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SPIRIT REALTY CAPITAL, INC.

Form 10-Q

August 09, 2018

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 June 30, 2018

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

Spirit Realty Capital, Inc. 001-36004

Spirit Realty, L.P. 333-216815-01

SPIRIT REALTY CAPITAL, INC.

SPIRIT REALTY, L.P.

(Exact name of registrant as specified in its charter)

Spirit Realty Capital,
Inc.

Maryland

20-1676382

Spirit Realty, L.P.

Delaware

20-1127940

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification Number)

2727 North Harwood Street, Suite 300, Dallas,
Texas 75201

(972) 476-1900

(Address of principal executive offices; zip code)

(Registrant's telephone number, including
area code)

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

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.

Spirit Realty Capital, Inc. Yes No Spirit Realty, L.P. 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).

Spirit Realty Capital, Inc. Yes No Spirit Realty, L.P. Yes No

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

Spirit Realty Capital, Inc.

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

Spirit Realty, L.P.

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Spirit Realty Capital, Inc. Spirit Realty, L.P.

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

Spirit Realty Capital, Inc. Yes No Spirit Realty, L.P. Yes No

As of August 6, 2018, there were 428,566,702 shares of common stock, par value \$0.01, of Spirit Realty Capital, Inc. outstanding.

Explanatory Note

This report combines the quarterly reports on Form 10-Q for the three and six months ended June 30, 2018 of Spirit Realty Capital, Inc., a Maryland corporation, and Spirit Realty, L.P., a Delaware limited partnership. Unless otherwise indicated or unless the context requires otherwise, all references in this report to “we,” “us,” “our,” or the “Company” refer to Spirit Realty Capital, Inc. together with its consolidated subsidiaries, including Spirit Realty, L.P. Unless otherwise indicated or unless the context requires otherwise, all references to the “Operating Partnership” refer to Spirit Realty, L.P. together with its consolidated subsidiaries.

Spirit General OP Holdings, LLC (“OP Holdings”) is the sole general partner of the Operating Partnership. The Company is a real estate investment trust (“REIT”) and the sole member of OP Holdings, as well as the special limited partner of the Operating Partnership. As sole member of the general partner of our Operating Partnership, our Company has the full, exclusive and complete responsibility for our Operating Partnership’s day-to-day management and control.

We believe combining the quarterly reports on Form 10-Q of our Company and Operating Partnership into a single report results in the following benefits:

- enhancing investors’ understanding of our Company and Operating Partnership by enabling investors to view the business as a whole, reflective of how management views and operates the business;
- eliminating duplicative disclosure and providing a streamlined presentation as a substantial portion of the disclosures apply to both our Company and Operating Partnership; and
- creating time and cost efficiencies by preparing one combined report in lieu of two separate reports.

There are a few differences between our Company and Operating Partnership, which are reflected in the disclosures in this report. We believe it is important to understand these differences in the context of how we operate as an interrelated, consolidated company. Our Company is a REIT, the only material assets of which are the partnership interests in our Operating Partnership. As a result, our Company does not conduct business itself, other than acting as the sole member of the general partner of our Operating Partnership, issuing equity from time to time and guaranteeing certain debt of our Operating Partnership. Our Operating Partnership holds substantially all the assets of our Company. Our Company issued convertible notes and guarantees some of the debt of our Operating Partnership. See Note 4 to the consolidated financial statements included herein for further discussion. Our Operating Partnership conducts the operations of the business and is structured as a partnership with no publicly traded equity. Except for net proceeds from the issuance of convertible notes and equity issuances by our Company, which are generally contributed to our Operating Partnership in exchange for partnership units of our Operating Partnership, our Operating Partnership generates the capital required by our Company’s business through our Operating Partnership’s operations or our Operating Partnership’s incurrence of indebtedness.

The presentation of stockholders’ equity and partners’ capital are the main areas of difference between the consolidated financial statements of our Company and those of our Operating Partnership. The partnership units in our Operating Partnership are accounted for as partners’ capital in our Operating Partnership’s consolidated financial statements.

There are no non-controlling interests in the Company or the Operating Partnership.

To help investors understand the significant differences between our Company and our Operating Partnership, this report presents the consolidated financial statements separately for our Company and our Operating Partnership. All other sections of this report, including “Selected Financial Data,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Quantitative and Qualitative Disclosures About Market Risk,” are presented together for our Company and our Operating Partnership.

In order to establish that the Chief Executive Officer and the Chief Financial Officer of each entity have made the requisite certifications and that our Company and Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934, or the Exchange Act, and 18 U.S.C. §1350, this report also includes separate “Item 4. Controls and Procedures” sections and separate Exhibit 31 and 32 certifications for each of our Company and our Operating Partnership.

