause of the contamination; or
- the party responsible for the contamination of the property.

There may be environmental liabilities associated with our properties of which we are unaware. We obtain Phase I environmental site assessments on all properties we finance or acquire. The Phase I environmental site assessments are limited in scope and therefore may not reveal all environmental conditions affecting a property. Therefore, there could be undiscovered environmental liabilities on the properties we own. Some of our properties use, or may have used in the past, underground tanks for the storage of petroleum-based products or waste products that could create a potential for release of hazardous substances or penalties if tanks do not comply with legal standards. If environmental contamination exists on our properties, we could be subject to strict, joint and/or several liability for the contamination by virtue of our ownership interest. Some of our properties may contain ACM. Strict environmental laws govern the presence, maintenance and removal of ACM and such laws may impose fines and penalties for failure to comply with these requirements or expose us to third-party liability (e.g., liability for personal injury associated with exposure to asbestos). Strict environmental laws also apply to other activities that can occur on a property, such as air emissions and water discharges, and such laws may impose fines and penalties for violations.

The presence of hazardous substances on a property may adversely affect our ability to sell, lease or improve the property or to borrow using the property as collateral. In addition, environmental laws may create liens on contaminated properties in favor of the government for damages and costs it incurs to address such contamination. Moreover, if contamination is discovered on our properties, environmental laws may impose restrictions on the manner in which they may be used or businesses may be operated, and these restrictions may require substantial expenditures.

In addition, although our leases generally require our tenants to operate in compliance with all applicable laws and to indemnify us against any environmental liabilities arising from a tenant's activities on the property, we could be subject to strict liability by virtue of our ownership interest. We cannot be sure that our tenants will, or will be able to, satisfy their indemnification obligations, if any, under our leases. Furthermore, the discovery of environmental liabilities on any of our properties could lead to significant remediation costs or to other liabilities or obligations attributable to the tenant of that property, which may affect such tenant's ability to make payments to us, including rental payments and, where applicable, indemnification payments.

Our environmental liabilities may include property damage, personal injury, investigation and clean-up costs. These costs could be substantial. Although we may obtain insurance for environmental liability for certain properties that are deemed to warrant coverage, our insurance may be insufficient to address any particular environmental situation and we may be unable to continue to obtain insurance for environmental matters, at a reasonable cost or at all, in the future. If our environmental liability insurance is inadequate, we may become subject to material losses for environmental liabilities. Our ability to receive the benefits of any environmental liability insurance policy will depend on the financial stability of our insurance company and the position it takes with respect to our insurance policies. If we were to become subject to significant environmental liabilities, we could be materially and adversely affected.

Most of the environmental risks discussed above refer to properties that we own or may acquire in the future. However, each of the risks identified also applies to the owners (and potentially, the lessees) of the properties that secure each of the loans we have made and any loans we may acquire or make in the future. Therefore, the existence of environmental conditions could diminish the value of each of the loans and the abilities of the borrowers to repay the loans and could materially and adversely affect us.

Our properties may contain or develop harmful mold, which could lead to liability for adverse health effects and costs of remediation.

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Concern about indoor exposure to mold has been increasing, as exposure to mold may cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, should our tenants or their employees or customers be exposed to mold at any of our properties we could be required to undertake a costly remediation program to contain or remove the mold from the affected property. In addition, exposure to mold

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by our tenants or others could subject us to liability if property damage or health concerns arise. If we were to become subject to significant mold-related liabilities, we could be materially and adversely affected.

Insurance on our properties may not adequately cover all losses and uninsured losses could materially and adversely affect us.

Our tenants are required to maintain liability and property insurance coverage for the properties they lease from us pursuant to triple-net leases. Pursuant to such leases, our tenants are required to name us (and any of our lenders that have a mortgage on the property leased by the tenant) as additional insureds on their liability policies and additional named insured and/or loss payee (or mortgagee, in the case of our lenders) on their property policies. All tenants are required to maintain casualty coverage and most carry limits at 100% of replacement cost. Depending on the location of the property, losses of a catastrophic nature, such as those caused by earthquakes and floods, may be covered by insurance policies that are held by our tenant with limitations such as large deductibles or co-payments that a tenant may not be able to meet. In addition, losses of a catastrophic nature, such as those caused by wind/hail, hurricanes, terrorism or acts of war, may be uninsurable or not economically insurable. In the event there is damage to our properties that is not covered by insurance and such properties are subject to recourse indebtedness, we will continue to be liable for the indebtedness, even if these properties are irreparably damaged.

Inflation, changes in building codes and ordinances, environmental considerations, and other factors, including terrorism or acts of war, may make any insurance proceeds we receive insufficient to repair or replace a property if it is damaged or destroyed. In that situation, the insurance proceeds received may not be adequate to restore our economic position with respect to the affected real property. Furthermore, in the event we experience a substantial or comprehensive loss of one of our properties, we may not be able to rebuild such property to its existing specifications without significant capital expenditures which may exceed any amounts received pursuant to insurance policies, as reconstruction or improvement of such a property would likely require significant upgrades to meet zoning and building code requirements. The loss of our capital investment in or anticipated future returns from our properties due to material uninsured losses could materially and adversely affect us.

Compliance with the ADA and fire, safety and other regulations may require us to make unanticipated expenditures that materially and adversely affect us.

Our properties are subject to the ADA. Under the ADA, all public accommodations must meet federal requirements related to access and use by disabled persons. Compliance with the ADA requirements could require removal of access barriers and non-compliance could result in imposition of fines by the U.S. government or an award of damages to private litigants, or both. While our tenants are obligated by law to comply with the ADA and typically obligated under our leases and financing agreements to cover costs associated with compliance, if required changes involve greater expenditures than anticipated or if the changes must be made on a more accelerated basis than anticipated, the ability of our tenants to cover costs could be adversely affected. We could be required to expend our own funds to comply with the provisions of the ADA, which could materially and adversely affect us.

In addition, we are required to operate our properties in compliance with fire and safety regulations, building codes and other land use regulations, as they may be adopted by governmental agencies and bodies and become applicable to our properties. We may be required to make substantial capital expenditures to comply with those requirements and may be required to obtain approvals from various authorities with respect to our properties, including prior to acquiring a property or when undertaking renovations of any of our existing properties. There can be no assurance that existing laws and regulatory policies will not adversely affect us or the timing or cost of any future acquisitions or renovations, or that additional regulations will not be adopted that increase such delays or result in additional costs.

Additionally, failure to comply with any of these requirements could result in the imposition of fines by governmental authorities or awards of damages to private litigants. While we intend to only acquire properties that we believe are currently in substantial compliance with all regulatory requirements, these requirements may change and new requirements may be imposed which would require significant unanticipated expenditures by us and could materially and adversely affect us.

As a result of acquiring C corporations in carry-over basis transactions, we may inherit material tax liabilities and other tax attributes from such acquired corporations, and we may be required to distribute earnings and profits.

From time to time, we have and may continue to acquire C corporations in transactions in which the basis of the corporations' assets in our hands is determined by reference to the basis of the assets in the hands of the acquired corporations, or carry-over basis transactions. In May 2006, we acquired Shopko Stores, Inc. in a stock purchase and

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immediately thereafter dissolved such corporation. In December 2008, we revoked the election to treat Spirit Management Company, our former taxable REIT subsidiary, as a taxable REIT subsidiary for federal income tax purposes. In each such transaction, we acquired the assets of such corporations in a carry-over basis transaction for federal income tax purposes.

In connection with the IPO, Redford Australian Investment Trust (“RAIT”), an Australian investment trust through which our non-U.S. investors indirectly owned shares of our common stock prior to the IPO, transferred substantially all of its assets (including shares of our common stock) to our company in exchange for newly issued shares of our common stock, and RAIT liquidated and distributed such shares to its owners. Such exchange of shares of our common stock held by RAIT for newly issued shares of our common stock was on a one-for-one basis. RAIT was treated as a C corporation for federal income tax purposes, and such transactions were intended to qualify as a tax-free reorganization for federal income tax purposes. We did not acquire any earnings and profits of RAIT as a result of such transactions.

If we acquire any asset from a corporation that is or has been a C corporation in a transaction in which the basis of the asset in our hands is less than the fair market value of the asset, in each case determined at the time we acquired the asset, and we subsequently recognize gain on the disposition of the asset during the ten-year period (or the five-year period in the case of dispositions in 2012 and 2013) beginning on the date on which we acquired the asset, then we will be required to pay tax at the highest regular corporate tax rate on this gain to the extent of the excess of (1) the fair market value of the asset over (2) our adjusted basis in the asset, in each case determined as of the date on which we acquired the asset. Any taxes we pay as a result of such gain would reduce the amount available for distribution to our stockholders. The imposition of such tax may require us to forgo an otherwise attractive disposition of any assets we acquire from a C corporation in a carry-over basis transaction, and as a result may reduce the liquidity of our portfolio of investments. In addition, in such a carry-over basis transaction, we will succeed to any tax liabilities and earnings and profits of the acquired C corporation. To qualify as a REIT, we must distribute any non-REIT earnings and profits by the close of the taxable year in which such transaction occurs. Any adjustments to the acquired corporation’s income for taxable years ending on or before the date of the transaction, including as a result of an examination of the corporation’s tax returns by the Internal Revenue Service (the “IRS”), could affect the calculation of the corporation’s earnings and profits. If the IRS were to determine that we acquired non-REIT earnings and profits from a corporation that we failed to distribute prior to the end of the taxable year in which the carry-over basis transaction occurred, we could avoid disqualification as a REIT by paying a “deficiency dividend.” Under these procedures, we generally would be required to distribute any such non-REIT earnings and profits to our stockholders within 90 days of the determination and pay a statutory interest charge at a specified rate to the IRS. Such a distribution would be in addition to the distribution of REIT taxable income necessary to satisfy the REIT distribution requirement and may require that we borrow funds to make the distribution even if the then-prevailing market conditions are not favorable for borrowings. In addition, payment of the statutory interest charge could materially and adversely affect us.

Changes in accounting standards may materially and adversely affect us.

From time to time the Financial Accounting Standards Board (“FASB”), and the SEC, who create and interpret appropriate accounting standards, may change the financial accounting and reporting standards or their interpretation and application of these standards that will govern the preparation of our financial statements. These changes could materially and adversely affect our reported financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in restating prior period financial statements. Similarly, these changes could materially and adversely affect our tenants’ reported financial condition or results of operations and affect their preferences regarding leasing real estate.

The SEC is currently considering whether issuers in the United States should be required to prepare financial statements in accordance with International Financial Reporting Standards (“IFRS”) instead of U.S. generally accepted accounting principles (“GAAP”). IFRS is a comprehensive set of accounting standards promulgated by the International Accounting Standards Board (“IASB”), which are rapidly gaining worldwide acceptance. The SEC currently has not finalized the timeframe it expects that U.S. issuers would first report under the new standards. If IFRS is adopted, the potential issues associated with lease accounting, along with other potential changes associated with the adoption or

convergence with IFRS, may materially and adversely affect us.

Additionally, the FASB is considering various changes to GAAP, some of which may be significant, as part of a joint effort with the IASB to converge accounting standards. In particular, FASB has proposed accounting rules that would require companies to capitalize all leases on their balance sheets by recognizing a lessee's rights and obligations. If the proposal is adopted in its current form, many companies that account for certain leases on an "off balance sheet" basis would be required to account for such leases "on balance sheet." This change would remove many of the differences in the way companies account for owned property and leased property, and could have a material effect

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on various aspects of our tenants' businesses, including their credit quality and the factors they consider in deciding whether to own or lease properties. If the proposal is adopted in its current form, it could cause companies that lease properties to prefer shorter lease terms in an effort to reduce the leasing liability required to be recorded on the balance sheet. The proposal could also make lease renewal options less attractive, because, under certain circumstances, the rule would require a tenant to assume that a renewal right will be exercised and accrue a liability relating to the longer lease term.

In the future, we may choose to acquire properties or portfolios of properties through tax deferred contribution transactions, which could result in stockholder dilution and limit our ability to sell such assets.

In the future we may acquire properties or portfolios of properties through tax deferred contribution transactions in exchange for partnership interests in the Operating Partnership, which may result in stockholder dilution. This acquisition structure may have the effect of, among other things, reducing the amount of tax depreciation we could deduct over the tax life of the acquired properties, and may require that we agree to protect the contributors' ability to defer recognition of taxable gain through restrictions on our ability to dispose of the acquired properties and/or the allocation of partnership debt to the contributors to maintain their tax bases. These restrictions could limit our ability to sell an asset at a time, or on terms, that would be favorable absent such restrictions.

### Risks Related to Our Indebtedness

We have approximately \$3.78 billion principal balance of indebtedness outstanding, which may expose us to the risk of default under our debt obligations.

As of December 31, 2013, our total outstanding consolidated indebtedness was approximately \$3.78 billion principal balance, of which \$111.0 million (or approximately 3.0%) is variable-rate debt (we have entered into four amortizing interest rate swaps that effectively fixed the interest rates on a significant portion of this variable-rate debt at approximately 4.55%), and we may incur significant additional debt to finance future investment activities. In addition, we have a secured revolving Credit Facility with a borrowing capacity of up to \$400.0 million, under which \$30.0 million was drawn as of December 31, 2013 and \$269.3 million remains available. Payments of principal and interest on borrowings may leave us with insufficient cash resources to meet our cash needs or make the distributions to our common stockholders necessary to maintain our REIT qualification. Our level of debt and the limitations imposed on us by our debt agreements could have significant adverse consequences, including the following:

- our cash flow may be insufficient to meet our required principal and interest payments;
- cash interest expense and financial covenants relating to our indebtedness may limit or eliminate our ability to make distributions to our common stockholders;
- we may be unable to borrow additional funds as needed or on favorable terms, which could, among other things, adversely affect our ability to capitalize upon acquisition opportunities or meet operational needs;
- we may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;
- because a portion of our debt bears interest at variable rates, increases in interest rates could increase our interest expense;
- we may be unable to hedge floating rate debt, counterparties may fail to honor their obligations under any hedge agreements we enter into, such agreements may not effectively hedge interest rate fluctuation risk, and, upon the expiration of any hedge agreements we enter into, we would be exposed to then-existing market rates of interest and future interest rate volatility;
- we may be forced to dispose of properties, possibly on unfavorable terms or in violation of certain covenants to which we may be subject;
- we may default on our obligations and the lenders or mortgagees may foreclose on our properties or our interests in the entities that own the properties that secure their loans and receive an assignment of rents and leases;
- we may be restricted from accessing some of our excess cash flow after debt service if certain of our tenants fail to meet certain financial performance metric thresholds;
- we may violate restrictive covenants in our loan documents, which would entitle the lenders to accelerate our debt obligations; and
- our default under any loan with cross-default provisions could result in a default on other indebtedness.





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The occurrence of any of these events could materially and adversely affect us. Furthermore, foreclosures could create taxable income without accompanying cash proceeds, which could hinder our ability to meet the REIT distribution requirements imposed by the Code.

Current market conditions could adversely affect our ability to refinance existing indebtedness or obtain additional financing for growth on acceptable terms or at all, which could materially and adversely affect us.

Over the last few years, the credit markets have experienced significant price volatility, displacement and liquidity disruptions, including the bankruptcy, insolvency or restructuring of certain financial institutions. These circumstances have materially impacted liquidity in the financial markets, making financing terms for borrowers less attractive, and in certain cases, have resulted in the unavailability of various types of debt financing. As a result, we may be unable to obtain debt financing on favorable terms or at all or fully refinance maturing indebtedness with new indebtedness.

Reductions in our available borrowing capacity or inability to obtain credit when required or when business conditions warrant could materially and adversely affect us.

Furthermore, if prevailing interest rates or other factors at the time of refinancing result in higher interest rates upon refinancing, then the interest expense relating to that refinanced indebtedness would increase. Higher interest rates on newly incurred debt may negatively impact us as well. If interest rates increase, our interest costs and overall costs of capital will increase, which could materially and adversely affect us.

Total debt service for 2014 and 2015 are \$86.7 million and \$303.9 million, respectively. We expect to meet these repayment requirements primarily through net cash from operating activities.

Some of our financing arrangements involve balloon payment obligations, which may materially and adversely affect us.

Some of our financings require us to make a lump-sum or “balloon” payment at maturity. Our ability to make any balloon payment is uncertain and may depend on our ability to obtain additional financing or our ability to sell our properties. At the time the balloon payment is due, we may or may not be able to refinance the balloon payment on terms as favorable as the original loan or sell our properties at a price sufficient to make the balloon payment, if at all. If the balloon payment is refinanced at a higher rate, it will reduce or eliminate any income from our properties. Our inability to meet a balloon payment obligation, through refinancing or sale proceeds, or refinancing on less attractive terms could materially and adversely affect us. We have certain balloon maturities of \$529.0 million in 2016. If we are unable to refinance these maturities or otherwise retire the indebtedness by that time, we could be materially adversely affected, and could be forced to relinquish the related collateral consisting of 177 properties subject to two master leases and two individual leases with Shopko/Pamida.

Our debt financing agreements contain restrictions and covenants which may limit our ability to enter into or obtain funding for certain transactions, operate our business or make distributions to our common stockholders.

The agreements governing our borrowings and indebtedness contain financial and other covenants with which we are or will be required to comply and that limit or will limit our ability to operate our business. These covenants, as well as any additional covenants to which we may be subject in the future because of additional borrowings and indebtedness, could cause us to have to forgo investment opportunities, reduce or eliminate distributions to our common stockholders or obtain financing that is more expensive than financing we could obtain if we were not subject to the covenants. In addition, the agreements may have cross default provisions, which provide that a default under one of our financing agreements would lead to a default on some or all of our debt financing agreements.

If an event of default occurs under certain of our CMBS loans, if the master tenants at the properties, which secure the CMBS loans, fail to maintain certain EBITDAR ratios or if an uncured monetary default exists under the master leases, then a portion of or all of the cash which would otherwise be distributed to us may be restricted by the lenders and unavailable to us until the terms are cured or the debt refinanced. If the financial performance of the collateral for our Master Funding indebtedness fails to achieve certain financial performance criteria, then cash from those assets that would otherwise be distributed to us may be unavailable to us until the terms are cured or the debt refinanced.

Such cash sweep triggering events have occurred previously and may be ongoing from time to time. The occurrence of these events limit the amount of cash available to us for use in our business and could limit or eliminate our ability to make distributions to our common stockholders.



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The covenants and other restrictions under our debt agreements affect, among other things, our ability to:

- incur indebtedness;
- create liens on assets;
- sell or substitute assets;
- modify certain terms of our leases;
- manage our cash flows; and
- make distributions to equity holders.

Additionally, these restrictions may adversely affect our operating and financial flexibility and may limit our ability to respond to changes in our business or competitive environment, all of which may materially and adversely affect us.

### Risks Related to Our Organizational Structure

Our charter and bylaws and Maryland law contain provisions that may delay, defer or prevent a change of control transaction, even if such a change in control may be in the interest of our stockholders, and as a result may depress the market price of our common stock.

Our charter contains certain restrictions on ownership and transfer of our stock. Our charter contains various provisions that are intended to preserve our qualification as a REIT and, subject to certain exceptions, authorize our directors to take such actions as are necessary or appropriate to preserve our qualification as a REIT. For example, our charter prohibits the actual, beneficial or constructive ownership by any person of more than 9.8% in value or number of shares, whichever is more restrictive, of the outstanding shares of our common stock or more than 9.8% in value of the aggregate of the outstanding shares of all classes and series of our stock. Our board of directors, in its sole and absolute discretion, may exempt a person, prospectively or retroactively, from these ownership limits if certain conditions are satisfied. The restrictions on ownership and transfer of our stock may:

- discourage a tender offer or other transactions or a change in management or of control that might involve a premium price for our common stock or that our stockholders otherwise believe to be in their best interests; or
- result in the transfer of shares acquired in excess of the restrictions to a trust for the benefit of a charitable beneficiary and, as a result, the forfeiture by the acquirer of the benefits of owning the additional shares.

