Spirit Realty Capital, Inc.
Form 10-Q
May 08, 2015

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

Form 10-Q

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from to

Commission file number 001-36004

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

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

(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

As of May 4, 2015, there were 441,445,875 shares of common stock, par value $0.01, of Spirit Realty Capital, Inc. outstanding.

SPIRIT REALTY CAPITAL, INC.

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GLOSSARY
Definitions:

1031 Exchange	Tax-deferred like-kind exchange of properties held for business or investment purposes, pursuant to Section 1031 of the Code
2013 Credit Facility	$400.0 million secured credit facility pursuant to the credit agreement between the Operating Partnership and certain lenders dated July 17, 2013
2015 Credit Facility	$600.0 million unsecured credit facility pursuant to the Credit Agreement
2019 Notes	$402.5 million convertible notes of the Corporation due in 2019
2021 Notes	$345.0 million convertible notes of the Corporation due in 2021
Additional Collateral Deposit	A cash reserve deposit or letter of credit in the amount of $8.0 million required pursuant to an amendment of a certain CMBS loan agreement
AFFO	Adjusted Funds From Operations
AOCL	Accumulated Other Comprehensive Loss
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
ATM Program	At the Market equity distribution program, pursuant to which the Corporation may offer and sell shares of common stock from time to time
CMBS	Commercial Mortgage Backed Securities
Code	Internal Revenue Code of 1986, as amended
Cole II	Cole Credit Property Trust II, Inc.
Cole II Merger	Acquisition on July 17, 2013 of Cole II by the Company, in which the Company merged with and into the Cole II legal entity
Collateral Pools	Pools of collateral assets that are pledged to the indenture trustee for the benefit of the noteholders and secure obligations of issuers under the Spirit Master Funding Program
Company	The Corporation and its consolidated subsidiaries
Convertible Notes	The 2019 Notes and 2021 Notes, together
Corporation	Spirit Realty Capital, Inc., a Maryland corporation
CPI	Consumer Price Index
Credit Agreement	2015 credit facility agreement between the Operating Partnership and certain lenders dated March 31, 2015
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EBITDAR	Earnings Before Interest, Taxes, Depreciation, Amortization and Rent
Excess Cash	Rent received in excess of debt service obligations
Exchange Act	Securities Exchange Act of 1934, as amended
Exchange Offer	Offer to exchange the outstanding principal balance of three series of existing net-lease mortgage notes for three series of newly issued Master Trust 2014 notes in May 2014
FASB	Financial Accounting Standards Board
FFO	Funds From Operations
GAAP	Generally Accepted Accounting Principles
Incentive Award Plan	Spirit Realty Capital, Inc. and Spirit Realty, L.P. 2012 Incentive Award Plan
IPO	Initial Public Offering
LIBOR	London Interbank Offered Rate
Line of Credit	$40.0 million secured revolving credit facility pursuant to the loan agreement between an indirect wholly-owned subsidiary of the Corporation and a certain lender dated March 27, 2013, as amended
Master Trust 2013	The net-lease mortgage securitization trust established in December 2013 under the Spirit Master Funding Program
Master Trust 2014	

The net-lease mortgage securitization trust established in 2005 and amended and restated in 2014 under the Spirit Master Funding Program

Definitions:

Master Trust Notes	The Master Trust 2013 and Master Trust 2014 notes, together
Master Trust Release	Proceeds from the sale of assets securing the Master Trust Notes held in restricted accounts until a qualifying substitution is made
Moody's	Moody's Investor Services
NAREIT	National Association of Real Estate Investment Trusts
OP Holdings	Spirit General OP Holdings, LLC
Operating Partnership	Spirit Realty, L.P., a Delaware limited partnership
REIT	Real Estate Investment Trust
Revolving Credit Facilities	The 2013 Credit Facility, the 2015 Credit Facility and Line of Credit, together
S&P	Standard & Poor's Rating Services
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
Shopko	Specialty Retail Shops Holding Corp. and certain of its affiliates
Spirit Master Funding Program	The Company's asset-backed securitization program that comprises Master Trust 2013 and Master Trust 2014
TSR	Total Shareholder Return
Walgreens	Walgreen Company

