SPIRIT REALTY CAPITAL, INC.
Form S-11/A
August 31, 2012
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As filed with the Securities and Exchange Commission on August 31, 2012

Registration No. 333-177904

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 6

to

Form S-11

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Spirit Realty Capital, Inc.

(Exact Name of Registrant as Specified in Its Governing Instruments)

14631 North Scottsdale Road, Suite 200, Scottsdale, Arizona 85254

(480) 606-0820

(Address, Including Zip Code and Telephone Number, Including Area Code,

of Registrant s Principal Executive Offices)

Thomas H. Nolan, Jr., Chairman of the Board of Directors and Chief Executive Officer

Peter M. Mavoides, President and Chief Operating Officer

Spirit Realty Capital, Inc.

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the Securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box: ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement of the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. ¨

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. (Check One):

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

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment that specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)

Issued , 2012

Shares

Common Stock

Spirit Realty Capital, Inc. is a self-administered and self-managed real estate company. We invest 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.

We are selling shares of our common stock. This is our initial public offering and no public market currently exists for our common stock. We currently expect the initial public offering price of our common stock to be between $ and $ per share.

Our common stock has been approved for listing on the New York Stock Exchange under the symbol SRC.

As described herein, concurrently with the completion of this offering, we will issue additional shares of our common stock to certain of our existing lenders in exchange for the extinguishment of $330 million of our outstanding term loan debt. We will use a portion of the net proceeds from this offering to repay an additional $399 million of our outstanding term loan debt.

We have elected to be taxed as a real estate investment trust, or REIT, for federal income tax purposes commencing with our taxable year ended December 31, 2003. To assist us in complying with certain federal income tax requirements applicable to REITs, our charter contains certain restrictions relating to the ownership and transfer of our capital stock, including an ownership limit of 9.8% of our outstanding common stock. See Description of Our Capital Stock Restrictions on Ownership and Transfer for a detailed description of the ownership and transfer restrictions applicable to our common stock.

Investing in our common stock involves risks. See Risk Factors beginning on page 16.

PRICE $ PER SHARE

	Price to Public	Underwriting Discounts and Commissions	Proceeds, before Expenses, to Us
Per Share	$	$	$
Total	$	$	$

We have granted the underwriters an option to purchase up to additional shares of our common stock from us, at the initial public offering price, less underwriting discounts and commissions, within 30 days from the date of this prospectus to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of our common stock to purchasers on , 2012.

Morgan Stanley

Macquarie Capital

UBS Investment Bank

Deutsche Bank Securities

RBC Capital Markets

, 2012

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Through and including , 2012 (the 25th day after the date of this prospectus), all dealers that buy, sell or trade the common stock may be required to deliver a prospectus, regardless of whether they are participating in this offering. This is in addition to a dealer s obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

You should rely only on the information contained in this prospectus, or in any free writing prospectus prepared by us. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus and any free writing prospectus prepared by us is accurate only as of their respective dates or on the date or dates which are specified in these documents. Our business, financial condition, liquidity, results of operations and prospects may have changed since those dates.

We use market data and industry forecasts and projections throughout this prospectus, and in particular in the sections entitled Prospectus Summary, Market Opportunity and Business and Properties. We have obtained substantially all of this information from a market study prepared for us in connection with this offering by Rosen Consulting Group, or RCG, a nationally recognized real estate consulting firm. We have paid RCG a fee of $60,000 for that market study. Such information is included in this prospectus in reliance on RCG s authority as an expert on such matters. Any forecasts prepared by RCG are based on data (including third party data), models and experience of various professionals, and are based on various assumptions, all of which are subject to change without notice. See Experts. In addition, we have obtained certain market and industry data from publicly available industry publications. These sources generally state that the information they provide has been obtained from sources believed to be reliable, but that the accuracy and completeness of the information are not guaranteed. The forecasts and projections are based on industry surveys and the preparers experience in the industry, and there is no assurance that any of the projected amounts will be achieved. We believe that the surveys and market research others have performed are reliable, but we have not independently verified this information.

Certain Terms Used in This Prospectus

Unless the context suggests otherwise, references in this prospectus to we, our, us and our company are to Spirit Realty Capital, Inc., a Marylan corporation, together with its consolidated subsidiaries, including Spirit Realty, L.P., which we refer to as our operating partnership.

In this prospectus, we refer to our lessees as tenants and our mortgage and equipment loan obligors as borrowers.

As used in this prospectus, annual rent equals rental revenue for the quarter ended June 30, 2012, multiplied by four.

The term original gross investment means our (and for periods prior to our July 31, 2007 privatization, our predecessor s) initial purchase price for investments, without giving effect to any adjustment to the book basis of our investments arising from our privatization or accumulated depreciation.

As used in this prospectus, the occupancy of our owned properties is calculated by dividing (1) the total number of our owned properties minus the number of our owned properties that are vacant and from which we are not receiving any rental payment, by (2) the total number of our owned properties.

As used in this prospectus, the debt conversion refers to the extinguishment of $330 million of our outstanding term loan indebtedness in exchange for the issuance to certain of our existing lenders of a number of shares of our common stock determined as described in this prospectus.

PROSPECTUS SUMMARY

The following summary highlights information contained elsewhere in this prospectus. This summary is not complete and does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, including the section entitled Risk Factors, as well as the financial statements and related notes included elsewhere in this prospectus, before making an investment decision. Unless otherwise indicated, the information contained in this prospectus assumes (1) that the underwriters over-allotment option is not exercised, (2) that the common stock to be sold in this offering is sold at $ per share, which is the mid-point of the price range set forth on the front cover of this prospectus and (3) the issuance of shares of our common stock to certain lenders in exchange for the extinguishment of $330 million of our outstanding term loan debt. The actual number of shares of our common stock issued to certain of our lenders will vary as described herein. See Pricing Sensitivity Analysis.

Spirit Realty Capital, Inc.

Overview

We invest 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 our tenants conduct retail, service or distribution 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 generate our revenue primarily by leasing our properties to our tenants. As of June 30, 2012, our undepreciated gross investment in real estate and loans totaled approximately $3.6 billion, representing investment in 1,183 properties, including properties securing our mortgage loans. Of this amount, 98.3% consisted of our gross investment in real estate, representing ownership of 1,096 properties, and the remaining 1.7% consisted of commercial mortgage and equipment loans receivable secured by 87 properties or related assets. As of June 30, 2012, our owned properties were approximately 98.2% occupied (based on number of properties), and our leases had a weighted average non-cancelable remaining lease term (based on annual rent) of approximately 11.4 years. Our leases are generally long-term, with non-cancelable initial terms typically of 15 to 20 years and tenant renewal options for additional terms. As of June 30, 2012, approximately 96% of our leases (based on annual rent) provided for increases in future annual base rent.

Our portfolio of 1,096 owned properties was leased to approximately 165 tenants as of June 30, 2012. In February 2012, two of our general merchandising tenants, Shopko Stores Operating Co., LLC, or Shopko, and Pamida Stores Operating Co. LLC, or Pamida, completed a merger. As a result, the combined company, or Shopko/Pamida, contributed 30.2% of our annual rent as of June 30, 2012. No other tenant contributed more than 10% of our annual rent as of June 30, 2012. Our tenants operate in 18 different industries, including: general, specialty and discount retail; restaurants; movie theaters; automotive dealers; educational and recreational facilities; and supermarkets. Our properties are geographically diversified across 47 states, with only 4 states contributing more than 5.0% of our annual rent.

The diversity of our portfolio has contributed to its stable occupancy. As of June 30, 2012 and December 31, 2011, 2010, 2009, 2008 and 2007, our occupancy rate (based on number of properties) was 98.2%, 98.4%, 96.3%, 99.4%, 99.0% and 100%, respectively. We believe that the occupancy of our portfolio, particularly during the economic downturn of 2008 through 2010, reflects its strength. As illustrated in the chart below, since inception in 2003 our occupancy has never been below 96.1% (based on number of properties).

Currently, we lease 181 properties to Shopko/Pamida, 179 of which are leased pursuant to three master leases that, as of June 30, 2012, had a weighted average non-cancelable remaining lease term of approximately 13.3 years. Prior to Shopko s merger with Pamida, we leased 114 properties to Shopko (which would have contributed 26.5% of our annual rent as of June 30, 2012) and 67 properties to Pamida (which would have contributed 3.7% of our annual rent as of June 30, 2012). We believe that, over time, the merger of Shopko and Pamida will be beneficial to our portfolio from a credit perspective, because we expect: (1) properties that previously operated under the Pamida brand will be improved and converted to the Shopko brand; and (2) the operations at the 114 of our properties that historically have operated under the Shopko brand will continue as they have historically at the property level. However, no assurance can be given as to the future performance of the merged Shopko/Pamida entity or its stores. See Risk Factors Risks Related to Our Business and Properties A substantial number of our properties are leased to one tenant, which may result in increased risk due to tenant and industry concentrations.

Expected Impact of Shopko/Pamida Merger on Pre-Merger Pamida Properties

Shopko/Pamida has indicated that it intends to convert Pamida properties to the Shopko store concept and brand by the end of 2012 and that it will make a significant cash investment in connection with the conversion process to improve store design and layout, purchase new interior and exterior signage, update fixtures and expand the merchandise mix. The conversions are scheduled to be done in six phases, the first two of which have been completed as of August 9, 2012. Based on financial information supplied to us by Shopko/Pamida, Shopko/Pamida has significantly increased both sales and gross margins at the stores converted in the first two phases.

The leases relating to the Pamida properties are now guaranteed by Specialty Retail Shops Holding Corp., the parent company of Shopko, or the Shopko Guarantor.

Expected Impact of Shopko/Pamida Merger on Pre-Merger Shopko Properties

Prior to the merger, the 114 properties that we leased to Shopko had a property-level rent coverage ratio in excess of our target underwriting standard of 2.0x, and, after the merger, for the 13 weeks ended April 28, 2012, the 179 properties that we leased to the combined Shopko/Pamida entity continued to have a property-level rent coverage ratio in excess of our target underwriting standard of 2.0x (in each case, based on information provided to us by Shopko/Pamida). For a discussion of how we calculate property-level rent coverage, see Business and Properties Risk Management Tenant Financial Distress Risk Early Lease Termination Risk Measurement.

After giving effect to various merger costs and expenses associated with converting Pamida properties to the Shopko brand, as of April 28, 2012, Shopko/Pamida s shadow rating, as generated by a product licensed by us from Moody s Analytics, Inc., or Moody s Analytics, continues to meet the targeted average for our portfolio.

We believe that the operations at the properties that historically have operated under the Shopko brand will continue as they have historically at the property level. Based on financial information provided to us by Shopko prior to the merger, Shopko s operating performance had improved in recent years in a competitive environment. Additionally, 96.3% of the properties that we leased to Shopko prior to its merger with Pamida operated within 10 miles of a Walmart for the last eight years (99.1% for the last four years), demonstrating the competitive viability of these properties.

As we look to selectively grow our portfolio, we will seek to leverage the experience of our senior management team and our existing underwriting, leasing, asset management and reporting infrastructure. We believe the acquisition of additional operationally essential retail, service and distribution properties, coupled with our $3.6 billion seasoned investment portfolio, will provide the opportunity to achieve superior risk-adjusted returns. We intend to continue to actively manage our existing portfolio and invest in real estate that produces stable rental revenue that increases over time pursuant to contractually specified rent increases.

Our History

We were formed in 2003 and became a public company in December 2004. We were subsequently taken private by a consortium of private investors in August 2007 in a transaction that was structured and led by an affiliate of Macquarie Capital (USA) Inc., one of the underwriters of this offering, which we refer to as our privatization. Following our privatization, we initially continued to execute our business plan and grow our portfolio. However, during 2008, in response to deteriorating economic conditions, we shifted our focus to reducing our indebtedness and managing our portfolio. From January 1, 2008 to June 30, 2012, we reduced our indebtedness by $627.6 million. The vast majority of the owned properties in our portfolio as of June 30, 2012 were acquired prior to our privatization. Our senior management team is comprised of executives with significant real estate, capital markets and net lease industry experience. Thomas H. Nolan, Jr., our Chief Executive Officer, has been active in the real estate industry for over 25 years, holding numerous leadership positions in private and public real estate companies. Peter M. Mavoides, our President and Chief Operating Officer, has been active in the single-tenant, net lease industry for over 14 years, holding leadership positions for the past 9 years. During the last twelve months, we have completed approximately $111.5 million of acquisitions.

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.

Competitive Strengths

We believe the following competitive strengths contribute to the stability of our rental revenues and distinguish us from our competitors:

Large Scale and Diversified Portfolio. As of June 30, 2012, our portfolio consisted of 1,096 owned properties, with approximately 165 tenants operating in 47 states and diversified across 18 different industries, including: general, specialty and discount retail; restaurants; movie theaters; automotive dealers; educational and recreational facilities; and supermarkets. We believe it would be difficult for a new competitor to replicate such a diversified portfolio on a comparable scale. The diversity of our portfolio reduces the risks associated with adverse events affecting a particular tenant or an economic decline in any particular state or industry. Additionally, the scale of our portfolio allows us to make acquisitions without introducing additional concentration risks. In addition, our operating platform is scalable and will allow us to make new investments without the need for significant additional administrative or management costs.

Long-Term Triple-Net Leases. As of June 30, 2012, our owned properties were approximately 98.2% occupied (based on number of properties), with a weighted average non-cancelable remaining lease term (based on annual rent) of approximately 11.4 years. Due to the triple-net structure of approximately 95% of our leases (based on annual rent) as of June 30, 2012, we do not expect to incur significant capital expenditures, and the potential impact of inflation on our operating expenses is minimal. Additionally, as of June 30, 2012, approximately 96% of our leases (based on annual rent) provided for increases in future annual base rent.

Established Company with Proven Performance. Our company has been actively investing in triple-net leased real estate since 2003, is well-known within the industry and benefits from an established infrastructure supporting our underwriting, leasing, asset management and reporting functions. From our inception in 2003 through June 30, 2012, we have made gross investments of approximately $4.11 billion in properties and loans receivable. The vast majority of our owned properties as of June 30, 2012 were acquired prior to our privatization. Since our inception, our occupancy has never been below 96.1% (based on number of properties), despite the economic downturn of 2008 through 2010. We believe that our experience, in-depth knowledge of the triple-net lease market and extensive network of long-standing relationships in the real estate industry will contribute to the stability of our rental revenues and also provide us access to a pipeline of attractive investment opportunities to allow us to expand our revenue base.

Disciplined Underwriting and Risk Management Expertise. Our developed underwriting and risk management expertise enhances our ability to identify and structure investments that provide superior risk-adjusted returns, due to specific investment risks that we believe can be identified and mitigated through intensive credit and real estate analysis, tailored lease structures (such as master leases) and ongoing tenant monitoring. When underwriting new acquisitions we generally target property-level rent coverage ratios in excess of 2.0x. Since our inception in 2003 through June 30, 2012, our estimated cumulative loss resulting from properties and loans receivable experiencing financial distress, which we define as tenant bankruptcy or tenant non-performance resulting in our possession of the properties, was $130.5 million (of which we have realized $113.4 million of losses), or 3.2% of our original gross investment since inception. Our recovery rate on properties and loans receivable experiencing financial distress (including an estimate for properties in distress that have not yet been resolved) during that period is 69.4%. We believe our developed underwriting and risk management expertise has contributed to identifying and mitigating risk and our recovery rate. For a discussion of how we calculated estimated cumulative loss and our recovery rate, see Business and Properties Risk Management Tenant Financial Distress Risk Historical Summary of Tenant Financial Distress Portfolio.

Experienced Management Team. Our senior management has significant experience in the real estate industry and in managing public companies. Our Chairman and Chief Executive Officer, Thomas H. Nolan, Jr., has been active in the real estate industry for over 25 years, holding numerous leadership positions in private and public real estate companies. Our President and Chief Operating Officer, Peter M. Mavoides, has been active in the single-tenant, net lease industry for over 14 years, holding leadership positions for the past 9 years. Our Chief Financial Officer, Michael A. Bender, has held leadership positions for over 20 years in finance and real estate. Our Senior Vice President, Gregg A. Seibert, who has been with us since our inception, has over 20 years of experience in real estate finance, including over 15 years of leadership responsibilities in credit, acquisitions and portfolio management in the sale-leaseback sector.

Attractive In-Place Long-Term Indebtedness. Upon the completion of this offering and the debt conversion, we expect to have approximately $2.0 billion principal balance of non-recourse mortgage indebtedness outstanding on a pro forma basis, which had a weighted average maturity of 6.3 years as of June 30, 2012 and an average annual interest rate of approximately 6.10% for the six months ended June 30, 2012 (excluding non-cash interest expense attributable to the amortization of deferred financing costs and debt discounts). Prior to January 1, 2016, we only have $138.8 million of balloon payments due at maturity. Approximately $1.7 billion principal balance of our pro forma indebtedness is fully or partially amortizing, providing for an ongoing reduction in principal prior to maturity. In addition, we expect to have a $100 million secured revolving credit facility upon the completion of this offering to help fund future acquisitions and for general corporate purposes. For a description of the debt conversion, see Concurrent Debt Conversion.

Business and Growth Strategies

Our objective is to maximize stockholder value by seeking superior risk-adjusted returns, with an emphasis on stable rental revenue, by investing primarily in single-tenant, operationally essential real estate leased on a long-term, triple-net basis. Single-tenant, operationally essential real estate consists of properties that are generally free-standing, commercial real estate facilities where our tenants conduct retail, service or distribution activities that are essential to the generation of their sales and profits. As of June 30, 2012, we considered 99.5% of our occupied properties to be operationally essential. 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. For example, by acquiring multiple properties from a small or middle market company and leasing them back to the seller under a master lease, the leased properties may represent a meaningful percentage of the tenant s overall operations and increase the importance of the lease to the tenant s business. 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. We believe the efficacy of our underwriting and risk management processes is illustrated by the historical performance of 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 June 30, 2012, we had 52 master leases that had a weighted average non-cancelable remaining lease term (based on annual rent) of 12.9 years and contributed approximately 63.2% of our annual rent. Our largest master lease, consisting of 112 properties, contributed 26.4% of our annual rent, and our smallest master lease, consisting of two properties, contributed less than 1% of our annual rent. The average number of properties included under our master leases as of June 30, 2012 was 12.1.

¡ *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. See Business and Properties Risk Management. 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-term return on our invested capital.

- *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. As of June 30, 2012, Shopko/Pamida contributed 30.2% of our annual rent. No other tenant contributed more than 10% of our annual rent, and no one single property contributed more than 2.1% of our annual rent.

Enhance Our Portfolio through Contractual Growth. Approximately 96% of our leases (based on annual rent) contain contractual provisions that increase the rental revenue over the term of the lease. Of these leases, 26% contain fixed contractual rental increases, and the remaining 74% contain increases based on the lesser of a fixed contractual percentage increase or the increase in the consumer price index, or CPI. Assuming the same CPI growth experienced during the 12 months ended June 30, 2012, our contractual rent growth for the 12 months ending June 30, 2013 would be $3.1 million. Included in this amount is the impact of increases in rent under our master leases with Shopko/Pamida ($0.5 million) and our lease with Universal Pool Co, Inc., which is scheduled to occur in September 2012 ($0.4 million). Rents under our master leases with Shopko/Pamida adjust every three years, and rents under our master leases with Universal Pool Co., Inc. adjust every five years.