We could increase the number of authorized shares of stock, classify and reclassify unissued stock and issue stock without stockholder approval. Our board of directors, without stockholder approval, has the power under our charter to amend our charter to increase the aggregate number of shares of stock or the number of shares of stock of any class or series that we are authorized to issue, to authorize us to issue authorized but unissued shares of our common stock or preferred stock and to classify or reclassify any unissued shares of our common stock or preferred stock into one or more classes or series of stock and to set the terms of such newly classified or reclassified shares. As a result, we may issue one or more series or classes of common stock or preferred stock with preferences, dividends, powers and rights, voting or otherwise, that are senior to, or otherwise conflict with, the rights of our common stockholders. Although our board of directors has no such intention at the present time, it could establish a class or series of common stock or preferred stock that could, depending on the terms of such series, delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Certain provisions of Maryland law could inhibit changes in control, which may discourage third parties from conducting a tender offer or seeking other change of control transactions that could involve a premium price for our common stock or that our stockholders otherwise believe to be in their best interest. Certain provisions of the Maryland General Corporation Law (the “MGCL”) may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could provide our common stockholders with the opportunity to realize a premium over the then-prevailing market price of such shares, including:

- “business combination” provisions that, subject to certain limitations, prohibit certain business combinations between us and an “interested stockholder” (defined generally as any person who beneficially owns 10% or more of the voting

power of our shares or an affiliate thereof or an affiliate or associate of ours who was the beneficial owner, directly or indirectly, of 10% or more of the voting power of our then outstanding voting stock at any time within a two-year period immediately prior to the date in question) or any affiliate of an

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interested stockholder for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter impose fair price and/or supermajority and stockholder voting requirements on these combinations; and

“control share” provisions that provide that a holder of “control shares” of our company (defined as shares that, when aggregated with other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of outstanding “control shares”) has no voting rights with respect to those shares except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

As permitted by the MGCL, we have elected, by resolution of our board of directors, to opt out of the business combination provisions of the MGCL and, pursuant to a provision in our bylaws, to exempt any acquisition of our stock from the control share provisions of the MGCL. However, our board of directors may by resolution elect to repeal the exemption from the business combination provisions of the MGCL and may by amendment to our bylaws opt into the control share provisions of the MGCL at any time in the future, whether before or after an acquisition of control shares.

Certain provisions of the MGCL permit our board of directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to implement certain corporate governance provisions, some of which (for example, a classified board) are not currently applicable to us. These provisions may have the effect of limiting or precluding a third party from making an unsolicited acquisition proposal for us or of delaying, deferring or preventing a change in control of us under circumstances that otherwise could be in the best interests of our stockholders. Our charter contains a provision whereby we elect, at such time as we become eligible to do so, to be subject to the provisions of Title 3, Subtitle 8 of the MGCL relating to the filling of vacancies on our board of directors.

Termination of the employment agreements with certain members of our senior management team could be costly and prevent a change in control of our company.

The employment agreements with certain members of our senior management team provide that if their employment with us terminates under certain circumstances (including in connection with a change in control of our company), we may be required to pay them significant amounts of severance compensation, including gross-ups for tax liabilities, thereby making it costly to terminate their employment. Furthermore, these provisions could delay or prevent a transaction or a change in control of our company that might involve a premium paid for shares of our common stock or otherwise be in the best interests of our stockholders.

Our board of directors may change our investment and financing policies without stockholder approval and we may become more highly leveraged, which may increase our risk of default under our debt obligations.

Our investment and financing policies are exclusively determined by our board of directors. Accordingly, our stockholders do not control these policies. Further, our organizational documents do not limit the amount or percentage of indebtedness, funded or otherwise, that we may incur. Our board of directors may alter or eliminate our current policy on borrowing at any time without stockholder approval. If this policy changed, we could become more highly leveraged, which could result in an increase in our debt service. Higher leverage also increases the risk of default on our obligations. In addition, a change in our investment policies, including the manner in which we allocate our resources across our portfolio or the types of assets in which we seek to invest, may increase our exposure to interest rate risk, real estate market fluctuations and liquidity risk. Changes to our policies with regards to the foregoing could materially and adversely affect us.

Our rights and the rights of our stockholders to take action against our directors and officers are limited.

As permitted by Maryland law, our charter limits the liability of our directors and officers to us and our stockholders for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- active and deliberate dishonesty by the director or officer that was established by a final judgment as being material to the cause of action adjudicated.



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As a result, we and our stockholders have rights against our directors and officers that are more limited than might otherwise exist. Accordingly, in the event that actions taken in good faith by any of our directors or officers impede the performance of our company, your and our ability to recover damages from such director or officer will be limited. In addition, our charter authorizes us to obligate our company, and our bylaws require us, to indemnify our directors and officers for actions taken by them in those and certain other capacities to the maximum extent permitted by Maryland law.

We are a holding company with no direct operations and will rely on funds received from the Operating Partnership to pay liabilities.

We are a holding company and conduct substantially all of our operations through the Operating Partnership. We do not have, apart from an interest in the Operating Partnership, any independent operations. As a result, we rely on distributions from the Operating Partnership to pay any dividends we might declare on shares of our common stock. We also rely on distributions from the Operating Partnership to meet any of our obligations, including any tax liability on taxable income allocated to us from the Operating Partnership. In addition, because we are a holding company, your claims as stockholders will be structurally subordinated to all existing and future liabilities and obligations (whether or not for borrowed money) of the Operating Partnership and its subsidiaries. Therefore, in the event of our bankruptcy, liquidation or reorganization, our assets and those of the Operating Partnership and its subsidiaries will be able to satisfy the claims of our stockholders only after all of our and the Operating Partnership's and its subsidiaries' liabilities and obligations have been paid in full.

We own directly or indirectly 100% of the interests in the Operating Partnership. However, in connection with our future acquisition of properties or otherwise, we may issue units of the Operating Partnership to third parties. Such issuances would reduce our ownership in the Operating Partnership. Because you will not directly own units of the Operating Partnership, you will not have any voting rights with respect to any such issuances or other partnership level activities of the Operating Partnership.

Conflicts of interest could arise in the future between the interests of our stockholders and the interests of holders of units in the Operating Partnership, which may impede business decisions that could benefit our stockholders.

Conflicts of interest could arise in the future as a result of the relationships between us and our affiliates, on the one hand, and the Operating Partnership or any future partner thereof, on the other. Our directors and officers have duties to our company under applicable Maryland law in connection with the management of our company. At the same time, one of our wholly-owned subsidiaries, Spirit General OP Holdings, LLC, as the general partner of the Operating Partnership, has fiduciary duties and obligations to the Operating Partnership and its future limited partners under Delaware law and the partnership agreement of the Operating Partnership in connection with the management of the Operating Partnership. The fiduciary duties and obligations of Spirit General OP Holdings, LLC, as general partner of the Operating Partnership, and its future partners may come into conflict with the duties of our directors and officers to our company.

Under the terms of the partnership agreement of the Operating Partnership, if there is a conflict between the interests of our stockholders on one hand and any future limited partners on the other, we will endeavor in good faith to resolve the conflict in a manner not adverse to either our stockholders or any future limited partners; provided, however, that for so long as we own a controlling interest in the Operating Partnership, any conflict that cannot be resolved in a manner not adverse to either our stockholders or any future limited partners shall be resolved in favor of our stockholders.

The partnership agreement also provides that the general partner will not be liable to the Operating Partnership, its partners or any other person bound by the partnership agreement for monetary damages for losses sustained, liabilities incurred or benefits not derived by the Operating Partnership or any future limited partner, except for liability for the general partner's intentional harm or gross negligence. Moreover, the partnership agreement provides that the Operating Partnership is required to indemnify the general partner and its members, managers, managing members, officers, employees, agents and designees from and against any and all claims that relate to the operations of the Operating Partnership, except (1) if the act or omission of the person was material to the matter giving rise to the action and either was committed in bad faith or was the result of active or deliberate dishonesty, (2) for any transaction for which the indemnified party received an improper personal benefit, in money, property or services or



otherwise in violation or breach of any provision of the partnership agreement or (3) in the case of a criminal proceeding, if the indemnified person had reasonable cause to believe that the act or omission was unlawful.

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### Risks Related to Taxes and Our Status as a REIT

Failure to qualify as a REIT would materially and adversely affect us and the value of our common stock.

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, and we intend to continue operating in such a manner. We have not requested and do not plan to request a ruling from the IRS that we qualify as a REIT, and the statements in this Annual Report on Form 10-K are not binding on the IRS or any court. Therefore, we cannot assure you that we have qualified as a REIT, or that we will remain qualified as such in the future. If we lose our REIT status, we will face significant tax consequences that would substantially reduce our cash available for distribution to you for each of the years involved because:

- we would not be allowed a deduction for distributions to stockholders in computing our taxable income and would be subject to federal income tax at regular corporate rates;
- we also could be subject to the federal alternative minimum tax and increased state and local taxes; and
- unless we are entitled to relief under applicable statutory provisions, we could not elect to be taxed as a REIT for four taxable years following the year during which we were disqualified.

Any such corporate tax liability could be substantial and would reduce our cash available for, among other things, our operations and distributions to stockholders. In addition, if we fail to qualify as a REIT, we will not be required to make distributions to our stockholders. As a result of all these factors, our failure to qualify as a REIT also could impair our ability to expand our business and raise capital, and could materially and adversely affect the trading price of our common stock.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT. In order to qualify as a REIT, we must satisfy a number of requirements, including requirements regarding the ownership of our stock, requirements regarding the composition of our assets and a requirement that at least 95% of our gross income in any year must be derived from qualifying sources, such as “rents from real property.” Also, we must make distributions to stockholders aggregating annually at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gains. In addition, legislation, new regulations, administrative interpretations or court decisions may materially and adversely affect our investors, our ability to qualify as a REIT for federal income tax purposes or the desirability of an investment in a REIT relative to other investments.

Even if we qualify as a REIT for federal income tax purposes, we may be subject to some federal, state and local income, property and excise taxes on our income or property and, in certain cases, a 100% penalty tax, in the event we sell property as a dealer. In addition, our taxable REIT subsidiaries will be subject to income tax as regular corporations in the jurisdictions in which they operate.

If the Operating Partnership fails to qualify as a disregarded entity or partnership for federal income tax purposes, we would cease to qualify as a REIT and suffer other adverse consequences.

The Operating Partnership is currently treated as a disregarded entity for federal income tax purposes. If a property contributor or other third party is admitted to the Operating Partnership as a limited partner and, as a result, we cease to be the 100% owner (directly or indirectly) of the interests in the Operating Partnership, the Operating Partnership would cease to be treated as a disregarded entity, and instead would be treated as a partnership, for federal income tax purposes. As a disregarded entity or partnership, the Operating Partnership would not be subject to federal income tax on its income. Instead, for federal income tax purposes, if the Operating Partnership is treated as a disregarded entity, we would be treated as directly earning its income, or if the Operating Partnership is treated as a partnership, each of its partners, including us, would be allocated, and may be required to pay tax with respect to, such partner’s share of its income. We cannot assure you that the IRS will not challenge the status of the Operating Partnership or any other subsidiary partnership in which we own an interest as a disregarded entity or partnership for federal income tax purposes, or that a court would not sustain such a challenge. If the IRS were successful in treating the Operating Partnership or any such other subsidiary partnership as an entity taxable as a corporation for federal income tax purposes, we would fail to meet the gross income tests and certain of the asset tests applicable to REITs and,

accordingly, we would likely cease to qualify as a REIT. Also, the failure of the Operating Partnership or any subsidiary partnerships to qualify as a disregarded entity or partnership could cause it to become subject to federal and state corporate income tax, which would reduce significantly the amount of cash available for debt service and for distribution to its partners, including us.

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Our ownership of taxable REIT subsidiaries is subject to certain restrictions, and we will be required to pay a 100% penalty tax on certain income or deductions if our transactions with our taxable REIT subsidiaries are not conducted on arm's length terms.

We currently own an interest in one taxable REIT subsidiary and may acquire securities in additional taxable REIT subsidiaries in the future. A taxable REIT subsidiary is a corporation, other than a REIT, in which a REIT directly or indirectly holds stock, and that has made a joint election with such REIT to be treated as a taxable REIT subsidiary. If a taxable REIT subsidiary owns more than 35% of the total voting power or value of the outstanding securities of another corporation, such other corporation will also be treated as a taxable REIT subsidiary. Other than some activities relating to lodging and health care facilities, a taxable REIT subsidiary may generally engage in any business, including the provision of customary or non-customary services to tenants of its parent REIT. A taxable REIT subsidiary is subject to federal income tax as a regular C corporation. In addition, a 100% excise tax will be imposed on certain transactions between a taxable REIT subsidiary and its parent REIT that are not conducted on an arm's length basis.

A REIT's ownership of securities of a taxable REIT subsidiary is not subject to the 5% or 10% asset tests applicable to REITs. Not more than 25% of the value of our total assets may be represented by securities (including securities of taxable REIT subsidiaries), other than those securities includable in the 75% asset test. We anticipate that the aggregate value of the stock and securities of any taxable REIT subsidiaries and other nonqualifying assets that we own will be less than 25% of the value of our total assets, and we will monitor the value of these investments to ensure compliance with applicable ownership limitations. In addition, we intend to structure our transactions with any taxable REIT subsidiaries that we own to ensure that they are entered into on arm's length terms to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with the 25% limitation or to avoid application of the 100% excise tax discussed above.

To maintain our REIT status, we may be forced to borrow funds during unfavorable market conditions, and the unavailability of such capital on favorable terms at the desired times, or at all, may cause us to curtail our investment activities and/or to dispose of assets at inopportune times, which could materially and adversely affect us.

To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our REIT taxable income each year, determined without regard to the dividends paid deduction and excluding any net capital gains, and we will be subject to regular corporate income taxes on our undistributed taxable income to the extent that we distribute less than 100% of our REIT taxable income, determined without regard to the dividends paid deduction and including any net capital gains, each year. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. In order to maintain our REIT status and avoid the payment of income and excise taxes, we may need to borrow funds to meet the REIT distribution requirements even if the then prevailing market conditions are not favorable for these borrowings. These borrowing needs could result from, among other things, differences in timing between the actual receipt of cash and recognition of income for federal income tax purposes, or the effect of non-deductible capital expenditures, the creation of reserves or required debt or amortization payments. These sources, however, may not be available on favorable terms or at all. Our access to third-party sources of capital depends on a number of factors, including the market's perception of our growth potential, our current debt levels, the market price of our common stock, and our current and potential future earnings. We cannot assure you that we will have access to such capital on favorable terms at the desired times, or at all, which may cause us to curtail our investment activities and/or to dispose of assets at inopportune times, and could materially and adversely affect us.

The IRS may treat sale-leaseback transactions as loans, which could jeopardize our REIT status or require us to make an unexpected distribution.

The IRS may take the position that specific sale-leaseback transactions that we treat as leases are not true leases for federal income tax purposes but are, instead, financing arrangements or loans. If a sale-leaseback transaction were so re-characterized, we might fail to satisfy the REIT asset tests, the income tests or distribution requirements and consequently lose our REIT status effective with the year of re-characterization unless we elect to make an additional distribution to maintain our REIT status. The primary risk relates to our loss of previously incurred depreciation

expenses, which could affect the calculation of our REIT taxable income and could cause us to fail the REIT distribution test that requires a REIT to distribute at least 90% of its REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gain. In this circumstance, we may elect to distribute an additional dividend of the increased taxable income so as not to fail the REIT distribution test. This distribution would be paid to all

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stockholders at the time of declaration rather than the stockholders existing in the taxable year affected by the re-characterization.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

Income from “qualified dividends” payable to U.S. stockholders that are individuals, trusts and estates are generally subject to tax at preferential rates. Dividends payable by REITs, however, generally are not eligible for the preferential tax rates applicable to qualified dividend income. Although these rules do not adversely affect the taxation of REITs or dividends payable by REITs, to the extent that the preferential rates continue to apply to regular corporate qualified dividends, investors who are individuals, trusts and estates may perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could materially and adversely affect the value of the shares of REITs, including the per share trading price of our common stock. Beginning with the 2013 taxable year, the maximum tax rate (including the Medicare tax surcharge of 3.8%) on certain corporate dividends received by individuals is 23.8%, up from 15% in 2012, but less than the maximum income tax rate of 39.6% applicable to ordinary income. This rate differential continues to substantially reduce the so-called “double taxation” (that is, taxation at both the corporate and shareowner levels) that applies to non-REIT “C” corporations but does not generally apply to REITs. Dividends from a REIT do not qualify for the favorable tax rate applicable to dividends from non-REIT “C” corporations unless the dividends are attributable to income that has already been subjected to the corporate income tax, such as income from a prior year that the REIT did not distribute and dividend income received by the REIT from a taxable REIT subsidiary or other fully taxable “C” corporation. Although REITs, unlike non-REIT “C” corporations, have the ability to designate certain dividends as capital gain dividends subject to the favorable rates applicable to capital gain, the application of reduced dividend rates to non-REIT “C” corporation dividends may still cause individual investors to view stock in non-REIT “C” corporations as more attractive than shares in REITs, which may negatively affect the value of our shares.

The tax imposed on REITs engaging in “prohibited transactions” may limit our ability to engage in transactions which would be treated as sales for federal income tax purposes.

A REIT’s net income from prohibited transactions is subject to a 100% penalty tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. Although we do not intend to hold any properties that would be characterized as held for sale to customers in the ordinary course of our business, unless a sale or disposition qualifies under certain statutory safe harbors, such characterization is a factual determination and no guarantee can be given that the IRS would agree with our characterization of our properties or that we will always be able to make use of the available safe harbors. Complying with REIT requirements may affect our profitability and may force us to liquidate or forgo otherwise attractive investments.

To qualify as a REIT, we must continually satisfy tests concerning, among other things, the nature and diversification of our assets, the sources of our income and the amounts we distribute to our stockholders. We may be required to liquidate or forgo otherwise attractive investments in order to satisfy the asset and income tests or to qualify under certain statutory relief provisions. We also may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution. As a result, having to comply with the distribution requirement could cause us to: (1) sell assets in adverse market conditions; (2) borrow on unfavorable terms; or (3) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt. Accordingly, satisfying the REIT requirements could materially and adversely affect us. Moreover, if we are compelled to liquidate our investments to meet any of these asset, income or distribution tests, or to repay obligations to our lenders, we may be unable to comply with one or more of the requirements applicable to REITs or may be subject to a 100% tax on any resulting gain if such sales constitute prohibited transactions.

Legislative or other actions affecting REITs could have a negative effect on us.

The rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Department of the Treasury. Changes to the tax laws, with or without retroactive application, could materially and adversely affect our investors or us. We cannot predict how changes in the tax laws might affect our investors or us. New legislation, Treasury Regulations, administrative interpretations or court

decisions could significantly and negatively affect our ability to qualify as a REIT or the federal income tax consequences of such qualification.

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Risks related to the market price of our common stock

The market price and trading volume of shares of our common stock may be adversely impacted by various factors.

The market price of shares of our common stock may fluctuate widely. In addition, the trading volume in shares of our common stock may fluctuate and cause significant price variations to occur. Some of the factors that could negatively affect our share price or result in fluctuations in the market price or trading volume of shares of our common stock include:

- actual or anticipated variations in our quarterly operating results or distributions or those of our competitors;
- publication of research reports about us, our competitors or the real estate industry;
- increases in prevailing interest rates that lead purchasers of shares of our common stock to demand a higher yield;
- adverse market reaction to any additional indebtedness we incur or equity securities we or the Operating Partnership issue in the future;
- additions or departures of key management personnel;
- changes in our credit ratings;
- the financial condition, performance and prospects of our tenants; and
- the realization of any of the other risk factors presented in this Annual Report on Form 10-K.

We may issue additional shares of capital stock and the Operating Partnership may issue equity interests without stockholder approval, which may dilute stockholder investment.

The Company may issue shares of our common stock, preferred stock, or other equity securities without stockholder approval, including the issuance of shares to satisfy REIT dividend distribution requirements. Similarly, the Operating Partnership may offer its equity interests for contributions of cash or property without approval by the Company's stockholders. In general, any equity interests of 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 equity interests in the Operating Partnership are issued. Existing security holders have no preemptive rights to acquire any of these securities, and any issuance of equity securities by us or the Operating Partnership may dilute stockholder investment.

### Item 1B. Unresolved Staff Comments

None.

### Item 2. Properties

#### Our Real Estate Investment Portfolio

As of December 31, 2013, our gross investment in real estate and loans totaled approximately \$7.24 billion, representing investments in 2,186 properties. Of this amount, 98.4% consisted of our gross investment in real estate, representing ownership of 2,041 properties, and the remaining 1.6% consisted of commercial mortgage and equipment loans receivable secured by 145 properties or related assets. Our owned properties are leased to 377 tenants operating across 19 different industries, including: general, specialty and discount retail; restaurants; drug stores; automotive dealers; convenience stores; and supermarkets. Our properties are geographically diversified across 48 states, with only 3 states contributing more than 5.0% of our annual rent. Over 76.6% of our leases (based on annual rent) as of December 31, 2013 are triple-net, for which the tenant is typically responsible for all improvements and is contractually obligated to pay all property operating expenses, such as real estate taxes, insurance premiums and repair and maintenance costs. Due to the triple-net structure of our leases, we do not expect to incur significant capital expenditures relating to our triple-net leased properties, and the potential impact of inflation on our operating expenses



is reduced.

Property Portfolio Information

Our diverse real estate portfolio at December 31, 2013 consisted of 2,041 owned properties:

Leased to 377 tenants;

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located in 48 states as well as in the U.S. Virgin Islands, with only 3 states contributing more than 5% of our annual rent;

operating in 19 different industries;

with an occupancy rate of 99.0%; and

with a weighted average remaining lease term of 10.1 years.

The following tables present the diversity of our portfolio and are calculated based on percentage of contractual annual rent.