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

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

	March 31, 2015 (Unaudited)	December 31, 2014
Assets		
Investments:		
Real estate investments:		
Land and improvements	$2,666,746	$2,614,630
Buildings and improvements	4,651,097	4,579,166
Total real estate investments	7,317,843	7,193,796
Less: accumulated depreciation	(779,083)	(752,210)
	6,538,760	6,441,586
Loans receivable, net	107,403	109,425
Intangible lease assets, net	573,925	590,073
Real estate assets under direct financing leases, net	52,852	56,564
Real estate assets held for sale, net	177,237	119,912
Net investments	7,450,177	7,317,560
Cash and cash equivalents	108,134	176,181
Deferred costs and other assets, net	149,789	183,173
Goodwill	291,421	291,421
Total assets	$7,999,521	$7,968,335
Liabilities and stockholders' equity		
Liabilities:		
Revolving Credit Facilities, net	$181,518	$12,780
Mortgages and notes payable, net	3,456,609	3,629,998
Convertible Notes, net	681,109	678,190
Total debt, net	4,319,236	4,320,968
Intangible lease liabilities, net	204,161	205,968
Accounts payable, accrued expenses and other liabilities	122,973	123,298
Total liabilities	4,646,370	4,650,234
Commitments and contingencies (see Note 7)		
Stockholders' equity:		
Common stock, $0.01 par value; 418,935,311 issued shares and 418,401,109 outstanding shares at March 31, 2015 and 411,824,039 issued shares and 411,350,440 outstanding shares at December 31, 2014	4,189	4,118
Capital in excess of par value	4,443,468	4,361,320
Accumulated deficit	(1,087,306)	(1,041,392)
Accumulated other comprehensive loss	(1,618)	(1,083)
Treasury stock, at cost	(5,582)	(4,862)
Total stockholders' equity	3,353,151	3,318,101
Total liabilities and stockholders' equity	$7,999,521	$7,968,335

See accompanying notes.

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

	Three Months Ended March 31,	
	2015	2014
Revenues:		
Rentals	$154,518	$137,479
Interest income on loans receivable	1,722	1,837
Earned income from direct financing leases	795	846
Tenant reimbursement income	4,631	3,319
Interest income and other	621	491
Total revenues	162,287	143,972
Expenses:		
General and administrative	12,600	11,067
Property costs	7,407	5,282
Real estate acquisition costs	1,093	1,281
Interest	57,914	54,399
Depreciation and amortization	66,296	60,549
Impairments	1,624	1,707
Total expenses	146,934	134,285
Income from continuing operations before other expense and income tax expense	15,353	9,687
Other expense:		
Loss on debt extinguishment	(1,230)	—
Total other expense	(1,230)	—
Income from continuing operations before income tax expense	14,123	9,687
Income tax expense	(362)	(217)
Income from continuing operations	13,761	9,470
Discontinued operations:		
Income from discontinued operations	227	3,054
Loss on dispositions of assets	—	(7)
Income from discontinued operations	227	3,047
Income before gain on dispositions of assets	13,988	12,517
Gain on dispositions of assets	11,336	1,722
Net income attributable to common stockholders	$25,324	$14,239
Net income per share of common stock—basic:		
Continuing operations	$0.06	$0.03
Discontinued operations	—	0.01
Net income per share attributable to common stockholders—basic	$0.06	$0.04
Net income per share of common stock—diluted:		
Continuing operations	$0.06	$0.03
Discontinued operations	—	0.01
Net income per share attributable to common stockholders—diluted	$0.06	$0.04
Weighted average common shares outstanding:		
Basic	411,017,895	368,684,942
Diluted	411,622,434	369,387,638
Dividends declared per common share issued	$0.17000	$0.16625

See accompanying notes.

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

	Three Months Ended March 31,	
	2015	2014
Net income	$25,324	$14,239
Other comprehensive income (loss):		
Change in net unrealized losses on cash flow hedges	(852)	(402)
Net cash flow hedge losses reclassified to operations	317	323
Total comprehensive income	$24,789	$14,160

See accompanying notes.