Selectively Grow Our Portfolio through Acquisitions. We plan to selectively make acquisitions that contribute to our portfolio s tenant, industry and geographic diversification. According to RCG, a nationally recognized real estate consulting firm, through June 30, 2012 the 12-month trailing investment volume in single-tenant properties was $22.0 billion. Given this volume of transactions in the single-tenant market, we believe there will be ample acquisition opportunities fitting our acquisition criteria. During the last twelve months, we have completed approximately $111.5 million of acquisitions consistent with our underwriting criteria. 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.

Continue to Deleverage Our Portfolio. Upon the completion of this offering and the debt conversion, we expect to have approximately $2.0 billion principal balance of non-recourse mortgage indebtedness outstanding on a pro forma basis (this represents a decrease of approximately $1.4 billion of indebtedness from January 1, 2008). Additionally, most of our remaining debt will be 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 $157.6 million prior to January 1, 2016. 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.

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. It is our intention to pursue a long-term capital strategy that brings our leverage profile in line with that of our peers over time. Although we are not required to maintain a particular leverage ratio, 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 anticipate using a number of different sources to finance our acquisitions and operations going forward, including cash from operations, issuance of debt securities, 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 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.

Market Opportunity

According to a market study prepared for us in connection with this offering by RCG, the current outlook for the net leased real estate market is positive for the following reasons:

- the net lease market has historically provided investors with attractive returns across various economic cycles when compared to other types of real estate investments;
- increased single-tenant transaction volume reflects investors growing interest in single-tenant investment opportunities;
- the market is well positioned to accommodate increased investment activity given the $1.5 trillion to more than $2.0 trillion of U.S. real estate estimated to be held by corporate owner-occupiers; and
- strict lending guidelines, a reduced appetite for risk from both debt and equity investors and upcoming mortgage and corporate debt maturities should yield attractive pricing for many single-tenant, net leased properties and increased opportunities for sale-leaseback transactions.

Summary Risk Factors

You should carefully consider the matters discussed in the Risk Factors section beginning on page 16 of this prospectus prior to deciding whether to invest in our common stock. Some of these risks include:

- We are subject to risks related to commercial real estate ownership that could reduce the value of our properties.
- Global market and economic conditions may materially and adversely affect us and our tenants.
- Our business is dependent upon our tenants successfully operating their businesses and their failure to do so 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.

One tenant, operating in the building materials industry, leases a substantial number of our properties that contribute 6.7% of our annual rent and has been adversely affected by the current economic environment, which may result in increased risk of tenant default.

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

We expect to have approximately $2.0 billion principal balance of indebtedness outstanding following this offering and the debt conversion on a pro forma basis, which may expose us to the risk of default under our debt obligations.

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.

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

There can be no assurance that we will be able to make or maintain cash distributions, and certain agreements relating to our indebtedness may, under certain circumstances, limit or eliminate our ability to make distributions to our common stockholders.

Concurrent Debt Conversion

We currently have outstanding $729 million of term loan indebtedness, or the term loan, maturing in August 2013. The term loan is separated into two tranches: term loan B, or TLB, with an outstanding principal balance of $399 million and term loan C, or TLC, with an outstanding principal balance of $330 million. As described in further detail in Pricing Sensitivity Analysis, upon the completion of this offering, all $330 million of our currently outstanding TLC will be extinguished and converted into shares of our common stock. We refer to this transaction as the debt conversion. The number of shares of our common stock to be issued to TLC lenders in the debt conversion depends, in part, on the initial public offering price. See Pricing Sensitivity Analysis for a sensitivity analysis of the number of shares to be issued in the debt conversion. Assuming an initial public offering price of $ per share, which is the mid-point of the price range set forth on the front cover of this prospectus, we would issue shares of our common stock in the debt conversion.

Distribution Policy

We intend to pay cash distributions to our common stockholders out of assets legally available. We intend to make a pro rata distribution with respect to the period commencing upon the completion of this offering and ending on , 2012 based on a distribution rate of $ per share of our common stock for a full quarter. On an annualized basis, this would be $ per share of our common stock, or an annual distribution rate of approximately % based on the mid-point of the price range set forth on the front cover of this prospectus. We intend to maintain our initial distribution rate for the 12 months following the completion of this offering unless our results of operations, funds from operations, or FFO, liquidity, cash flows, financial condition, or prospects, economic conditions or other factors differ materially from the assumptions used in projecting our initial distribution rate. 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. We do not intend to reduce the expected distribution per share if the underwriters over-allotment option is exercised.

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.

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Restrictions on Ownership and Transfer of Our Common Stock

Our charter, subject to certain exceptions, authorizes our directors to take such actions as are necessary or appropriate to preserve our qualification as a REIT. Furthermore, our charter prohibits any person from actually or constructively owning more than 9.8% in value or in number, whichever is more restrictive, of the outstanding shares of our common stock or 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 discretion, may exempt a proposed transferee from the ownership limits if certain conditions are satisfied. However, our board of directors may not grant an exemption from the ownership limits to any proposed transferee whose ownership, direct or indirect, in excess of 9.8% of the value or number of outstanding shares of our common stock or 9.8% in value of the aggregate of the outstanding shares of all classes or series of our stock, could jeopardize our status as a REIT. These restrictions on transferability and ownership will not apply if our board of directors determines that it is no longer in our best interests to continue to qualify as a REIT. The ownership limits may delay or impede a transaction or a change of control that might be in your best interest. See Description of Our Capital Stock Restrictions on Ownership and Transfer.

Our Tax Status

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. To maintain REIT status, we must meet a number of organizational and operational requirements, including a requirement that we 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 gains. See Federal Income Tax Considerations.

Corporate Information

We were formed in 2003 and became a public company in December 2004. We were subsequently taken private in August 2007. Our principal executive office is located at 14631 North Scottsdale Road, Suite 200, Scottsdale, Arizona 85254. Our telephone number is (480) 606-0820.

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The Offering

Common stock offered by us	shares (plus up to an additional shares of our common stock that we may issue and sell upon the exercise of the underwriters over-allotment option in full).
Common stock to be outstanding after this offering and the debt conversion	shares[(1)]
Use of proceeds	We estimate that the net proceeds to us from this offering, after deducting underwriting discounts and commissions and other estimated expenses payable by us, will be approximately $ million, based on an assumed initial public offering price of $ per share, which is the mid-point of the price range set forth on the front cover of this prospectus ($ million if the underwriters exercise their over-allotment option in full). We intend to use $399 million of the net proceeds from this offering to repay our outstanding TLB, $ million for estimated costs and expenses associated with securing lenders consents to this offering and the secured revolving credit facility we expect to enter into upon the completion of this offering and the remainder for general business and working capital purposes, including potential future acquisitions. See Use of Proceeds.
Risk Factors	Investing in our common stock involves risks. You should carefully read and consider the information set forth under the heading Risk Factors beginning on page 16 and other information included in this prospectus before investing in our common stock.
New York Stock Exchange symbol	SRC.

(1) Includes (a) shares of our common stock held by continuing investors (other than our directors, executive officers and other employees), (b) shares of our common stock that we will issue to TLC lenders in the concurrent debt conversion, assuming an initial public offering price of $ per share, which is the mid-point of the price range set forth on the front cover of this prospectus, and (c) shares of our common stock to be owned by or granted to our directors, executive officers and other employees (including shares of restricted common stock to be granted pursuant to the Spirit Realty Capital, Inc. and Spirit Realty, L.P. 2012 Incentive Award Plan, or the Incentive Award Plan), assuming an initial public offering price of $ per share, which is the mid-point of the price range set forth on the front cover of this prospectus. See Pricing Sensitivity Analysis for a sensitivity analysis of the number of shares to be issued in the debt conversion and to be granted to our directors, executive officers and other employees. Excludes (i) shares of our common stock issuable upon the exercise of the underwriters over-allotment option in full and (ii) shares of our common stock reserved for further issuance under the Incentive Award Plan, as more fully described in Executive Compensation Incentive Award Plan.

Summary Selected Financial Data

Our historical consolidated balance sheet data as of December 31, 2011 and 2010 and consolidated operating data for the years ended December 31, 2011, 2010 and 2009 have been derived from our audited historical consolidated financial statements included elsewhere in this prospectus. Our historical consolidated balance sheet data as of December 31, 2009 has been derived from our historical consolidated financial statements not included in this prospectus. The below information also includes our unaudited consolidated balance sheet data as of June 30, 2012 and our unaudited consolidated operating data for the six months ended June 30, 2012 and June 30, 2011 which have been derived from our historical unaudited consolidated financial statements included elsewhere in this prospectus. The unaudited consolidated financial statements were prepared on a basis consistent with our audited financial statements and include, in the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of the financial information contained in those statements. Our historical consolidated financial data included below and set forth elsewhere in this prospectus are not necessarily indicative of our future performance.

Our unaudited summary selected pro forma consolidated financial and operating data as of and for the six months ended June 30, 2012 and for the year ended December 31, 2011 assumes the completion of this offering, the debt conversion and related transactions as of the beginning of the periods presented for the operating data and as of the stated date for the balance sheet data. Our pro forma financial information is not necessarily indicative of what our actual financial position and results of operations would have been as of the date and for the period indicated, nor does it purport to represent our future financial position or results of operations.

You should read the following summary selected financial and other data together with Management s Discussion and Analysis of Financial Condition and Results of Operations, Business and Properties and our consolidated financial statements and related notes appearing elsewhere in this prospectus.

	Six Months Ended June 30, (in thousands, except share and per share data)			Year Ended December 31, (in thousands, except share and per share data)			
	Pro forma 2012 (unaudited)	Historical 2012 (unaudited)	Historical 2011 (unaudited)	Pro forma 2011 (unaudited)	Historical 2011	Historical 2010	Historical 2009
Operating Data:							
Revenues:							
Rentals	$ 137,536	$ 137,536	$ 132,848	$ 267,938	$ 267,938	$ 267,681	$ 263,985
Interest income on loans receivable	3,012	3,012	3,453	6,772	6,772	9,572	10,098
Interest income and other	545	545	464	820	820	14,481	6,476
Total revenues	141,093	141,093	136,765	275,530	275,530	291,734	280,559
Expenses:							
General and administrative	12,416	14,100	12,710	25,259	28,312	19,613	19,842
Litigation			151	151	151	22,282	
Property costs	2,310	2,310	2,731	5,024	5,024	2,777	2,915
Interest	66,497	81,230	83,001	134,426	169,888	173,054	208,538
Depreciation and amortization	55,567	55,567	55,209	110,347	110,347	110,685	111,437
Impairments	8,850	8,850	457	11,511	11,511	23,152	7,584
Total expenses	145,640	162,057	154,259	286,718	325,233	351,563	350,316
Total other income (expense)						(3,110)	6,810
Loss from continuing operations before income tax expense (benefit)	(4,547)	(20,964)	(17,494)	(11,188)	(49,703)	(62,939)	(62,947)
Income tax expense (benefit)	319	319	110	(60)	(60)	239	3,346
Loss from continuing operations	$ (4,866)	(21,283)	(17,604)	$ (11,128)	(49,643)	(63,178)	(66,293)
Income (loss) from discontinued operations [1]		99	(6,730)		(14,220)	(23,359)	(56,390)
Net loss		$ (21,184)	$ (24,334)		$ (63,863)	$ (86,537)	$ (122,683)
Loss per share of common stock from continuing operations:							
Basic and diluted	$			$			
Weighted average number of common shares outstanding:							
Basic and diluted [2]							

(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) Weighted average number of common shares outstanding (basic and diluted) has been adjusted to reflect the for 1 stock dividend to be paid prior to the completion of this offering and excludes unvested restricted stock awards. Pro forma amounts assume this offering and the TLC conversion into common stock occurred on January 1, 2011. No potentially dilutive securities were included as their effect would be anti-dilutive.

	Six Months Ended June 30, (dollars in thousands)			Year Ended December 31, (dollars in thousands)			
	Pro forma 2012 (unaudited)	Historical 2012 (unaudited)	Historical 2011 (unaudited)	Pro forma 2011 (unaudited)	Historical 2011	Historical 2010	Historical 2009
Balance Sheet Data (end of period):							
Gross investments including related lease intangibles	$ 3,602,416	$ 3,602,416			$ 3,582,870	$ 3,610,834	$ 3,740,261
Real estate, net	2,851,243	2,851,243			2,867,302	2,979,496	3,116,070
Cash and cash equivalents	67,487	71,735			49,536	88,341	65,072
Total assets	3,219,287	3,224,689			3,231,561	3,396,842	3,618,507
Debt obligations	1,897,263	2,632,755			2,627,146	2,730,994	2,866,923
Total liabilities	1,969,075	2,717,561			2,705,201	2,806,741	2,948,828
Stockholders equity	1,250,212	507,128			526,360	590,101	669,679
Other Data:							
Cash NOI from continuing operations before lease termination fees [1]	$ 137,290	$ 137,290	$ 132,911	$ 268,282	$ 268,282	$ 272,788	$ 269,582
FFO [1]		$ 43,412	$ 38,175		$ 69,782	$ 70,563	$ 58,112
FFO from continuing operations, as adjusted [1]	$ 62,547	$ 43,292	$ 38,143	$ 113,788	$ 69,173	$ 94,359	$ 39,240
EBITDA from continuing operations [1]	$ 117,517	$ 115,833	$ 120,716	$ 233,585	$ 230,532	$ 220,800	$ 257,028
EBITDA from continuing operations, as adjusted [1]	$ 129,205	$ 124,683	$ 121,324	$ 251,347	$ 242,194	$ 269,344	$ 257,802
Number of properties in investment portfolio	1,183	1,183	1,150	1,153	1,153	1,161	1,157
Owned properties occupancy at period end (based on number of properties)	98%	98%	97%	98%	98%	96%	99%

[1] For definitions and reconciliations of Cash NOI from continuing operations before lease termination fees, FFO, FFO from continuing operations, as adjusted, EBITDA from continuing operations and EBITDA from continuing operations, as adjusted, see Selected Financial Data.

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RISK FACTORS

Investing in our common stock involves risks. Before you invest in our common stock, you should carefully consider the risk factors below together with all of the other information included in this prospectus. The occurrence of any of the following risks could materially and adversely affect our business, prospects, financial condition, liquidity, results of operations and our ability to service our debt and make or sustain distributions to our stockholders, which could result in a partial or complete loss of your investment in our common stock. Some statements in this prospectus, including statements in the following risk factors, constitute forward-looking statements. Please refer to the section in this prospectus entitled Special Note Regarding Forward-Looking Statements.

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 continue to be challenging as a result of 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 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 we consider 99.5% of our occupied properties to be 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.

In February 2012, two of our general merchandising tenants, Shopko and Pamida, completed a merger. Prior to Shopko s merger with Pamida, we leased 114 properties to Shopko (which would have contributed 26.5% of our annual rent as of June 30, 2012) and 67 properties to Pamida (which would have contributed 3.7% of our annual rent as of June 30, 2012). Currently, we lease 181 properties to Shopko/Pamida, 179 of which are leased pursuant to three master leases. Specialty Retail Shops Holding Corp., parent company of Shopko/Pamida, guarantees the Shopko/Pamida leases.

Shopko/Pamida s future financial condition and results of operations will depend, in part, upon the successful integration of Shopko and Pamida, which operated as separate companies prior to their merger in February 2012. Based on Shopko/Pamida s public statements, it is our understanding that Shopko/Pamida intends to convert Pamida locations to the Shopko store concept and brand. In connection with this conversion, Shopko/Pamida will likely incur additional costs, including costs associated with liquidating Pamida merchandise, restocking Pamida locations and converting Pamida locations to the Shopko brand. We expect that these expenses will initially reduce the property-level rent coverage ratio and the ratio of corporate-level EBITDAR to net interest and rent expense of the Shopko Guarantor. Though we believe that expenses of the merged Shopko/Pamida entity will normalize over time, it is also possible that the expected benefits of the Shopko/Pamida merger ultimately will not be realized, will only partially be realized or may take longer to realize than anticipated. If the Shopko/Pamida integration costs are more than expected or if expected benefits do not materialize over the intermediate term, Shopko/Pamida s creditworthiness may deteriorate, and it may seek rent discounts or deferrals from us or default in its lease obligations to us.

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. Effective January 2009, we began deferring collection and recognition of a portion of Shopko s rent for a two-year period totaling $3.0 million in the aggregate and postponed scheduled contingent rent increases during this time. In September 2010, Shopko repaid, and we recognized, the total accumulated deferred amount ($2.6 million) plus interest before its contractual due dates. As agreed, the scheduled contingent rent increase from Shopko was postponed from its originally scheduled date of June 2009 to June 2011, at which time Shopko began to pay and we began to recognize the increased rent amount.

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 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.

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.

One tenant, operating in the building materials industry, leases a substantial number of our properties that contribute 6.7% of our annual rent and has been adversely affected by the current economic environment, which may result in increased risk of tenant default.

Approximately $6.9 million of net annual cash flow, representing $18.4 million (6.7% of our annual rent) less non-cash revenue and non-recourse commercial mortgage-backed security, or CMBS, debt service, was generated by 101 properties that we master lease to 84 Properties, LLC and its affiliates. 84 Properties, LLC and its affiliates, which we collectively refer to as 84 Lumber, are privately held building materials and services suppliers to professional contractors and build-it-yourselfers that operate more than 280 stores, component plants, door shops, installation centers and engineered wood product shops in 35 states. Because a significant portion of our revenues is derived from rental revenues received from 84 Lumber, defaults, breaches or delay in payment of rent by 84 Lumber may materially and adversely affect us.

84 Lumber is currently meeting its rent payment obligations to us and based upon financial information supplied to us (which we cannot independently verify), the properties subject to the master lease generate sufficient EBITDAR to cover the rental payments due to us. However, 84 Lumber generated operating losses for the past three years and has historically used cash generated from the sale of surplus properties and loans from shareholders to fund these operating deficits. There can be no assurance that 84 Lumber will have the ability to continue to do this or that shareholders will continue to provide loans.

During 2011, there was a triggering event under the 84 Lumber CMBS loan agreement, which required the tenant to deposit (in addition to rental payments due under the master lease) escrow reserves for property taxes and insurance. This triggering event has since been cured. However, no assurance can be given that a triggering event will not occur in the future. If a monetary event of default were to occur under the 84 Lumber master lease or an event of default under the loan relating to the CMBS debt, then all funds, including those in excess of monthly tax and insurance costs, would be withheld by the lender. This would limit the amount of cash available for us to use in our business and could limit or eliminate our ability to make distributions to our common stockholders. See Management s Discussion and Analysis of Financial Condition and Results of Operation Liquidity and Capital Resources Description of Certain Debt CMBS Loan Secured by 84 Lumber Properties.

As a result of the significant number of properties leased to 84 Lumber, our results of operations and financial condition will be impacted by the performance of the 84 Lumber stores and the building materials supply industry in which they operate. 84 Lumber 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:

- 84 Lumber s financial performance depends significantly on the stability of the housing, residential construction and home improvement markets, as well as general economic conditions, including changes in gross domestic product. Adverse conditions in or sustained uncertainty about these markets or the economy could adversely impact consumer confidence, causing 84 Lumber s customers to delay purchasing or determine not to purchase home improvement products and services. Other factors (e.g., high levels of unemployment and foreclosures, interest rate fluctuations, fuel and other energy costs, labor and healthcare costs, the availability of financing, the state of the credit markets, including mortgages, home equity loans and consumer credit, weather, natural disasters and other conditions beyond our control) could further adversely affect demand for 84 Lumber s products and services, its costs of doing business and its ability to pay rent to us.