Diversification By Tenant

The following table lists the top 10 tenants of our owned real estate properties as of December 31, 2013:

Tenant <sup>(2)</sup>	Number of Properties	Percent of Total Revenue <sup>(1)</sup>	
Shopko Stores/Pamida Operating Co., LLC	181	14.8	%
Walgreen Company	69	4.4	
84 Properties, LLC	109	3.5	
Church's Chicken	201	2.6	
Academy Sports + Outdoors	9	2.3	
Circle K	83	2.2	
CVS Caremark	37	1.8	
CarMax, Inc	9	1.5	
Carmike Cinemas, Inc.	12	1.5	
Rite Aid	30	1.4	
Other	1,301	64.0	
Total	2,041	100.0	%

<sup>(1)</sup> Total revenue for the quarter ended December 31, 2013.

<sup>(2)</sup> Tenants represent legal entities with whom we have lease agreements. Other tenants may operate certain of the same business concepts set forth above, but represent separate legal entities.

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## Diversification By Industry

The following table sets forth information regarding the diversification of our owned real estate properties among different industries as of December 31, 2013:

Industry	Number of Properties	Percent of Total Rent (1)	
Specialty retail	189	19.3	%
General and discount retail	235	18.2	
Restaurants - quick service	658	9.5	
Drug stores	134	7.8	
Restaurants - casual dining	206	7.2	
Automotive dealers, parts and service	130	5.4	
Movie theaters	25	4.2	
Convenience stores/car washes	144	4.1	
Building material suppliers	110	3.7	
Industrial	30	3.1	
Educational	33	2.9	
Medical/other office	27	2.8	
Home improvement	9	2.4	
Health clubs/gyms	18	2.2	
Distribution	44	2.2	
Supermarkets	29	1.8	
Recreational facilities	8	1.5	
Air delivery & freight services	9	1.2	
Interstate travel plazas	3	0.5	
Total	2,041	100	%

(1) Total rental revenue for the quarter ended December 31, 2013.

## Diversification By Geography

The following table sets forth information regarding the geographic diversification of our owned real estate properties as of December 31, 2013:

Location	Number of Properties	Percent of Total Rent (1)	
Texas	256	12.6	%
Illinois	117	6.8	
Wisconsin	62	6.0	
Georgia	145	4.9	
Florida	108	4.7	
Ohio	118	4.4	
Arizona	48	3.0	
Minnesota	45	2.9	
Tennessee	106	2.9	
North Carolina	63	2.8	
Indiana	62	2.7	

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Location	Number of Properties	Percent of Total Rent (1)	
Alabama	100	2.7	
Missouri	64	2.6	
Michigan	48	2.6	
Pennsylvania	59	2.5	
Nebraska	21	2.5	
California	15	2.4	
Virginia	46	2.2	
South Carolina	41	2.1	
Kansas	27	1.9	
Massachusetts	8	1.7	
Utah	15	1.6	
Colorado	26	1.6	
New York	44	1.6	
Idaho	15	1.5	
Nevada	4	1.4	
Oklahoma	47	1.4	
Iowa	37	1.3	
Kentucky	44	1.3	
Washington	13	1.0	
Louisiana	30	1.0	
New Hampshire	11	1.0	
New Mexico	23	*	
Oregon	8	*	
New Jersey	13	*	
South Dakota	11	*	
Mississippi	27	*	
Maryland	22	*	
Montana	7	*	
West Virginia	26	*	
Arkansas	16	*	
North Dakota	5	*	
Rhode Island	4	*	
Maine	19	*	
Wyoming	8	*	
Delaware	3	*	
Virgin Islands	1	*	
Vermont	2	*	
Connecticut	1	*	
Total properties owned	2,041	100	%

\* Less than 1%

(1) Total rental revenue for the quarter ended December 31, 2013.

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## Lease Expirations

The following table sets forth a summary schedule of lease expirations for leases in place as of December 31, 2013. As of December 31, 2013, the weighted average remaining non-cancelable initial term of our leases (based on annual rent) was 10.1 years. The information set forth in the table assumes that tenants exercise no renewal options and all early termination rights:

Leases Expiring In:	Number of Properties	Expiring Annual Rent (in thousands) (1)	Percent of Total Expiring Annual Rent	
2014	65	\$ 11,206	2.1	%
2015	36	11,020	2.1	
2016	55	21,987	4.2	
2017	81	18,439	3.5	
2018	76	23,435	4.4	
2019	70	19,667	3.7	
2020	84	29,638	5.6	
2021	185	41,481	7.9	
2021	93	21,937	4.2	
2023	90	36,510	6.9	
2024 and thereafter	1,185	291,422	55.3	
Vacant	21	—	—	
Total owned properties	2,041	\$ 526,742	100	%

(1) Total rental revenue for the quarter ended December 31, 2013 multiplied by four.

## Item 3. Legal Proceedings

In connection with the Merger, a putative class action and derivative lawsuit was filed in the Circuit Court for Baltimore City, Maryland against and purportedly on behalf of the Company captioned Kendrick, et al. v. Spirit Realty Capital, Inc., et al. The complaint names as defendants Spirit, the members of the board of directors of Spirit, the Operating Partnership, Cole II and the Cole Operating Partnership, and alleges that the directors of Spirit breached their fiduciary duties by engaging in an unfair process leading to the Merger Agreement, failing to disclose sufficient material information for pre-merger Spirit stockholders to make an informed decision regarding whether or not to approve the Merger, agreeing to a Merger Agreement at an opportunistic and unfair price, allowing draconian and preclusive deal protection devices in the Merger Agreement, and engaging in self-interested and otherwise conflicted actions. The complaint alleges that the Operating Partnership, Cole II and the Cole Operating Partnership aided and abetted those breaches of fiduciary duty. The complaint seeks a declaration that defendants have breached their fiduciary duties or aided and abetted such breaches and that the Merger Agreement is unenforceable, an order enjoining a vote on the transactions contemplated by the Merger Agreement, rescission of the transactions in the event they are consummated, imposition of a constructive trust, an award of fees and costs, including attorneys' and experts' fees and costs, and other relief.

On June 4, 2013, solely to avoid the costs, risks and uncertainties inherent in litigation, the named defendants in the merger litigation signed a memorandum of understanding ("MOU") regarding a proposed settlement of all claims asserted therein. The MOU provides, among other things, that the parties will seek to enter into a stipulation of settlement which provides for the release and dismissal of all asserted claims (the "Stipulation of Settlement"). The Stipulation of Settlement was filed with the court on January 22, 2014 for approval, however, the asserted claims will not be released and dismissed until such stipulation of settlement is approved by the court. There can be no assurance that the court will approve the Stipulation of Settlement. The Company does not expect that the terms of the settlement, if approved by the court, would have a material adverse effect on its financial position or results of

operations.

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We are subject to certain claims and lawsuits in the ordinary course of business, the outcome of which cannot be determined at this time. In the opinion of management, any liability we might incur upon the resolution of these claims and lawsuits will not, in the aggregate, have a material adverse effect on our consolidated financial position or results of operations.

Item 4. Mine Safety Disclosure

None.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information for Common Stock, Holders of Record and Dividend Policy

Our common stock is traded on the NYSE under the ticker symbol “SRC.” The following table shows the high and low sales prices per share for our common stock as reported by the NYSE, and distributions declared per share of common stock, for the periods indicated.

	Price Per Share of Common Stock <sup>(1)</sup>		Distributions Declared <sup>(1)</sup>
	High	Low	
2012			
September 25 (IPO) through September 30	\$8.16	\$7.75	\$0.0107
Fourth quarter	9.40	8.11	0.1641
Total			\$0.1748
2013			
First quarter	\$10.78	\$9.06	\$0.1641
Second quarter	12.11	8.94	0.1641
Third quarter	10.05	8.53	0.1641
Fourth quarter	10.50	9.12	0.1663
Total			\$0.6586

<sup>(1)</sup> Share price and distributions declared prior to July 17, 2013 have been adjusted for the Merger.

The closing share price for our common stock on February 24, 2014, as reported by the NYSE, was \$10.91. As of February 24, 2014 there were 370,941,136 stockholders of record of our common stock.

We intend to pay regular quarterly dividends to our stockholders, although all future distributions will be declared and paid at the discretion of the board of directors and will depend upon cash generated by operating activities, our financial condition, capital requirements, annual distribution requirements under the REIT provisions of the Code and such other factors as the board of directors deems relevant.

Recent Sales of Unregistered Securities; Use of Proceeds From Registered Securities

None.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchase	(b) Average Price Paid per Share	(c) ** Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) ** Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs

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9/26/13	206,762	\$9.39	—	—
Total	206,762	\$9.39	—	—

\*\* In September 2013, portions of awards of restricted Spirit Realty Capital common stock granted to certain of the company's officers and other employees vested. The vesting of these shares, granted in connection with the company's successful initial public offering one year ago and pursuant to the company's 2012 Incentive Award Plan (the "Plan"), resulted in federal and state income tax liabilities for the recipients. As permitted by the terms of the Plan and the award grants, certain Spirit Realty Capital officers elected to surrender to the company portions of the vesting shares solely to pay some or all of the associated taxes. Aggregate shares purchased by the Company totaled 206,762 valued at approximately \$1.94 million.

Equity Compensation Plan Information

Our equity compensation plan information required by this item is incorporated by reference to the information in Part III, Item 12 of this Annual Report on Form 10-K.



SPIRIT REALTY CAPITAL, INC.  
Notes to Consolidated Financial Statements  
December 31, 2013

Performance Graph

The information below shall not be deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A or 14C, other than as provided in Item 201 of Regulation S-K, or to the liabilities of Section 18 of the Exchange Act, except to the extent we specifically request that such information be treated as soliciting material or specifically incorporate it by reference into a filing under the Securities Act or the Exchange Act.

The following graph shows our cumulative total stockholder return for the period beginning with the initial listing of our common stock on the New York Stock Exchange on September 20, 2012 and ending on December 31, 2013, with stock prices retroactively adjusted for the 1.9048 merger exchange ratio. The graph assumes a \$100 investment in each of the indices on September 20, 2012 and the reinvestment of all dividends. The graph also shows the cumulative total returns of the S&P Index and an industry peer group. Our stock price performance shown in the following graph is not indicative of future stock price performance.

Item 6. Selected Financial Data

The following tables set forth, on a historical basis, selected financial and operating data for the Company. The following data should be read in conjunction with our financial statements and notes thereto and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” included below in this Annual Report on Form 10-K.

Our historical consolidated balance sheet data as of December 31, 2013 and 2012 and consolidated operating data for the years ended December 31, 2013, 2012, and 2011 have been derived from our audited historical consolidated financial statements included elsewhere in this Annual Report on Form 10-K, and audited by Ernst & Young LLP. Our historical consolidated balance sheet data as of December 31, 2011, 2010 and 2009 and our consolidated operating data for the years ended December 31, 2010 and 2009 have been derived from our historical consolidated financial statements not included in this Annual Report on Form 10-K.

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	(In thousands, except share and per share data)				
	Year Ended December 31,				
	2013	2012	2011	2010	2009
Operating Data:					
Revenues:					
Rentals	\$404,022	\$266,567	\$255,672	\$255,148	\$250,794
Interest income on loans receivable	5,928	5,696	6,772	9,572	10,098
Earned income from direct financing leases	1,572	—	—	—	—
Tenant reimbursement income	6,017	—	—	—	—
Interest income and other	1,928	852	786	14,473	6,464
Total revenues	419,467	273,115	263,230	279,193	267,356
Expenses:					
General and administrative	35,863	36,252	27,854	19,575	19,800
Litigation	—	—	—	22,282	—
Merger costs	56,644	—	—	—	—
Property costs	11,760	5,176	4,693	2,631	2,649
Real estate acquisition costs	1,718	1,054	553	—	—
Interest	179,267	156,220	169,343	172,500	207,976
Depreciation and amortization	164,054	104,984	103,179	103,409	103,972
Impairments (recoveries)	(185)	) 8,918	5,646	20,291	10,390
Total expenses	449,121	312,604	311,268	340,688	344,787
Loss from continuing operations before other expense and income tax expense	(29,654)	) (39,489)	) (48,038)	) (61,495)	) (77,431)
Total other (expense) income	(2,405)	) (32,522)	) —	(3,110)	) 6,810
Loss from continuing operations before income tax expense	(32,059)	) (72,011)	) (48,038)	) (64,605)	) (70,621)
Income tax expense	1,113	504	(60)	) 239	3,346
Loss from continuing operations	(33,172)	) (72,515)	) (47,978)	) (64,844)	) (73,967)
Income (loss) from discontinued operations <sup>(1)</sup>	34,849	(3,718)	) (15,885)	) (21,693)	) (48,716)
Net income (loss)	1,677	(76,233)	) (63,863)	) (86,537)	) (122,683)
Less: preferred dividends	—	(63)	) (16)	) (15)	) (16)
Net income (loss) attributable to common stockholders	\$1,677	\$ (76,296)	) \$ (63,879)	) \$ (86,552)	) \$ (122,699)
Net (loss) income per share of common stock—basic and diluted:					
Continuing operations	\$ (0.14)	) \$ (0.92)	) \$ (0.97)	) \$ (1.32)	) \$ (1.50)
Discontinued operations	0.14	(0.05)	) (0.33)	) (0.44)	) (0.99)
Net income (loss) per share attributable to common stockholders—basic and diluted	\$—	\$ (0.97)	) \$ (1.30)	) \$ (1.76)	) \$ (2.49)
Weighted average common shares outstanding:					
Basic and diluted common shares <sup>(2)</sup>	255,020,565	78,625,102	49,265,701	49,265,701	49,265,701

(1) Gains and losses from property dispositions during a period or expected losses from properties classified as held for sale at the end of the period, as well as all operations from those properties, are reclassified to and reported as part

of “discontinued operations.”

(2) Historical weighted average number of shares of common stock outstanding (basic and diluted) have been adjusted for the 1.9048 Merger Exchange Ratio. No potentially dilutive securities were included as their effect would be anti-dilutive.

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	(Dollars in thousands)					
	Year Ended December 31,					
	2013	2012	2011	2010	2009	
Balance Sheet Data (end of period):						
Gross investments including related lease intangibles	\$7,235,732	\$3,654,925	\$3,582,870	\$3,610,834	\$3,740,261	
Real estate, net	6,743,439	3,119,608	2,867,302	2,979,496	3,116,070	
Cash and cash equivalents	66,588	73,568	49,536	88,341	65,072	
Total assets	7,231,045	3,247,677	3,231,561	3,396,842	3,618,507	
Debt obligations	3,778,218	1,894,878	2,627,146	2,730,994	2,866,923	
Total liabilities	4,113,011	1,994,234	2,705,201	2,806,741	2,948,828	
Stockholders' equity	3,118,034	1,253,443	526,360	590,101	669,679	
Other Data:						
FFO <sup>(1)</sup>	\$139,487	\$52,830	\$69,766	\$70,548	\$58,096	
AFFO <sup>(1)</sup>	\$208,853	\$119,248	\$99,574	\$113,206	\$70,480	
Number of properties in investment portfolio	2,186	1,207	1,153	1,161	1,157	
Owned properties occupancy at period end (based on number of properties)	99	% 99	% 98	% 96	% 99	%

<sup>(1)</sup> We calculate FFO in accordance with the standards established by NAREIT. FFO represents net income (loss) attributable to common stockholders (computed in accordance with GAAP), excluding real estate-related depreciation and amortization, impairment charges and losses (gains) from property dispositions. FFO is a supplemental non-GAAP financial measure. We use FFO as a supplemental performance measure because we believe that FFO is beneficial to investors as a starting point in measuring our operational performance. Specifically, in excluding real estate-related depreciation and amortization, gains and losses from property dispositions and impairment charges, which do not relate to or are not indicative of operating performance, FFO provides a performance measure that, when compared year over year, captures trends in occupancy rates, rental rates and operating costs. We also believe that, as a widely recognized measure of the performance of equity REITs, FFO will be used by investors as a basis to compare our operating performance with that of other equity REITs. However, because FFO excludes depreciation and amortization and does not capture the changes in the value of our properties that result from use or market conditions, all of which have real economic effects and could materially impact our results from operations, the utility of FFO as a measure of our performance is limited. In addition, other equity REITs may not calculate FFO as we do, and, accordingly, our FFO may not be comparable to such other equity REITs' FFO. Accordingly, FFO should be considered only as a supplement to net income (loss) as a measure of our performance. FFO should not be used as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make distributions or service indebtedness. FFO also should not be used as a supplement to or substitute for cash flow from operating activities computed in accordance with GAAP. Adjusted FFO ("AFFO") is a non-GAAP financial measure of operating performance used by many companies in the REIT industry. It adjusts FFO to eliminate the impact of non-recurring items that are not reflective of ongoing operations and certain non-cash items that reduce or increase net income in accordance with GAAP. Our computation of AFFO may differ from the methodology for calculating AFFO used by other equity REITs, and, therefore, may not be comparable to such other REITs. The following table sets forth a reconciliation of our FFO and AFFO to net loss, the nearest GAAP equivalent for the periods presented.

(Dollars in thousands)

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	Year Ended December 31,				
	2013	2012	2011	2010	2009
Net income (loss) attributable to common stockholders (a)	\$1,677	\$(76,296)	\$(63,879)	\$(86,552)	\$(122,699)
Add/(less):					
Portfolio depreciation and amortization					
Continuing operations	163,874	104,929	103,086	103,237	103,803
Discontinued operations	3,545	7,116	8,691	10,239	14,773
Portfolio impairment					
Continuing operations	183	9,098	2,546	18,771	3,881

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Discontinued operations	7,134	4,634	16,586	24,462	23,656
Realized loss (gain) on sales of real estate (b)	(36,926	) 3,349	2,736	391	34,682
Total adjustments	137,810	129,126	133,645	157,100	180,795
Funds from operations (FFO) attributable to common stockholders	\$139,487	\$52,830	\$69,766	\$70,548	\$58,096
Add/(less):					
Loss (gain) on debt extinguishment					
Continuing operations	2,405	32,522	—	—	—
Discontinued operations	(1,028	) —	—	—	—
Loss on derivative instruments related to Term Note extinguishment	—	8,688	1,025	—	—
Expenses incurred to secure lenders' consents to the IPO	—	4,743	374	—	—
Expenses incurred to amend Term Note	—	—	7,226	—	—
Litigation	—	—	151	22,282	—
Cole II merger related costs (e)	66,700	—	—	—	—
ABS restructuring costs	717	—	—	—	—
Real estate acquisition costs	1,718	1,054	553	—	—
Non-cash interest expense	8,840	16,495	22,704	19,554	21,403
Non-cash revenues	(18,755	) (3,015	) (2,225	) (2,288	) (2,209
Non-cash compensation expense	8,769	5,931	—	—	—
Other expense (income)	—	—	—	3,110	(6,810
Total adjustments to FFO	69,366	66,418	29,808	42,658	12,384
Adjusted funds from operations (AFFO) attributable to common stockholders	\$208,853	\$119,248	\$99,574	\$113,206	\$70,480
FFO per share of common stock					
Diluted (c)	\$0.54	\$0.57	\$1.42	\$1.43	\$1.18
AFFO per share of common stock					
Diluted (c)	\$0.81	\$1.14	\$2.02	\$2.30	\$1.43
Weighted average shares of common stock outstanding:					
Basic	255,020,565	78,625,102	49,265,701	49,265,701	49,265,701
Diluted (d)	255,210,757	112,509,283	49,265,701	49,265,701	49,265,701

(a) Amount is net of distributions paid to preferred stockholders

(b) Includes amounts related to discontinued operations

(c) Earnings per share for 2013 deducts dividends paid to participating stockholders in its computation. Earnings per share for 2012 adds back interest savings under the "if converted method" for assumed conversion of the Term Note in the computation of diluted earnings per share.

(d) Assumes the issuance of potentially issuable shares unless the result would be anti-dilutive.

(e) Includes \$10.1 million of interest expense charges related to the Barclays Commitment Letter

#### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion relates to our consolidated financial statements and should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this Annual Report on Form 10-K. Statements contained in this Item 7 entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" that are not historical facts may be forward-looking statements. Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those projected. Some of the information presented is forward-looking in nature, including information concerning projected future occupancy rates, rental rate

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increases, property development timing and investment amounts. Although the information is based on our current expectations, actual results could vary from expectations stated in this report. Numerous factors will affect our actual results, some of which are beyond our control. These include the breadth and duration of the current economic situation and its impact on our tenants, the strength of commercial and industrial real estate markets, market conditions affecting tenants, competitive market conditions, interest rate levels, volatility in our stock price and capital market conditions. You are cautioned not to place undue reliance on this information, which speaks only as of the date of this report. We assume no obligation to update publicly any forward-looking information, whether as a result of new information, future events, or otherwise, except to the extent we are required to do so in connection with our ongoing requirements under federal securities laws to disclose material information. For a discussion of important risks related to our business, and related to investing in our securities, including risks that could cause actual results and events to differ materially from results and events referred to in the forward-looking information, see Item 1A “Risk Factors” “-Special Note Regarding Forward-Looking Statements” above and “-Liquidity and Capital Resources” below. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Annual Report on Form 10-K might not occur.