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

	Common Stock					Treasury Stock		
	Shares	Par Value	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Loss	Shares	Value	Total Stockholders' Equity
Balances, December 31, 2014	411,824,039	$4,118	$4,361,320	$(1,041,392)	$(1,083)	(473,599)	$(4,862)	$3,318,101
Net income	—	—	—	25,324	—	—	—	25,324
Other comprehensive loss	—	—	—	—	(535)	—	—	(535)
Dividends declared on common stock	—	—	—	(71,123)	—	—	—	(71,123)
Repurchase of common shares	—	—	—	—	—	(60,603)	(720)	(720)
Issuance of common shares, net	6,610,100	66	78,486	—	—	—	—	78,552
Stock-based compensation, net	501,172	5	3,662	(115)	—	—	—	3,552
Balances, March 31, 2015	418,935,311	$4,189	$4,443,468	$(1,087,306)	$(1,618)	(534,202)	$(5,582)	$3,353,151

See accompanying notes.

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

	Three Months Ended March 31, 2015	2014
Operating activities		
Net income	$25,324	$14,239
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	66,296	60,549
Impairments	1,658	1,707
Amortization of deferred financing costs	2,072	973
Derivative net settlements, amortization and other interest rate hedge losses	(28)	(26)
Amortization of debt discounts (premiums)	476	(929)
Stock-based compensation expense	3,827	2,452
Loss on debt extinguishment	1,230	—
Debt extinguishment costs	(2,733)	—
Gains on dispositions of real estate and other assets, net	(11,336)	(1,715)
Non-cash revenue	(4,809)	(3,962)
Other	(14)	121
Changes in operating assets and liabilities:		
Deferred costs and other assets, net	(1,938)	(1,510)
Accounts payable, accrued expenses and other liabilities	(420)	(6,055)
Net cash provided by operating activities	79,605	65,844
Investing activities		
Acquisitions/investments of real estate	(265,740)	(157,972)
Collections of principal on loans receivable and real estate assets under direct financing leases	1,452	1,319
Proceeds from dispositions of real estate and other assets	71,547	6,243
Transfers of net sales proceeds (to) from restricted accounts under 1031 Exchanges	(6,937)	20,784
Transfers of net sales proceeds from (to) Master Trust Release	43,412	(6,345)
Net cash used in investing activities	(156,266)	(135,971)
Financing activities		
Borrowings under Revolving Credit Facilities	345,000	180,535
Repayments under Revolving Credit Facilities	(175,101)	(80,049)
Borrowings under mortgages and notes payable	—	10,000
Repayments under mortgages and notes payable	(167,102)	(14,116)
Deferred financing costs	(3,562)	(503)
Proceeds from issuance of common stock, net of offering costs	78,552	—
Proceeds from exercise of stock options	—	183
Purchase of treasury stock	(720)	(104)
Dividends paid/distributions to equity owners	(70,046)	(61,573)
Transfers from (to) escrow deposits with lenders	1,593	(850)
Net cash provided by financing activities	8,614	33,523
Net decrease in cash and cash equivalents	(68,047)	(36,604)
Cash and cash equivalents, beginning of period	176,181	66,588
Cash and cash equivalents, end of period	$108,134	$29,984

See accompanying notes.

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SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements
March 31, 2015
(Unaudited)

Note 1. Organization

Company Organization and Operations

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

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

As of March 31, 2015, our undepreciated gross investment in real estate and loans totaled approximately $8.23 billion, representing investments in 2,547 properties, including properties securing mortgage loans made by the Company. Of this amount, 98.7% consisted of our gross investment in real estate, representing ownership of 2,402 properties, having a gross investment of $8.12 billion, and the remaining 1.3% consisted of commercial mortgage loans receivable, having a gross investment of $107.4 million, secured by the remaining 145 properties or other related assets.