> 84 Lumber operates in markets that are highly competitive. In each market it serves, there are a number of other home improvement stores, electrical, plumbing and building materials supply houses and lumber yards. With respect to some products and services, 84 Lumber also competes with specialty design stores, showrooms, discount stores, local, regional and national hardware stores, mail order firms, warehouse clubs, independent building supply stores and other retailers, as well as with installers of home improvement products. Intense competitive pressures from one or more competitors could affect prices or demand for 84 Lumber s products and services and could adversely affect 84 Lumber and its ability to pay rent to us.

The vast majority of our properties are leased to unrated tenants, and the tools we use to measure credit quality may not be accurate.

The vast majority of our properties are leased to unrated tenants whom we determine, through our internal underwriting and credit analysis, to be creditworthy. Substantially all of our tenants are required to provide corporate-level financial information, which includes balance sheet, income statement and cash flow statement data on an annual basis, and approximately 80.9% of our lease investment portfolio require the tenant to provide property-level performance information, which includes income statement data on an 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, or 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., or Moody s, Standard & Poor s, or 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 June 30, 2012, leases representing approximately 38.1% and 18.7% 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 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 catalogues 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.

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 June 30, 2012, leases representing approximately 0.6% of our annual rent will expire during the remainder of 2012. As of June 30, 2012, 20 of our properties, representing approximately 1.8% 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 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 (1) 1 to 1.25 times any increase in the CPI over a specified period or (2) 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. In 2010, two of the tenants with whom we have master leases filed for protection under federal bankruptcy law. During such bankruptcy filings, we entered into amendments to the master leases with both tenants, pursuant to which one tenant was permitted to remove from its master lease 15 of the 22 properties it leased from us in exchange for $6.25 million in termination fees and the other tenant was permitted to remove from its master lease three of the nine properties it leased from us for $6.0 million in termination fees. Although, as of June 30, 2012, we have sold or re-leased 15 of the 18 properties that were vacated in connection with these amendments, we cannot guarantee that we will be able to sell or re-lease the remaining properties on terms that are favorable to us, or at all. This proceeding is ongoing and we cannot predict its outcome with certainty. 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, will be sufficient to make up for the rental revenues lost as a result of lease amendments.

There can be no assurance that future recoveries relating to properties leased to tenants experiencing financial distress will meet our historical recovery rate or that a larger percentage of our tenants will not experience financial distress.

Since our inception in 2003 through June 30, 2012, we have experienced or expect to experience $130.5 million of aggregate losses (of which $17.1 million are estimated losses as of June 30, 2012) due to tenant financial distress, or 3.2% of our gross investment of approximately $4.11 billion in properties and loans receivable. Included in our historical losses are estimated losses relating to 13 properties. See Business and Properties Risk Management Tenant Financial Distress Risk Historical Summary of Tenant Financial Distress Portfolio for a discussion of how we estimate losses based on our historical experience. Our actual losses on these properties could exceed our estimate by a material amount. It is also possible that a larger percentage of our tenants could experience financial distress in the future and cause us to incur significant additional losses. Furthermore, no assurance can be given that future recoveries relating to properties leased to tenants experiencing financial distress will match our historical recovery rate.

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 specially 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 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 the property is located.

In addition, the Internal Revenue Code of 1986, as amended, or 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 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 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.

Recently, the credit markets have been subject to significant disruptions. 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 June 30, 2012, we had issued notes under our master trust facility in three separate issuances with an aggregate outstanding principal balance of $949.8 million. These notes mature in July 2020, March 2021 and March 2022, respectively. As of June 30, 2012, we also had CMBS loans with an aggregate outstanding principal balance of $1.0 billion and an average maturity of 4.0 years. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Description of Certain Debt Master Trust Facility and CMBS. 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., and our President and Chief Operating Officer, Peter M. Mavoides, 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 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, as we have 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 Securities and Exchange Commission, or SEC, and comply with the Sarbanes-Oxley Act of 2002. Upon the completion of this offering, we will be 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 New York Stock Exchange, or 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 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.

We recently identified a material weakness in our internal control over financial reporting. 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.

Subsequent to the initial filing of the registration statement of which this prospectus is a part, we determined that our previous classification of a $21.5 million interest rate swap termination payment in 2009 as a financing activity in our consolidated statement of cash flows for the year ended December 31, 2009 was in error and should have been reflected as an operating activity in that statement. We restated our consolidated statement of cash flows for the year ended December 31, 2009 to correct this classification error, which we determined revealed a material weakness in internal control over financial reporting as defined in Public Company Accounting Oversight Board Auditing Standard No. 5. This material weakness was the result of an error in our interpretation of the accounting guidance relating to the classification of non-recurring interest rate swap termination payments on the statement of cash flows in 2009 and did not have a material impact on our consolidated statement of cash flows for any period other than the year ended December 31, 2009, although we cannot be certain that future material weaknesses or significant deficiencies will not develop or be identified.

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. As of December 31, 2013, we expect 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 after we are a public company) 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 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 asbestos-containing materials, or 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 and our ability to make distributions to you.

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 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 Americans with Disabilities Act 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 Americans with Disabilities Act, or 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.

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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 June 2005, we acquired Camelback Ski Corporation in a cash merger treated as a stock purchase followed by a liquidation of such corporation for federal income tax purposes. In May 2006, we acquired Shopko Stores, Inc. in a stock purchase and 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 completion of this offering, Redford Australian Investment Trust, or RAIT, an Australian investment trust through which our non-U.S. investors have indirectly owned shares of our common stock, will transfer 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 will then liquidate and distribute such shares to its owners. Such exchange of shares of our common stock held by RAIT for newly issued shares of our common stock is expected to be on a one-for-one basis. RAIT is treated as a C corporation for federal income tax purposes, and such transactions are intended to qualify as a tax-free reorganization for federal income tax purposes. We do not expect to acquire any earnings and profits of RAIT as a result of such transactions.

In the case of assets we acquire from a C corporation in a carry-over basis transaction, if we dispose of any such asset in a taxable transaction (including by deed in lieu of foreclosure) during the ten-year period beginning on the date of the carry-over basis transaction, then we will be required to pay tax at the highest regular corporate tax rate on the gain recognized to the extent of the excess of (1) the fair market value of the asset over (2) our adjusted tax basis in the asset, in each case determined as of the date of the carry-over basis transaction. 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, or 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, or 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, or IFRS, instead of U.S. generally accepted accounting principles, or GAAP. IFRS is a comprehensive set of accounting standards promulgated by the International Accounting Standards Board, or IASB, which are rapidly gaining worldwide acceptance. If the SEC decides to require IFRS, it expects that U.S. issuers would first report under the new standards beginning as early as 2015 or 2016, although the timeframe has not been finalized. 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 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, as, 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 our 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 expect to have approximately $2.0 billion principal balance of indebtedness outstanding following this offering and the debt conversion on a pro forma basis, which may expose us to the risk of default under our debt obligations.

Upon the completion of this offering and the debt conversion, we anticipate that our total outstanding consolidated indebtedness will be approximately $2.0 billion principal balance on a pro forma basis, of which $32.3 million (or approximately 1.6%) is variable rate debt (we have entered into three amortizing interest rate swaps that effectively fixed the interest rates on a significant portion of this variable rate debt at approximately 4.53%), and we may incur significant additional debt to finance future investment activities. In addition, upon the completion of this offering, we expect to have a secured revolving credit facility. 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 currently contemplated or 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.

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, including the secured revolving credit facility that we expect to have upon the completion of this offering, 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 and our ability to make distributions to our stockholders.

Total debt payments for the remainder of 2012 and 2013 are $29.0 million (including $21.3 million of scheduled amortization) and $48.1 million (including $43.3 million of scheduled amortization), 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 balloon maturities of $583.9 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 217 properties, including 177 properties subject to two master leases and two individual leases with Shopko/Pamida.

Our debt financing agreements, including the secured revolving credit facility, contain or will 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, including the secured revolving credit facility that we expect to have upon the completion of this offering, contain or will 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, could cause us to have to forego 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 governing our borrowing may have cross default provisions, which provide that a default under one of our debt financing agreements would lead to a default on 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. This would 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. During 2011, there was a triggering event under the 84 Lumber CMBS loan agreement, which required the tenant to deposit (in addition to rental payments due under the master lease) escrow reserves for property taxes and insurance. This triggering event has since been cured. However, no assurance can be given that a triggering event will not occur in the future.

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, including our common stockholders.

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 your interest, 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. See Description of Our Capital Stock Restrictions on Ownership and Transfer. 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. See Description of Our Capital Stock Common Stock and Preferred Stock. 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, or 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 anytime within a two-year period immediately prior to the date in question) or any affiliate of an 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. See Certain Provisions of Maryland Law and of Our Charter and Bylaws.

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, 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.

Upon the completion of this offering, as permitted by Maryland law, our charter will limit 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.

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 will authorize us to obligate our company, and our bylaws will 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.

Upon the completion of this offering, we will be a holding company with no direct operations and will rely on funds received from our operating partnership to pay liabilities.

Upon the completion of this offering, we will be a holding company and will conduct substantially all of our operations through our operating partnership. We will not have, apart from an interest in our operating partnership, any independent operations. As a result, we will rely on distributions from our operating partnership to pay any dividends we might declare on shares of our common stock. We will also rely on distributions from our operating partnership to meet any of our obligations, including any tax liability on taxable income allocated to us from our operating partnership. In addition, because we will be 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 our operating partnership and its subsidiaries. Therefore, in the event of our bankruptcy, liquidation or reorganization, our assets and those of our operating partnership and its subsidiaries will be able to satisfy the claims of our stockholders only after all of our and our operating partnership s and its subsidiaries liabilities and obligations have been paid in full.

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

Conflicts of interest could arise in the future between the interests of our stockholders and the interests of holders of units in our 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 our 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 our operating partnership, will have fiduciary duties and obligations to our operating partnership and its future limited partners under Delaware law and the partnership agreement of our operating partnership in connection with the management of our operating partnership. The fiduciary duties and obligations of Spirit General OP Holdings, LLC, as general partner of our 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 our 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 our 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 will also provide that the general partner will not be liable to our 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 our operating partnership or any future limited partner, except for liability for the general partner s intentional harm or gross negligence. Moreover, the partnership agreement will provide that our 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 our 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.

Risks Related to 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 commencing with our taxable year ended December 31, 2003, 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 prospectus 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 tax as regular corporations in the jurisdictions in which they operate.

If our 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.

We believe that our operating partnership will be treated as a disregarded entity for federal income tax purposes. If a property contributor or other third party is admitted to our operating partnership as a limited partner and, as a result, we cease to be the 100% owner (directly or indirectly) of the interests in our operating partnership, our 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, our operating partnership would not be subject to federal income tax on its income. Instead, for federal income tax purposes, if our operating partnership is treated as a disregarded entity, we would be treated as directly earning its income, or if our 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 our 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 our 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 our 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.

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 and the per share trading price of our common stock.

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 and the per share trading price of our common stock.

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 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.

The maximum tax rate applicable to income from qualified dividends payable to U.S. stockholders that are individuals, trusts and estates is 15% through the end of 2012. Dividends payable by REITs, however, generally are not eligible for the 15% rate. Although these rules do not adversely affect the taxation of REITs or dividends payable by REITs, to the extent that the 15% rate continues 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.

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.

Risks Related to this Offering and Ownership of Our Common Stock

There has been no recent public market for our common stock prior to this offering and an active trading market for our common stock may not develop following this offering.

Prior to this offering, there had not been public market for our common stock since 2007, and there can be no assurance that an active trading market will develop or be sustained or that shares of our common stock will be resold at or above the initial public offering price. Our common stock has been approved for listing on the NYSE. The initial public offering price of our common stock will be determined by agreement among us and the underwriters, but there can be no assurance that our common stock will not trade below the initial public offering price following the completion of this offering. See Underwriting. The market value of our common stock could be substantially affected by general market conditions, including the extent to which a secondary market develops for our common stock following the completion of this offering, the extent of institutional investor interest in us, the general reputation of REITs and the attractiveness of their equity securities in comparison to other equity securities (including securities issued by other real estate-based companies), our financial performance and general stock and bond market conditions.

The market price and trading volume of shares of our common stock may be volatile following this offering.

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. If the market price of shares of our common stock declines significantly, you may be unable to resell your shares of our common stock at or above the public offering price. We cannot assure you that the market price of shares of our common stock will not fluctuate or decline significantly, including a decline below the public offering price, in the future.

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 declines in our quarterly operating results or distributions;

reductions in our FFO or earnings estimates;

publication of research reports about us or the real estate industry;

increases in market interest rates that lead purchasers of shares of our common stock to demand a higher yield;

changes in market valuations of similar companies;

adverse market reaction to any increased indebtedness we incur in the future;

additions or departures of key management personnel;

actions by institutional stockholders;

speculation in the press or investment community; and

the realization of any of the other risk factors presented in this prospectus.

There can be no assurance that we will be able to make or maintain cash distributions, and certain agreements relating to our indebtedness may, under certain circumstances, limit or eliminate our ability to make distributions to our common stockholders.

We intend to make quarterly cash distributions to our stockholders in amounts such that all or substantially all of our taxable income in each year, subject to adjustments, is distributed. Our ability to continue to make distributions in the future may be adversely affected by the risk factors described in this prospectus. We can give no assurance that we will be able to make or maintain distributions and certain agreements relating to our indebtedness may, under certain circumstances, limit or eliminate our ability to make distributions to our common stockholders. We can give no assurance that rents from our properties will increase, or that future acquisitions of real properties, mortgage loans or other investments will increase our cash available for distributions to stockholders. In addition, all distributions are made at the discretion of our board of directors and depend on our earnings, our financial condition, maintaining our REIT status and other factors our board of directors deems relevant from time to time.

Distributions are expected to be based upon our FFO, financial condition, cash flows and liquidity, debt service requirements and capital expenditure requirements for our properties. If we do not have sufficient cash available for distributions, we may need to fund the shortage out of working capital or borrow to provide funds for such distributions, which would reduce the amount of proceeds available for real estate investments and increase our future interest costs. Our inability to make distributions, or to make distributions at expected levels, could result in a decrease in per share trading price of our common stock.

We may use a portion of the net proceeds from this offering to make distributions to our stockholders, which would, among other things, reduce our cash available to acquire properties and may reduce the returns on your investment in our common stock.

Prior to the time we have fully invested the net proceeds from this offering, we may fund distributions to our stockholders out of the net proceeds, which would reduce the amount of cash we have available to acquire properties and may reduce the returns on your investment in our common stock. The use of these net proceeds for distributions to stockholders could materially and adversely affect us. In addition, funding distributions from the net proceeds from this offering may constitute a return of capital to our stockholders, which would have the effect of reducing each stockholder s tax basis in our common stock.

Increases in market interest rates may result in a decrease in the value of shares of our common stock.

One of the factors that will influence the price of shares of our common stock will be the distribution yield on shares of our common stock (as a percentage of the price of shares of our common stock) relative to market interest rates. An increase in market interest rates, which are currently at low levels relative to historical rates, may lead prospective purchasers of shares of our common stock to expect a higher distribution yield and higher interest rates would likely increase our borrowing costs and potentially decrease funds available for distribution. Thus, higher market interest rates could cause the per share trading price of our common stock to decrease.

Broad market fluctuations could negatively impact the market price of shares of our common stock.

The stock market has experienced extreme price and volume fluctuations that have affected the market price of many companies in industries similar or related to ours and that have been unrelated to these companies operating performances. These broad market fluctuations could reduce the market price of shares of our common stock. Furthermore, our operating results and prospects may be below the expectations of public market analysts and investors or may be lower than those of companies with comparable market capitalizations. Either of these factors could lead to a material decline in the per share trading price of our common stock.

This offering is expected to be dilutive to earnings, and there may be future dilution to earnings related to shares of our common stock.

Giving effect to the issuance of shares of our common stock in this offering (which may include shares issued pursuant to a full or partial exercise by the underwriters of their over-allotment option), the receipt of the expected net proceeds and the use of those proceeds and the debt conversion, we expect that this offering will have a dilutive effect on our expected earnings per share and FFO per share. The actual amount of dilution cannot be determined at this time and will be based upon numerous factors. The market price of shares of our common stock could decline as a result of issuances or sales of a large number of shares of our common stock in the market after this offering or the perception that such issuances or sales could occur. Additionally, future issuances or sales of substantial amounts of shares of our common stock may be at prices below the initial public offering price of the shares of our common stock offered by this prospectus and may result in further dilution in our earnings and FFO per share and/or materially and adversely impact the per share trading price of our common stock.

The conversion of our TLC indebtedness into shares of our common stock may materially and adversely affect the per share trading price of our common stock.

Upon the completion of this offering, $330 million of our currently outstanding TLC indebtedness will be extinguished and converted into shares of our common stock. The number of shares of our common stock to be issued in the debt conversion depends in part on the initial public offering price. The issuance of shares of our common stock to the holders of TLC indebtedness may be dilutive to our expected earnings per share and expected FFO per share and may also dilute your ownership percentage of our common stock. As a result, the issuance of shares of our common stock in the debt conversion could materially and adversely affect the per share trading price of our common stock. See Pricing Sensitivity Analysis.

Future offerings of debt, which would be senior to shares of our common stock upon liquidation, and/or preferred equity securities that may be senior to shares of our common stock for purposes of distributions or upon liquidation, may materially and adversely affect the market price of shares of our common stock.

In the future, we may attempt to increase our capital resources by making additional offerings of debt or preferred equity securities (or causing our operating partnership to issue debt securities). Upon liquidation, holders of our debt securities and preferred stock and lenders with respect to other borrowings will receive distributions of our available assets prior to our common stockholders. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock and may result in dilution to owners of our common stock. Our common stockholders are not entitled to preemptive rights or other protections against dilution. Our preferred stock, if issued, could have a preference on liquidating distributions or a preference on distribution payments that could limit our ability to make distributions to our common stockholders. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Our common stockholders bear the risk of our future offerings reducing per share trading price of our common stock.

Sales of substantial amounts of our common stock in the public markets, or the perception that they might occur, could reduce the price of our common stock and may dilute your voting power and your ownership interest in us.

Sales of substantial amounts of our common stock in the public market following our initial public offering, or the perception that such sales could occur, could adversely affect the market price of our common stock and may make it more difficult for you to sell your common stock at a time and price that you deem appropriate. Based on the number of shares outstanding as of June 30, 2012, upon the completion of this offering and the debt conversion, we will have outstanding shares of our common stock (or shares of our common stock if the underwriters exercise in full their over-allotment option). The shares of our common stock that we are selling in this offering may be resold immediately in the public market unless they are held by affiliates, as that term is defined in Rule 144 of the Securities Act of 1933, as amended, or the Securities Act.

Subject to applicable law, our board of directors has the authority, without further stockholder approval, to issue additional shares of our common stock and preferred shares on the terms and for the consideration it deems appropriate.

Subject to certain exceptions, we and all of our directors, director nominees and officers, substantially all of our continuing investors and the TLC lenders, have agreed that, without the prior written consent of the representatives on behalf of the underwriters (and, in the case of the stock held by our directors, director nominees and officers and substantially all of our continuing investors, the majority of the TLC lenders), we and they will not, during the period ending (1) 180 days, in the case of the TLC lenders, or (2) 270 days, in the case of us and our directors, director nominees and officers and substantially all of our continuing investors, from the date of the completion of this offering, will not offer, sell or agree to sell, directly or indirectly, any shares of our common stock. When the lock-up period expires, our locked-up security holders will be able to sell our shares in the public market. Sales of a substantial number of such shares upon expiration, or the perception that such sales may occur, or early release of the lock-up could cause our per share trading price to fall or make it more difficult for you to sell your common stock at a time and price that you deem appropriate.