## Overview

Spirit Realty Capital, Inc. was merged with and into Cole II effective as of July 17, 2013, pursuant to the Merger Agreement. In connection with the Merger, our prior legal entity merged with and into the Cole II legal entity and (a) all seven of our prior Board of Directors members were appointed to the nine-member surviving entity Board of Directors, with two individuals designated by Cole II and reasonably satisfactory to us completing the Board, and (b) our executive team managed the surviving entity, which was renamed Spirit Realty Capital, Inc. The surviving entity's charter and by laws were amended and restated to be substantially identical to those of Spirit Realty Capital prior to the Merger. As a result, Cole II was the "legal acquirer" and pre-Merger Spirit Realty Capital was deemed the "accounting acquirer." The pre-Merger Spirit Realty Capital stockholders received 1.9048 shares of common stock of the post-Merger Spirit Realty Capital for each share held prior to the Merger, resulting in their ownership of approximately 44% of the post-Merger Spirit Realty Capital common stock. Cole II stockholders kept their outstanding shares of common stock of the surviving entity, resulting in their ownership of approximately 56% of the common stock of post-Merger Spirit Realty Capital. The prevailing influence over the post-Merger Spirit Realty Capital, through its majority representation on the Board of Directors of post-Merger Spirit Realty Capital and the continuation of its senior management, was a key factor in the pre-Merger Spirit Realty Capital obtaining control and being designated as the accounting acquirer.

The Company is a self-administered and self-managed real estate investment trust (“REIT”) that primarily invests in single-tenant, operationally essential real estate throughout the United States that is leased on a long-term, triple-net basis primarily to tenants engaged in retail, service, and distribution industries. Single-tenant, operationally essential real estate consists of properties that are generally free-standing, commercial real estate facilities where the Company’s tenants conduct retail, distribution, or service activities that are essential to the generation of their sales and profits. Under a triple-net lease, the tenant is typically responsible for all improvements and is contractually obligated to pay all property operating expenses, such as insurance, real estate taxes, and repair and maintenance costs. In support of its primary business of owning and leasing real estate, the Company has also strategically originated or acquired long-term, commercial mortgage and equipment loans to provide a range of financing solutions to its tenants. We generate our revenue primarily by leasing our properties to our tenants. As of December 31, 2013, our undepreciated gross investment in real estate and loans totaled approximately \$7.2 billion, representing investment in 2,186 properties, including properties securing our mortgage loans. Of this amount, 98.4% consisted of our gross investment in real estate, representing ownership of 2,041 properties, and the remaining 1.6% consisted of commercial mortgage and equipment loans receivable secured by 145 properties or related assets. As of December 31, 2013, our owned properties were approximately 99.0% occupied (based on number of properties), and our leases had a weighted average non-cancelable remaining lease term (based on annual contractual rent) of approximately 10.1 years. Our leases are generally originated with long lease terms, typically containing non-cancelable initial terms of 15 to 20



years and tenant renewal options for additional terms. As of December 31, 2013, approximately 86% of our single-tenant leases (based on annual rent) provided for increases in future annual base contractual rent.

Our operations are carried out through the Operating Partnership, which is a Delaware limited partnership. Spirit General OP Holdings, LLC, one of our wholly owned subsidiaries, is the sole general partner and owns 1.0% of the Operating Partnership. Spirit Realty Capital is the sole limited partner and owns the remaining 99.0% of the Operating Partnership. Although the Operating Partnership is wholly owned by us, in the future, we could agree to issue equity interests in the Operating Partnership to third parties in exchange for property owned by such third parties. In general, any equity interests of the Operating Partnership issued to third parties would be exchangeable for cash or, at our

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election, shares of our common stock at specified ratios set when equity 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, 2003. 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.

## 2013 Highlights

For the year ended December 31, 2013:

Completed the merger with Cole Credit Property Trust II, Inc. ("Cole II"), which diversified the Company's tenant base, enhanced its credit quality, improved its operating efficiency, reduced its leverage and provided additional financial strength and flexibility, in part by almost doubling the size of the Company.

Expanded liquidity with the establishment of a new \$400.0 million revolving credit facility and fixed the term and interest rate of variable, short term debt assumed in the merger through a \$203.0 million CMBS offering and issuance of \$330.0 million of investment grade-rated notes.

Generated revenues of \$419.5 million, a 53.6% increase over the year ended 2012.

Produced FFO of \$0.54 per share, AFFO of \$0.81 per share and net income of less than \$0.01 per share.

Sold 21 properties generating \$392.2 million in gross sales proceeds. Properties sold were closed at a weighted average cap rate of 7.1% with a weighted average remaining lease term of 6.8 years.

Exclusive of the Cole II Merger, acquired 194 new properties for a gross investment of \$408.6 million in 40 real estate transactions with a weighted average lease term of 16.8 years earning a weighted average initial yield of 7.92%.

## Factors that May Influence Our Operating Results

### Rental Revenue

Our revenues are generated predominantly from receipt of rental revenue. Our ability to grow rental revenue will depend on our ability to acquire additional properties, increase rental rates and/or occupancy. Approximately 86% of our single-tenant properties contain rent escalators, or provisions that periodically increase the base rent payable by the tenant under the lease. Generally, our rent escalators increase rent at specified dates by: (1) a fixed amount; or (2) the lesser of (a) 1 to 1.25 times any increase in the CPI over a specified period, or (b) a fixed percentage, typically 1% to 2% per year.

As of December 31, 2013, 99.0% of our owned properties (based on number of properties) were occupied.

In February 2012, Shopko and Pamida, two of our general merchandising tenants, completed a merger. For the year ended December 31, 2013, Shopko/Pamida contributed 19.7% of our total revenue. During the three months ended December 31, 2013, revenue from Shopko/Pamida represented only 14.8% of our owned real estate properties. We believe this Shopko/Pamida percentage is a better indicator of our current exposure and tenant diversification as a result of the Merger. Because a significant portion of our revenues are derived from rental revenues received from Shopko/Pamida, defaults, breaches or delay in payment of rent by this tenant may materially and adversely affect us. Walgreen Company ("Walgreens"), our next largest tenant, contributed 4.4% of our total revenue for the three months ended December 31, 2013.

Without giving effect to the exercise of tenant renewal options, the weighted average remaining term of our leases as of December 31, 2013 was 10.1 years (based on annual contractual rent). Approximately 16.3% of our leases (based on annual contractual rent) as of December 31, 2013 will expire prior to January 1, 2019. The stability of our rental revenue generated by our properties depends principally on our tenants' ability to pay rent and our ability to collect rents, renew expiring leases or re-lease space upon the expiration or other termination of leases, lease currently vacant properties and maintain or increase rental rates at our leased properties. Adverse economic conditions, particularly

those that affect the markets in which our properties are located, or downturns in our tenants' industries could impair our tenants' ability to meet their lease obligations to us and our ability to renew expiring leases or re-lease space. In

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particular, the bankruptcy of one or more of our tenants could adversely affect our ability to collect rents from such tenant and maintain our portfolio's occupancy.

Our ability to grow revenue will depend, to a significant degree, on our ability to acquire additional properties. We primarily focus on opportunities to provide 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. We believe our experience, in-depth market knowledge and extensive network of long-standing relationships in the real estate industry will provide us access to an ongoing pipeline of attractive investment opportunities.

### Our Triple-Net Leases

We generally lease our properties to tenants pursuant to long-term, triple-net leases that require the tenant to pay all property operating expenses, such as real estate taxes, insurance premiums and repair and maintenance costs. Of the leases acquired in our Merger, the percentage of leases which are triple-net, is marginally less than the percentage of triple-net leases in our legacy portfolio. As of December 31, 2013, approximately 76.6% of our properties (based on annual rent) are subject to triple-net leases. Occasionally, we have entered into a lease pursuant to which we retain responsibility for the costs of structural repairs and maintenance. Although these instances are infrequent and have not historically resulted in significant costs to us, an increase in costs related to these responsibilities could negatively influence our operating results. Similarly, an increase in the vacancy rate of our portfolio would increase our costs, as we would be responsible for costs that our tenants are currently required to pay. Additionally, contingent rents based on a percentage of the tenant's gross sales have been historically negligible, contributing less than 1% of our rental revenue. Approximately 42.8% of our annual rent is attributable to master leases, where multiple properties are leased to a single tenant on an "all or none" basis and which contain cross-default provisions. Where appropriate, we seek to use master leases to prevent a tenant from unilaterally giving up underperforming properties while maintaining well performing properties.

### Interest Expense

As of December 31, 2013, we had an approximately \$3.8 billion principal balance outstanding of predominately secured, fixed-rate mortgage notes payable and borrowings under our revolving credit facilities. During the year ended December 31, 2013, the weighted average interest rate on our fixed and variable-rate debt, excluding the amortization of deferred financing costs and debt discounts, was approximately 5.82%. Our fixed-rate debt structure will provide us with a stable and predictable cash requirement related to our debt service. The variable rate debt consists of seven mortgage notes. We entered into interest rate swaps that effectively fixed the interest rates at approximately 4.55% on a significant portion of this variable rate debt. We amortize on a non-cash basis the deferred financing costs and debt discounts/premiums associated with our fixed-rate debt to interest expense using the effective interest rate method over the terms of the related notes. For the year ended December 31, 2013, non-cash interest expense recognized on our revolving credit facilities, mortgages and notes payable totaled approximately \$17.8 million. Any changes to our debt structure, including borrowings under the \$400.0 million Credit Facility or debt financing associated with property acquisitions, could materially influence our operating results depending on the terms of any such indebtedness. Most 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.

### General and Administrative Expenses

General and administrative expenses include employee compensation costs, professional fees, consulting, portfolio servicing costs and other general and administrative expenses. In connection with our Merger, we have incurred and expect to incur additional transaction, integration and transitional costs. Although we anticipate some of these costs to be short-term, an increase in general and administrative expenses is expected due to the increased portfolio management demands as result of more than doubling our net investments since December 2012.

### Transaction Costs

As we acquire properties, we may incur transaction costs that we may be required to expense. In connection with the Merger, the Company incurred merger related costs of approximately \$56.6 million for the year ended December 31, 2013, which include legal, accounting and financial advisory services, debt financing related costs, and other

third-party expenses. Merger costs represent costs incurred specifically to consummate the Merger transaction. Costs incurred to integrate the net assets acquired in the Merger are reflected in general and administrative expenses.

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### Impact of Inflation

Our leases typically contain provisions designed to mitigate the adverse impact of inflation on our results of operations. Since tenants are typically required to pay all property operating expenses, increases in property-level expenses at our leased properties generally do not adversely affect us. However, increased operating expenses at vacant properties and the limited number of properties that are not subject to full triple-net leases could cause us to incur additional operating expense. Additionally, our leases generally provide for rent escalators (see “Rental Revenue” above) designed to mitigate the effects of inflation over a lease’s term. However, since some of our leases do not contain rent escalators and many that do limit the amount by which rent may increase, any increase in our rental revenue may not keep up with the rate of inflation.

### Critical Accounting Policies and Estimates

Our accounting policies are determined in accordance with GAAP. The preparation of our financial statements requires us to make estimates and assumptions that are subjective in nature and, as a result, our actual results could differ materially from our estimates. Estimates and assumptions include, among other things, subjective judgments regarding the fair values and useful lives of our properties for depreciation and lease classification purposes, the collectability of receivables and asset impairment analysis. Set forth below are the more critical accounting policies that require management judgment and estimates in the preparation of our consolidated financial statements.

### Real Estate Investments

#### Revenue Recognition

We lease real estate to our tenants under long-term, triple-net leases that are primarily classified as operating leases. Under a triple-net lease, the tenant is typically responsible for all improvements and is contractually obligated to pay all property operating expenses, such as real estate taxes, insurance premiums and repair and maintenance costs. Under certain leases, tenant reimbursement revenue, which is comprised of additional amounts recoverable from tenants for common area maintenance expenses and certain other recoverable expenses, is recognized as revenue in the period in which the related expenses are incurred. Tenant reimbursements are recorded on a gross basis, as the Company is generally the primary obligor with respect to purchasing goods and services from third-party suppliers. Tenant receivables are carried net of the allowances for uncollectible amounts. Lease origination fees are deferred and amortized over the related lease term as an adjustment to rental revenue. Our leases generally provide for rent escalations throughout the lease terms. For leases that provide for specific contractual escalations, rental revenue is recognized on a straight-line basis so as to produce a constant periodic rent over the term of the lease. Accordingly, accrued rental revenue, calculated as the aggregate difference between the rental revenue recognized on a straight-line basis and scheduled rents, represents unbilled rent receivables that we will receive only if the tenants make all rent payments required through the expiration of the initial term of the leases. The accrued rental revenue representing this straight-line adjustment is subject to an evaluation for collectability, and we record a provision for losses against rental revenues if collectability of these future rents is not reasonably assured. Leases that have contingent rent escalators indexed to future increases in the CPI may adjust over a one-year period or over multiple-year periods. Generally, these escalators increase rent at the lesser of (1) 1 to 1.25 times any increase in the CPI over a specified period or (2) a fixed percentage. Because of the volatility and uncertainty with respect to future changes in the CPI, our inability to determine the extent to which any specific future change in the CPI is probable at each rent adjustment date during the entire term of these leases and our view that the multiplier does not represent a significant leverage factor, rental revenue from leases with this type of escalator are recognized only after the changes in the rental rates have occurred.

Some of our leases also provide for contingent rent based on a percentage of the tenant’s gross sales. For contingent rentals that are based on a percentage of the tenant’s gross sales, we recognize contingent rental revenue when the change in the factor on which the contingent lease payment is based actually occurs.

We suspend revenue recognition if the collectability of amounts due pursuant to a lease is not reasonably assured or if the tenant’s monthly lease payments become more than 60 days past due, whichever is earlier.

Lease termination fees are included in “interest income and other” on our consolidated statements of operations and recognized when there is a signed termination agreement and all of the conditions of the agreement have been met and the tenant no longer occupies the property.

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### Purchase Accounting and Acquisition of Real Estate; Property Held for Sale

When acquiring a property for investment purposes, we allocate the purchase price (including acquisition and closing costs) to land, building, improvements and equipment based on their relative fair values. For properties acquired with in-place leases, we allocate the purchase price of real estate to the tangible and intangible assets and liabilities acquired based on their estimated fair values. In making estimates of fair values for this purpose, we use a number of sources, including independent appraisals and information obtained about each property as a result our pre-acquisition due diligence and its marketing and leasing activities. Property classified as held for sale is recorded at the lower of its carrying value or its fair value less anticipated selling costs.

### Lease Intangibles

Lease intangibles, if any, acquired in conjunction with the purchase of real estate represent the value of in-place leases and above- or below-market leases. For real estate acquired subject to existing lease agreements, in-place lease intangibles are valued based on our estimates of costs related to tenant acquisition and the carrying costs that would be incurred during the time it would take to locate a tenant if the property were vacant, considering current market conditions and costs to execute similar leases at the time of the acquisition, and are amortized on a straight-line basis over the remaining initial term of the related lease. Above- and below-market lease intangibles are recorded based on the present value of the difference between the contractual amounts to be paid pursuant to the leases at the time of acquisition of the real estate and our estimate of current market lease rates for the property, measured over a period equal to the remaining initial term of the lease. Capitalized above-market lease intangibles are amortized over the remaining initial terms of the respective leases as a decrease to rental revenue. Below-market lease intangibles are amortized as an increase in rental revenue over the remaining initial terms of the respective leases plus any fixed-rate renewal periods on those leases. Should a lease terminate early, the unamortized portion of any related lease intangible is immediately recognized in our statements of operations.

### Depreciation

Our real estate portfolio is depreciated using the straight-line method over the estimated remaining useful life of the properties, which generally range from 20 to 50 years for buildings and improvements and is 15 years for land improvements. Portfolio assets classified as held for sale are not depreciated.

### Impairment

We review our real estate investments and related lease intangibles periodically for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. We consider factors such as expected future undiscounted cash flows, estimated residual value, market trends (such as the effects of leasing demand and competition) and other factors in making this assessment. An asset is considered impaired if its carrying value exceeds its estimated undiscounted cash flows and the impairment is calculated as the amount by which the carrying value of the asset exceeds its estimated fair value. Estimating future cash flows and fair values are highly subjective and such estimates could differ materially from actual results. Key assumptions used in estimating future cash flows and fair values include, but are not limited to, revenue growth rates, interest rates, discount rates, capitalization rates, lease renewal probabilities, tenant vacancy rates and other factors.

### Discontinued Operations

We actively manage our portfolio, and, accordingly, from time to time, we may strategically sell real estate as a part of our long-term strategy of managing risk. Generally, each time properties are sold, gains and losses from such dispositions and all operations from the properties previously reported as part of “loss from continuing operations” are reclassified to “discontinued operations,” as we do not expect any continuing involvement with these properties.

### Provision for Doubtful Accounts

We review our rent receivables for collectability on a regular basis, taking into consideration changes in factors such as the tenant’s payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates and economic conditions in the area in which the property is located. In the event that the collectability of a receivable with respect to any tenant is in doubt, a provision for uncollectible amounts will be established or a write-off of the specific receivable will be made. Uncollected accounts receivable are written off against the allowance when all possible means of collection have been exhausted. For accrued rental revenues related to the straight-line method of reporting rental revenue, we establish a provision for losses based on our estimate of uncollectible



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and our assessment of the risks inherent in our portfolio, giving consideration to historical experience and industry default rates for long-term receivables.

### Loans Receivable

In support of our primary business of owning and leasing real estate, we have also strategically originated or acquired long-term, commercial mortgage and equipment loans receivable. Mortgage loans are secured by single-tenant, operationally essential real estate. Equipment loans are secured by equipment used by tenants of properties owned or financed by us. The loans are carried at cost, including related unamortized premiums.

### Revenue Recognition

Interest income on mortgage and equipment loans is recognized using the effective interest method applied on a loan-by-loan basis. Direct costs associated with originating loans are offset against any related fees received and the balance, along with any premium or discount, is deferred and amortized as an adjustment to interest income over the terms of the related loans using the effective interest method. A loan is placed on non-accrual status when the loan has become 60 days past due or earlier if we believe full recovery of the contractually specified payments of principal and interest is doubtful. While on non-accrual status, interest income is recognized only when received.

### Impairment and Provision for Loan Losses

We periodically evaluate the collectability of our loans receivable, including accrued interest, by analyzing the underlying property-level economics and trends, collateral value and quality, and other relevant factors in determining the adequacy of our allowance for loan losses. A loan is determined to be impaired when we determine, based on current information, that it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Specific allowances for loan losses are provided for impaired loans on an individual loan basis in the amount by which the carrying value exceeds the estimated fair value of the underlying collateral less disposition costs. Delinquent loans receivable are written off against the allowance when all possible means of collection have been exhausted.

### Accounting for Derivative Financial Instruments and Hedging Activities

We use derivative instruments such as interest rate swaps and caps for purposes of reducing exposures to fluctuations in interest rates associated with certain of our financing transactions. We may incur additional variable-rate debt in the future, including amounts that we may borrow under the Credit Facility, and we may choose to seek to hedge the interest rate risk ascribed with any such debt. At the inception of a hedge transaction, we enter into a contractual arrangement with the hedge counterparty and formally document the relationship between the derivative instrument and the financing transaction being hedged, as well as our risk management objective and strategy for undertaking the hedge transaction. At inception and at least quarterly thereafter, a formal assessment is performed to determine whether the derivative instrument has been highly effective in offsetting changes in cash flows of the related financing transaction and whether it is expected to be highly effective in the future.

The fair value of the derivative instrument is recorded on the balance sheet as either an asset or liability. For derivatives designated as cash flow hedges, the effective portions of the corresponding change in fair value of the derivatives are recorded in accumulated other comprehensive loss within stockholders' equity. Changes in fair value reported in other comprehensive loss are reclassified to operations in the period in which operations are affected by the underlying hedged transaction. Any ineffective portions of the change in fair value are recognized immediately in general and administrative expense. The amounts paid or received on the hedge are recognized as adjustments to interest expense.

### Income Taxes

#### Our REIT Status

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. To maintain our qualification as a REIT, we are required to annually distribute to our stockholders at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gain, and meet the various other requirements imposed by the Code relating to such matters as operating results, asset holdings, distribution levels and diversity of stock ownership. Provided that we qualify for

taxation as a REIT, we are generally not subject to corporate level federal income tax on the earnings distributed

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currently to our stockholders that we derive from our REIT qualifying activities. We are still subject to state and local income and franchise taxes and to federal income and excise tax on our undistributed income. If we fail to qualify as a REIT in any taxable year and are unable to avail ourselves of certain savings provisions set forth in the Code, all of our taxable income would be subject to federal income tax at regular corporate rates, including any applicable alternative minimum tax. Unless entitled to relief under specific statutory provisions, we would be ineligible to elect to be treated as a REIT for the four taxable years following the year for which we lose our qualification. It is not possible to state whether in all circumstances we would be entitled to this statutory relief.