SPIRIT REALTY CAPITAL, INC.
INDEX

Glossary	<u>3</u>
<u>PART I — FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	<u>5</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>41</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>65</u>
<u>Item 4. Controls and Procedures</u>	<u>66</u>
<u>PART II — OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>67</u>
<u>Item 1A. Risk Factors</u>	<u>67</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>67</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>67</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>67</u>
<u>Item 5. Other Information</u>	<u>67</u>
<u>Item 6. Exhibits</u>	<u>68</u>
<u>Signatures</u>	<u>70</u>

GLOSSARY

Definitions:

1031 Exchange	Tax-deferred like-kind exchange of properties held for business or investment purposes, pursuant to Section 1031 of the Code
2017 Tax Legislation	Tax Cuts and Jobs Act
2019 Notes	\$402.5 million convertible notes of the Corporation due in 2019
2021 Notes	\$345.0 million convertible notes of the Corporation due in 2021
AFFO	Adjusted Funds From Operations
Amended Incentive Award Plan	Amended and Restated Spirit Realty Capital, Inc. and Spirit Realty, L.P. 2012 Incentive Award Plan
ASC	Accounting Standards Codification
Asset Management Agreement	Asset Management Agreement between Spirit Realty, L.P. and Spirit MTA REIT dated May 31, 2018
ASU	Accounting Standards Update
ATM Program	At the Market equity distribution program, pursuant to which the Company may offer and sell registered shares of common stock from time to time
CMBS Code	Commercial Mortgage Backed Securities Internal Revenue Code of 1986, as amended
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 Master Trust 2013 and Master Trust 2014
Company	The Corporation and its consolidated subsidiaries
Contractual Rent	Monthly contractual cash rent and earned income from direct financing leases, excluding percentage rents, from our properties owned fee-simple or ground leased, recognized during the final month of the reporting period, adjusted to exclude amounts received from properties sold during that period and adjusted to include a full month of contractual rent for properties acquired during that period.
Convertible Notes	The 2019 Notes and 2021 Notes, together
Corporation	Spirit Realty Capital, Inc., a Maryland corporation
CPI	Consumer Price Index
Credit Agreement	Revolving credit facility agreement between the Operating Partnership and certain lenders dated March 31, 2015, as amended or otherwise modified from time to time
EBITDAre	EBITDAre is a non-GAAP financial measure and is computed in accordance with standards established by NAREIT. EBITDAre is defined as net income (loss) (computed in accordance with GAAP), plus interest expense, plus income tax expense (if any), plus depreciation and amortization, plus (minus) losses and gains on the disposition of depreciated property, plus impairment write-downs of depreciated property and investments in unconsolidated real estate ventures, plus adjustments to reflect the Company's share of EBITDAre of unconsolidated real estate ventures.
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FFO	Funds From Operations
Fitch	Fitch Ratings, Inc.
GAAP	Generally Accepted Accounting Principles in the United States
LIBOR	London Interbank Offered Rate
Master Trust 2013	The net-lease mortgage securitization trust established in December 2013
Master Trust 2014	The net-lease mortgage securitization trust established in 2005 and amended and restated in 2014

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Master Trust Legal, accounting, and financial advisory services costs incurred in connection with the Exchange
Exchange Costs Offer
Master Trust Master Trust 2013 and Master Trust 2014 notes, together
Notes

3

Definitions:

Master Trust Release	Proceeds from the sale of assets securing the Master Trust Notes held in restricted accounts until a qualifying substitution is made or until used for principal reduction
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
Property Management and Servicing Agreement	Second amended and restated agreement governing the management services and special services provided to Master Trust 2014 by Spirit Realty, L.P., dated as of May 20, 2014, as amended, supplemented, amended and restated or otherwise modified
Real Estate Investment Value	The gross acquisition cost, including capitalized transaction costs, plus improvements and less impairments, if any
REIT	Real Estate Investment Trust
Revolving Credit Facility	\$800.0 million unsecured credit facility pursuant to the Credit Agreement
S&P	Standard & Poor's Rating Services
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
Senior Unsecured Notes	\$300 million aggregate principal amount of senior notes issued in August 2016
Series A Preferred Stock	6,900,000 shares of 6.000% Cumulative Redeemable Preferred Stock issued October 3, 2017, with a liquidation preference of \$25.00 per share.
Shopko	Specialty Retail Shops Holding Corp. and certain of its affiliates
SMTA	Spirit MTA REIT, a Maryland real estate investment trust
Spin-Off	Creation of an independent, publicly traded REIT, SMTA, through our contribution of properties leased to Shopko, assets that collateralize Master Trust 2014 and other additional assets to SMTA followed by the distribution by us to our stockholders of all of the common shares of beneficial interest in SMTA.
SubREIT	Spirit MTA SubREIT, a wholly-owned subsidiary of SMTA
Term Loan	\$420.0 million senior unsecured term facility pursuant to the Term Loan Agreement
Term Loan Agreement	Term loan agreement between the Operating Partnership and certain lenders dated November 3, 2015, as amended or otherwise modified from time to time
TSR	Total Stockholder Return
U.S.	United States
Vacant	Owned properties which are not economically yielding

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

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

SPIRIT REALTY CAPITAL, INC.