Holders of shares of our common stock, which includes shares of our common stock to be issued in the debt conversion (based on the mid-point of the price range set forth on the front cover of this prospectus), shares of our common stock held by continuing investors (other than our directors, executive officers and other employees) and shares of our common stock to be owned by or granted to our directors, executive officers and other employees (including shares of restricted common stock to be granted pursuant to the Incentive Award Plan) (based on the mid-point of the price range set forth on the front cover of this prospectus), will have rights, subject to some conditions, to require us to file registration statements covering the sale of their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. We also intend to register the offer and sale of all shares of our common stock that we may issue under our equity compensation plans. We intend to file with the SEC a registration statement on Form S-8 covering the shares of our common stock issuable under our equity compensation plans. Once we register the offer and sale of shares for the holders of registration rights, they can be freely sold in the public market upon issuance, subject to the lock-up agreements described in the preceding paragraph and in the section of this prospectus captioned Underwriting or unless they are held by affiliates, as that term is defined in Rule 144 of the Securities Act. We also may issue from time to time additional shares of our common stock or operating partnership units (which are exchangeable into our common stock) in connection with property acquisitions and may grant additional registration rights in connection with such issuances, pursuant to which we would agree to register the resale of such securities under the Securities Act. The market price of our common stock may decline significantly upon the registration of additional shares of our common stock pursuant to the registration rights described above or future issuances of equity in connection with property acquisitions.

In addition to the underwriting discounts and commissions to be received by the underwriters, they may receive other benefits from this offering.

In addition to the underwriting discounts and commissions to be received by the underwriters, affiliates of the underwriters will act as lenders under the $100 million secured revolving credit facility that we expect to have upon the completion of this offering. This transaction creates a potential conflict of interest because the underwriters have an interest in the successful completion of this offering beyond the underwriting discounts and commissions they will receive.

Upon the completion of this offering, Macquarie Group (US) Holdings No. 1 Pty Limited, an affiliate of Macquarie Capital (USA) Inc., will own approximately % of our common stock. See Certain Relationships and Related Transactions Relationships with Macquarie Capital (USA) Inc.

The underwriters and/or their affiliates may engage in commercial and investment banking transactions with us and/or our affiliates in the ordinary course of their business. They expect to receive customary compensation and expense reimbursement for these commercial and investment banking transactions.

A lack of research analyst coverage or restrictions on the ability of analysts associated with the co-managers of this offering to publish during certain time periods, including when we report our results of operations, could materially and adversely affect the trading price and liquidity of our common stock.

We cannot assure you that research analysts, including those associated with the underwriters of this offering, will initiate or maintain research coverage of us or our common stock. In addition, regulatory rules prohibit research analysts associated with the co-managers of this offering from publishing or otherwise distributing a research report or from making a public appearance regarding us for 15 days prior to and after the expiration, waiver or termination of any lock-up agreement that we or certain of our stockholders have entered into with the underwriters of this offering. Accordingly, it could be the case that research concerning our results of operations or the possible effects on us of significant news or a significant event will not be published or will be published on a delayed basis. A lack of research or the inability of certain research analysts to publish research relating to our results of operations or significant news or a significant event in a timely manner could materially and adversely affect the trading price and liquidity of our common stock.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of the federal securities laws. In particular, statements pertaining to our business and growth strategies, investment 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 prospectus, the words estimate, anticipate, expect, believe, intend, may, will, should, seek, approximately or plan, or the negative of these words and phrases 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.

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 CPI;

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;

availability of suitable properties to acquire and our ability to acquire and lease those properties on favorable terms;

ability to renew leases, lease vacant space or re-lease space as existing leases expire;

the degree and nature of our competition;

our failure to generate sufficient cash flows to service our outstanding indebtedness;

access to debt and equity capital markets;

fluctuating interest rates;

availability of qualified personnel and our ability to retain our key management personnel;

the outcome of any legal proceedings to which we are a party;

changes in, or the failure or inability to comply with, government regulation, including Maryland laws;

- failure to maintain our status as a REIT;
- changes in the U.S. tax law and other U.S. laws, whether or not specific to REITs; and
- additional factors discussed in the sections entitled Business and Properties, Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations in this prospectus.

You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this prospectus. While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date of this prospectus or to reflect the occurrence of unanticipated events. In light of these risks and uncertainties, the forward-looking events discussed in this prospectus might not occur.

USE OF PROCEEDS

We estimate that the net proceeds to us from this offering will be approximately $ million, or $ million if the underwriters exercise their over-allotment option in full, after deducting underwriting discounts and commissions and other estimated expenses, in each case, based on the mid-point of the price range set forth on the front cover of this prospectus.

We intend to use $399.0 million of the net proceeds from this offering to repay our outstanding TLB, which matures in August 2013. The TLB requires interest payments based on either (1) LIBOR in effect at the beginning of each interest period plus a spread of 3% or (2) a base rate as defined in the loan agreement. As of June 30, 2012, the rate on the TLB was 3.78%, based on a 6-month LIBOR rate of 0.78% effective beginning on February 1, 2012. On August 1, 2012, the rate on the TLB was reset to 3.44%, based on a 3-month LIBOR rate of 0.44%, which will remain in effect until November 1, 2012.

We intend to use $ million of the net proceeds for estimated costs and expenses associated with securing lenders consents to this offering and the secured revolving credit facility we expect to enter into upon the completion of this offering. Remaining net proceeds will be used for general business and working capital purposes, including potential future acquisitions.

To the extent the net proceeds from this offering are insufficient to satisfy all of the uses described above, we intend to meet any required cash needs with cash on hand, net cash from operating activities and borrowings under the $100 million secured revolving credit facility that we expect to have upon the completion of this offering.

Pending the permanent use of the net proceeds from this offering, we intend to invest the net proceeds in interest-bearing, short-term investment-grade securities, money-market accounts or other investments that are consistent with our intention to maintain our qualification as a REIT for federal income tax purposes.

DISTRIBUTION POLICY

We intend to make a pro rata distribution with respect to the period commencing upon the completion of this offering and ending on , 2012, based on a distribution rate of $ per share of our common stock for a full quarter. On an annualized basis, this would be $ per share of our common stock, or an annualized distribution rate of approximately % based on the mid-point of the price range set forth on the front cover of this prospectus. We estimate that this initial annual distribution rate will represent approximately % of estimated cash available for distribution for the 12 months ending June 30, 2013. We do not intend to reduce the annualized distribution per share of our common stock if the underwriters exercise their over-allotment option. Our intended initial annual distribution rate has been established based on our estimate of cash available for distribution for the 12 months ending June 30, 2013, which we have calculated based on adjustments to our pro forma net loss from continuing operations for the 12 months ended December 31, 2011. This estimate was based on our pro forma operating results and does not take into account our long-term business and growth strategies, nor does it take into account any unanticipated expenditures we may have to make or any financings for such expenditures. In estimating our cash available for distribution for the 12 months ending June 30, 2013, we have made certain assumptions as reflected in the table and footnotes below.

Our estimate of cash available for distribution does not include the effect of any changes in our working capital resulting from changes in our working capital accounts. In addition, our estimate of cash available for distribution does not include $2.2 million of incremental general and administrative expenses expected to be incurred subsequent to the completion of this offering in order to operate as a public company. It also does not reflect the amount of cash estimated to be used for investing activities, financing activities or other activities, other than scheduled loan principal payments on mortgage indebtedness that will be outstanding upon the completion of this offering, the use of the net proceeds and the debt conversion and reductions in interest expense associated with loan amortization. Any such investing and/or financing activities may have a material and adverse effect on our estimate of cash available for distribution. Because we have made the assumptions set forth above in estimating cash available for distribution, we do not intend this estimate to be a projection or forecast of our actual results of operations, FFO, liquidity or financial condition and have estimated cash available for distribution for the sole purpose of determining our estimated initial annual distribution amount. Our estimate of cash available for distribution should not be considered as an alternative to cash flow from operating activities (computed in accordance with GAAP) or as an indicator of our liquidity or our ability to make distributions. In addition, the methodology upon which we made the adjustments described below is not necessarily intended to be a basis for determining future distributions.

We intend to maintain our initial distribution rate for the 12 months following the completion of this offering unless our results of operations, FFO, liquidity, cash flows, financial condition or prospects, economic conditions or other factors differ materially from the assumptions used in projecting our initial distribution rate. We believe that our estimate of cash available for distribution constitutes a reasonable basis for setting the initial distribution rate, as substantially all of the properties in our portfolio have been in operation for a significant period of time. However, we cannot assure you that our estimate will prove accurate, and actual distributions may therefore be significantly below the expected distributions. Our actual results of operations will be affected by a number of factors, including the revenue received from our properties, our operating expenses, interest expense (including the effect of variable rate debt), and unanticipated capital expenditures. We may, from time to time, be required, or elect, to borrow under our secured revolving credit facility or otherwise to pay distributions.

We cannot assure you that our estimated distributions will be made or sustained or that our board of directors will not change our distribution policy in the future. 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. For more information regarding risk factors that could materially and adversely affect us, see Risk Factors. If our operations do not generate sufficient cash flow to enable us to pay our intended or required distributions, we may be required either to fund distributions from working capital, borrow or raise equity or to reduce such distributions. In addition, our charter allows us to issue preferred stock that could have a preference on distributions. Additionally, under certain circumstances, agreements relating to our indebtedness could limit our ability to make distributions to our common stockholders. We intend to redeem all of our currently outstanding preferred stock shortly after the completion of this offering, and we currently have no intention to issue any new shares of preferred stock, but if we do, the distribution preference on the preferred stock could limit our ability to make distributions to our common stockholders.

We anticipate that, at least initially, our distributions will exceed our then current and accumulated earnings and profits as determined for federal income tax purposes primarily due to depreciation, amortization and other non-cash charges that we expect to incur. Distributions in excess of our current and accumulated earnings and profits will not be treated as a dividend and will not be taxable to a taxable U.S. stockholder under current federal income tax law to the extent those distributions do not exceed the stockholder s adjusted tax basis in his or her shares, but rather will reduce the adjusted tax basis of the shares. In that case, the gain (or loss) recognized on the sale of those shares or upon our liquidation will be increased (or decreased) accordingly. To the extent any non-dividend distributions exceed a taxable U.S. stockholder s adjusted tax basis in his or her shares, such excess distributions generally will be treated as a capital gain realized from the taxable disposition of those shares. The percentage of distributions to our stockholders that exceeds our current and accumulated earnings and profits, if any, may vary substantially from year to year. For a more complete discussion of the tax treatment of distributions to our common stockholders, see Federal Income Tax Considerations.

Federal income tax law requires that a REIT distribute annually at least 90% of its REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its REIT taxable income, determined without regard to the dividends paid deduction and including any net capital gains. In addition, a REIT will be required to pay a 4% nondeductible excise tax on the amount, if any, by which the distributions it makes in a calendar year are less than the sum of 85% of its ordinary income, 95% of its capital gain net income and 100% of its undistributed income from prior years. For more information, see Federal Income Tax Considerations. We anticipate that our estimated cash available for distribution will be sufficient to enable us to meet the annual distribution requirements applicable to REITs and to avoid or minimize the imposition of corporate and excise taxes. However, under some circumstances, we may be required to make distributions in excess of cash available for distribution in order to meet these distribution requirements or to avoid or minimize the imposition of tax and we may need to borrow funds to make certain distributions.

The following table sets forth calculations relating to the intended initial distribution based on our pro forma financial data for the 12 months ended June 30, 2012 and is provided solely for the purpose of illustrating the initial distribution and is not intended to be a basis for determining future distributions. All dollar amounts are in thousands.

Pro forma loss from continuing operations for the 12 months ended December 31, 2011	**$ (11,128)**
Less: pro forma loss from continuing operations for the six months ended June 30, 2011	(3,498)
Add: pro forma loss from continuing operations for the six months ended June 30, 2012	(4,866)
Pro forma loss from continuing operations for the 12 months ended June 30, 2012	**(12,496)**
Add: estimated net increases in contractual rental revenue[1]	10,934
Less: net decreases in contractual rent income due to tenant lease expirations and other vacancies, assuming no lease renewals[2]	(1,783)
Add: real estate depreciation and amortization	110,659
Add: other depreciation and amortization	46
Add: non-cash impairment charges[3]	19,905
Add: amortization of debt discount and deferred financing costs[4]	13,206
Less: net effect of non-cash rental revenue[5]	(2,554)
Add: net effect of non-cash interest income on loans receivable[6]	303
Add: reduction to interest expense associated with the amortization of mortgages and notes payable[7]	2,805
Less: reduction in interest income associated with the amortization of loans receivable[8]	(468)
Add: non-cash compensation expense[9]	5,888
Estimated cash flows from operating activities for the 12 months ending June 30, 2013	**$ 146,445**
Add: contractually scheduled cash flows from collections of principal amortization payments on loans receivable[10]	3,373
Less: cash disbursement obligations for property and tenant improvements[11]	(2,764)
Less: scheduled principal payments on mortgages and notes payable[12]	(42,895)
Estimated cash available for distribution for the 12 months ending June 30, 2013	**$ 104,159**
Total estimated initial annual distribution to stockholders	**$**
Estimated initial annual distribution per share[13]	$
Payout ratio[14]	%

(1) Represents contractual increases in rental revenue from:

contractual increases based on changes in the CPI (including (a) increases that have already occurred but were not in effect for the entire 12 months ended June 30, 2012, (b) actual increases that have occurred from July 1, 2012 through July 31, 2012 and (c) an estimated amount for increases scheduled to occur between August 1, 2012 and June 30, 2013 based on an assumed change in the CPI of 1.7% (the same rate of change as occurred in the CPI between June 30, 2011 and June 30, 2012));

scheduled fixed rent increases;

net increases from new leases or renewals that were not in effect for the entire 12 months ended June 30, 2012 or that will go into effect during the 12 months ending June 30, 2013 based upon leases entered into through August 30, 2012; and

contractual rental revenues associated with leases on real estate investments acquired between July 1, 2012 and August 30, 2012;

net of the effects of contractual rent deferrals and abatements in effect for existing leases and the restructure of master leases primarily related to tenant bankruptcies.

(2) Represents decreases in rental revenue due to leases that expired or were terminated during the 12 months ended June 30, 2012 or that will expire during the 12 months ending June 30, 2013, assuming no new leases for vacant properties existing as of June 30, 2012 and no lease renewals for leases expiring or terminated after June 30, 2012, unless the property had been re-leased as of August 30, 2012.

(3) Represents non-cash impairment charges recognized on properties and other assets that were included in continuing operations for the 12 months ended June 30, 2012.

(4) Represents one year of non-cash interest expense associated with:

the amortization of the debt discount on our mortgages and notes payable that was recognized as part of our privatization;

the amortization of deferred financing costs on our mortgages and notes payable;

the amortization of the debt discount related to the consent fees to be paid to the lenders on our mortgages and notes payable and included in the pro forma loss from continuing operations for the 12 months ended June 30, 2012; and

the amortization of deferred financing costs related to the upfront fees and other costs incurred in connection with the new secured revolving credit facility and included in the pro forma loss from continuing operations for the 12 months ended June 30, 2012.

(5) Represents one year of net non-cash rental revenues associated with the net straight-line adjustment to rental revenue, the amortization of above- and below-market lease intangibles and the amortization of lease origination costs.

(6) Represents one year of non-cash interest income adjustments associated with the amortization of fair value adjustments to our loan receivable portfolio recognized as part of our privatization and the amortization of net loan origination costs.

(7) Represents net reductions in contractual interest expense for the 12 months ending June 30, 2013 due to reductions in outstanding principal amount of indebtedness arising from principal amortization payments on our mortgages and notes payable, net of increases for new borrowings that were not outstanding for the full 12 months ended June 30, 2012, and for any new indebtedness entered into through August 30, 2012.

(8) Represents reductions in contractually due interest income for the 12 months ending June 30, 2013 due to reductions in outstanding principal amount of loans receivable, net of increases for loans receivable which were not outstanding for the full 12 months ended June 30, 2012.

(9) Represents non-cash stock-based compensation expense related to equity based awards granted to certain members of our management, directors and employees and included in the pro forma loss from continuing operations for the 12 months ended June 30, 2012.

(10) Reflects expected cash flows from contractually scheduled collections of principal on our loans receivable portfolio for the 12 months ending June 30, 2013.

(11) Reflects the expected cash disbursements associated with all known property and tenant improvement obligations projected to be completed during the 12 months ending June 30, 2013.

(12) Represents scheduled principal amortization during the 12 months ending June 30, 2013 for indebtedness outstanding at June 30, 2012, as well as, new mortgage notes payable entered into through August 30, 2012.

(13) Based on a total of shares of our common stock to be outstanding after this offering, and the debt conversion, based on the mid-point of the price range set forth on the front cover of this prospectus.

(14) Calculated as total estimated initial annual distribution to stockholders divided by estimated cash available for distribution for the 12 months ending June 30, 2013. If the underwriters exercise their over-allotment option in full, our total estimated initial annual distribution to stockholders would be $ million and our payout ratio would be %.

CAPITALIZATION

The following table sets forth our historical capitalization as of June 30, 2012 and our pro forma capitalization as of June 30, 2012 to give effect to this offering, the debt conversion and the use of net proceeds as set forth in Use of Proceeds, based on the mid-point of the price range set forth on the front cover of this prospectus. This table should be read in conjunction with the sections entitled Use of Proceeds, Selected Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and our historical and pro forma financial statements and related notes included elsewhere in this prospectus.

	As of June 30, 2012	
	Historical	Pro Forma
	(In thousands, except per share amounts)	
Debt[1]:		
Term note payable, net[2]	$ 724,755	$
Mortgages and notes payable, net	1,908,000	1,897,263
Stockholders Equity:		
Preferred stock, $0.01 par value per share; 20,000,000 shares authorized, 125 shares issued and outstanding, actual; 20,000,000 shares authorized, 125 shares issued and outstanding, pro forma[3]	84	
Common stock, $0.01 par value per share; 100,000,000 shares authorized, 200 shares issued and outstanding, actual[5]; 100,000,000 shares authorized and shares issued and outstanding, pro forma[4]		
Capital in excess of par value[5]	1,004,324	
Accumulated deficit	(491,688)	
Accumulated other comprehensive loss	(5,592)	
Total stockholders equity	507,128	
Total Capitalization	**$ 3,139,883**	

[1] We expect to have a $100 million secured revolving credit facility.

[2] Upon the completion of this offering, the $330 million of TLC will be extinguished and converted into shares of our common stock. In addition, we intend to use a significant portion of the net proceeds from this offering to repay the remaining balance outstanding under the term loan. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Description of Certain Debt Term Loan and Debt Conversion and Pricing Sensitivity Analysis.

[3] As of June 30, 2012, we had 125 shares of 12.5% Series A Cumulative Non-Voting Preferred Stock outstanding. We intend to redeem all shares of such preferred stock shortly after the completion of this offering. See Description of Our Capital Stock Preferred Stock Series A Preferred Stock.

[4] Pro forma common stock outstanding gives effect to the for 1 stock dividend to be paid prior to the completion of this offering and includes (a) shares to be held by continuing investors (other than our directors, executive officers and other employees), (b) shares to be issued in this offering, (c) shares to be issued in the debt conversion (based on the mid-point of the price range set forth on the front cover of this prospectus) and (d) shares to be owned by or granted to our directors, executive officers and other employees (including shares of restricted common stock to be granted pursuant to the Incentive Award Plan) (based on the mid-point of the price range set forth on the front cover of this prospectus), and excludes (i) shares of our common stock issuable upon the exercise of the underwriters over-allotment option in full and (ii) shares of our common stock reserved for future issuance under the Incentive Award Plan, as more fully described in Executive Compensation Incentive Award Plan.