**Our Taxable REIT Subsidiary**

On January 15, 2009, we formed Spirit Management Company II (“TRS”), a Maryland corporation that prior to the IPO, was wholly-owned directly by us and, since the IPO, has been wholly-owned by the Operating Partnership. We have elected, together with our TRS, to treat our TRS as a taxable REIT subsidiary for federal income tax purposes. A taxable REIT subsidiary generally may provide both customary and non-customary services to tenants of its parent REIT and engage in other activities that the parent REIT may not engage in directly without adversely affecting its qualification as a REIT. Currently, our TRS does not provide any services to our tenants or conduct other material activities. However, our TRS or another taxable REIT subsidiary of ours may in the future provide services to certain of our tenants. We may form additional taxable REIT subsidiaries in the future, and we may contribute some or all of our interests in certain wholly-owned subsidiaries or their assets to a taxable REIT subsidiary of ours. Any income earned by our taxable REIT subsidiaries will not be included in our taxable income for purposes of the 75% or 95% gross income tests, except to the extent such income is distributed to us as a dividend, in which case such dividend income will qualify under the 95%, but not the 75%, gross income test. Because a taxable REIT subsidiary is subject to federal income tax, and state and local income tax (where applicable), as a regular C corporation, the income earned by our taxable REIT subsidiaries generally will be subject to an additional level of tax as compared to the income earned by our other subsidiaries. Historically, we have not actively pursued or engaged in material activities that would require the use of our TRS.

**Share-Based Compensation**

In September 2012, we adopted, and our stockholders approved, the Incentive Award Plan, which provides for the issuance of stock-based equity instruments, including potential grants of stock options, stock appreciation rights, restricted stock, dividend equivalent rights and other stock-based awards or any combination of the foregoing. Pursuant to the Merger Agreement, the Plan was assumed by the surviving legal entity at the effective time of the Merger. Awards granted under the Incentive Award Plan may require service-based vesting over a period of years subsequent to the grant date and resulting equity-based compensation expense, measured at the fair value of the award on the date of grant, will be recognized as an expense in our consolidated financial statements over the vesting period. We will account for awards granted under applicable stock-based compensation guidance contained in FASB Accounting Standards Codification (ASC) 718.

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## Results of Operations

## Comparison of the Year Ended December 31, 2013 to 2012

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

	Year Ended December 31,		Change	%	
	2013	2012			
	(in thousands)				
Revenues:					
Rentals	\$404,022	\$266,567	\$137,455	51.6	%
Interest income on loans receivable	5,928	5,696	232	4.1	%
Earned income from direct financing leases	1,572	—	1,572	NM	
Tenant reimbursement income	6,017	—	6,017	NM	
Interest income and other	1,928	852	1,076	126.3	%
Total revenues	419,467	273,115	146,352	53.6	%
Expenses:					
General and administrative	35,863	36,252	(389)	(1.1)	)%
Merger costs	56,644	—	56,644	NM	
Property costs	11,760	5,176	6,584	127.2	%
Real estate acquisition costs	1,718	1,054	664	63.0	%
Interest	179,267	156,220	23,047	14.8	%
Depreciation and amortization	164,054	104,984	59,070	56.3	%
Impairment (recoveries)	(185)	) 8,918	(9,103)	(102.1)	)%
Total expenses	449,121	312,604	136,517	43.7	%
Loss from continuing operations before other expense and income tax expense	(29,654)	) (39,489)	) 9,835	(24.9)	)%
Other expense:					
Loss on debt extinguishment	(2,405)	) (32,522)	) 30,117	(92.6)	)%
Loss from continuing operations before income tax expense	(32,059)	) (72,011)	) 39,952	(55.5)	)%
Income tax expense	1,113	504	609	120.8	%
Loss from continuing operations	\$(33,172)	) \$(72,515)	) \$39,343	(54.3)	)%

## Revenues

For the year ended December 31, 2013, approximately 96.3% of our lease and loan revenues were attributable to long-term leases. Total revenue increased by \$146.4 million to \$419.5 million for the year ended December 31, 2013 as compared to \$273.1 million for same period in 2012. As more fully described below, the increase in revenue was due primarily to \$116.4 million of additional revenue provided by the properties acquired in the Merger and \$10.9 million of previously unrecognized straight-line rent in the third quarter. The remaining increase is attributable to an increase in base rental revenue resulting from \$422.5 million of non-Merger real estate investments including capital expenditures subsequent to December 31, 2012 and contractual rent escalations on our owned real estate properties.

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## Rentals

Rental revenue increased by \$137.5 million to \$404.0 million for the year ended December 31, 2013 as compared to \$266.6 million for the same period in 2012. The increase was primarily attributable to \$109.5 million of rental income generated from properties acquired in the the Merger. Since the Merger was closed on July 17, 2013, the contribution of the properties acquired in the Merger does not reflect a full year of revenue. Other factors that increased our rental revenue during 2013 include the acquisition of 194 non-Merger related properties, including property improvements and loan originations, with a gross investment value of \$422.5 million and contractual rent escalations and a decreased vacancy rate in our existing portfolio, compared to the same period ended December 31, 2012. Rental revenue attributable to non-cash straight-line rent and amortization of above and below-market lease intangibles for the year ended December 31, 2013 and 2012 was \$20.6 million and \$3.6 million, respectively, representing approximately 5.1% and 1.3% of total rental revenue from continuing operations for the years ended December 31, 2013 and 2012, respectively. During the third quarter of 2013, the Company recognized \$10.9 million of previously unrecognized straight-line rent due primarily to our determination that the risk of loss associated with a specific tenant had decreased due to the tenant's sustained improvement in financial performance. Based on the post-Merger fourth quarter rental results and applying the straight-line rent provision in place as of December 31, 2013, normalized non-cash rent, including amortization of above and below-market lease intangibles, would be approximately 3.0% of total rent.

As of December 31, 2013, 99.0% of our owned properties were occupied (based on number of properties). The majority of our nonperforming leases were in the restaurant and specialty retail industries. We regularly review and analyze the operational and financial condition of our tenants and the industries in which they operate in order to identify underperforming properties that we may seek to selectively dispose of in an effort to mitigate risks in the portfolio. At December 31, 2013 and 2012, 21 and 14 of our properties, representing approximately 1.0% and 1.2%, respectively, of our owned properties, were vacant and not generating rent.

## Interest income on loans receivable and other income

Interest income on loans receivable increased by \$0.2 million to \$5.9 million for the year ended December 31, 2013 as compared to \$5.7 million for the same period in 2012. The increase was attributable to \$2.9 million of additional income from loans receivable acquired in the Merger, which was partially offset by increased premium amortization of \$1.1 million on loans receivable acquired in the Merger along with a decrease of \$1.1 million related to the prepayment of three notes totaling \$10.4 million and scheduled maturities and amortization totaling \$4.9 million subsequent to December 31, 2012.

In connection with the Merger, the Company acquired 13 properties accounted for as direct financing leases, which generated earned income of \$1.6 million from the effective date of the Merger through December 31, 2013. Prior to the Merger, the Company did not own any properties that were accounted for as direct financing leases.

As part of the Merger, we acquired a number of non-triple-net leases that require tenants to reimburse the Company for certain property costs the Company incurs. The revenues recorded for the year ended December 31, 2013 of \$6.0 million are offset by expenses recorded under property costs in the accompanying consolidated statements of operations.

Interest income and other contributed \$1.9 million and \$0.9 million for the year ended December 31, 2013 and 2012, respectively. Of the \$1.0 million increase in 2013, \$0.5 million was attributable to income recognized on two equipment sales during 2013, and \$0.5 million related to increased lease termination fees earned during 2013 as compared to 2012.

## Expenses

## General and administrative

General and administrative expenses remained consistent at \$35.9 million for both the years ended December 31, 2013 and 2012. During 2013, the Company incurred higher compensation and related benefits of \$4.6 million due primarily to \$2.4 million of higher non-cash stock based compensation. The balance of the increase in compensation expense was attributable to hiring additional personnel in response to nearly doubling our gross investment in real estate as a result of the Merger. Professional fees, insurance and outside consulting services increased \$2.6 million

during 2013 primarily due to higher costs incurred as a publicly traded company and consulting fees incurred in connection with the integration of the net assets acquired in the Merger. The increases in fiscal year 2013 were offset by \$7.4 million in charges primarily associated with completing the IPO and extinguishing the Term Note indebtedness during the year ended December 31, 2012.

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Merger Related Costs

In connection with the Merger, the Company incurred merger related costs costs of approximately \$56.6 million for the year ended December 31, 2013, which include legal, accounting and financial advisory services, debt financing related costs, and other third-party expenses. Merger related costs represent costs incurred specifically to consummate the Merger transaction. Costs incurred to integrate the net assets acquired in the Merger are reflected in general and administrative expenses. There were no Merger costs incurred during the same period in 2012.

Property costs

Our leases are generally triple-net and provide that the tenant is responsible for the payment of all property operating expenses, such as real estate taxes, insurance premiums and repair and maintenance costs. Therefore, historically, we were generally not responsible for operating costs related to the properties, unless a property is not subject to a triple-net lease or is vacant. The Merger with Cole II resulted in the acquisition of several single and double-net leases that require the Company to initially incur certain expenses which are billed and subsequently received from the tenants, subject to certain caps and other limitations as provided in the leases. Property costs increased \$6.6 million to \$11.8 million for the year ended December 31, 2013, as compared to \$5.2 million for the same period in 2012. Total property costs in 2013 include approximately \$7.2 million of reimbursable costs associated with acquired non-triple-net leases and \$1.9 million in non-reimbursable costs related to operating properties. These increases were offset by a decrease of \$2.6 million related to non-reimbursable costs related to non-operating properties.

Interest

Interest expense increased by \$23.0 million to \$179.3 million for the year ended December 31, 2013, as compared to \$156.2 million for the same period in 2012. The increase in interest expense was primarily due to the the increase in total indebtedness of approximately \$1.9 billion at December 31, 2013 compared to the same period in 2012. The vast majority of our increased indebtedness was the assumption of debt in connection with the Merger. Non-recurring interest charges of \$10.1 million were incurred during 2013 in connection with the Merger related Barclays Commitment Letter. During the year ended December 31, 2013, the Company incurred \$38.7 million and \$2.9 million in higher interest charges on its fixed and variable rate mortgages and notes payable and lines of credit, respectively. These increases were offset primarily by \$19.9 million in higher interest charges associated with the Term Note, which was extinguished in 2012.



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

	Year Ended December 31,			
	2013	2012		
	(in thousands)			
Interest expense – Term Note payable	\$—	\$ 19,925		
Interest expense – revolving credit facilities	3,037	108		
Interest expense – mortgages and notes payable	157,903	119,196		
Interest expense – other	486	10		
Amortization of deferred financing costs	13,188	2,819		
Amortization of net losses related to interest rate swaps	—	3,415		
Amortization of debt (premium)/discount	4,653	10,747		
Total interest expense	\$ 179,267	\$ 156,220		
Weighted average mortgages and notes outstanding excluding Term Note and debt discount <sup>(1)</sup>	\$ 2,684,811	\$ 1,956,478		
Weighted average Term Note	—	533,803		
Weighted average revolving credit facilities	80,718	—		
Weighted average debt outstanding	\$ 2,765,529	\$ 2,490,281		
Adjusted mortgages and notes interest <sup>(2)</sup> / weighted average mortgages and notes payable	5.88	% 6.09	%	
Term Note interest <sup>(3)</sup> / weighted average Term Note payable	—	% 3.73	%	
Revolving credit facilities interest / weighted average revolving credit facilities balance	3.76	% —	%	

(1) Excludes debt associated with discontinued operations.

(2) Excludes interest expense associated with Term Note indebtedness, amortization of deferred financing costs and debt discounts.

(3) Excludes interest expense associated with amortization of deferred financing costs and net losses related to a hedging contract.

#### Depreciation and amortization

Depreciation and amortization expense relates primarily to depreciation on the commercial buildings and improvements we own and to amortization of the related lease intangibles. Depreciation and amortization expense increased by \$59.1 million to \$164.1 million for the year ended December 31, 2013, as compared to \$105.0 million for the same period in 2012. Of the total increase, a significant portion relates to depreciation and amortization on assets acquired in the Merger, with the remainder related to non-merger acquisitions. The following table summarizes our depreciation and amortization expense from continuing operations:

	Year Ended December 31,	
	2013	2012
	(in thousands)	
Depreciation of real estate assets	\$ 130,285	\$ 86,905
Other depreciation	180	54
Amortization of lease intangibles	33,589	18,025
Total depreciation and amortization	\$ 164,054	\$ 104,984

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## Impairments

Impairment (recoveries) charges on properties and other assets that are classified as part of continuing operations were \$(0.2) million and \$8.9 million for the year ended December 31, 2013 and 2012, respectively. Due to an improved economy and real estate market in 2013, impairments were much less than for the same period in 2012. We strategically seek to identify non-performing properties that we may re-lease or dispose of in an effort to improve our returns. The disposition or re-leasing of non-performing or under-performing properties may trigger impairment charges when the expected future cash flows from the properties for sale or re-lease are less than their net book value. The following summarizes our impairment loss from continuing operations:

	December 31,	
	2013	2012
	(in thousands)	
Real estate and intangible asset impairment	\$182	\$7,267
Write-off of lease intangibles due to lease terminations	—	1,831
Loan receivable impairment recovery	(367	) (180
Total impairment loss (recovery)	\$(185	) \$8,918
Other expense		

During the year ended December 31, 2012, we incurred \$32.5 million in losses attributable to the extinguishment of our Term Note indebtedness. The majority of this non-cash charge was due to the conversion of our then outstanding \$330 million tranche of the Term Note into stockholders' equity at a premium. The Company incurred \$2.4 million of debt extinguishment losses during the same period in 2013.

## Income tax expense

Income tax expense increased \$0.6 million to \$1.1 million for the year ended December 31, 2013, as compared to \$0.5 million for the same period in 2012. The increase was primarily due to an increase in deferred state tax expense resulting from a change in the state tax apportionment factor caused by the acquisition of properties in certain state tax jurisdictions from our Merger with Cole II and the sale of a property that was subject to state built-in gain tax of \$0.4 million.

## Discontinued Operations

Gains and losses from property dispositions during a period or expected losses from properties classified as held for sale at the end of the period, as well as all operations from those properties, are reclassified to and reported as part of "discontinued operations."

We recognized income from discontinued operations of \$34.8 million for the year ended December 31, 2013 (including a \$35.5 million gain attributable to the sale of a large non-core property) as compared to a loss of \$3.7 million for the same period in 2012. Included in these amounts were losses of \$4.1 million and \$1.3 million, respectively attributable to properties held for sale. Non-cash impairment charges included in income from discontinued operations for the year ended December 31, 2013 and 2012 were \$7.1 million and \$4.6 million, respectively.

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## Results of Operations

## Comparison of the Year Ended December 31, 2012 and 2011

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

	Year Ended December 31,		Change	%	
	2012	2011			
	(in thousands)				
Revenues:					
Rentals	\$266,567	\$255,672	\$10,895	4.3	%
Interest income on loans receivable	5,696	6,772	(1,076)	(15.9)	)%
Earned income from direct financing leases	—	—	—	NM	
Tenant reimbursement income	—	—	—	NM	
Interest income and other	852	786	66	8.4	%
Total revenues	273,115	263,230	9,885	3.8	%
Expenses:					
General and administrative	36,252	27,854	8,398	30.2	%
Merger costs	—	—	—	—	%
Property costs	5,176	4,693	483	10.3	%
Real estate acquisition costs	1,054	553	501	90.6	%
Interest	156,220	169,343	(13,123)	(7.7)	)%
Depreciation and amortization	104,984	103,179	1,805	1.7	%
Impairment	8,918	5,646	3,272	58.0	%
Total expenses	312,604	311,268	1,336	0.4	%
Loss from continuing operations before other expense and income tax expense	(39,489)	(48,038)	8,549	(17.8)	)%
Other expense:					
Loss on debt extinguishment	(32,522)	—	(32,522)	NM	
Loss from continuing operations before income tax expense	(72,011)	(48,038)	(23,973)	49.9	%
Income tax expense (benefit)	504	(60)	564	(940.0)	)%
Loss from continuing operations	(72,515)	(47,978)	(24,537)	51.1	%

## Revenues

For the year ended December 31, 2012, approximately 97.6% of our lease and loan revenues were attributable to long-term leases. Total revenue increased by approximately \$9.9 million to \$273.1 million for the year ended December 31, 2012 as compared to \$263.2 million for same period in 2011. The increase in revenue was due primarily to an increase in base rental revenue resulting from real estate acquisitions of over \$158.3 million subsequent to December 31, 2011 and contractual rent escalations on our owned real estate properties.

## Rentals

Rental revenue increased by approximately \$10.9 million to \$266.6 million for the year ended December 31, 2012 as compared to \$255.7 million for same period in 2011. The increase was attributable to an increase in the number of active leases due to real estate acquisitions, contractual rent escalations and fewer vacant properties compared to the year ended December 31, 2011. Rental revenue attributable to non-cash straight-line rent and amortization of above and below-market lease intangibles for the year ended December 31, 2012 and 2011 was \$3.6 million and \$2.6 million, respectively, representing approximately 1.0% of total rental revenue from continuing operations for each of the years ended December 31, 2012 and 2011. During 2012, we reduced our provision for losses on unbilled receivables related to straight-line rent based on our periodic evaluation of collectability. This reduction resulted in a \$0.8 million increase to total rental revenue for the year ended 2012.



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As of December 31, 2012, 98.8% (based on number of properties) of our owned properties were occupied. The majority of our nonperforming leases were in the restaurant and automotive industries. We regularly review and analyze the operational and financial condition of our tenants and the industries in which they operate in order to identify underperforming properties that we may seek to dispose of in an effort to mitigate risks in the portfolio. As of December 31, 2012, 14 of our properties, representing approximately 1.2% of our owned properties, were vacant and not generating rent, compared to 17 vacant properties, representing 1.6% of our owned properties, as of December 31, 2011.

### Interest income on loans receivable

Interest income on loans receivable decreased by \$1.1 million to \$5.7 million in the year ended December 31, 2012 as compared to \$6.8 million for the same period in 2011. The decrease in interest income was primarily due to the prepayment of three notes totaling \$13.5 million during the year ended December 31, 2012 and scheduled maturities and amortization subsequent to December 31, 2011.

### Interest income and other

Interest income and other was stable between the comparable periods. The Company recognized \$0.5 million in lease termination revenue during the year ended December 31, 2012, but recognized higher interest income during the comparable period in 2011. Lease termination revenue frequently results from negotiations with tenants who have individual under-performing properties that make up a portion of a master lease. In certain of these circumstances, in exchange for a termination fee, we may agree to lower the lease payment under the master lease and remove the under-performing property from the master lease. This generates higher revenue for the period in which the termination fee is received, but may result in lower revenue in future periods, depending on if and how quickly and at what rate the newly-vacant properties can be re-leased.

### Expenses

#### General and administrative

General and administrative expenses increased \$8.4 million to \$36.3 million for the year ended December 31, 2012, as compared to \$27.9 million for the same period in 2011. This increase was primarily attributable to \$12.8 million in charges associated with completing the IPO and extinguishing the Term Note indebtedness, and \$5.9 million in stock-based compensation related to incentive awards granted in 2012. During the same period in 2011, the Company recognized \$7.2 million in consulting fees in connection with the Term Note amendment and the conversion agreement.

#### Property costs

Our leases are generally triple-net and provide that the tenant is responsible for the payment of all property operating expenses, such as real estate taxes, insurance premiums and repair and maintenance costs. Therefore, we are generally not responsible for operating costs related to the properties, unless a property is not subject to a triple-net lease or is vacant. The increase in property costs for the year ended December 31, 2012 was primarily attributable to an increase in accrued property taxes associated with a delinquent tenant for whom we were making property tax payments under a payment plan with the taxing authority. As of December 31, 2012, we were pursuing recovery of these costs. The increase in property costs was partially offset by a decrease in the average number of property vacancies, from an average of 31 vacant properties during the year ended December 31, 2011 to an average of 19 vacant properties during the comparable period in 2012.

#### Interest

Interest expense decreased by \$13.1 million to \$156.2 million for the year ended December 31, 2012, as compared to \$169.3 million for the same period in 2011. The decrease in interest expense was due primarily to the extinguishment of the Term Note as a result of the IPO on September 25, 2012, the repurchase of \$70.0 million in Term Note indebtedness in July 2011 and a \$2.9 million first quarter 2012 adjustment of 2011 debt discount amortization. These decreases were partially offset by increases attributable to \$44.2 million of borrowings related to 2012 acquisitions.