Consolidated Balance Sheets

(In Thousands, Except Share and Per Share Data)

(Unaudited)

	June 30, 2018	December 31, 2017
Assets		
Investments:		
Real estate investments:		
Land and improvements	\$ 1,586,288	\$ 1,598,355
Buildings and improvements	2,971,052	2,989,451
Total real estate investments	4,557,340	4,587,806
Less: accumulated depreciation	(560,600)	(503,568)
	3,996,740	4,084,238
Loans receivable, net	55,438	78,466
Intangible lease assets, net	287,607	306,252
Real estate assets under direct financing leases, net	24,828	24,865
Real estate assets held for sale, net	18,825	20,469
Net investments	4,383,438	4,514,290
Cash and cash equivalents	9,289	8,792
Deferred costs and other assets, net	107,273	121,949
Investment in Master Trust 2014	33,581	—
Preferred equity investment in SMTA	150,000	—
Goodwill	225,600	225,600
Assets related to SMTA Spin-Off	—	2,392,880
Total assets	\$4,909,181	\$ 7,263,511
Liabilities and stockholders' equity		
Liabilities:		
Revolving Credit Facility	\$346,500	\$ 112,000
Term Loan, net	—	—
Senior Unsecured Notes, net	295,542	295,321
Mortgages and notes payable, net	467,334	589,644
Convertible Notes, net	722,756	715,881
Total debt, net	1,832,132	1,712,846
Intangible lease liabilities, net	125,905	130,574
Accounts payable, accrued expenses and other liabilities	121,858	131,642
Liabilities related to SMTA Spin-Off	—	1,968,840
Total liabilities	2,079,895	3,943,902
Commitments and contingencies (see Note 6)		
Stockholders' equity:		
Preferred stock and paid in capital, \$0.01 par value, 20,000,000 shares authorized: 6,900,000 shares issued and outstanding at both June 30, 2018 and December 31, 2017	166,193	166,193
Common stock, \$0.01 par value, 750,000,000 shares authorized: 428,570,110 and 448,868,269 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	4,286	4,489
Capital in excess of par value	4,986,719	5,193,631

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Accumulated deficit	(2,327,912)	(2,044,704)
Total stockholders' equity	2,829,286	3,319,609
Total liabilities and stockholders' equity	\$4,909,181	\$7,263,511

See accompanying notes.

5

SPIRIT REALTY CAPITAL, INC.

Consolidated Statements of Operations and Comprehensive Income

(In Thousands, Except Share and Per Share Data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues:				
Rentals	\$95,599	\$102,918	\$193,238	\$204,299
Interest income on loans receivable	294	754	1,289	1,527
Earned income from direct financing leases	465	518	930	1,130
Tenant reimbursement income	2,637	4,172	6,505	7,652
Related party fee income	2,219	—	2,219	—
Other income	1,245	308	1,817	559
Total revenues	102,459	108,670	205,998	215,167
Expenses:				
General and administrative	13,520	21,868	28,810	34,044
Property costs (including reimbursable)	4,806	7,780	10,357	14,013
Real estate acquisition costs	70	414	117	674
Interest	23,548	28,051	46,601	55,857
Depreciation and amortization	39,942	43,441	80,636	87,316
Impairments	1,478	10,074	4,975	37,957
Total expenses	83,364	111,628	171,496	229,861
Income (loss) from continuing operations before other income and income tax expense	19,095	(2,958)	34,502	(14,694)
Other income:				
Gain (loss) on debt extinguishment	5,509	7	27,092	(23)
(Loss) gain on disposition of assets	(860)	6,884	391	11,897
Preferred dividend income from SMTA	1,250	—	1,250	—
Total other income	5,899	6,891	28,733	11,874
Income (loss) from continuing operations before income tax expense	24,994	3,933	63,235	(2,820)
Income tax expense	(177)	(160)	(340)	(277)
Income (loss) from continuing operations	24,817	3,773	62,895	(3,097)
(Loss) income from discontinued operations	(7,653)	19,433	(15,013)	39,132
Net income and total comprehensive income	\$17,164	\$23,206	\$47,882	\$36,035
Dividends paid to preferred stockholders	(2,588)	—	(5,176)	—
Net income attributable to common stockholders	\$14,576	\$23,206	\$42,706	\$36,035
Net income per share attributable to common stockholders - basic:				
Continuing operations	\$0.05	\$0.01	\$0.13	\$(0.01)
Discontinued operations	(0.02)	0.04	(0.03)	0.08
Net income per share attributable to common stockholders - basic	\$0.03	\$0.05	\$0.10	\$0.07
Net income per share attributable to common stockholders - diluted				
Continuing operations	\$0.05	\$0.01	\$0.13	\$(0.01)
Discontinued operations	(0.02)	0.04	(0.03)	0.08
Net income per share attributable to common stockholders - diluted	\$0.03	\$0.05	\$0.10	\$0.07

SPIRIT REALTY CAPITAL, INC.

Consolidated Statements of Operations and Comprehensive Income

(In Thousands, Except Share and Per Share Data)

(Unaudited)

Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018
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