[5] Shares issued and outstanding, actual, and historical equity balances have been adjusted to reflect the effect of the stock dividend described in (4).

As described in further detail in Pricing Sensitivity Analysis, the number of shares of our common stock to be issued in the debt conversion and the number of shares of our restricted common stock to be granted to our directors, executive officers and other employees under the Incentive Award Plan depend, in part, on our initial public offering price. Assuming an initial public offering price of $ per share (which is the mid-point of the price range set forth on the front cover of this prospectus), we expect to issue shares of our common stock to the TLC Lenders in the debt conversion and we expect shares of our common stock to be owned by or granted to our directors, executive officers and other employees (including shares of restricted common stock to be granted pursuant to the Incentive Award Plan). The following table sets forth the total number of shares to be issued in the debt conversion, the number of shares owned by continuing investors (other than our directors, executive officers and other employees), the number of shares owned by or granted to directors, executive officers and other employees and the total number of shares to be issued and outstanding upon the completion of this offering and the debt conversion, assuming different initial public offering prices within the price range set forth on the front cover of this prospectus and no exercise of the underwriters over-allotment option:

	Assumed Initial Public Offering Price Per Share								
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Number of shares to be issued to TLC lenders in debt conversion[1]									
Number of shares owned by continuing investors (other than our directors, executive officers and other employees)[1]									
Number of shares owned by or granted to directors, executive officers and other employees[1]									
Total number of shares to be issued and outstanding upon completion of this offering and the debt conversion									

(1) For more information regarding the beneficial ownership of shares of our common stock immediately following the completion of this offering and the debt conversion, please see Principal Stockholders.

Any change in our initial public offering price above the maximum price reflected in the above table would decrease the total number of shares issued in the debt conversion and granted to our directors, executive officers and other employees, and any change in our initial public offering price below the minimum price reflected in the above table would increase the total number of shares issued in the debt conversion and granted to our directors, executive officers and other employees.

DILUTION

If you invest in our common stock in this offering, you will experience an immediate increase in the net tangible book value of your shares from the initial public offering price and there will be no dilution in net tangible book value to new investors in this offering.

SELECTED FINANCIAL DATA

We were formed as a Maryland corporation in 2003 under the name Spirit Finance Corporation and, in May 2012, changed our name to Spirit Realty Capital, Inc. We became a public company in December 2004 and we were subsequently taken private in August 2007. We refer to our company prior to our privatization as the Predecessor.

Our historical consolidated balance sheet data as of December 31, 2011 and 2010 and consolidated operating data for the years ended December 31, 2011, 2010 and 2009 have been derived from our audited historical consolidated financial statements included elsewhere in this prospectus. Our historical consolidated balance sheet data as of December 31, 2009, 2008 and 2007, our consolidated operating data for the year ended December 31, 2008 and the five months ended December 31, 2007 and the consolidated operating data for the seven months ended July 31, 2007 of our Predecessor have been derived from our historical consolidated financial statements not included in this prospectus. The below information also includes our unaudited consolidated balance sheet data as of June 30, 2012 and our unaudited consolidated operating data for the six months ended June 30, 2012 and June 30, 2011 which have been derived from our historical unaudited consolidated financial statements included elsewhere in this prospectus. The unaudited consolidated financial statements were prepared on a basis consistent with our audited financial statements and include, in the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of the financial information contained in those statements. Our historical consolidated financial data included below and set forth elsewhere in this prospectus are not necessarily indicative of our future performance.

Our unaudited selected pro forma consolidated financial and operating data as of and for the six months ended June 30, 2012 and for the year ended December 31, 2011 assumes the completion of this offering, the debt conversion and related transactions as of the beginning of the periods presented for the operating data and as of the stated date for the balance sheet data. Our pro forma financial information is not necessarily indicative of what our actual financial position and results of operations would have been as of the date and for the periods indicated, nor does it purport to represent our future financial position or results of operations.

You should read the following selected financial and other data together with Management s Discussion and Analysis of Financial Condition and Results of Operations, Business and Properties and our consolidated financial statements and related notes appearing elsewhere in this prospectus.

	The Company (in thousands, except share and per share data)									Predecessor
	Six Months Ended June 30,			Year Ended December 31,						
	Pro forma 2012 (unaudited)	Historical 2012 (unaudited)	Historical 2011 (unaudited)	Pro forma 2011 (unaudited)	Historical 2011	Historical 2010	Historical 2009	Historical 2008	Historical five- month period ended December 31, 2007	Historical seven- month period ended July 31, 2007
Operating Data:										
Revenues:										
Rentals	$ 137,536	$ 137,536	$ 132,848	$ 267,938	$ 267,938	$ 267,681	$ 263,985	$ 264,844	$ 106,393	$ 131,200
Interest income on loans receivable	3,012	3,012	3,453	6,772	6,772	9,572	10,098	13,364	3,645	4,327
Interest income and other	545	545	464	820	820	14,481	6,476	4,968	1,434	3,409
Total revenues	141,093	141,093	136,765	275,530	275,530	291,734	280,559	283,176	111,472	138,936
Expenses:										
General and administrative	12,416	14,100	12,710	25,259	28,312	19,613	19,842	23,036	7,284	19,211
Litigation			151	151	151	22,282				
Privatization costs									294	18,468
Property costs	2,310	2,310	2,731	5,024	5,024	2,777	2,915	2,729	457	933
Interest	66,497	81,230	83,001	134,426	169,888	173,054	208,538	231,194	94,831	73,085
Depreciation and amortization	55,567	55,567	55,209	110,347	110,347	110,685	111,437	110,958	44,640	31,645
Impairments	8,850	8,850	457	11,511	11,511	23,152	7,584	5,083		
Total expenses	145,640	162,057	154,259	286,718	325,233	351,563	350,316	373,000	147,506	143,342
Total other income (expense)						(3,110)	6,810			
Loss from continuing operations before income tax expense (benefit)	(4,547)	(20,964)	(17,494)	(11,188)	(49,703)	(62,939)	(62,947)	(89,824)	(36,034)	(4,406)
Income tax expense (benefit)	319	319	110	(60)	(60)	239	3,346	1,134	344	84
Loss from continuing operations	$ (4,866)	(21,283)	(17,604)	$ (11,128)	(49,643)	(63,178)	(66,293)	(90,958)	(36,378)	(4,490)
Income (loss) from discontinued operations[(1)]		99	(6,730)		(14,220)	(23,359)	(56,390)	(63,561)	8,125	17,196
Net (loss) income		$ (21,184)	$ (24,334)		$ (63,863)	$ (86,537)	$ (122,683)	$ (154,519)	$ (28,253)	$ 12,706

Loss per share of common stock from continuing operations:		
Basic and diluted	$	$
Weighted average number of common shares outstanding:		
Basic and diluted [2]		

(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) Weighted average number of common shares outstanding (basic and diluted) has been adjusted to reflect the for 1 stock dividend to be paid prior to the completion of this offering and excludes unvested restricted stock awards. Pro forma amounts assume this offering and the TLC conversion into common stock occurred on January 1, 2011. No potentially dilutive securities were included as their effect would be anti-dilutive.

	The Company (dollars in thousands)									Predecessor
	Six Months Ended June 30,			Year Ended December 31,					Historical five-month period ended December 31, 2007	Historical seven-month period ended July 31, 2007
	Pro forma 2012 (unaudited)	Historical 2012 (unaudited)	Historical 2011 (unaudited)	Pro forma 2011 (unaudited)	Historical 2011	Historical 2010	Historical 2009	Historical 2008		
Balance Sheet Data (end of period):										
Gross investments including related lease intangibles	$ 3,602,416	$ 3,602,416			$ 3,582,870	$ 3,610,834	$ 3,740,261	$ 3,997,614	$ 4,058,970	
Real estate, net	2,851,243	2,851,243			2,867,302	2,979,496	3,116,070	3,387,276	3,576,128	
Cash and cash equivalents	67,487	71,735			49,536	88,341	65,072	76,634	33,045	
Total assets	3,219,287	3,224,689			3,231,561	3,396,842	3,618,507	4,012,914	4,170,447	
Debt obligations	1,897,263	2,632,755			2,627,146	2,730,994	2,866,923	3,089,248	3,218,353	
Total liabilities	1,969,075	2,717,561			2,705,201	2,806,741	2,948,828	3,217,235	3,367,930	
Stockholders equity	1,250,212	507,128			526,360	590,101	669,679	795,679	802,517	
Other Data:										
Cash NOI from continuing operations before lease termination fees [1]	$ 137,290	$ 137,290	$ 132,911	$ 268,282	$ 268,282	$ 272,788	$ 269,582	$ 277,981	$ 109,283	$ 136,553
FFO [2]	$	$ 43,412	$ 38,175		$ 69,782	$ 70,563	$ 58,112	$ 57,741	$ 21,896	$ 48,176
FFO from continuing operations, as adjusted [2]	$ 62,547	$ 43,292	$ 38,143	$ 113,788	$ 69,173	$ 94,359	$ 39,240	$ 23,555	$ 8,484	$ 45,508
EBITDA from continuing operations [3]	$ 117,517	$ 115,833	$ 120,716	$ 233,585	$ 230,532	$ 220,800	$ 257,028	$ 252,328	$ 103,437	$ 100,324
EBITDA from continuing operations, as adjusted [3]	$ 129,205	$ 124,683	$ 121,324	$ 251,347	$ 242,194	$ 269,344	$ 257,802	$ 257,411	$ 103,731	$ 118,792
Number of properties in investment portfolio	1,183	1,183	1,150	1,153	1,153	1,161	1,157	1,291	1,277	1,151
Owned properties occupancy at period end	98%	98%	97%	98%	98%	96%	99%	99%	100%	

(based on
number of
properties)

(1) Cash NOI from continuing operations before lease termination fees, or cash NOI, represents net income (loss) (computed in accordance with GAAP), excluding non-cash revenues, lease termination fees, general and administrative expenses, litigation expenses, privatization costs, interest expense, depreciation and amortization, impairments, other (income) expense and tax expense (benefit). Cash NOI is a supplemental non-GAAP financial measure. We use Cash NOI as a supplemental performance measure because we believe that Cash NOI is beneficial to investors as a starting point in measuring our operational performance. Specifically, in excluding non-cash revenue, lease termination fees, general and administrative expenses, litigation expenses, privatization costs, interest expense, depreciation and amortization, impairments, other (income) expense and tax expense (benefit), which do not relate to or are not indicative of the operating performance of our properties at the property level, Cash NOI provides a performance measure that, when compared year over year, captures trends in occupancy rates, rental rates and property operating costs. However, because Cash NOI excludes these items and captures neither 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 of operations, the utility of Cash NOI as a measure of our performance is limited. In addition, other equity REITs may not calculate Cash NOI in the same manner that we do. Accordingly, Cash NOI should be considered only as a supplement to net income (loss) as a measure of our performance. Cash NOI 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. The following table sets forth a reconciliation of our Cash NOI to net income (loss), the nearest GAAP equivalent, for the periods presented:

	The Company									Predecessor
	(dollars in thousands)									
	Six Months Ended June 30,				Year Ended December 31,					
	Pro forma 2012 (unaudited)	Historical 2012 (unaudited)	Historical 2011 (unaudited)	Pro forma 2011 (unaudited)	Historical 2011	Historical 2010	Historical 2009	Historical 2008	Historical five-month period ended December 31, 2007	Historical seven-month period ended July 31, 2007
Cash NOI from continuing operations before lease termination fees:										
Net (loss) income		$ (21,184)	$ (24,334)		$ (63,863)	$ (86,537)	$ (122,683)	$ (154,519)	$ (28,253)	$ 12,706
Minus: Income (loss) from discontinued operations		99	(6,730)		(14,220)	(23,359)	(56,390)	(63,561)	8,125	17,196
Loss from continuing operations	$ (4,866)	(21,283)	(17,604)	$ (11,128)	(49,643)	(63,178)	(66,293)	(90,958)	(36,378)	(4,490)
Adjustments:										
Non-cash revenues	(1,149)	(1,149)	(1,123)	(2,224)	(2,224)	(2,288)	(2,209)	(2,466)	(1,732)	(1,450)
Lease termination fees	(344)	(344)				(13,881)	(5,853)			
General and administrative	12,416	14,100	12,710	25,259	28,312	19,613	19,842	23,036	7,284	19,211
Litigation			151	151	151	22,282				
Privatization costs									294	18,468
Interest	66,497	81,230	83,001	134,426	169,888	173,054	208,538	231,194	94,831	73,085
Depreciation and amortization	55,567	55,567	55,209	110,347	110,347	110,685	111,437	110,958	44,640	31,645
Impairments	8,850	8,850	457	11,511	11,511	23,152	7,584	5,083		
Other (income) expense						3,110	(6,810)			
Income tax (benefit)	319	319	110	(60)	(60)	239	3,346	1,134	344	84

expense										
Cash NOI from continuing operations before lease termination fees	$ 137,290	$ 137,290	$ 132,911	$ 268,282	$ 268,282	$ 272,788	$ 269,582	$ 277,981	$ 109,283	$ 136,553

(2) We calculate FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts, or NAREIT. FFO represents net income (loss) (computed in accordance with GAAP), excluding real estate-related depreciation and amortization, impairment charges and net losses (gains) on the disposition of assets. 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. FFO from continuing operations, as adjusted, represents net income (loss) from continuing operations, adjusted to eliminate the impact of real estate-related depreciation and amortization, impairment charges, litigation costs, privatization costs, non-cash stock-based compensation expense and other income (expense). We believe that it is useful to investors to exclude the effect of discontinued operations, litigation costs, privatization costs and other income (expense) because these items are not reflective of ongoing operational items. The following table sets forth a reconciliation of our FFO to net income (loss), the nearest GAAP equivalent, and our FFO from continuing operations, as adjusted, to net income (loss) from continuing operations, the nearest GAAP equivalent, for the periods presented:

	The Company (dollars in thousands)									Predecessor
	Six Months Ended June 30,				Year Ended December 31,					
FFO:	**Pro forma 2012 (unaudited)**	**Historical 2012 (unaudited)**	**Historical 2011 (unaudited)**	**Pro forma 2011 (unaudited)**	**Historical 2011**	**Historical 2010**	**Historical 2009**	**Historical 2008**	**Historical five-month period ended December 31, 2007**	**Historical seven-month period ended July 31, 2007**
Net (loss) income		$ (21,184)	$ (24,334)		$ (63,863)	$ (86,537)	$ (122,683)	$ (154,519)	$ (28,253)	$ 12,706
Depreciation and amortization of real estate assets		55,708	56,179		111,777	113,476	118,576	127,540	50,887	36,392
Impairments on real estate assets		10,257	5,790		19,132	43,233	27,537	62,244	18	1,107
Net losses (gains) on the disposition of assets		(1,369)	540		2,736	391	34,682	22,476	(756)	(2,029)
FFO		$ 43,412	$ 38,175		$ 69,782	$ 70,563	$ 58,112	$ 57,741	$ 21,896	$ 48,176
FFO from continuing operations, as adjusted:										
Loss from continuing operations	$ (4,866)	$ (21,283)	$ (17,604)	$ (11,128)	$ (49,643)	$ (63,178)	$ (66,293)	$ (90,958)	$ (36,378)	$ (4,490)
Adjustments:										
Depreciation and amortization of real estate assets from continuing operations	55,545	55,545	55,139	110,254	110,254	110,513	111,268	110,748	44,568	31,530
Impairment of real estate assets from continuing operations	9,030	9,030	457	8,411	8,411	21,632	1,075	3,765		
FFO from continuing operations	$ 59,709	$ 43,292	$ 37,992	$ 107,537	$ 69,022	$ 68,967	$ 46,050	$ 23,555	$ 8,190	$ 27,040
Adjustments:										
Litigation			151	151	151	22,282				
Privatization costs									294	18,468
	2,838			6,100						

Non-cash stock-based compensation expense										
Other expense (income)						3,110	(6,810)			
FFO from continuing operations, as adjusted	$ 62,547	$ 43,292	$ 38,143	$ 113,788	$ 69,173	$ 94,359	$ 39,240	$ 23,555	$ 8,484	$ 45,508

(3) EBITDA from continuing operations represents net income (loss) before the cumulative effect of income (loss) from discontinued operations, interest expense, depreciation and amortization and tax expense. EBITDA from continuing operations is a supplemental non-GAAP financial measure. We use EBITDA from continuing operations as a supplemental performance measure because we believe that EBITDA from continuing operations is beneficial to investors as a starting point in measuring our operational performance. However, because EBITDA from continuing operations excludes income (loss) from discontinued operations, interest expense, depreciation and amortization and tax expense, all of which have real economic effects and could materially impact our results from operations, the utility of EBITDA from continuing operations as a measure of our performance is limited. In addition, other equity REITs may not calculate EBITDA from continuing operations in the same manner that we do. Accordingly, EBITDA from continuing operations should be considered only as a supplement to net income (loss) as a measure of our performance. EBITDA from continuing operations 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. EBITDA from continuing operations, as adjusted, represents EBITDA from continuing operations, adjusted to eliminate the impact of litigation costs, privatization costs, impairments, non-cash stock-based compensation expense and other income (expense), as we believe these items are not reflective of ongoing operational items. The following table sets forth a reconciliation of our EBITDA from continuing operations and our EBITDA from continuing operations, as adjusted, to net income (loss), the nearest GAAP equivalent, for the periods presented:

	The Company (dollars in thousands)									**Predecessor**
	Six Months Ended June 30,			**Year Ended December 31,**						
	Pro forma 2012 (unaudited)	**Historical 2012 (unaudited)**	**Historical 2011 (unaudited)**	**Pro forma 2011 (unaudited)**	**Historical 2011**	**Historical 2010**	**Historical 2009**	**Historical 2008**	**Historical five-month period ended December 31, 2007**	**Historical seven-month period ended July 31, 2007**
EBITDA from continuing operations:										
Net (loss) income		$ (21,184)	$ (24,334)		$ (63,863)	$ (86,537)	$ (122,683)	$ (154,519)	$ (28,253)	$ 12,706
Minus: Income (loss) from discontinued operations		99	(6,730)		(14,220)	(23,359)	(56,390)	(63,561)	8,125	17,196
Loss from continuing operations	$ (4,866)	(21,283)	(17,604)	$ (11,128)	(49,643)	(63,178)	(66,293)	(90,958)	(36,378)	(4,490)
Adjustments:										
Interest expense	66,497	81,230	83,001	134,426	169,888	173,054	208,538	231,194	94,831	73,085
Depreciation and amortization	55,567	55,567	55,209	110,347	110,347	110,685	111,437	110,958	44,640	31,645
Income tax expense (benefit)	319	319	110	(60)	(60)	239	3,346	1,134	344	84
EBITDA from continuing operations	$ 117,517	$ 115,833	$ 120,716	$ 233,585	$ 230,532	$ 220,800	$ 257,028	$ 252,328	$ 103,437	$ 100,324
Adjustments:										
Litigation			151	151	151	22,282				
Privatization costs									294	18,468
Impairments	8,850	8,850	457	11,511	11,511	23,152	7,584	5,083		
Non-cash stock-based compensation expense	2,838			6,100						
Other expense (income)						3,110	(6,810)			
EBITDA from continuing	$ 129,205	$ 124,683	$ 121,324	$ 251,347	$ 242,194	$ 269,344	$ 257,802	$ 257,411	$ 103,731	$ 118,792

operations, as adjusted

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read together with the Selected Financial Data, Business and Properties and consolidated financial statements and related notes that are included elsewhere in this prospectus. Where appropriate, the following discussion includes the effects of the completion of this offering, the use of the net proceeds and the debt conversion on a pro forma basis. These effects are reflected in our pro forma consolidated financial statements located elsewhere in this prospectus. This discussion contains forward-looking statements based upon our current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Risk Factors, Special Note Regarding Forward-Looking Statements or in other parts of this prospectus.