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

	Year Ended December 31,			
	2012	2011		
	(in thousands)			
Interest expense – Term Note payable	\$19,925	\$26,631		
Interest expense – revolving credit facilities	108	—		
Interest expense – mortgages and notes payable	119,196	120,047		
Interest expense – other	10	8		
Amortization of deferred financing costs (a)	2,819	3,599		
Amortization of net losses related to interest rate swap	3,415	4,500		
Amortization of debt (premium) or discount (b)	10,747	14,558		
Total interest expense	\$156,220	\$169,343		
Weighted average mortgages and notes outstanding excluding Term Note and debt premium (discount) (1)	\$1,956,478	\$1,969,376		
Weighted average Term Note	533,803	766,014		
Weighted average revolving credit facilities	—	—		
Weighted average debt outstanding	\$2,490,281	\$2,735,390		
Adjusted mortgages and notes interest (2) / weighted average mortgages and notes payable	6.09	% 6.10	%	
Term Note interest (3) / weighted average Term Note payable	3.73	% 3.48	%	

(1) Excludes debt associated with discontinued operations

(2) Excludes interest expense associated with Term Note indebtedness, amortization of deferred financing costs and debt discounts.

(3) Excludes interest expense associated with amortization of deferred financing costs and net losses related to a hedging contract.

#### Depreciation and amortization

Depreciation and amortization expense relates primarily to depreciation on the commercial buildings and improvements we own and to amortization of the related lease intangibles. Depreciation and amortization expense increased by \$1.8 million to \$105.0 million for the year ended December 31, 2012 as compared to \$103.2 million for the same period in 2011. The slight increase was due to higher depreciation expense following acquisitions of over \$158.3 million in properties during 2012, partially offset by dispositions of properties subsequent to December 31, 2011.

The following table summarizes our depreciation and amortization expense from continuing operations:

	Year Ended December 31,	
	2012	2011
	(in thousands)	
Depreciation of real estate assets	\$86,905	\$84,982
Other depreciation	54	93
Amortization of lease intangibles	18,025	18,104
	\$104,984	\$103,179

#### Impairments

Impairment charges on properties and other assets that are classified as part of continuing operations were \$8.9 million and \$5.6 million for the year ended December 31, 2012 and 2011, respectively. In 2012, we incurred higher impairment charges attributable to certain under-performing properties and \$1.8 million of lease intangible write-offs due to lease terminations, while in 2011, we increased our loan loss reserve \$3.1 million due to under-performing trends on certain



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loans. We strategically seek to identify non-performing properties that we may re-lease or dispose of in an effort to improve our returns. An increase in vacancy associated with our disposition or re-leasing strategies may trigger impairment charges when the expected future cash flows from the properties for sale or re-lease are less than their net book value.

The following table summarizes our impairment loss from continuing operations:

	Year Ended December 31,	
	2012	2011
	(in thousands)	
Real estate and intangible asset impairment	\$7,267	\$2,471
Write-off of lease intangibles due to lease terminations	1,831	—
Loan receivable impairment (recovery) expense	(180	) 3,100
Other impairment	—	75
	\$8,918	\$5,646

Other income (expense)

During the year ended December 31, 2012, we incurred \$32.5 million in losses attributable to the extinguishment of our Term Note indebtedness. The majority of this non-cash charge was the impact of the conversion of our then outstanding \$330.0 million TLC (as defined below) into stockholders' equity at a premium. No such losses were recorded during the same period in 2011.

#### Discontinued Operations

Gains and losses from property dispositions during a period or expected losses from properties classified as held for sale at the end of the period, as well as all operations from those properties, are reclassified to and reported as part of "discontinued operations."

For the years ended December 31, 2012 and 2011, we recognized total losses from discontinued operations of \$3.7 million and \$15.9 million, respectively, which includes \$1.3 million and \$4.2 million, respectively in losses attributable to the properties held for sale at the end of each period. Non-cash impairment charges included in the loss from discontinued operations for the year ended December 31, 2012 and 2011 were \$4.6 million and \$16.6 million, respectively.

#### Liquidity and Capital Resources

##### General

Our principal demands for funds are for the payment of principal and interest on our outstanding indebtedness, operating and property maintenance expenses and distributions to our stockholders. We may also acquire additional real estate and real estate related investments. 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 leased properties, interest income earned on mortgage notes receivable and interest income on our cash balances. We expect to utilize available borrowings on our \$400.0 million Credit Facility and potential additional financings and refinancings to repay our outstanding indebtedness and complete possible future property acquisitions.

As of December 31, 2013, we had cash and cash equivalents of \$66.6 million and our Credit Facility provides for an additional \$269.3 million in borrowing capacity.



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## Short-term Liquidity and Capital Resources

On a short-term basis, our principal demands for funds will be for operating expenses, distributions to stockholders and interest and principal on current and any future debt financings. We expect to fund our operating expenses and other short-term liquidity requirements, capital expenditures, payment of principal and interest on our outstanding indebtedness, property improvements, re-leasing costs and cash distributions to common stockholders, primarily through cash provided by operating activities and borrowings on our \$400.0 million Credit Facility. We believe that we have sufficient liquidity from our cash from operations and availability under our Credit Facility to meet our short-term working capital and other financial commitments. As of December 31, 2013, we had \$30.0 million outstanding under the Credit Facility.

## Long-term Liquidity and Capital Resources

We plan to meet our long-term capital needs, including long-term financing of property acquisitions, by securing asset level financing, issuing fixed rate secured notes and bonds, and occasionally through public securities offerings. We may issue common stock when we believe that our share price is at a level that allows for the proceeds of any offering to be accretively invested into additional properties. In addition, we may issue common stock to permanently finance properties that were financed by our Credit Facility or debt securities. We continually evaluate alternative financing and believe that we can obtain financing on reasonable terms. However, we cannot assure you that we will have access to the capital markets at times and at terms that are acceptable to us. We expect that our primary uses of capital will be for property and other asset acquisitions and the payment of tenant improvements, operating expenses, including debt service payments on any outstanding indebtedness, and distributions to our stockholders.

## Description of Certain Debt

## Mortgages and Notes Payable

We primarily use long-term, fixed-rate debt to finance our properties on a “match-funded” basis. In general, the obligor of our property-level debt is a special purpose entity that holds the real estate and other collateral securing the indebtedness. We seek to use property-level financing that bears interest at an annual rate less than the annual rent on the related lease(s) and that matures prior to the expiration of such lease(s). As of December 31, 2013, we had an approximately \$3.7 billion principal balance of outstanding indebtedness with a weighted average annual interest rate of 5.82% and a weighted average maturity of 5.0 years. Most of this debt is partially amortizing and requires a balloon payment at maturity. Scheduled debt payments, including outstanding balances on the revolving credit facilities, as of December 31, 2013 are as follows (in thousands):

	Scheduled Principal	Balloon Payment	Total
2014	\$56,684	\$29,761	\$86,445
2015	57,866	245,805	303,671
2016	51,849	789,280	841,129
2017	45,744	925,164	970,908
2018	45,445	248,851	294,296
Thereafter	134,286	1,145,814	1,280,100
	\$391,874	\$3,384,675	\$3,776,549

Balloon payments subsequent to 2018 are as follows: \$39.5 million due in 2019, \$294.5 million due in 2020, \$167.4 million due in 2021, \$292.2 million due in 2022, \$352.1 million due in 2023, and \$0.1 million due in 2031.

## Revolving Credit Facilities

**\$400 Million Credit Facility** - On July 17, 2013, the Operating Partnership and various affiliates thereof, entered into the Credit Facility with various lenders. The Partnership’s obligations under the Credit Facility are guaranteed by Spirit Realty Capital, Inc., OP Holdings, Spirit Master Funding IV, LLC, and Spirit Master Funding V, LLC. Pursuant to the Credit Facility, consistent with the terms, conditions and provisions of a three-year revolving credit facility, the

Operating Partnership and its affiliates may obtain loans and/or extensions of credit (under a revolving credit facility) in an aggregate amount not to exceed \$400.0 million. The initial term expires on July 17, 2016 and may be extended for an additional 12 months, subject to the satisfaction of specified requirements. The Credit Facility bears interest, at the

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Operating Partnership's option, of either (i) the "Base Rate" (as defined in the Credit Agreement) plus 1.00% to 2.00%; or (ii) LIBOR plus 2.00% to 3.00%, depending on the Operating Partnership's leverage ratio. The Operating Partnership is also required to pay a fee on the unused portion of the Credit Facility at a rate of either 0.25% or 0.35% per annum, based on percentage thresholds for the average daily unused balance during a fiscal quarter. As of December 31, 2013, \$30.0 million was outstanding on the Credit Facility under one advance, secured by 142 properties.

As a result of entering into the Credit Facility, the Company incurred origination costs of \$4.5 million. At December 31, 2013, \$3.8 million of the \$4.5 million is included in deferred costs and other assets, net on the accompanying consolidated balance sheets. These costs are being amortized to interest expense over the remaining initial term of the Credit Facility.

Our ability to borrow under the Credit Facility is subject to the Operating Partnerships' ongoing compliance with a number of customary financial covenants including:

• **Maximum Leverage Ratio**-requiring that the ratio of total indebtedness to gross asset value shall not exceed 65%.

• **Minimum Fixed Charge Coverage Ratio**-requiring that the ratio of consolidated EBITDA to consolidated fixed charges shall not be less than certain fluctuating ratios set forth in the credit agreement.

• **Minimum Net Worth**- requiring that as of any date, consolidated tangible net worth shall not be less than 80% of consolidated tangible net worth on the closing date plus an amount equal to 80% of the proceeds of any new issuances of common stock.

• **Maximum Dividend Payout Ratio**-requiring that any dividends declared will not exceed a certain amount per share.

• **Minimum Unencumbered Assets**-the ability to request advances or letters of credit will be subject to the maintenance of a ratio of (a) outstanding obligations to (b) total value of the qualified unencumbered properties of not more than 62.5%.

• **Minimum Unencumbered Interest Coverage Ratio**-requiring that each quarter and as a condition to each requested borrowing, the ratio of unencumbered net operating income to aggregate cash interest expense shall not be less than 1.50x.

Pursuant to the terms of the Credit Facility, distributions are allowable so long as they would not trigger an Event of Default (as defined in the agreement) and dividends cannot exceed \$1.50 per share for the first four fiscal quarters following July 17, 2013, and, starting in the fourth quarter of fiscal year 2014, dividends, in the aggregate, may not exceed funds from operations in any fiscal year.

We guarantee the Operating Partnership's obligations under the Credit Facility and, to the extent not prohibited by law, all of our assets and the Operating Partnership's assets, other than interests in subsidiaries that are contractually prohibited from being pledged, are pledged as collateral for obligations under the Credit Facility.

**Line of Credit** - In March 2013, a special purpose entity owned by the Company entered into a \$25.0 million secured revolving credit facility ("Line of Credit"). During the second quarter of 2013, the availability under the line was increased to \$40.0 million. The initial term of the Line of Credit expires in March 2016, and each advance under the Line of Credit has a 24 month term. The interest rate is determined on the date of each advance and is the greater of (i) the stated prime rate plus 0.5% or (ii) the floor rate equal to 4.0%. The interest rate with respect to each advance shall reset on the annual anniversary date of each advance, and is subject to the same terms as above. As of December 31, 2013, \$5.1 million was outstanding on the Line of Credit under one advance, secured by one property.

Our ability to borrow under the Line of Credit is subject to the Operating Partnerships' ongoing compliance with a number of customary financial covenants including:

• **The Company maintain a minimum tangible net worth** in a minimum amount equal to \$25.0 million.

• **The Company maintain minimum liquidity** in a minimum amount equal to \$5.0 million.

• **Each note advance shall maintain a debt service coverage ratio** of not less than 1.35 to 1.00 on a semi-annual basis.

• **Each note advance shall maintain an operator debt coverage ratio** of not less than 2.00 to 1.00 on an annual basis.



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Pursuant to the terms of the Line of Credit, the Operating Partnership has guaranteed the special purpose entity's obligations under the line.

## Contractual Obligations

The following table provides information with respect to our commitments as of December 31, 2013, the table does not reflect available debt extensions.

	Total	Payment due by period			
		Less than 1 Year (2014)	1-3 years (2015-2016)	3-5 years (2017-2018)	More than 5 years (after 2018)
Contractual Obligations					
Long-Term Debt - Principal	\$3,776,549	\$86,445	\$1,144,800	\$1,265,204	\$1,280,100
Long-Term Debt - Interest	969,145	212,676	365,202	186,453	204,814
Acquisition and Capital Improvements	60,415	60,415	—	—	—
Operating Lease Obligations	25,973	1,705	3,466	3,765	17,037
Total	\$4,832,082	\$361,241	\$1,513,468	\$1,455,422	\$1,501,951

## Distribution Policy

Distributions from our current or accumulated earnings and profits are generally classified as ordinary income, whereas distributions in excess of our current and accumulated earnings and profits, to the extent of a stockholder's federal income tax basis in our common stock, are generally classified as a return of capital. Distributions in excess of a stockholder's federal income tax basis in our common stock are generally characterized as capital gain.

We are required to distribute 90% of our taxable income (subject to certain adjustments and excluding net capital gain) on an annual basis to maintain qualification as a REIT for federal income tax purposes and are required to pay federal income tax at regular corporate rates to the extent we distribute less than 100% of our taxable income (including capital gains).

We intend to make distributions that will enable us to meet the distribution requirements applicable to REITs and to eliminate or minimize our obligation to pay corporate-level federal income and excise taxes.

Any distributions will be at the sole discretion of our board of directors, and their form, timing and amount, if any, will depend upon a number of factors, including our actual and projected results of operations, FFO, liquidity, cash flows and financial condition, the revenue we actually receive from our properties, our operating expenses, our debt service requirements, our capital expenditures, prohibitions and other limitations under our financing arrangements, our REIT taxable income, the annual REIT distribution requirements, applicable law and such other factors as our board of directors deems relevant.

## Cash Flows

## Comparison of Year Ended December 31, 2013 to 2012

As of December 31, 2013, we had \$66.6 million of cash and cash equivalents as compared to \$73.6 million as of December 31, 2012.

Our cash flows from operating activities are primarily dependent upon the occupancy level of our portfolio, the rental rates specified in our leases, the collectability of rent and the level of our operating expenses and other general and administrative costs. Net cash provided by operating activities increased \$26.3 million to \$138.1 million for the year ended December 31, 2013 as compared to \$111.8 million for the same period in 2012. This increase was primarily attributable to an increase in cash revenue of \$125.4 million offset by increases in cash paid for interest of \$11.0 million, non-recurring Merger-related costs of \$56.6 million, property and acquisition costs of \$7.8 million, general and administration expenses of \$4.7 million and the balance due to an increase in the use of cash from operating assets and liabilities. The increase in revenues reflects the impact of the Merger with Cole II in the third quarter plus \$422.5 million of investments in real estate for the year ended December 31, 2013. We anticipate our general and administrative expenses and property costs to increase as a result of the Merger.



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Our net cash used in investing activities is generally used to fund property acquisitions, for investments in loans receivable and, to a limited extent, for capital expenditures. Cash provided by investing activities generally relates to the disposition of real estate and other assets. Net cash used in investing activities was \$159.6 million for the year ended December 31, 2013 as compared to net cash used in investing activities of \$109.3 million for the same period in 2012. The increase in cash used for investing activities during 2013 included \$401.4 million to fund the acquisition of 194 properties and capital improvements, partially offset by cash proceeds of \$205.8 million from the disposition of 21 properties, which includes \$115.3 from the sale of two non-core properties acquired in the Merger, collections of principal on loans receivable totaling \$15.3 million and transfers of sales proceeds from restricted cash accounts of \$13.4 million. The Company also acquired \$7.3 million of cash in connection with the Merger. During the same period in 2012, cash used in investing activities included \$167.5 million to fund the acquisition of 91 properties and invest in four unsecured notes in addition to transfers of sales proceeds to restricted cash accounts of \$5.1 million. These uses were partially offset by \$46.0 million of proceeds from the disposition of 41 properties and collections of principal on loans receivable of \$17.3 million.

Generally, our net cash used in financing activities is impacted by our borrowings. During the two comparative periods we completed two significant transactions affecting our financing activities. On July 17, 2013, we completed the Merger with Cole II for consideration of \$2.0 billion in common stock, and on September 25, 2012, we completed our initial public offering. Net cash provided in financing activities decreased by \$7.1 million to \$14.5 million for the year ended December 31, 2013 as compared to \$21.6 million for the same period in 2012. During 2013, the change in financing activities can be attributed primarily to our net new borrowing proceeds of \$203.7 million reduced by debt issuance costs, lender consent fees and escrow deposit requirements totaling \$50.7 million and \$136.1 million of dividends paid to our stockholders from cash available from operating activities. The net new borrowing proceeds were used primarily to fund new acquisitions, pay Merger-related costs, and other general corporate expenses. In connection with the Merger, the Company repaid the \$324.1 million Cole II line of credit assumed in the Merger from borrowings under our \$400.0 million Credit Facility and \$203.0 million in New CMBS notes. We borrowed an additional \$265.6 million under our revolving credit facilities and \$87.3 million in mortgage notes to fund certain acquisitions and to pay transaction costs related to the Merger. In December 2013, we completed a \$330.0 million net leased mortgage note issuance collateralized primarily by properties previously pledged to the Credit Facility in excess of its \$400.0 million borrowing base. Net proceeds from this note issuance allowed us to repay amounts under our lines of credit and other indebtedness and pay for general corporate expenses.

During 2012, we completed our IPO. Net proceeds provided from issuance of our common stock including the underwriters overallotment totaled \$457.1 million. We used \$399.0 million to pay-off a tranche of our then outstanding Term Note. During the year ended December 31, 2012, we used \$10.7 million to obtain lender consents in connection with the IPO and placed an additional \$19.6 million into restricted cash accounts as reserves for certain lenders. In addition, we borrowed \$44.2 million to finance portions of certain acquisitions and repaid \$46.9 million of our mortgage and notes payable.

#### Comparison of Year Ended December 31, 2012 to Year Ended December 31, 2011

As of December 31, 2012, we had \$73.6 million of cash and cash equivalents as compared to \$49.5 million as of December 31, 2011.

Net cash provided by operating activities increased \$17.4 million to \$111.8 million for the year ended December 31, 2012 as compared to \$94.4 million for the same period in 2011. The increase was primarily attributable to an increase in rental revenues as a result of property acquisitions and scheduled rent escalations offset by higher general and administrative expenses related to the IPO.

Cash provided by investing activities generally relates to the disposition of real estate and other assets. Net cash used in investing activities was \$109.3 million for the year ended December 31, 2012 as compared to of \$23.7 million for the same period in 2011. The increase in cash used in investing activities included \$167.5 million to fund the acquisition of 91 properties and invest in four unsecured notes. These investing uses were partially offset by cash proceeds of \$46.0 million from the disposition of 41 properties, collections of principal on loans receivable totaling \$17.3 million and transfers of sales proceeds from restricted cash accounts. Our property sales are typically comprised

of non-performing or underperforming properties in addition to selected properties that are no longer consistent with our investment strategy. Sales proceeds are commonly redeployed to fund new acquisitions. Collections of principal on loans receivable in 2012 include unscheduled paydowns; accordingly, scheduled principal collections in future periods are lower. Cash used in investing during 2011 was primarily attributable to \$30.0 million to fund the acquisition of 27 properties, \$6.6 million for capital expenditures and \$7.1 million of sales proceeds transferred to restricted cash accounts



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and held as collateral under our master trust facility. These uses were offset by cash proceeds of \$15.2 million from the disposition of 27 real estate properties and \$4.8 million from collection of principal on loans receivable. On September 25, 2012, we completed the IPO and on October 1, 2012 our underwriters exercised their option to purchase additional shares in full. Net cash provided by financing activities increased by \$131.1 million to \$21.6 million for the year ended December 31, 2012 as compared to cash used of \$109.5 million for the same period in 2011. Net proceeds provided from issuance of our common stock including the overallotment totaled \$457.1 million. We used \$399.0 million to pay off our then outstanding TLB. During the year ended December 31, 2012, we used \$10.7 million to obtain lender consents in connection with the IPO and placed an additional \$19.6 million into restricted cash accounts as reserves for certain lenders. In addition, we borrowed \$44.2 million to finance portions of certain acquisitions and repaid \$46.9 million of our mortgage and notes payable. During the twelve months ended December 31, 2011, cash used in financing activities was primarily due to the \$70.0 million repurchase of the Term Note and \$38.6 million repayment of our mortgage and notes payable.

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to financial market risks, especially interest rate risk. Interest rates and other factors, such as occupancy, rental rate and the financial condition of our tenants, influence our performance more so than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. As described above, we generally offer leases that provide for payments of base rent with scheduled increases, based on a fixed amount or the lesser of a multiple of the increase in the CPI over a specified period term or fixed percentage and, to a lesser extent, contingent rent based on a percentage of the tenant's gross sales to help mitigate the effect of inflation. Because the properties in our portfolio are generally leased to tenants under triple-net leases, where the tenant is responsible for property operating costs and expenses, this tends to reduce our exposure to rising property operating costs due to inflation.

Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and global economic and political conditions, and other factors which are beyond our control. Our operating results will depend heavily on the difference between the revenue from our assets and the interest expense incurred on our borrowings. We may incur additional variable rate debt in the future, including amounts that we may borrow under the credit facilities. In addition, decreases in interest rates may lead to additional competition for the acquisition of real estate due to a reduction in desirable alternative income-producing investments. Increased competition for the acquisition of real estate may lead to a decrease in the yields on real estate we have targeted for acquisition. In such circumstances, if we are not able to offset the decrease in yields by obtaining lower interest costs on our borrowings, our results of operations will be adversely affected. Significant increases in interest rates may also have an adverse impact on our earnings if we are unable to acquire real estate with rental rates high enough to offset the increase in interest rates on our borrowings.