Recent Developments

2015 Credit Facility

On March 31, 2015, the Operating Partnership entered into a new $600.0 million unsecured Credit Agreement with various lenders with an initial term that expires on March 31, 2019 (extendable at the Operating Partnership's option to March 31, 2020, subject to certain requirements). The 2015 Credit Facility initially bears interest at a borrowing margin of LIBOR plus 1.70% and replaces the Operating Partnership's previous secured $400.0 million revolving credit facility. The Credit Agreement includes an accordion feature to increase the size of the 2015 Credit Facility to up to $1.0 billion, subject to satisfying certain requirements and obtaining additional lender commitments.

ATM Program Activity

During the three months ended March 31, 2015, the Corporation sold 6.6 million shares of its common stock having aggregate gross proceeds of $79.8 million and aggregate net sales proceeds of $78.6 million under its ATM Program.

Acquisitions and Dispositions

During the three months ended March 31, 2015, the Company purchased 53 properties, representing an aggregate gross investment in real estate properties of $265.5 million, which includes $0.2 million in revenue producing capital expenditures in existing properties. During the same period, the Company sold 15 properties for $77.2 million in gross sales proceeds. See Note 3 for additional discussion of the Company's investments.

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
March 31, 2015
(Unaudited)

Note 2. Summary of Significant Accounting Policies
Basis of Accounting and Principles of Consolidation
The accompanying unaudited consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the SEC. In the opinion of management, the unaudited consolidated financial statements include the normal, recurring adjustments necessary for a fair statement of the information required to be set forth therein. The results for interim periods are not necessarily indicative of the results for the entire year. Certain information and note disclosures, normally included in financial statements prepared in accordance with GAAP, have been condensed or omitted from these statements pursuant to SEC rules and regulations and, accordingly, these financial statements should be read in conjunction with the Company's audited consolidated financial statements as filed with the SEC in its Annual Report on Form 10-K for the fiscal year ended December 31, 2014.
The unaudited consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.
The Company has formed numerous special purpose entities to acquire and hold real estate encumbered by indebtedness (see Note 4). As a result, the majority of the Company's consolidated assets are held in these wholly-owned special purpose entities. Each special purpose entity is a separate legal entity and is the sole owner of its assets and responsible for its liabilities. The assets of these special purpose entities are not available to pay, or otherwise satisfy obligations to, the creditors of any owner or affiliate of the special purpose entity. At March 31, 2015 and December 31, 2014, net assets totaling $5.2 billion and $5.7 billion, respectively, were held, and net liabilities totaling $3.6 billion and $3.8 billion, respectively, were owed by these special purpose entities and are included in the accompanying consolidated balance sheets.
Use of Estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although management believes its estimates are reasonable, actual results could differ from those estimates.
Reclassifications
Certain reclassifications have been made to prior period balances to conform to the current period presentation. During the quarter ended March 31, 2015, the Company elected to early adopt ASU 2015-03 described below. Under the ASU, capitalized deferred financing costs, previously recorded in deferred costs and other assets on the consolidated balance sheet, are presented as a direct deduction from the carrying amount of the debt liability these costs relate to and retrospectively applied to prior periods. As of December 31, 2014, unamortized deferred financing costs of approximately $48.7 million were previously presented in deferred costs and other assets, net on the consolidated balance sheet and are now included as a reduction of debt. At March 31, 2015, unamortized deferred financing costs of $48.5 million are presented as a reduction of debt (see Note 4).
Segment Reporting
The Company views its operations as one segment, which consists of net leasing operations. The Company has no other reportable segments.
Real Estate Investments
Purchase Accounting and Acquisition of Real Estate - When acquiring a property for investment purposes, 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 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.

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SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
March 31, 2015
(Unaudited)

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 in 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.

Allowance for Doubtful Accounts

The Company reviews its rent and other tenant receivables for collectability on a regular basis, taking into consideration 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 tenant operates. The Company provided for reserves for uncollectible amounts totaling $9.2 million and $8.4 million at March 31, 2015 and December 31, 2014, respectively, against accounts receivable balances of $22.4 million and $21.3 million, respectively; receivables are recorded within deferred costs and other assets, net in the accompanying consolidated balance sheets.