Overview

We invest 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 our tenants conduct retail, service or distribution 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 generate our revenue primarily by leasing our properties to our tenants. As of June 30, 2012, our undepreciated gross investment in real estate and loans totaled approximately $3.6 billion, representing investment in 1,183 properties, including properties securing our mortgage loans. Of this amount, 98.3% consisted of our gross investment in real estate, representing ownership of 1,096 properties, and the remaining 1.7% consisted of commercial mortgage and equipment loans receivable secured by 87 properties or related assets. As of June 30, 2012, our owned properties were approximately 98.2% occupied (based on number of properties), and our leases had a weighted average non-cancelable remaining lease term (based on annual rent) of approximately 11.4 years. Our leases are generally long-term, with non-cancelable initial terms typically of 15 to 20 years and tenant renewal options for additional terms. As of June 30, 2012, approximately 96% of our leases (based on annual rent) provided for increases in future annual base rent.

We were formed in 2003 and became a public company in December 2004. We were subsequently taken private by a consortium of private investors in August 2007 in a transaction that was structured and led by an affiliate of Macquarie Capital (USA) Inc., one of the underwriters of this offering, which we refer to as our privatization. Following our privatization, we initially continued to execute our business plan and grow our portfolio. However, during 2008, in response to deteriorating economic conditions, we shifted our focus to reducing our indebtedness and managing our portfolio. From January 1, 2008 to June 30, 2012, we reduced our indebtedness by $627.6 million. The vast majority of the owned properties in our portfolio as of June 30, 2012 were acquired prior to our privatization. We have begun to pursue acquisition opportunities during the last twelve months and have completed approximately $111.5 million of acquisitions during that period. Our future acquisition activities will be focused on investments consistent with our past practice and current portfolio.

Prior to March 2008, we were a self-administered and self-managed REIT. From March 2008 through June 2011, we were externally managed by an affiliate, Spirit Finance Capital Management, LLC, or the Manager, under an advisory management agreement, or the Advisory Management Agreement. On June 30, 2011, we terminated the Advisory Management Agreement and re-acquired all of the assets and liabilities of the Manager for a net cash purchase price of approximately nine thousand dollars. In connection with this acquisition, the personnel of the Manager again became our employees. This transaction has been accounted for as a combination of entities under common control; accordingly, our consolidated financial statements have been retroactively restated to reflect the consolidation for all periods presented. The Manager was responsible for managing all of our day-to-day operations, including monitoring our investment portfolio, identifying assets for acquisition and disposition and other activities on our behalf in return for payment of management fees. As of June 30, 2011, we have re-assumed the role of managing and performing all of our business operations and are a self-administered and self-managed REIT.

Upon the completion of this offering, we expect our operations to be carried out through Spirit Realty, L.P., our operating partnership, which will be formed as a Delaware limited partnership. Spirit General OP Holdings, LLC, one of our wholly-owned subsidiaries, will be the sole general partner and own 1.0% of our operating partnership. We will be the sole limited partner and own the remaining 99.0% of our operating partnership. Although upon the completion of this offering our operating partnership will be wholly-owned by us, in the future some of our property acquisitions could be made by issuing units of our operating partnership in exchange for property owned by third parties. In general, any operating partnership units issued to third-parties would be exchangeable for cash or, at our election, shares of our common stock at specified ratios set from time-to-time when the operating partnership units are issued. See Description of the Partnership Agreement of Spirit Realty, L.P.

As more fully described below, upon the completion of this offering, and the debt conversion, we expect to have approximately $2.0 billion principal balance of outstanding indebtedness on a pro forma basis. Based upon the mid-point of the price range set forth on the front cover of this prospectus, we also expect to have approximately $ million of cash and cash equivalents on hand and the $100 million secured revolving credit facility that we expect to have upon the completion of this offering. The purchasers of common stock in this offering, TLC lenders, continuing investors (other than our directors, executive officers and other employees) and our directors, executive officers and other employees as a group (assuming vesting of all equity awards) will own approximately %, %, % and %, respectively, of our outstanding common stock upon the completion of this offering, the use of the net proceeds and the debt conversion (assuming that the initial public offering price per share equals the mid-point of the price range set forth on the front cover of this prospectus).

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.

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 96% of our leases 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 June 30, 2012, 98.2% 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. As a result, Shopko/Pamida contributed 30.2% of our annual rent as of June 30, 2012. 84 Lumber contributed 6.7% of our annual rent as of June 30, 2012. Rental revenues from Shopko/Pamida and 84 Lumber totaled 30.4% and 6.8%, respectively, of our total rental revenue for the year ended December 31, 2011 and 29.3% and 6.8%, respectively, for the year ended December 31, 2010. Because a significant portion of our revenues are derived from rental revenues received from Shopko/Pamida and 84 Lumber, defaults, breaches or delay in payment of rent by these tenants may materially and adversely affect us. See Risk Factors A substantial number of our properties are leased to one tenant, which may result in increased risk due to tenant and industry concentrations and One tenant, operating in the building materials industry, leases a substantial number of our properties and has been adversely affected by the current economic environment, which may result in increased risk of tenant default.

Without giving effect to the exercise of tenant renewal options, the weighted average remaining term of our leases as of June 30, 2012 was 11.4 years (based on annual rent). Approximately 5.7% of our leases (based on annual rent) as of June 30, 2012 will expire prior to January 1, 2016. See Business and Properties Our Real Estate Investment Portfolio Lease Expirations. 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 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.

We believe our current pipeline of investment opportunities is robust and is steadily increasing. These opportunities typically have initial asking cap rates ranging from 7.50% to 9.50% (i.e., the ratio of the expected annual rent to be received from the opportunity to the offer price of the opportunity), which has been a generally consistent range throughout the year. These opportunities range from large, widely-marketed transactions with investment grade tenants to small, off-market transactions with non-rated tenants.

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. As of June 30, 2012, approximately 95% 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 63.2% 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

Upon the completion of this offering and the debt conversion, there will be no amounts outstanding under the term loan (which will be extinguished), and we expect to have approximately $2.0 billion principal balance outstanding of predominately secured, fixed-rate mortgage notes payable on a pro forma basis. During the six months ended June 30, 2012, the weighted average interest rate on our fixed and variable-rate debt, excluding the amortization of deferred financing costs and debt discounts, was approximately 6.10%. Our initial 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 three mortgage notes. We entered into interest rate swaps that effectively fixed the interest rates at approximately 4.53% on a significant portion of this variable rate debt. We amortize on a non-cash basis the deferred financing costs and debt discounts associated with our fixed-rate debt to interest expense using the effective interest rate method over the terms of the related notes. For the six months ended June 30, 2012, non-cash interest expense recognized on our fixed and variable-rate debt to be outstanding upon the completion of this offering totaled approximately $4.7 million. Any changes to our debt structure, including borrowings under the $100 million secured revolving credit facility that we expect to have upon the completion of this offering 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. For example, for the year ending December 31, 2012, we have $42.1 million in scheduled principal payments, which will result in a decrease in interest expense of approximately $2.6 million per year.

General and Administrative Expenses

General and administrative expenses include employee compensation costs, professional fees, consulting, portfolio servicing costs and other general and administrative expenses. As a public company, we estimate our annual general and administrative expenses will increase by approximately $2.2 million due to increased legal, insurance, accounting and other expenses related to corporate governance, SEC reporting and other compliance matters.

Transaction Costs

As we acquire properties, we may incur transaction costs that we are required to expense.

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 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. 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 (see Factors that May Influence Our Operating Results Rental Revenue above). 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. 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.

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

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 of our pre-acquisition due diligence and our 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 is highly subjective and such estimates could differ materially from actual results.

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.

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 receivables 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 secured revolving credit facility that we expect to have upon the completion of this offering, 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 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.

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, 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. 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 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 (TRS)

On January 15, 2009, we formed Spirit Management Company II, a Maryland corporation that is wholly-owned by us and which we refer to as our TRS. 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. See Federal Income Tax Considerations Taxation of Our Company General Ownership of Interests in Taxable REIT Subsidiaries. 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. See Federal Income Tax Considerations Taxation of Our Company Income Tests. 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

Prior to the completion of this offering, we intend to adopt the Incentive Award Plan, which we expect will provide 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. 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 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.

Results of Operations

Comparison of the Six Months ended June 30, 2012 and Six Months Ended June 30, 2011

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

	Continuing Operations Six months ended June 30,			
	2012	2011	Change	%
	(in thousands)			
Revenues:				
Rentals	$ 137,536	$ 132,848	$ 4,688	3.5%
Interest income on loans receivable	3,012	3,453	(441)	(12.8)%
Interest income and other	545	464	81	17.5%
Total revenues	141,093	136,765	4,328	3.2%
Expenses:				
General and administrative	14,100	12,710	1,390	10.9%
Litigation		151	(151)	(100.0)%
Property costs	2,310	2,731	(421)	(15.4)%
Interest	81,230	83,001	(1,771)	(2.1)%
Depreciation and amortization	55,567	55,209	358	0.6%
Impairments	8,850	457	8,393	NM
Total expenses	162,057	154,259	7,798	5.1%
Loss from continuing operations before income tax expense	(20,964)	(17,494)	(3,470)	(19.8)%
Income tax expense	319	110	209	190.0%
Loss from continuing operations[1]	$ (21,283)	$ (17,604)	$ (3,679)	(20.9)%

[1] For the six months ended June 30, 2012 and 2011, income of $0.1 million and losses of $6.7 million, respectively, resulted from discontinued operations.

Revenues

For the six months ended June 30, 2012, approximately 98.0% of our lease and loan revenues were attributable to long-term leases. Total revenue increased by $4.3 million to $141.1 million for the six months ended June 30, 2012 as compared to $136.8 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 $82 million subsequent to June 30, 2011 and contractual rent escalations on our owned real estate properties.

Rentals. Rental revenue increased by $4.7 million to $137.5 million for the six months ended June 30, 2012 as compared to $132.8 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 period ended June 30, 2011. Rental revenue attributable to non-cash straight-line rent and amortization of above and below-market lease intangibles for the six months ended June 30, 2012 and 2011 was $1.4 million and $1.3 million, respectively, representing approximately 1.0% of total rental revenue from continuing operations for the six months ended June 30, 2012 and 2011, respectively.

As of June 30, 2012, 98.2% (based on number of properties) of our owned properties were occupied. The majority of our nonperforming leases were in the automotive and restaurant 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 June 30, 2012, 20 of our properties, representing approximately 1.8% of our owned properties, were vacant and not generating rent, compared to 33 vacant properties, representing 3.1% of our owned properties, as of June 30, 2011.

Interest income on loans receivable. Interest income on loans receivable decreased by $0.4 million to $3.0 million in the six months ended June 30, 2012 as compared to $3.4 million for the same period in 2011. The decrease in interest income was primarily due to the collection of one equipment note and one note receivable, totaling $5.9 million, during the six months ending June 30, 2012 and scheduled maturities and amortization subsequent to June 30, 2011.

Interest income and other. Interest income and other remained stable between periods at $0.5 million for each of the six month periods ended June 30, 2012 and 2011. The Company recognized $0.3 million in lease termination revenue during the six months ending June 30, 2012, but recognized higher interest income during the comparable period in 2011. Lease termination revenue frequently results from negotiations with tenants who have individual underperforming properties which 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 underperforming 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 $1.4 million to $14.1 million for the six months ended June 30, 2012, as compared to $12.7 million for the same period in 2011. This increase was due primarily to higher employee compensation, legal costs for lender consents related to this offering and an increase in acquisition expenses. These increases were partially offset by lower executive consulting fees.

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. Total property costs decreased by $0.4 million to $2.3 million for the six months ended June 30, 2012, as compared to $2.7 million for the same period in 2011. The decrease in property costs was due to a decrease in the average number of property vacancies, from an average of 39 vacant properties during the six months ended June 30, 2011 to an average of 20 vacant properties during the comparable period in 2012.

Interest. Interest expense decreased by $1.8 million to $81.2 million for the six months ended June 30, 2012, as compared to $83.0 million for the same period in 2011. The decrease in interest expense was due primarily to lower overall debt following 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 (see Note 4 to the consolidated financial statements included in this prospectus). These decreases were partially offset by increases attributable to $34.1 million of borrowings related to recent acquisitions.

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

	Continuing Operations Six months ended June 30, 2012	 2011
	(in thousands)	
Interest expense term loan payable	$ 13,715	$ 13,760
Interest expense mortgage and notes payable	59,711	60,265
Amortization of deferred financing costs	1,712	1,888
Amortization of net losses related to interest rate swap contract	2,333	2,249
Amortization of debt discount	3,759	4,839
Total interest expense	$ 81,230	$ 83,001
Weighted average debt outstanding before term loan and debt discount[1]	$ 1,956,995	$ 1,976,216
Weighted average term loan	729,000	799,000
Weighted average debt discount[1]	(57,815)	(64,477)
Weighted average debt outstanding	$ 2,628,180	$ 2,710,739
Adjusted interest[2]/weighted average mortgage and notes payable	6.10%	6.10%
Term loan interest[3]/weighted average term loan payable	3.76%	3.44%

(1) Excludes debt associated with discontinued operations.

(2) Excludes interest expense associated with the term loan, 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 $0.4 million to $55.6 million for the six months ended June 30, 2012 as compared to $55.2 million for the same period in 2011. The slight increase was due to higher depreciation expense following acquisitions of over $82 million between June 30, 2011 and June 30, 2012, partially offset by dispositions of properties subsequent to June 30, 2011. The following table summarizes our depreciation and amortization expense from continuing operations:

	Continuing Operations Six months ended June 30, 2012	 2011
	(in thousands)	
Depreciation of real estate assets	$ 46,611	$ 46,068
Other depreciation	22	70
Amortization of lease intangibles	8,934	9,071
Total depreciation and amortization	$ 55,567	$ 55,209

Impairments. Impairment charges on properties and other assets that are classified as part of continuing operations were $8.9 million and $0.5 million for the six months ended June 30, 2012 and 2011, respectively. The higher impairment charges in 2012 were attributable to certain underperforming properties. 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 from sale or re-lease are less than their net book value.

	Continuing Operations	
	Six months ended June 30,	
	2012	2011
	(in thousands)	
Real estate and intangible asset impairment	$ 6,304	$ 426
Write-off of lease intangibles due to lease terminations	2,726	
Loan receivable impairment recovery	(180)	
Other impairment		31
Total impairment loss	$ 8,850	$ 457

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 six months ended June 30, 2012, we had income from discontinued operations of $0.1 million. For the same period in 2011, we had a loss from discontinued operations of $6.7 million. For the six months ended June 30, 2012, $1.3 million of loss was attributable to the properties held for sale. For the same period in 2011, $4.6 million of loss was attributable to the properties held for sale. Non-cash impairment charges included in the loss from discontinued operations for the six months ended June 30, 2012 and 2011 were $1.2 million and $5.3 million, respectively.

Comparison of Year Ended December 31, 2011 and Year Ended December 31, 2010

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

below:

	Continuing Operations			
	Year ended December 31,			
	2011	2010	Change	%
	(in thousands)			
Revenues:				
Rentals	$ 267,938	$ 267,681	$ 257	0.1%
Interest income on loans receivable	6,772	9,572	(2,800)	(29.3)%
Interest income and other	820	14,481	(13,661)	(94.3)%
Total revenues	275,530	291,734	(16,204)	(5.6)%
Expenses:				
General and administrative	28,312	19,613	8,699	44.4%
Litigation	151	22,282	(22,131)	(99.3)%
Property costs	5,024	2,777	2,247	80.9%
Interest	169,888	173,054	(3,166)	(1.8)%
Depreciation and amortization	110,347	110,685	(338)	(0.3)%
Impairments	11,511	23,152	(11,641)	(50.3)%
Total expenses	325,233	351,563	(26,330)	(7.5)%
Loss from continuing operations before other income (expense) and income tax (benefit) expense	(49,703)	(59,829)	10,126	(16.9)%
Gains on debt repurchases		9,455	(9,455)	(100.0)%

Loss on sale of loans receivable		(12,565)	12,565	100.0%
Loss from continuing operations before income tax (benefit) expense	(49,703)	(62,939)	13,236	21.0%
Income tax (benefit) expense	(60)	239	(299)	(125.1)%
Loss from continuing operations[1]	$ (49,643)	$ (63,178)	$ 13,535	21.4%

[1] For the years ended December 31, 2011 and 2010, losses of $14.2 million and $23.4 million, respectively, resulted from discontinued operations.

Revenues

For the year ended December 31, 2011, approximately 97.5% of our lease and loan revenues were attributable to long-term leases. Total revenue decreased by $16.2 million to $275.5 million for the year ended December 31, 2011 as compared to $291.7 million for same period in 2010. The decrease in revenue was due primarily to the receipt of $13.9 million in non-recurring lease termination revenue recognized during the year ended December 31, 2010 for the removal of 24 properties from eight leases and a decrease in interest income of $2.8 million due to the sale of two variable rate loans receivable in December 2010.

Rentals. Rental revenues for the years ended December 31, 2011 and 2010 remained stable at $267.9 million and $267.7 million, respectively. Contractually specified rent increases from our leases during 2011 offset the recognition of $2.6 million in deferred rent received from one of our tenants during 2010. Rental revenue attributable to non-cash straight-line rent and amortization of above and below-market lease intangibles for the years ended December 31, 2011 and 2010 was $2.6 million and $2.7 million, respectively, representing approximately 1.0% of total rental revenue from continuing operations for each of the years ended December 31, 2011 and 2010.

As of December 31, 2011, 98.4% (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. During the year ended 2011, we sold 25 vacant and two underperforming properties. As of December 31, 2011, 17 of our properties, representing approximately 1.6% of our owned properties, were vacant and not generating rent, compared to 40 vacant properties, representing 3.7% of our owned properties, as of December 31, 2010.

Interest income on loans receivable. Interest income on loans receivable decreased by $2.8 million to $6.8 million in the year ended ended December 31, 2011 as compared to $9.6 million for the same period in 2010. The decrease in interest income was primarily due to the sale of two variable rate loans receivable in December 2010 with an aggregate principal amount of $73.9 million.

Interest income and other. Interest income and other decreased by $13.7 million to $0.8 million for the year ended December 31, 2011 as compared to $14.5 million for the same period in 2010. The decrease in interest income and other was due primarily to $13.9 million in lease termination revenue recognized in 2010. Lease termination revenue frequently results from negotiations with tenants who have individual underperforming properties which 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 underperforming 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 by $8.7 million to $28.3 million for the year ended December 31, 2011 as compared to $19.6 million for the same period in 2010. This increase was due to higher executive and financial consulting fees related to the modification of our term loan partially offset by lower legal fees, employee compensation and recognition of non-cash unrealized losses on an interest rate swap contract related to our term loan, which we assumed in connection with our privatization and subsequently terminated in August 2009. The recognition of unrealized losses arose from expected repurchases of the term loan and the required acceleration of a portion of the originally forecasted hedged transaction now probable of not occurring. Excluding consulting fees of $12.3 million and $5.0 million for the years ended December 31, 2011 and 2010, respectively, our general and administrative expenses for the year ended December 31, 2011 were $16.0 million as compared to $14.6 million for the same period in 2010.