In the event interest rates rise significantly or there is an economic downturn, defaults may increase and result in credit losses, which may adversely affect our liquidity and operating results. In a decreasing interest rate environment, borrowers are generally more likely to prepay their loans in order to obtain financing at lower interest rates. However, our investments in mortgage and equipment loans receivable have significant prepayment protection in the form of yield maintenance provisions which provide us with substantial yield protection in a decreasing interest rate environment with respect to this portion of our investment portfolio.

The objective of our interest rate risk management policy is to match fund fixed-rate assets with fixed-rate liabilities and variable-rate assets with variable-rate liabilities. As of December 31, 2013, our assets were primarily long-term, fixed-rate leases (though most have scheduled rental increases during the terms of the leases). Essentially all of our approximately \$3.7 billion principal balance of outstanding mortgages and notes payable as of December 31, 2013 were long-term, fixed-rate obligations. For the year ended December 31, 2013, the weighted average interest rate on our debt, excluding amortization of deferred financing and premiums/debt discounts, was approximately 5.82%. We intend to continue our practice of employing interest rate derivative contracts, such as interest rate swaps and futures, to reduce our exposure, on specific transactions or on a portfolio basis, to changes in cash flows as a result of

interest rate changes. We do not intend to enter into derivative contracts for speculative or trading purposes. We generally intend to utilize derivative instruments to hedge interest rate risk on our liabilities and not use derivatives for other purposes, such as hedging asset-related risks. Hedging transactions, however, may generate income which is

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not qualified income for purposes of maintaining our REIT status. We intend to structure any hedging transactions in a manner that does not jeopardize our status as a REIT.

Even with hedging strategies in place, there can be no assurance that our results of operations will remain unaffected as a result of changes in interest rates. In addition, hedging transactions using derivative instruments involve additional risks such as counterparty credit risk and basis risk. Basis risk in a hedging contract occurs when the index upon which the contract is based is more or less variable than the index upon which the hedged asset or liability is based, thereby making the hedge less effective. We address basis risk by matching, to a reasonable extent, the contract index to the index upon which the hedged asset or liability is based. Our interest rate risk management policy addresses counterparty credit risk (the risk of nonperformance by the counterparties) by requiring that we deal only with major financial institutions that we deem credit worthy.

The estimated fair values of our revolving credit facilities, fixed-rate and variable-rate mortgages and notes payable have been derived based on market quotes for comparable instruments or discounted cash flow analysis using estimates of the amount and timing of future cash flows, market rates and credit spreads. The following table discloses the fair value information for these financial instruments as of December 31, 2013 (in thousands):

	Carrying Value	Estimated Fair Value
Revolving credit facilities	\$35,120	\$34,911
Mortgages and notes payable	3,743,098	3,892,621

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of  
Spirit Realty Capital, Inc.

We have audited the accompanying consolidated balance sheets of Spirit Realty Capital, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedules listed in the Index at Item 15(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Phoenix, Arizona  
March 4, 2014

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## Item 8. Financial Statements

## SPIRIT REALTY CAPITAL, INC.

## Consolidated Balance Sheets

(In Thousands, Except Share and Per Share Data)

	December 31, 2013	December 31, 2012
Assets		
Investments:		
Real estate investments:		
Land and improvements	\$2,330,510	\$1,328,437
Buildings and improvements	4,188,783	2,036,987
Total real estate investments	6,519,293	3,365,424
Less: accumulated depreciation	(590,067)	(490,938)
	5,929,226	2,874,486
Loans receivable, net	117,721	51,862
Intangible lease assets, net	618,121	187,362
Real estate assets under direct financing leases, net	58,760	—
Real estate assets held for sale, net	19,611	5,898
Net investments	6,743,439	3,119,608
Cash and cash equivalents	66,588	73,568
Deferred costs and other assets, net	129,597	54,501
Goodwill	291,421	—
Total assets	\$7,231,045	\$3,247,677
Liabilities and stockholders' equity		
Liabilities:		
Revolving credit facilities	\$35,120	\$—
Mortgages and notes payable, net	3,743,098	1,894,878
Intangible lease liabilities, net	220,114	45,603
Accounts payable, accrued expenses and other liabilities	114,679	53,753
Total liabilities	4,113,011	1,994,234
Commitments and contingencies (see Note 10)		
Stockholders' equity:		
Common stock, \$0.01 par value; 370,570,565 issued shares; 370,363,803 outstanding shares at December 31, 2013 and 161,625,144 shares issued and outstanding at December 31, 2012	3,706	1,616
Capital in excess of par value	3,859,823	1,827,632
Accumulated deficit	(742,915)	(575,034)
Accumulated other comprehensive loss	(638)	(771)
Treasury stock, at cost (206,762 shares)	(1,942)	—
Total stockholders' equity	3,118,034	1,253,443
Total liabilities and stockholders' equity	\$7,231,045	\$3,247,677
See accompanying notes.		



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

	Year Ended December 31,		
	2013	2012	2011
Revenues:			
Rentals	\$404,022	\$266,567	\$255,672
Interest income on loans receivable	5,928	5,696	6,772
Earned income from direct financing leases	1,572	—	—
Tenant reimbursement income	6,017	—	—
Interest income and other	1,928	852	786
Total revenues	419,467	273,115	263,230
Expenses:			
General and administrative	35,863	36,252	27,854
Merger costs	56,644	—	—
Property costs	11,760	5,176	4,693
Real estate acquisition costs	1,718	1,054	553
Interest	179,267	156,220	169,343
Depreciation and amortization	164,054	104,984	103,179
Impairments (recoveries)	(185	) 8,918	5,646
Total expenses	449,121	312,604	311,268
Loss from continuing operations before other expense and income tax expense	(29,654	) (39,489	) (48,038
Other expense:			
Loss on debt extinguishment	(2,405	) (32,522	) —
Total other expense	(2,405	) (32,522	) —
Loss from continuing operations before income tax expense	(32,059	) (72,011	) (48,038
Income tax expense (benefit)	1,113	504	(60
Loss from continuing operations	(33,172	) (72,515	) (47,978
Discontinued operations:			
Loss from discontinued operations	(2,077	) (369	) (13,149
Gain (loss) on dispositions of assets	36,926	(3,349	) (2,736
Income (loss) from discontinued operations	34,849	(3,718	) (15,885
Net income (loss)	1,677	(76,233	) (63,863
Less: preferred dividends	—	(63	) (16
Net income (loss) attributable to common stockholders	\$1,677	\$(76,296	) \$(63,879
Net (loss) income per share of common stock—basic and diluted:			
Continuing operations	\$(0.14	) \$(0.92	) \$(0.97
Discontinued operations	0.14	(0.05	) (0.33
Net income (loss) per share attributable to common stockholders - basic and diluted	\$—	\$(0.97	) \$(1.30
Weighted average common shares outstanding:			
Basic and diluted common shares	255,020,565	78,625,102	49,265,701
See accompanying notes.			

SPIRIT REALTY CAPITAL, INC.

Consolidated Statements of Comprehensive Income (Loss)

(In Thousands)

	Year Ended December 31,		
	2013	2012	2011
Net income (loss)	\$1,677	\$(76,233	) \$(63,863 )
Other comprehensive (loss) income:			
Change in net unrealized losses on cash flow hedges	(314	) (902	) (816 )
Net cash flow hedge losses reclassified to operations	447	7,683	4,823
Total comprehensive income (loss)	\$1,810	\$(69,452	) \$(59,856 )

See accompanying notes.



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

	Common Stock					Treasury Stock				Total Stockholders Equity
	Series A Cumulative Preferred Shares	Series A Preferred Value	Common Shares	Par Value	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Loss	Shares	Value	
Balances, December 31, 2010	125	\$84	49,265,701	\$493	\$1,003,937	\$(402,854)	\$(11,559)	—	\$—	\$590,101
Net loss	—	—	—	—	—	(63,863)	—	—	—	(63,863)
Other comprehensive income	—	—	—	—	—	—	4,007	—	—	4,007
Dividends declared or paid to equity owners	—	—	—	—	(106)	(3,763)	—	—	—	(3,869)
Dividends paid on preferred stock	—	—	—	—	—	(16)	—	—	—	(16)
Balances, December 31, 2011	125	84	49,265,701	493	1,003,831	(470,496)	(7,552)	—	—	526,360
Net loss	—	—	—	—	—	(76,233)	—	—	—	(76,233)
Other comprehensive income	—	—	—	—	—	—	6,781	—	—	6,781
Issuance of common stock	—	—	63,525,058	635	454,679	—	—	—	—	455,314
Issuance of common stock for TLC debt conversion	—	—	46,182,406	462	363,217	—	—	—	—	363,679
Issuance of restricted common stock	—	—	2,651,979	26	(26)	—	—	—	—	—
Preferred stock redemption	(125)	(84)	—	—	—	(55)	—	—	—	(139)
Dividends declared on common stock	—	—	—	—	—	(28,242)	—	—	—	(28,242)
Stock-based compensation, net	—	—	—	—	5,931	—	—	—	—	5,931
Dividends paid on preferred stock	—	—	—	—	—	(8)	—	—	—	(8)
Balances, December 31, 2012	—	—	161,625,144	1,616	1,827,632	(575,034)	(771)	—	—	1,253,443
Common shares issued in connection with merger	—	—	208,570,007	2,086	2,023,426	—	—	—	—	2,025,512
Net income	—	—	—	—	—	1,677	—	—	—	1,677

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Other comprehensive income	—	—	—	—	—	—	133	—	—	133
Dividends declared on common stock	—	—	—	—	—	(169,395 )	—	—	—	(169,395 )
Repurchase of common shares	—	—	—	—	—	—	—	(206,762)	(1,942 )	(1,942 )
Stock-based compensation, net	—	—	375,414	4	8,765	(163 )	—	—	—	8,606
Balances, December 31, 2013	—	\$—	370,570,565	\$3,706	\$3,859,823	\$(742,915)	\$(638 )	(206,762)	\$(1,942)	\$3,118,034

See accompanying notes.

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

	Year Ended December 31,		
	2013	2012	2011
Operating activities			
Net income (loss)	\$1,677	\$(76,233	) \$(63,863
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	167,599	112,100	111,870
Impairments	6,949	13,552	22,232
Amortization of deferred financing costs	13,188	2,819	4,198
Interest rate hedge (gains) losses, amortization and other derivative losses	(289	) 11,465	5,828
Payments to terminate interest rate swap	(376	) —	—
Amortization of debt discounts	4,653	10,900	14,605
Stock-based compensation expense	8,769	5,931	—
Loss on debt extinguishment, net	1,377	32,522	—
(Gains) losses on dispositions of real estate and other assets, net	(37,174	) 3,529	2,736
Non-cash revenue	(18,755	) (3,283	) (2,333
Other	(53	) 216	(140
Changes in operating assets and liabilities:			
Deferred costs and other assets	(7,255	) 418	(42
Accounts payable, accrued expenses and other liabilities	(2,206	) (2,163	) (664
Net cash provided by operating activities	138,104	111,773	94,427
Investing activities			
Acquisitions/improvements of real estate	(401,422	) (163,779	) (36,643
Investments in loans receivable	—	(3,743	) —
Collections of principal on loans receivable and real estate assets under direct financing leases	15,260	17,343	4,828
Proceeds from dispositions of real estate and other assets	205,816	45,998	15,215
Cash acquired in connection with merger	7,347	—	—
Transfers of sale proceeds and loan principal collections from (to) restricted account	13,406	(5,133	) (7,084
Net cash used in investing activities	(159,593	) (109,314	) (23,684
Financing activities			
Borrowings under credit facilities	386,705	—	—
Repayments under credit facilities	(351,585	) —	—
Repayment of line of credit previously belonging to Cole II	(324,111	) —	—
Borrowings under mortgages and notes payable	620,290	44,210	11,400
Repayments under mortgages and notes payable	(127,572	) (46,929	) (38,565
Repayments/repurchases of Term Note payable	—	(398,983	) (70,000
Deferred financing costs	(34,399	) (3,436	) (6,999
Proceeds from issuance of common stock, net of offering costs	—	457,115	—
Deferred offering costs paid	—	—	(1,509
Stock issuance costs	(518	) —	—
Purchase of treasury stock	(1,942	) —	—
Consent fees paid to lenders	(5,449	) (10,672	) —
Redemption of preferred stock	—	(139	) —



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

	Year Ended December 31,		
	2013	2012	2011
Dividends paid/distributions to equity owners	(136,091	) (8	) (3,885
Transfers (to) from escrow deposits with lenders	(10,819	) (19,585	) 10
Net cash provided by (used in) financing activities	14,509	21,573	(109,548
Net (decrease) increase in cash and cash equivalents	(6,980	) 24,032	(38,805
Cash and cash equivalents, beginning of period	73,568	49,536	88,341
Cash and cash equivalents, end of period	\$66,588	\$73,568	\$49,536
See accompanying notes.			

SPIRIT REALTY CAPITAL, INC.

Notes to Consolidated Financial Statements

December 31, 2013

Note 1. Organization

Company Organization and Operations

Spirit Realty Capital, Inc. (the "Company") began operations through a predecessor legal entity on August 14, 2003. The Company became a public company in December 2004 and was subsequently taken private in August 2007 by a consortium of private investors.

On September 25, 2012, the Company completed an initial public offering (the "IPO"). In connection with that offering, the Company issued 33.4 million shares of common stock. Concurrently with the completion of the IPO, the Company issued shares of its common stock to extinguish \$330.0 million of its term note (the "Term Note") indebtedness.

On July 17, 2013, the Company merged with and into Cole Credit Property Trust II, Inc. ("Cole II"), a Maryland Corporation formed on September 29, 2004, pursuant to the Merger Agreement.

The Company's operations are carried out through its operating partnership, Spirit Realty, L.P. (the "Operating Partnership"), which is a Delaware limited partnership. Spirit General OP Holdings, LLC ("OP Holdings"), one of the Company's wholly owned subsidiaries, is the sole general partner and owns 1.0% of the Operating Partnership. The Company is the sole limited partner and owns the remaining 99.0% of the Operating Partnership.

The Company is a self-administered and self-managed real estate investment trust ("REIT") that primarily invests in single-tenant, operationally essential real estate throughout the United States that is leased on a long-term, triple-net basis primarily to tenants engaged in retail, service, and distribution industries. Single-tenant, operationally essential real estate consists of properties that are generally free-standing, commercial real estate facilities where the Company's tenants conduct retail, distribution, or service activities that are essential to the generation of their sales and profits.

Under a triple-net lease the tenant is typically responsible for all improvements and is contractually obligated to pay all property operating expenses, such as insurance, real estate taxes, and repair and maintenance costs. In support of its primary business of owning and leasing real estate, the Company has also strategically originated or acquired long-term, commercial mortgage and equipment loans to provide a range of financing solutions to its tenants.

References in these notes to "Spirit Realty Capital," the "Company," "we," "our," and "us" are to Spirit Realty Capital, Inc. The financial results presented are for pre-merger Spirit Realty Capital prior to July 17, 2013 and include those of the combined Spirit Realty Capital and Cole II from July 17, 2013 through and including December 31, 2013.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting and Principles of Consolidation

The accompanying consolidated financial statements of Spirit Realty Capital, Inc. and its consolidated subsidiaries have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The consolidated financial statements include the accounts of Spirit Realty Capital, Inc. and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Spirit Realty Capital has formed numerous special purpose entities to acquire and hold real estate encumbered by indebtedness (see Note 6). As a result, the vast 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 owner or affiliate of the special purpose entity. At December 31, 2013 and 2012, assets totaling \$6.1 billion and \$3.0 billion, respectively, were held, and liabilities totaling \$3.8 billion and \$2.0 billion, respectively, were owed by these special purpose entities and are included in the accompanying consolidated balance sheets.



SPIRIT REALTY CAPITAL, INC.

Notes to Consolidated Financial Statements - (continued)

December 31, 2013

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.

Reclassifications

Certain reclassifications have been made to prior period balances to conform to the current period presentation.

Segment Reporting

ASC 280, Segment Reporting, established standards for the manner in which public enterprises report information about operating segments. The Company views its operations as one segment, which consists of net leasing operations. The Company has no other reportable segments.

Real Estate Investments

Carrying Value of Real Estate Investments - The Company's real estate properties are recorded at cost and depreciated using the straight-line method over the estimated remaining useful lives of the properties, which generally range from 20 to 50 years for buildings and improvements and are 15 years for land improvements. Portfolio assets classified as "held for sale" are not depreciated. Properties classified as "held for sale" are recorded at the lower of their carrying value or their fair value, less anticipated selling costs.

Investment in Direct Financing Leases - For real estate property leases classified as direct financing leases, the building portions of the leases are accounted for as direct financing leases, while the land portions are accounted for as operating leases when certain criteria are met. For direct financing leases, the Company records an asset which represents the net investment that is determined by using the aggregate of the total amount of future minimum lease payments, the estimated residual value of the leased property and deferred incremental direct costs less unearned income. Income is recognized over the life of the lease to approximate a level rate of return on the net investment. Residual values, which are reviewed quarterly, represent the estimated amount we expect to receive at lease termination from the disposition of the leased property. Actual residual values realized could differ from these estimates. The Company evaluates the collectability of future minimum lease payments on each direct financing lease primarily through the evaluation of payment history and the underlying creditworthiness of the tenant. There were no amounts past due as of December 31, 2013. The Company's direct financing leases are evaluated individually for the purpose of determining if an allowance is needed. Any write-down of an estimated residual value is recognized as an impairment loss in the current period. The Company's direct financing leases were acquired in connection with the Merger. There were no impairment losses or allowances recorded related to direct financing leases during the year ended December 31, 2013.

Purchase Accounting and Acquisition of Real Estate - When acquiring a property for investment purposes that has no in-place lease, the Company allocates the purchase price (including acquisition and closing costs) to land, building, improvements, and equipment based on their relative fair values. For properties acquired with in-place leases, the Company follows the ASC 805, Business Combinations, guidance and allocates the purchase price of real estate to the tangible and intangible assets and liabilities acquired based on their estimated fair values and acquisition costs are expensed as incurred. In making estimates of fair values for this purpose, the Company uses a number of sources, including independent appraisals and information obtained about each property as a result of its pre-acquisition due diligence and its marketing and leasing activities.

Goodwill - Goodwill, if any, arises from business combinations and represents the excess of the cost of an acquired entity over the net fair value amounts that were assigned to the identifiable assets acquired and the liabilities assumed. Goodwill is tested for impairment at the reporting unit level on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its



carrying value. We did not record any impairment on our existing goodwill as of and for the year ended December 31, 2013.

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## SPIRIT REALTY CAPITAL, INC.

Notes to Consolidated Financial Statements - (continued)

December 31, 2013

Lease Intangibles - Lease intangibles, if any, acquired in conjunction with the purchase of real estate represent the value of in-place leases and above- or below-market leases. For real estate acquired subject to existing lease agreements, in-place lease intangibles are valued based on the Company's estimates of costs related to tenant acquisition and the carrying costs that would be incurred during the time it would take to locate a tenant if the property were vacant, considering current market conditions and costs to execute similar leases at the time of the acquisition, and are amortized on a straight-line basis over the remaining initial term of the related lease. Above- and below-market lease intangibles are recorded based on the present value of the difference between the contractual amounts to be paid pursuant to the leases at the time of acquisition of the real estate and the Company's estimate of current market lease rates for the property, measured over a period equal to the remaining initial term of the lease. Capitalized above-market lease intangibles are amortized over the remaining initial terms of the respective leases as a decrease to rental revenue. Below-market lease intangibles are amortized as an increase in rental revenue over the remaining initial terms of the respective leases plus any fixed-rate renewal periods on those leases. Should a lease terminate early, the unamortized portion of any related lease intangible is immediately recognized in the Company's consolidated statements of operations.

Impairment - The Company reviews its real estate investments and related lease intangibles periodically for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. We consider factors such as expected future undiscounted cash flows, estimated residual value, market trends (such as the effects of leasing demand and competition) and other factors in making this assessment. An asset is considered impaired if its carrying value exceeds its estimated undiscounted cash flows and the impairment is calculated as the amount by which the carrying value of the asset exceeds its estimated fair value. Estimating future cash flows and fair values are highly subjective and such estimates could differ materially from actual results. Key assumptions used in estimating future cash flows and fair values include, but are not limited to, revenue growth rates, interest rates, discount rates, capitalization rates, lease renewal probabilities, tenant vacancy rates and other factors.