For deferred rental revenues related to the straight-line method of reporting rental revenue, the collectability review includes management's estimates of amounts that will not be realized and an assessment of the risks inherent in the portfolio, giving consideration to historical experience and industry default rates for long-term receivables. The Company established a provision for losses of $9.0 million and $10.9 million at March 31, 2015 and December 31, 2014, respectively, against deferred rental revenue receivables of $50.7 million and $48.3 million, respectively.

Loans Receivable

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. There was no allowance for loan losses at March 31, 2015 or December 31, 2014.

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. As of March 31, 2015 and December 31, 2014, there were no mortgages or notes on nonaccrual status.

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
March 31, 2015
(Unaudited)

Restricted Cash and Escrow Deposits

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

	March 31, 2015	December 31, 2014
Collateral deposits [(1)]	$29,783	$29,483
Tenant improvements, repairs, and leasing commissions [(2)]	13,130	13,427
Master Trust Release [(3)]	9,658	53,069
Title company escrow [(4)]	6,937	—
Loan impounds [(5)]	671	794
Other [(6)]	2,097	3,571
	$62,276	$100,344

[(1)] Funds held in reserve by lenders which, at their sole discretion, can be applied to the repayment of debt. Any funds remaining on deposit after the debt is paid in full are released to the borrower.
[(2)] Deposits held on collateral properties by lenders that are reserved to fund tenant improvements, repairs and leasing commissions incurred to secure a new tenant.
[(3)] Proceeds from the sale of assets within the Spirit Master Funding Program, which are held on deposit as collateral until a qualifying substitution is made.
[(4)] Includes net sales proceeds from property dispositions that can be released upon qualified re-investment from 1031 Exchanges.
[(5)] Funds held in lender controlled accounts generally used to meet future debt service or certain property operating expenses.
[(6)] Funds held in lender controlled accounts released within the following month after debt service requirements are met.

A significant amount of these reserves were established in connection with obtaining lender consents relating to our IPO during 2012 and the Cole II Merger during 2013.

Income Taxes

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

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

New Accounting Pronouncements

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

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires that deferred financing costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts or premiums. The amendments in this ASU are effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years.

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
March 31, 2015
(Unaudited)

The Company early adopted the provisions of ASU 2015-03 beginning with the period ended March 31, 2015, and has applied the provisions retrospectively.

Note 3. Investments
Real Estate Investments

As of March 31, 2015, the Company's gross investment in real estate and loans totaled approximately $8.23 billion, representing investments in 2,547 properties, including 145 properties securing mortgage loans. The gross investment is comprised of land, buildings, lease intangible assets and lease intangible liabilities, as adjusted for any impairment, and the carrying amount of loans receivable, real estate assets held under direct financing leases and real estate assets held for sale. The portfolio is geographically dispersed throughout 49 states with only one state, Texas, with an 11.9% investment, accounting for more than 10% of the total dollar amount of the Company’s investment portfolio.

The properties that the Company owns are leased to tenants under long-term operating leases that typically include one or more renewal options. The leases are generally triple-net, which provides that the lessee is responsible for the payment of all property operating expenses, including property taxes, maintenance and repairs, and insurance costs. Therefore, the Company is generally not responsible for repairs or other capital expenditures related to its properties, unless the property is not subject to a lease agreement.

During the three months ended March 31, 2015, the Company had the following real estate and loan activity, net of accumulated depreciation and amortization:

	Number of Properties			Dollar Amount of Investments, net		
	Owned [3]	Financed	Total	Owned	Financed	Total
				(In Thousands)		
Gross balance, December 31, 2014	2,364	145	2,509	$7,934,938	$109,425	$8,044,363
Acquisitions/improvements [1] [3]	53	—	53	265,740	—	265,740
Dispositions of real estate [2] [3]	(15)	—	(15)	(78,428)	—	(78,428)
Principal payments and payoffs	—	—	—	—	(1,403)	(1,403)
Impairments	—	—	—	(1,555)	—	(1,555)
Write off of gross lease intangibles	—	—	—	(1,844)	—	(1,844)
Loan premium amortization and other	—	—	—	(49)	(619)	(668)
Gross balance, March 31, 2015	2,402	145	2,547	$8,118,802	$107,403	$8,226,205
Accumulated depreciation and amortization						