Litigation. In the year ended December 31, 2010, we incurred $22.3 million of litigation costs, net of insurance recoveries, associated with two lawsuits brought by former members of our senior management that were settled in December 2010.

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. Total property costs increased by $2.2 million to $5.0 million for the year ended December 31, 2011 as compared to $2.8 million for the same period in 2010. The increase in property costs was due to a rise in the average number of property vacancies, from an average of 25 vacant properties during the year ended December 31, 2010 to 31 during the comparable period in 2011.

Interest. Interest expense decreased by $3.2 million to $169.9 million for the year ended December 31, 2011 as compared to $173.1 million for the same period in 2010. The decrease in interest expense was due to a reduction in the outstanding principal amount of our debt by $146.6 million during 2010 as compared to $121.8 million during 2011, partially offset by an increase in non-cash interest expense during 2011 related to the modification of our term loan. Despite the termination of an interest rate swap contract in 2009, we recognized some non-cash interest expense through the amortization of the amounts recorded in accumulated other comprehensive loss as of the date of the swap termination. This amortization will continue until the term loan is repaid in full, which we expect will take place upon the completion of this offering, the use of the net proceeds and the debt conversion. Debt reduction was funded, in part, with net proceeds from the sale of certain assets.

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

	Continuing Operations Year ended December 31,	
	2011	**2010**
	(in thousands)	
Interest expense term loan payable	$ 26,631	$ 27,735
Interest expense mortgage and notes payable	120,600	125,851
Amortization of deferred financing costs	3,599	4,728
Amortization of net losses related to interest rate swap contract	4,500	4,714
Amortization of debt discount	14,558	10,026
Total interest expense	$ 169,888	$ 173,054
Weighted average debt outstanding before term loan and debt discount[1]	$ 1,969,376	$ 2,041,679
Weighted average term loan	766,014	820,458
Weighted average debt discount[1]	(64,642)	(71,981)
Weighted average debt outstanding	$ 2,670,748	$ 2,790,156
Adjusted interest[2]/weighted average mortgage and notes payable	6.12%	6.16%
Term loan interest[3]/weighted average term loan payable	3.48%	3.38%

[1] Excludes debt associated with discontinued operations.

[2] Excludes interest expense associated with the term loan, 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 decreased by $0.4 million to $110.3 million for the year ended December 31, 2011 as compared to $110.7 million for the same period in 2010. The slight decrease in the depreciation and amortization expense was primarily due to higher amortization of lease intangibles during 2010 associated with lease terminations. The following table summarizes our depreciation and amortization expense from continuing operations:

	Continuing Operations	
	Year ended December 31,	
	2011	2010
	(in thousands)	
Depreciation of real estate assets	$ 92,150	$ 91,643
Other depreciation	93	172
Amortization of lease intangibles	18,104	18,870
Total depreciation and amortization	$ 110,347	$ 110,685

Impairments. Impairment charges on properties and other assets that are classified as part of continuing operations were $11.5 million and $23.2 million for the years ended December 31, 2011 and 2010, respectively. 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 from sale or re-lease are less than their net book value.

The following table summarizes our impairment loss from continuing operations:

	Continuing Operations	
	Year ended	
	December 31,	
	2011	2010
	(in thousands)	
Real estate and intangible asset impairment	$ 8,279	$ 17,334
Write-off of lease intangibles due to lease terminations	41	4,275
Loan receivable impairment	3,100	1,520
Other impairment	91	23
Total impairment loss	$ 11,511	$ 23,152

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, 2011 and 2010, we recognized a total loss from discontinued operations of $14.2 million and $23.4 million, respectively, which includes $3.6 million and $5.3 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 years ended December 31, 2011 and 2010 were $10.7 million and $21.6 million, respectively.

Comparison of Year Ended December 31, 2010 and Year Ended December 31, 2009

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

	Continuing Operations			
	Year ended December 31,			
	2010	2009	Change	%
	(in thousands)			
Revenues:				
Rentals	$ 267,681	$ 263,985	$ 3,696	1.4%
Interest income on loans receivable	9,572	10,098	(526)	(5.2)%
Interest income and other	14,481	6,476	8,005	123.6%
Total revenues	291,734	280,559	11,175	4.0%
Expenses:				
General and administrative	19,613	19,842	(229)	(1.2)%
Litigation	22,282		22,282	100.0%
Property costs	2,777	2,915	(138)	(4.7)%
Interest	173,054	208,538	(35,484)	(17.0)%
Depreciation and amortization	110,685	111,437	(752)	(0.7)%
Impairments	23,152	7,584	15,568	205.3%
Total expenses	351,563	350,316	1,247	0.4%
Loss from continuing operations before other income (expense) and income tax expense	(59,829)	(69,757)	9,928	14.2%
Gains on debt repurchases	9,455		9,455	100.0%
Loss on sale of loans receivable	(12,565)		(12,565)	(100.0)%
Gain on sale of available-for-sale security		6,810	(6,810)	(100.0)%
Loss from continuing operations before income tax expense	(62,939)	(62,947)	8	0.0%
Income tax expense	239	3,346	(3,107)	(92.9)%
Loss from continuing operations[1]	$ (63,178)	$ (66,293)	$ 3,115	4.7%

[1] For the years ended December 31, 2010 and 2009, losses of $23.4 million and $56.4 million, respectively, resulted from discontinued operations.

Revenues

For the year ended December 31, 2010, approximately 96.6% of our lease and loan revenues were attributable to long-term leases. Total revenues increased by $11.1 million to $291.7 million for the year ended December 31, 2010 as compared to $280.6 million for 2009. The increase was primarily due to an $8.0 million increase in lease termination revenue recognized during 2010. We recognized $13.9 million of lease termination revenue for the year ended December 31, 2010 as compared to $5.9 million for 2009. Lease termination revenue is recorded in interest income and other.

Rentals. Rental revenues increased by $3.7 million to $267.7 million for the year ended December 31, 2010 as compared to $264.0 million for 2009. This increase was attributable to contractually specified rent increases and recognition of $2.6 million in previously deferred rent collected from one of our tenants. Rental revenue attributable to non-cash straight-line rent and amortization of above and below-market lease intangibles for the years ended December 31, 2010 and 2009 was $2.7 million and $2.6 million, respectively, representing approximately 1.0% of total rental revenue from continuing operations for the years ended December 31, 2010 and 2009.

As of December 31, 2010, 96.3% (based on number of properties) of our owned properties were occupied. The majority of our nonperforming leases were in the restaurant and industrial industries. As of December 31, 2010, 40 of our properties, representing approximately 3.7% of our owned properties, were vacant and not generating rent, compared to six vacant properties, representing 0.6% of our owned properties, as of December 31, 2009. The increase in vacancy was attributable to our aggressive management of underperforming and non-performing tenants in pursuit of our long-term strategy of enhancing the stability of our portfolio; in particular, the discretionary termination of 24 properties under eight leases in exchange for lease termination fees.

Interest income on loans receivable. Interest income on loans receivable decreased by $0.5 million to $9.6 million for the year ended December 31, 2010 as compared to $10.1 million for 2009. The decrease in interest income was primarily due to the sale of 25 loans receivable at the end of March 2009, the prepayment of two notes receivable during the second quarter of 2010 and a lower weighted average yield. The lower yield was primarily due to a decline in the average interest rate on two variable rate loans with an aggregate principal amount of $73.9 million. The two variable rate loans were sold in December 2010.

Interest income and other. Interest income and other was $14.5 million for the year ended December 31, 2010 and included $13.9 million in lease termination revenue. The lease termination revenue in 2010 related to the removal of 24 properties under eight leases. For 2009, interest income and other totaled $6.5 million which included $5.9 million in lease termination revenue. Lease termination and settlement fees frequently result from negotiations with tenants who have individual underperforming properties which make up a portion of a master lease. In these circumstances, we may agree to lower the lease payment under the master lease in exchange for a termination fee and exit of the underperforming property. This generates higher current period revenue, but may result in lower revenue in future periods, depending on how quickly the newly-vacant properties can be re-leased and at what rate.

Expenses

General and administrative. General and administrative expenses decreased by $0.2 million to $19.6 million for the year ended December 31, 2010 as compared to $19.8 million for 2009. This decrease was due to lower employee compensation costs of $2.5 million offset by higher legal and consulting expenses of $2.1 million.

Litigation. During the year ended December 31, 2010, we incurred $22.3 million of litigation costs, net of insurance recoveries, associated with two lawsuits brought by former members of our senior management, which were settled before year end. We do not expect to incur any other significant costs relating to these two lawsuits, as all claims have been resolved through a final settlement.

Property costs. Total property costs decreased by $0.1 million to $2.8 million for the year ended December 31, 2010 as compared to $2.9 million for 2009.

Interest. Interest expense decreased by $35.4 million to $173.1 million for the year ended December 31, 2010 as compared to $208.5 million for 2009, reflecting the termination of an interest rate swap contract in 2009 and lower debt levels in 2010. Debt reduction was funded, in part, with net proceeds from the sale of certain assets.

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

	Continuing Operations Year ended December 31,	
	2010	**2009**
	(in thousands)	
Interest expense term loan payable	$ 27,735	$ 52,882[1]
Interest expense short-term credit facility		4,695
Interest expense mortgage and notes payable	125,851	129,647
Amortization of deferred financing costs	4,728	8,401
Amortization of net losses related to interest rate swap contract	4,714	2,555
Amortization of debt discount	10,026	10,358
Total interest expense	$ 173,054	$ 208,538
Weighted average debt outstanding before term loan and debt discount[2]	$ 2,041,679	$ 2,186,755
Weighted average term loan	820,458	850,000
Weighted average debt discount[2]	(71,981)	(82,644)
Weighted average debt outstanding	$ 2,790,156	$ 2,954,111
Adjusted interest[3]/weighted average credit facility and mortgages and notes payable	6.16%	6.14%
Term loan interest[4]/weighted average term loan payable	3.38%	6.22%

[1] Includes related hedge expense while the related swap contract was outstanding in 2009.

[2] Excludes debt associated with discontinued operations.

[3] Excludes interest expense associated with the term loan, amortization of deferred financing costs and debt discounts.

[4] 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 decreased by $0.7 million to $110.7 million for the year ended December 31, 2010 as compared to $111.4 million for 2009. The decrease in the depreciation and amortization expense was primarily due to higher amortization of lease intangibles in 2009 associated with lease terminations. The following table summarizes our depreciation and amortization expense from continuing operations:

	Continuing Operations Year ended December 31,	
	2010	**2009**
	(in thousands)	
Depreciation of real estate assets	$ 91,643	$ 90,944
Other depreciation	172	169
Amortization of lease intangibles	18,870	20,324
Total depreciation and amortization	$ 110,685	$ 111,437

Impairments. We recorded $23.2 million in impairment losses for the year ended December 31, 2010 as compared to $7.6 million for 2009 on properties and other assets that are classified as part of continuing operations. During the year ended December 31, 2010, the impairment charges were primarily attributable to a rise in property vacancies. Increased vacancies trigger impairment charges when the properties expected future cash flows from sale or re-lease are less than their net book value. Excluding the loan receivable impairment discussed below, the auto dealership, industrial and restaurant industries contributed to virtually all of the total impairment charges for the year ended December 31, 2010. The 2010 impairment losses also included approximately $4.6 million for the impairment or write-off of lease intangible assets recorded as part of the

purchase accounting allocation caused by our privatization. During the year ended December 31, 2010, we increased our loan loss reserve by $1.5 million, resulting in a loan loss reserve at year end of $3.6 million, or approximately 4.7% of the outstanding principal balance of our loans.

The following table summarizes our impairment loss from continuing operations:

	Continuing Operations Year ended December 31,	
	2010	**2009**
	(in thousands)	
Real estate and intangible asset impairment	$ 17,334	$ 141
Write-off of lease intangibles due to lease terminations	4,275	884
Loan receivable impairment	1,520	6,509
Other impairment	23	50
Total impairment loss	$ 23,152	$ 7,584

Gains on debt repurchases

As part of our deleveraging efforts, during 2010 we purchased $51.0 million of our term loan debt and $13.8 million of our fixed-rate mortgage notes at a discount, generating gains totaling $9.5 million after fees and other costs. There were no debt repurchases in 2009.

Gain on sale of available-for-sale security

As part of acquiring the real estate of a tenant in 2004, we received a warrant to purchase shares of the tenant s common stock, and in November 2008 we purchased the stock pursuant to the warrant. The shares were subject to a repurchase option by the tenant, and the tenant repurchased the common stock from us in 2009, generating $7.4 million of net cash proceeds and a gain of $6.8 million, $3.7 million net of tax.

Loss on sale of loans receivable

During the year ended December 31, 2010, we sold two loan receivables generating $61.3 million of net cash sales proceeds and recognized a net loss of $12.6 million. During the year ended December 31, 2009, we sold 25 loan receivables generating $10.9 million of net cash sale proceeds and recognized impairment losses of $3.3 million prior to the transactions.

Discontinued Operations

For the years ended December 31, 2010 and 2009, we recognized total losses from discontinued operations of $23.4 million and $56.4 million, respectively. The portion of these losses attributable to the properties held for sale at the end of each period was a net loss of $5.3 million in 2010 and net income of $0.9 million in 2009. Non-cash impairment charges included in the loss from discontinued operations for the years ended December 31, 2010 and 2009 were $21.6 million and $26.5 million, respectively.

In addition, during the year ended December 31, 2009, we sold 112 properties which generated $160.4 million of net cash sales proceeds and recorded an aggregate net loss of $34.7 million that is included in the loss from discontinued operations. A majority of the proceeds were used to pay down a maturing short-term credit facility. During the year ended December 31, 2010, we sold five properties and recognized an aggregate net loss of $0.4 million.

Liquidity and Capital Resources

Our short-term liquidity requirements consist primarily of funds necessary to pay for our operating expenses, including costs relating to servicing our outstanding debt, and cash distributions. We expect to meet our short-term liquidity requirements primarily from cash and cash equivalents, net cash from operating activities and borrowings under the $100 million secured revolving credit facility that we expect to have upon the completion of this offering. We believe that our long-term, triple-net leases provide stable rental revenue during various market environments, as illustrated by the fact that our rental revenue from continuing operations for the years 2009, 2010 and 2011, which included periods of significant economic challenge, remained relatively stable at $264.0 million, $267.7 million and $267.9 million, respectively.

Our long-term liquidity requirements consist primarily of funds necessary to acquire additional properties, selectively fund notes receivable and repay indebtedness. We expect to meet our long-term liquidity requirements through various sources of capital, including borrowings under the $100 million secured revolving credit facility that we expect to have upon the completion of this offering, net cash from operating activities, future financings, working capital, proceeds from select sales of our properties and other secured and unsecured borrowings. However, there are a number of factors that may have a material and adverse effect on our ability to access these capital sources, including the current state of the overall equity and credit markets, our degree of leverage, our unencumbered asset base, borrowing restrictions imposed by our lenders, general market conditions for REITs, our operating performance, liquidity and market perceptions about us. The success of our business strategy will depend, in part, on our ability to access these various capital sources.

As of June 30, 2012, we had $71.7 million of cash and cash equivalents as compared to $125.0 million as of June 30, 2011. This decrease resulted primarily from the use of cash and cash equivalents to reduce our indebtedness and fund acquisitions offset primarily by $100.7 million of cash generated from operations during the twelve months ended June 30, 2012.

We believe that the completion of this offering, the use of the net proceeds and the debt conversion will improve our financial position by reducing our debt by $729.0 million. During 2011, 2010 and 2009, we reduced our outstanding indebtedness each year by $110.4 million, $146.6 million and $232.8 million, respectively. In addition, upon the completion of this offering, we expect to have a $100 million secured revolving credit facility that we intend to use, among other things, to finance the acquisition of additional properties and to provide for working capital and other corporate purposes.

Indebtedness to be Outstanding after this Offering

Upon the completion of this offering and the debt conversion, we will have approximately $2.0 billion principal balance outstanding of long-term debt on a pro forma basis (this represents a decrease of approximately $1.4 billion of long-term debt from January 1, 2008). The following table sets forth as of June 30, 2012 the long-term indebtedness we expect to be outstanding upon the completion of this offering on a pro forma basis:

	Pro Forma Amount Outstanding (in thousands)	Annual Interest Rate	Maturity	Balloon Payment due at Maturity (in thousands)
$100 million secured revolving credit facility[1]	$	LIBOR + 3.50% 4.50%	July 2015	$
Master Trust Facility[2]:				
Series 2005-1, Class A-1 amortizing mortgage note	117,684	5.05%	July 2020	
Series 2005-1, Class A-2 interest-only mortgage note	258,300	5.37%	July 2020	258,300
Series 2006-1, Class A amortizing mortgage note	249,270	5.76%	March 2021	167,465
Series 2007-1, Class A amortizing mortgage note	324,551	5.74%	March 2022	249,736
CMBS:				
Notes, balloon due 2012	7,748	5.90%	December 2012	7,690
Note, balloon due 2013	4,936	6.25%	February 2013	4,751
Notes, balloons due 2014	31,505	5.40%	December 2014	29,761
Notes, balloons due 2015	103,861	5.26% 5.62%	June 2015-October 2015	96,587
Notes, balloons due 2016	39,008	5.04% 8.39%	February 2016	36,184
Notes, balloons due 2016	569,194	6.59%	June 2016	528,958
Note, balloon due 2017	53,809	5.85%	January 2017	49,759
Note, balloon due 2017	144,619	6.17%	May 2017	133,709
Note, balloon due 2017	21,748	6.64%	August 2017	19,903
Secured variable rate notes, due 2016[3][4]	21,015	1m LIBOR + 3.25%[4]	October 2016	18,773
Secured variable rate note, due 2017[3][4]	11,250	1m LIBOR + 3.50%[4]	July 2017	10,182
Unsecured fixed-rate promissory note, due 2021	1,632	7.00%	December 2021	
	1,960,130			$ 1,611,758
Unamortized debt discount	(52,130)			
Total mortgages and notes payable	$ 1,908,000			

[1] Upon the completion of this offering, we expect to have a $100 million secured revolving credit facility.

[2] Our loans are subject to customary terms and conditions. As of June 30, 2012, we were in compliance with all loan covenants.

[3] Maturity dates assume exercise of our two one-year extension options under the note agreements.

[4] We have entered into three amortizing interest rate swaps with June 30, 2012 notional amounts of $6.9 million, $7.8 million and $11.3 million that effectively fixed the interest rates on that portion of this debt at approximately 4.7%, 4.3%, and 4.6%, respectively.

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 June 30, 2012, on a pro forma basis, we had approximately $2.0 billion principal balance of outstanding indebtedness with a weighted average annual interest rate of 6.10% and a weighted average maturity of 6.3 years. Most of this debt is partially amortizing and requires a balloon payment at maturity. We can provide no assurance that we will be able to refinance our indebtedness as it matures with replacement debt financing on similar terms or at all, should we choose to do so, or that we will be able to otherwise repay indebtedness at maturity. Our ability to refinance debt will depend upon many factors, including the then current value of the property securing the indebtedness to be refinanced and the amount of debt financing lenders are willing to provide, expressed as a percentage of the securing property s value.