Revenue Recognition - The Company primarily leases real estate to its tenants under long-term, triple-net leases that are classified as operating leases. Lease origination fees are deferred and amortized over the related lease term as an adjustment to rental revenue. Under a triple-net lease, the tenant is typically responsible for all improvements and is contractually obligated to pay all property operating expenses, such as real estate taxes, insurance premiums and repair and maintenance costs. Under certain leases, tenant reimbursement revenue, which is comprised of additional amounts recoverable from tenants for common area maintenance expenses and certain other recoverable expenses, is recognized as revenue in the period in which the related expenses are incurred. Tenant reimbursements are recorded on a gross basis, as the Company is generally the primary obligor with respect to purchasing goods and services from third-party suppliers. Tenant receivables are carried net of the allowances for uncollectible amounts.

The Company's leases generally provide for rent escalations throughout the lease terms. For leases that provide for specific contractual escalations, rental revenue is recognized on a straight-line basis so as to produce a constant periodic rent over the term of the lease. Accordingly, accrued rental revenue, calculated as the aggregate difference between the rental revenue recognized on a straight-line basis and scheduled rents, represents unbilled rent receivables that the Company will receive only if the tenants make all rent payments required through the expiration of the initial term of the leases. The accrued rental revenue representing this straight-line adjustment is subject to an evaluation for collectability, and the Company records a provision for losses against rental revenues if collectability of these future rents is not reasonably assured. Leases that have contingent rent escalators indexed to future increases in the Consumer Price Index ("CPI") may adjust over a one-year period or over multiple-year periods. Generally, these escalators increase rent at the lesser of (a) 1 to 1.25 times the increase in the CPI over a specified period or (b) a fixed percentage. Because of the volatility and uncertainty with respect to future changes in the CPI, the Company's inability to determine the extent to which any specific future change in the CPI is probable at each rent adjustment date during the entire term of these leases and the Company's view that the multiplier does not represent a significant leverage

factor, rental revenue from leases with this type of escalator are recognized only after the changes in the rental rates have occurred.

Some of the Company's leases also provide for contingent rent based on a percentage of the tenant's gross sales. For contingent rentals that are based on a percentage of the tenant's gross sales, the Company recognizes contingent rental revenue when the change in the factor on which the contingent lease payment is based actually occurs.

SPIRIT REALTY CAPITAL, INC.

Notes to Consolidated Financial Statements - (continued)

December 31, 2013

The Company suspends revenue recognition if the collectability of amounts due pursuant to a lease is not reasonably assured or if the tenant's monthly lease payments become more than 60 days past due, whichever is earlier.

Lease termination fees are included in "interest income and other" on the Company's consolidated statements of operations and are recognized when there is a signed termination agreement and all of the conditions of the agreement have been met and the tenant no longer occupies the property. The Company recorded lease termination fees of \$0.9 million and \$0.5 million during the years ended December 31, 2013 and 2012, respectively. No such fees were recorded during 2011.

Allowance for Doubtful Accounts

The Company reviews its rent receivables for collectability on a regular basis, taking into consideration changes in factors such as the tenant's payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates, and economic conditions in the area where the property is located. In the event that the collectability of a receivable with respect to any tenant is in doubt, a provision for uncollectible amounts will be established or a direct write-off of the specific rent receivable will be made. The Company provided for reserves for uncollectible amounts totaling \$4.6 million and \$3.6 million at December 31, 2013 and 2012, respectively, against accounts receivable balances of \$14.3 million and \$7.6 million, respectively; receivables are recorded within deferred cost and other assets, net in the accompanying consolidated balance sheets. For accrued rental revenues related to the straight-line method of reporting rental revenue, the Company performs a periodic review of receivable balances and established allowances for losses of \$9.6 million and \$15.3 million at December 31, 2013 and 2012, respectively, against accrued rental revenue receivables of \$35.3 million and \$22.7 million, respectively. The Company's periodic review includes management's estimates of uncollectible receivables and an assessment of the risks inherent in the portfolio, giving consideration to historical experience and industry default rates for long-term receivables.

Loans Receivable

The Company holds its loans receivable for long-term investment. Mortgage loans are secured by single-tenant, operationally essential real estate. Equipment loans are secured by equipment used by tenants of properties owned or financed by the Company. The loans are carried at amortized cost, including related unamortized premiums. Revenue Recognition - Interest income on mortgage and equipment loans receivable is recognized using the effective interest method applied on a loan-by-loan basis. Direct costs associated with originating loans are offset against any related fees received and the balance, along with any premium or discount, is deferred and amortized as an adjustment to interest income over the terms of the related loans using the effective interest method. A loan is placed on nonaccrual status when the loan has become 60 days past due, or earlier if management determines that full recovery of the contractually specified payments of principal and interest is doubtful. While on nonaccrual status, interest income is recognized only when received. During 2013, two mortgages and one note that were on nonaccrual status and fully reserved during 2012, were written off in full as they were determined to be uncollectible.

Impairment and Allowance for Loan Losses - The Company periodically evaluates the collectability of its loans receivable, including accrued interest, by analyzing the underlying property-level economics and trends, collateral value and quality, and other relevant factors in determining the adequacy of its allowance for loan losses. A loan is determined to be impaired when, in management's judgment based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Specific allowances for loan losses are provided for impaired loans on an individual loan basis in the amount by which the carrying value exceeds the estimated fair value of the underlying collateral less disposition costs. Delinquent loans receivable are written off against the allowance when all possible means of collection have been exhausted. After the \$4.7 million write-off of the mortgages and note payable discussed above, there was no allowance for loan losses at December 31, 2013. The allowance for loan losses at December 31, 2012 was \$5.1 million, which includes the effects of recoveries of loans against the allowance of \$(0.2) million during the year ended December 31, 2012. Three notes with an aggregate carrying value of \$10.4 million were paid off early during the year ended December 31, 2013



SPIRIT REALTY CAPITAL, INC.

Notes to Consolidated Financial Statements - (continued)

December 31, 2013

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investment securities with maturities at acquisition of three months or less. The Company invests cash primarily in money market funds of major financial institutions with fund investments consisting of highly-rated money market instruments and other short-term instruments.

Restricted Cash and Escrow Deposits

The Company classified restricted cash and deposits in escrow totaling \$58.7 million and \$34.7 million at December 31, 2013 and December 31, 2012, respectively, in deferred costs and other assets, net in the accompanying consolidated balance sheets. Included in the balance at each of December 31, 2013 and December 31, 2012 is approximately \$9.7 million in restricted cash deposited during 2012 to secure lender consents to the IPO. At December 31, 2013, the Company held restricted cash related to \$8.1 million of deposits to lender accounts as a condition of securing lender consents to the Merger. These cash balances are restricted as to use under certain of the Company's debt agreements. In addition, during 2012, the Company deposited \$8.0 million in a collateral account with one of its lenders which may be applied, at the lender's discretion, towards a reduction of the outstanding principal balance of the related loan. The Company also has the right to replace this cash collateral with a letter of credit. Also included in the restricted cash balance as of December 31, 2013 is \$20.8 million of proceeds related to property dispositions under a 1031 exchange that occurred during the fourth quarter of 2013 that have yet to be released or used towards the acquisition of new properties. The remaining balance of restricted cash consists primarily of cash held in lender controlled accounts that is used to meet future debt service requirements and in certain instances tax and insurance obligations of a tenant.

Accounting for Derivative Financial Instruments and Hedging Activities

The Company utilizes derivative instruments such as interest rate swaps and caps for purposes of hedging exposures to fluctuations in interest rates associated with certain of its financing transactions. At the inception of a hedge transaction, the Company enters into a contractual arrangement with the hedge counterparty and formally documents the relationship between the derivative instrument and the financing transaction being hedged, as well as its risk management objective and strategy for undertaking the hedge transaction. At inception and at least quarterly thereafter, a formal assessment is performed to determine whether the derivative instrument has been highly effective in offsetting changes in cash flows of the related financing transaction and whether it is expected to be highly effective in the future.

The fair value of the derivative instrument is recorded on the balance sheet as either an asset or liability. For derivatives designated as cash flow hedges, the effective portions of the corresponding change in fair value of the derivatives are recorded in accumulated other comprehensive loss within stockholders' equity. Changes in fair value reported in other comprehensive loss are reclassified to operations in the period in which operations are affected by the underlying hedged transaction. Any ineffective portions of the change in fair value are recognized immediately in general and administrative expense. The amounts paid or received on the hedge are recognized as adjustments to interest expense (see Note 7).

Income Taxes

The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended. 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 subsidiary is subject to federal, state, and

local taxes, which are not material.

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SPIRIT REALTY CAPITAL, INC.

Notes to Consolidated Financial Statements - (continued)

December 31, 2013

### Earnings Per Share

Earnings per share have been computed in accordance with the ASC 260, Earnings Per Share. The guidance requires classification of the Company's unvested restricted common stock which contain rights to receive nonforfeitable dividends, as participating securities requiring the two-class method of computing earnings per share. Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings to common stockholders and undistributed earnings allocated to common stockholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both common shares and participating securities based on the weighted average shares outstanding during the period. Under the terms of the Company's Incentive Award Plan and the related restricted stock awards (see Note 15), losses are not allocated to participating securities including undistributed losses as a result of dividends declared exceeding net income. The Company uses income or loss from continuing operations as the basis for determining whether potential common shares are dilutive or antidilutive and undistributed net income or loss as the basis for determining whether undistributed earnings are allocable to participating securities.

### Fair Value Measurements

The Company's estimates of fair value of financial and non-financial assets and liabilities based on the framework established in ASC 820, Fair Value Measurements and Disclosures (See Note 11). The framework specifies a hierarchy of valuation inputs which was established to increase consistency, clarity and comparability in fair value measurements and related disclosures. The guidance describes a fair value hierarchy based upon three levels of inputs that may be used to measure fair value, two of which are considered observable and one that is considered unobservable. The following describes the three levels:

Level 1 – Valuation is based upon quoted prices in active markets for identical assets or liabilities.

Level 2 – Valuation is based upon inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs that are unobservable and significant to the overall fair value measurement of the assets or liabilities.

These types of inputs include the Company's own assumptions.

### Unaudited Interim Information

The consolidated quarterly financial data in Note 17 is unaudited. In the opinion of management, this financial information reflects all adjustments necessary for a fair presentation of the respective interim periods. All such adjustments are of a normal recurring nature.

### New Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB") or the SEC that are adopted by us 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 our financial position or results of operations upon adoption.

In January 2013, the FASB issued Accounting Standards Update ("ASU") No. 2013-1, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The update clarifies that ASU 2011-11 applies to entities that are accounting for derivatives under ASC 815, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are offset under ASC 210-20-45 or ASC 815-10-45 or an enforceable master netting arrangement or similar agreement. This update became



effective for fiscal years beginning on or after January 1, 2013, and interim periods therein. The adoption of this ASU did not have a material impact on the Company's financial statements.

In February 2013, the FASB issued ASU No. 2013-2, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, to improve reporting of reclassification of items out of accumulated other comprehensive

## SPIRIT REALTY CAPITAL, INC.

Notes to Consolidated Financial Statements - (continued)

December 31, 2013

income by requiring entities to report the effect of any significant reclassifications on the respective line items on the income statement when the amount is required to be reclassified in its entirety in the same reporting period.

Additionally, for items that are not required to be reclassified completely to net income, the entity will be required to cross reference other disclosures that provide additional information about the amounts. The information provided about amounts that are reclassified out of accumulated other comprehensive income must be reported by component. The amendments of this update are effective beginning December 15, 2012. The adoption of this ASU did not have any impact on the Company's financial statements.

## Note 3. Merger with Cole II

On July 17, 2013, the Company and Cole II merged, with Cole II continuing as the surviving legal entity and adopting the name Spirit Realty Capital, Inc. The Cole operating partnership also merged with and into the Operating Partnership, with the Operating Partnership continuing as the surviving partnership. After consideration of all applicable factors pursuant to the business combination accounting rules, the Merger resulted in a reverse merger in which (a) Cole II was deemed the "legal acquirer" because Cole II issued its common stock to the Spirit Realty Capital stockholders and (b) the Company was the "accounting acquirer." The Company's prevailing influence over the post-Merger Spirit Realty Capital, including a majority of its Board of Directors remaining and its surviving senior management, was a key factor in the Company obtaining control and being deemed the accounting acquirer. With the Merger, the Company added 747 properties and 69 secured mortgage loans to its portfolio.

At the effective time of the Merger, each share of common stock, par value \$0.01 per share, of the Company ("Company Common Stock"), issued and outstanding immediately prior to the effective time of the Merger on July 17, 2013 was canceled and converted into the right to receive 1.9048 shares of common stock, par value \$0.01 per share, of post-Merger Spirit Realty Capital ("New Spirit Common Stock"). Upon receiving the converted shares of New Spirit Common Stock, the stockholders of the Company held an equity interest of approximately 44% of post-Merger Spirit Realty Capital.

The consideration transferred was computed on the basis of the Company's closing stock price of \$18.50 on July 17, 2013, multiplied by the inverse of the Merger Agreement exchange ratio (0.525) multiplied by the number of Cole II shares of common stock outstanding at the close of the Merger.

The allocation of the consideration paid of approximately \$2.0 billion is calculated below as of the July 17, 2013 closing date (dollars in thousands, except per share amounts):

Cole II shares outstanding	208,570,007
Inverse of exchange ratio	0.525
	109,499,254
Spirit Realty Capital share price	\$ 18.50
Consideration paid	\$2,025,737

## SPIRIT REALTY CAPITAL, INC.

Notes to Consolidated Financial Statements - (continued)

December 31, 2013

In accordance with ASC 805, Business Combinations, the allocation of the purchase price was based on the Company's assessment of the fair value of the acquired assets and liabilities using both Level 2 and 3 inputs, as summarized below.

The following table summarizes the purchase price allocation, which represents the current best estimate of acquisition date fair values of the assets acquired and liabilities assumed (in thousands):

## Assets

## Investments:

## Real estate investments:

Land and improvements	\$944,060
Buildings and improvements	2,203,859
Real estate investments under direct financing leases, net	58,765
Loans receivable, net	81,433
Intangible lease assets	482,321
Net investments	3,770,438
Cash and cash equivalents	7,347
Deferred costs and other assets, net	13,608
Total assets	\$3,791,393

## Liabilities

Revolving credit facilities	\$324,111
Mortgages and notes payable, net	1,512,029
Intangible lease liabilities	190,330
Accounts payable, accrued expenses and other liabilities	30,607
Total liabilities	\$2,057,077

Estimated fair value of net assets acquired	\$1,734,316
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## Real estate investments

The fair value of real estate was generally calculated by applying an income approach methodology using both direct capitalization and discounted cash flow analysis. Key assumptions include capitalization and discount rates. Our valuations are based, in part, on valuations prepared by an independent valuation firm.

## Lease Intangibles

The fair value of in-place leases was calculated based upon our estimate of the costs to obtain tenants in each of the applicable markets. An asset or liability is recognized for acquired leases with favorable or unfavorable rents based on our estimate of current market rents in each of the applicable markets. Our valuations of the intangible assets are based, in part, on valuations prepared by an independent valuation firm. Total lease intangibles acquired had a weighted-average remaining amortization period of 15.7 years. Included in lease intangibles are in-place leases, above market leases, and below market leases which, upon acquisition, had weighted-average remaining amortization periods of 14.1, 11.1, and 21.0 years, respectively.

## Debt

The fair value of debt was estimated based on contractual future cash flows discounted using borrowing spreads and market interest rates that would be available to us for the issuance of debt with similar terms and remaining maturities.



## SPIRIT REALTY CAPITAL, INC.

Notes to Consolidated Financial Statements - (continued)

December 31, 2013

## Merger Costs

In connection with the Merger, the Company incurred and expensed merger costs of approximately \$56.6 million for the year ending December 31, 2013, which included legal, accounting and financial advisory services, debt financing related costs, and other third-party expenses.

## Goodwill

Goodwill of \$291.4 million was recognized as part of the purchase price allocation. The Merger and integration of the Cole II portfolio provides for several potential benefits and synergies that include, but are not limited to, the following; the Merger will double the size of the total portfolio, further diversify the portfolio geographically and by industry, reduce tenant concentrations, improve overall credit quality of the portfolio, and increase operating efficiency. The Merger is also expected to significantly improve the Company's access to the capital markets and allow for more advantageous acquisition opportunities. Goodwill is allocated to the Company at an enterprise level, which is representative of the reporting unit. The balance of Goodwill is non-deductible for tax purposes.

## Pro Forma Information

The following unaudited pro forma information presents our operating results as though the Merger had been consummated on January 1, 2012. The pro forma information does not necessarily reflect the actual results of operations had the Merger been consummated at the beginning of the period indicated nor is it necessarily indicative of future results. Additionally, the unaudited pro forma information does not include the impact of all the potential synergies that may be achieved from the Merger or any strategies that management may consider in order to continue to efficiently manage the on-going operations of the Company. The actual results for the year ended December 31, 2013 include total revenues and net income attributable to common stockholders from the acquired properties of \$116.4 million and \$20.2 million, respectively, from the close of the Merger (July 17, 2013) through December 31, 2013. The following table reflects the pro forma information (in thousands):

	Year Ended December 31,	
	2013	2012
Total revenues	\$556,647	\$532,560
Income from continuing operations	64,018	16,876

The Company's pro forma information includes Merger adjustments to operations directly attributable to the Merger consisting primarily of legal, accounting and financial advisory services, debt financing related costs, and other third-party expenses, as follows (in thousands):

	Year Ended December 31,	
	2013	2012
Pro forma Merger adjustments	\$69,666	\$(5,485)

## Note 4. Investments

## Real Estate Investments

At December 31, 2013 and 2012, the Company's gross investment in real estate properties and loans, including real estate assets held for sale, totaled approximately \$7.24 billion and \$3.65 billion, respectively. These investments are comprised of 2,186 and 1,207, respectively, owned or financed properties that are geographically dispersed throughout 48 states. Only one state, Texas, with a 13.0% investment, accounted for more than 10% of the total dollar amount of the Company's investment portfolio. At December 31, 2013 and 2012, respectively, the Company's gross investment portfolio was comprised of 2,041 and 1,122 owned properties. The Company also held mortgage loans

receivable with aggregate carrying amounts of \$117.3 million and \$40.1 million secured by 145 and 85 real properties as of December 31, 2013 and 2012, respectively. Other loans receivable with aggregate carrying amounts of \$0.4 million and \$11.8 million were also held as of December 31, 2013 and 2012, respectively.

## SPIRIT REALTY CAPITAL, INC.

Notes to Consolidated Financial Statements - (continued)

December 31, 2013

During the years ended December 31, 2013 and 2012, the Company had the following gross real estate and loan activity:

	Number of Properties Owned or Financed	Dollar Amount of Investments <sup>(a)</sup>
Balance, December 31, 2011	1,153	\$3,582,870
Acquisitions/improvements and loan originations	91	167,410
Dispositions of real estate <sup>(b)</sup> (Note 13)	(41	) (62,750
Principal payments and payoffs	(4	) (17,343
Impairments	—	(14,788
Loan premium amortization and other	8	(474
Balance, December 31, 2012	1,207	3,654,925
Acquisitions/improvements and loan originations - Non-merger	194	422,458
Acquisitions/improvements and loan originations - Cole/Merger	816	3,580,108
Dispositions of real estate <sup>(b)(c)</sup> (Note 13)	(22	) (396,717
Principal payments and payoffs	(9	) (15,254
Impairments	—	(7,233
Loan premium amortization and other	—	(2,555
Balance, December 31, 2013	2,186	\$7,235,732

The dollar amount of investments includes the gross investment in land, buildings and lease intangibles, as adjusted (a) for any impairment, related to properties owned and the carrying amount of loans receivable and real estate assets held under direct financing leases.

(b) The total accumulated depreciation and amortization associated with dispositions of real estate was \$33.2 million and \$10.3 million for the years ended December 31, 2013 and 2012, respectively.

(c) The balance includes a real estate property surrendered to a lender resulting in a gain on debt extinguishment of approximately \$1.0 million.

## SPIRIT REALTY CAPITAL, INC.

Notes to Consolidated Financial Statements - (continued)

December 31, 2013

The following table shows information regarding the diversification of the Company's total investment portfolio amongst the different industries in which its customers operate as of December 31, 2013 and 2012 (dollars in thousands):

	December 31, 2013			December 31, 2012		
	Number of Properties Owned or Financed	Dollar Amount of Investments (a)	Percentage of Total Dollar Amount of Investments	Number of Properties Owned or Financed	Dollar Amount of Investments (a)	Percentage of Total Dollar Amount of Investments
Specialty retail	189	\$1,299,022	18.0 %	48	\$331,371	9.1 %
General and discount retail	235	1,284,984	17.8	181	1,044,442	28.6
Restaurants - quick service	719	745,619	10.3	436	429,401	11.7
Restaurants - casual dining	232	577,924	8.0	133	288,501	7.9
Drug stores	134	576,170	8.0	9	22,710	0.6
Automotive dealers, parts and service	188	405,807	5.6	102	207,561	5.7
Convenience stores/car washes	144	324,017	4.5	32	70,024	1.9
Movie theaters	25	266,668	3.7	23	250,417	6.9
Building material suppliers	110	256,024	3.5	110	257,285	7.0
Industrial	30	233,674	3.2			