Scheduled debt payments as of June 30, 2012 (on a pro forma basis) are as follows:

Year	Scheduled Principal Amortization	Balloon Payments at Maturity[1]	Total
		(in thousands)	
2012 (remainder of year)	21,261	7,690	28,951
2013	43,335	4,751	48,086
2014	45,959	29,761	75,720
2015	47,010	96,587	143,597
2016	40,514	583,916	624,430
Thereafter	150,293	889,053	1,039,346
Total	$ 348,372	$ 1,611,758	$ 1,960,130

(1) Material balloon payments subsequent to 2016 are as follows: $213.6 million due in 2017, $258.3 million due in 2020, $167.5 million due in 2021 and $249.7 million due in 2022.

We have $7.7 million of debt maturing in 2012. As noted, we expect to fund interest and amortization payments with cash and cash equivalents or net cash from operating activities.

Description of Certain Debt

Secured Revolving Credit Facility

A group of lenders, for whom an affiliate of Deutsche Bank Securities Inc. will act as administrative agent, lead arranger and book running manager and which includes affiliates of the other underwriters, have provided commitments for a secured revolving credit facility, allowing borrowings of up to $100 million. We expect the facility to be available to us upon the completion of this offering and have a term of three years. We also expect the facility to have an accordion feature that may allow us, during the first two years of the term, to increase the availability under the facility by an additional $50 million, subject to meeting specified requirements and obtaining additional commitments from lenders. We intend to use the facility for general corporate purposes, including working capital, payment of capital expenses and acquisitions.

The secured revolving credit facility is expected to bear interest at the rate of LIBOR plus a margin of 350 basis points to 450 basis points, depending on our leverage ratio. The amount available for us to borrow under the facility and our ability to request issuances of letters of credit will be subject to our operating partnership s maintenance of a minimum ratio of the total value of the unencumbered properties to the outstanding facility obligations of 1.75:1.00.

Our ability to borrow under the secured revolving credit facility will be subject to our operating partnership s ongoing compliance with a number of customary financial covenants, including:

a maximum total leverage ratio (defined as consolidated debt to consolidated earnings before interest, taxes, depreciation and amortization, or consolidated EBITDA) of 8.00:1.00 through and including the first fiscal quarter of 2014, 7.75:1.00 for the next four fiscal quarters and 7.50:1.00 thereafter;

a minimum total fixed charge coverage ratio (defined as consolidated EBITDA to consolidated fixed charges) of 1.35:1.00 through and including the first fiscal quarter of 2014, 1.40:1.00 for the next four fiscal quarters and 1.45:1.00 thereafter;

a minimum total facility interest coverage ratio (defined as consolidated EBITDA less total interest expense, payments of principal on, or amounts escrowed or held with respect to, non-recourse indebtedness and maintenance related capital expenditures to total interest expense plus amortization payments due on indebtedness) of 5.00:1.00 through and including the first fiscal quarter of 2013, 6.00:1.00 from the second fiscal quarter of 2013 through and including the first fiscal quarter of 2014, 7.00:1.00 from the second fiscal quarter of 2014 through and including the first fiscal quarter of 2015 and 8:00:1.00 thereafter; and

a minimum consolidated tangible net worth equal to at least 80% of our consolidated tangible net worth at the closing of this offering plus 80% of the proceeds of any additional issuances of common stock.

Under the secured revolving credit facility, our distributions may not exceed the greater of (1) 100% of our FFO or (2) the amount required for us to qualify and maintain our status as a REIT. If a default or event of default occurs and is continuing, we may be precluded from making certain distributions (other than those required to allow us to qualify and maintain our status as a REIT). We will guarantee our operating partnership s obligations under the facility and that, to the extent not prohibited by applicable law, all of our assets and our operating partnership s assets, other than interests in subsidiaries that are contractually prohibited from being pledged, will be pledged as collateral for the facility obligations.

The commitments are subject to closing conditions that are expected to include, among other things, successful completion of this offering, payment of fees, and the execution and delivery of definitive documentation satisfactory to the lenders. There can be no assurance that all of the closing conditions will be satisfied.

Term Loan and Debt Conversion

In connection with our privatization, we assumed the term loan, which had an original principal balance of $850.0 million. The proceeds of the term loan were used to partially fund the consideration payable to our former stockholders in connection with our privatization. As of June 30, 2012, the term loan had an outstanding principal balance of $729.0 million, after giving effect to our 2010 and 2011 repurchases aggregating $121.0 million of principal balance.

In July 2011, the credit agreement relating to the term loan was amended to effectively separate the loan into two tranches: TLB, with an outstanding principal balance of $399.0 million, and TLC, with an outstanding principal balance of $330.0 million (after giving effect to our July 2011 repurchase of $70.0 million of TLC). Both tranches maintain the same rights and privileges as under the original credit agreement. However, the holders of TLC have granted us the option to convert all or any portion of the TLC into our common stock in connection with a Qualifying IPO (as defined in our conversion agreement with the TLC lenders). In exchange for this option, we paid a fee of $6.6 million to the TLC lenders and agreed to issue shares of our common stock equal in value to 110.0% to 117.0% of the principal amount of the portion of the TLC converted in connection with a Qualifying IPO. The amount of the conversion premium is determined, in part, by reference to the initial public offering price of our common stock. See Pricing Sensitivity Analysis. We expect that this offering will be a Qualifying IPO, and we will convert all $330.0 million of the outstanding TLC into shares of our common stock. In addition, we will use a portion of the net proceeds from this offering to repay in full the $399.0 million principal balance of TLB. However, if we do not fully convert the outstanding TLC into common stock in connection with a Qualifying IPO, each holder of the TLC will have the right, with respect to the portion of its TLC holdings not initially converted by us, to cause us to convert all or any portion of such outstanding TLC into common stock or receive an amount in cash equal to 2.0% of the principal amount of TLC not converted into common stock together with all amounts (including principal and accrued and unpaid interest) owed under the portion of TLC not converted into common stock.

The term loan is prepayable without penalty at any time and is subject to various financial and non-financial covenants. As of June 30, 2012, we were in compliance with our covenants under the term loan and all of our other outstanding indebtedness. As discussed above, upon the completion of this offering, the use of the net proceeds and the debt conversion, there will no longer be any amounts outstanding under the term loan.

Master Trust Facility

General Overview. Spirit Master Funding, LLC, Spirit Master Funding II, LLC and Spirit Master Funding III, LLC, or the Master Trust Issuers, all of which are our indirect wholly-owned subsidiaries, have issued net-lease mortgage notes payable, or the Notes, with an aggregate outstanding principal balance, as of June 30, 2012, of $949.8 million, that is secured by all assets owned by the Master Trust Issuers. Pursuant to an amended and restated property management and servicing agreement, dated as of March 17, 2006, among the Master Trust Issuers, us and Midland Loan Services, Inc., we provide property management services with respect to the mortgaged properties and service the related leases.

Starting in 2005, three series of Notes were issued: (1) Notes issued by Spirit Master Funding, LLC, which we refer to as the Series 2005-1 Notes, with an aggregate outstanding principal balance, as of June 30, 2012, of $376.0 million; (2) Notes issued by Spirit Master Funding II, LLC, which we refer to as the Series 2006-1 Notes, with an aggregate outstanding principal balance, as of June 30, 2012, of $249.3 million; and (3) Notes issued by Spirit Master Funding III, LLC, which we refer to as the Series 2007-1 Notes, with an aggregate outstanding principal balance, as of June 30, 2012, of $324.6 million. The proceeds from the sale of the Notes were generally used to repay balances outstanding under then-existing credit facilities, and the remaining proceeds were used to provide funds for real estate acquisitions.

Maturity and Interest. The Series 2005-1 Notes mature on July 20, 2020 and have a weighted average annual interest rate of 5.27%. The Series 2006-1 Notes mature on March 20, 2021 and have an annual interest rate of 5.76%. The Series 2007-1 Notes mature on March 20, 2022 and have an interest rate of 5.74%. Annual interest expense on the Notes also includes debt insurer premiums of 0.30% to 0.32% of the outstanding principal amount of the Notes paid to Ambac Assurance Corporation.

Prepayment. Subject to a yield maintenance premium, the Notes may be prepaid.

Security. The Notes are secured by a lien on all of the property owned by the Master Trust Issuers. Currently there are 721 pledged assets securing the Notes. The agreement permits substitution of real estate collateral from time to time subject to certain conditions.

Events of Default. An event of default will occur if the Master Trust Issuers fail to pay interest on the Notes when due, materially default in compliance with the material covenants contained in the documents evidencing the Notes or the mortgages on the mortgaged property collateral or if a bankruptcy or other insolvency event occurs. Under the master trust indenture, we have a number of Master Trust Issuer covenants including requirements to pay any taxes and other charges levied or imposed upon the Master Trust Issuers and to comply with specified insurance requirements. We are also required to ensure that all uses and operations on or of our properties comply in all material respects with all applicable environmental laws. In addition, if at any time the cash flow coverage ratio is less than 1.25, excess cash will be deposited into a reserve account to be used for payments to be made pursuant to the Notes, to the extent there is a shortfall. As of June 30, 2012, we were in compliance with all such covenants.

CMBS

We have entered into 28 CMBS loans which as of June 30, 2012 had an aggregate outstanding principal balance of $1.0 billion (before unamortized debt discounts) and are secured by properties with an aggregate gross investment value in excess of $1.78 billion. As of June 30, 2012, the CMBS loans had a weighted average annual interest rate of 6.23% and a weighted average maturity of 4.0 years. As of June 30, 2012, approximately 391 of our properties, leased by 19 of our tenants, were pledged as collateral for our CMBS loans. The CMBS loans are secured by mortgages on the leased property and related assets and, beyond that, are non-recourse to us except for customary non-recourse carve-outs which are guaranteed by Spirit Realty Capital, Inc. Twelve of our CMBS loans, representing 1.6% of our total mortgage debt or 3.1% of our total CMBS debt, are secured by property leased to United Supermarkets, LLC, and are cross-defaulted and cross-collateralized. As of June 30, 2012, these 12 loans had an aggregate outstanding principal balance of approximately $31.5 million (before unamortized debt discounts) and each had an annual interest rate of 5.4%. None of our other CMBS loans include cross-default provisions. Two of our significant CMBS loans are described below.

CMBS Loan Secured by Shopko Properties

General Overview. The 112 properties leased to Shopko pursuant to a master lease among Spirit SPE Portfolio 2006-1, LLC, Spirit SPE Portfolio 2006-2, LLC and Shopko, dated as of May 31, 2006, are subject to senior mortgage debt with an original principal amount of $545.7 million. The debt has been divided into six separate notes which have been securitized.

Maturity and Interest. The loan has a maturity date of June 5, 2016 and bears interest at an annual rate of 6.59%. The loan requires monthly payments of principal and interest of $3.5 million.

Security. The loan is secured by a first priority lien on all of the property owned by Spirit SPE Portfolio 2006-1, LLC and Spirit SPE Portfolio 2006-2, LLC, all of the reserve accounts established by the loan documents, the rents and all personal property of Spirit SPE Portfolio 2006-1, LLC and Spirit SPE Portfolio 2006-2, LLC. Currently there are 112 properties securing the loan.

Prepayment. The loan may be voluntarily defeased in whole, subject to satisfaction of customary defeasance requirements in effect for a prepayment prior to April 5, 2016, at which time the loan may be voluntarily prepaid without penalty or premium.

Events of Default. The loan agreement contains customary events of default, including the non-payment of principal or interest, default in compliance with the covenants contained in the documents evidencing the loan and bankruptcy or other insolvency events. Under our loan agreement we have a number of borrower covenants including quarterly and annual financial reporting requirements (disclosing, among other things, a calculation of the debt service coverage ratio for the preceding 12 month period presented) that are to be provided to the lender and certified by an officer of us. We are required to pay any taxes and other charges levied or assessed or imposed against our properties. We are required to obtain and maintain, in full force, certain insurance policies for ourselves and our properties. We are also required to be in compliance in all material respects with all applicable environmental laws. Without lender consent or the satisfaction of specified conditions, we are restricted from any modification of the loan agreement or property substitutions.

Cash Management. All rents and other amounts paid to the borrower under the Shopko lease must be deposited into an account, or the Shopko Property Account, controlled by the lender. Provided that no Shopko Triggering Event (as defined below) has occurred and is continuing, all available funds in the Shopko Property Account may be disbursed to the borrower. From and after the occurrence of a Shopko Triggering Event, which is defined as the earlier to occur of: (1) the date that the lender determines, based on the financial statements delivered to the lender, that Shopko s EBITDAR ratio, as determined under the loan agreement, for the immediately preceding 12 month period is less than or equal to 1.15:1.00; (2) an uncured monetary event of default under the Shopko lease; or (3) an event of default under the loan, funds sufficient to pay the following month s tax, insurance, replacement reserve and ground rent deposits shall be withheld by the lender. In addition, if (a) Shopko s EBITDAR ratio is less than 1.10:1.00 but greater than 1.00:1.00, then 50% of all excess cash otherwise available for release to the borrower shall be withheld by the lender and (b) Shopko s EBITDAR ratio is less than or equal to 1.00:1.00, then 100% of all excess cash otherwise available for release to the borrower shall be withheld by the lender. As of June 30, 2012, no Shopko Triggering Event has occurred.

CMBS Loan Secured by 84 Lumber Properties

General Overview. The 109 properties leased to 84 Properties, LLC pursuant to a master lease between Spirit SPE Portfolio 2007-2, LLC and 84 Properties, LLC, dated as of April 27, 2007, as amended, and a master sublease between 84 Properties, LLC, as sublandlord, and 84 Lumber Company, as subtenant, dated April 27, 2007, as amended, are subject to senior mortgage debt with an original principal amount of $150.0 million.

Maturity and Interest. The loan has a maturity date of May 5, 2017 and bears interest at an annual rate of 6.17%. The loan requires monthly payments of principal and interest of $0.9 million.

Security. The loan is secured by a first priority lien on all of the property owned by Spirit SPE Portfolio 2007-2, LLC, all of the reserve accounts established by the loan documents, the rents and all personal property of Spirit SPE Portfolio 2007-2, LLC. As of June 30, 2012, there were 101 properties securing the loan. Subject to receiving approval from us and the lender whose loan is secured by our 84 Lumber properties, our master lease with 84 Lumber permits 84 Lumber to remove properties from the lease and replace them with different 84 Lumber properties of like kind and quality and of equal or greater appraised value. Under the terms of the master lease, property substitutions may not change the timing or amount of 84 Lumber s financial obligations to us. Pursuant to an amendment to the 84 Lumber CMBS loan agreement, or, as amended, the 84 Lumber Loan Agreement, we received lender consent to allow 84 Lumber to substitute, subject to certain terms and conditions, 14 vacant and/or underperforming properties with 22 properties that have an aggregate property-level profitability equal to or greater than that of the properties being removed. The substitution increased the number of properties included in the master lease from 101 to 109. In connection with this property substitution, the 84 Lumber Loan Agreement required us to deposit $8 million of additional cash collateral with the lender to be held in an additional collateral account, or the ACA, and to be applied, at the lender s discretion, towards the reduction of the outstanding principal balance of the loan. We have the right to replace the cash collateral with a letter of credit upon thirty days prior notice to the lender, and, upon receipt of such letter of credit, the lender must return the cash collateral to us. This property substitution and deposit of additional collateral was completed on July 3, 2012.

Prepayment. The loan may be voluntarily defeased in whole, subject to satisfaction of customary defeasance requirements in effect for a prepayment prior to March 5, 2017, at which time the loan may be voluntarily prepaid without penalty or premium.

Events of Default. The 84 Lumber Loan Agreement contains customary events of default, including the non-payment of principal or interest, default in compliance with the covenants contained in the documents evidencing the loan and bankruptcy or other insolvency events. Under the 84 Lumber Loan Agreement we have a number of borrower covenants including quarterly and annual financial reporting requirements (disclosing, among other things, a calculation of the debt service coverage ratio for the preceding 12 month period presented) that are to be provided to the lender and certified by an officer of our company. We are required to pay any taxes and other charges levied or assessed or imposed against our properties. We are required to obtain and maintain, in full force, certain insurance policies for ourselves and our properties. We are also required to be in compliance in all material respects with all applicable environmental laws. Without lender consent or the satisfaction of specified conditions, we are restricted from any modification of the 84 Lumber Loan Agreement or property substitutions.

Cash Management. All rents and other amounts paid to the borrower under the 84 Lumber lease must be deposited into an account, or the 84 Lumber Property Account, controlled by the lender. Provided that no 84 Lumber Triggering Event (as defined below) has occurred and is continuing, all excess funds in the 84 Lumber Property Account may be disbursed to the borrower. From and after the occurrence of an 84 Lumber Triggering Event, which is defined as the earlier to occur of: (1) the date that the lender determines, based on the financial statements delivered to the lender, that the 12-month EBITDAR ratio for 84 Lumber is less than or equal to 1.25:1.00; (2) an uncured monetary event of default under the 84 Lumber lease; or (3) an event of default under the loan, funds sufficient to pay the following month s tax and insurance deposits shall be withheld by Lender.

However, if an 84 Lumber Triggering Event occurs due to (2) or (3) above, then the tax and insurance deposits and all other excess funds shall be withheld by the lender.

In addition, in connection with the property substitution described above, an amendment to the 84 Lumber Loan Agreement added a cash sweep triggering event, or CSTE, requiring the EBITDAR ratio for 84 Lumber to be greater than or equal to 2.50:1.00. The 84 Lumber Loan Agreement states that a CSTE will not be deemed to have occurred prior to July 4, 2013. During any CSTE, the lender may retain all excess funds on deposit to be held in the ACA. Notwithstanding the foregoing, excess funds on deposit will be disbursed to us if all of the following conditions are met: (1) the EBITDAR ratio for 84 Lumber is greater than or equal to 1.25:1.00; (2) an event of default is not continuing under the 84 Lumber Loan Agreement; (3) our long term debt is rated at or above BB by S&P and Ba2 by Moody s; and (4) all disbursed excess funds are guaranteed by us. If at any time during a CSTE (1), (2) or (3) above are not satisfied, we must deposit all such excess funds collected to date in the ACA.

As of the end of one quarter in 2011, an 84 Lumber Triggering Event, due to a 12-month EBITDAR ratio of less than 1.25:1.00, occurred which required 84 Lumber, pursuant to the master lease, to remit the required monthly tax and insurance deposits along with the monthly rent into the 84 Lumber Property Account. The tax and insurance portion of the monthly deposit (which was approximately $0.2 million per month) was then forwarded to an account held by the lender in reserve to pay the taxes and insurance as they came due and the excess funds in the 84 Lumber Property Account were forwarded to the borrower. However, pursuant to the terms of a July 2012 amendment to the 84 Lumber Loan Agreement, the 84 Lumber Triggering Event was cured.

Contractual Obligations

The following table provides information with respect to our commitments as of December 31, 2011, on a pro forma basis to reflect the contractual obligations we expect to have upon the completion of this offering, the use of the net proceeds and the debt conversion. The table does not reflect available debt extensions:

		Payment due by period (in thousands)			
Contractual Obligations[1]	**Total**	**Less than 1 year (2012)**	**1 - 3 years (2013 - 2014)**	**3 - 5 years (2015 - 2016)**	**More than 5 years (after 2016)**
Long-Term Debt Principal	$ 1,958,280	$ 48,329	$ 122,988	$ 757,917	$ 1,029,046
Long-Term Debt Fixed Interest	709,314	115,802	222,418	182,088	189,006
Acquisition	22,403	22,403			
Operating Lease Obligations	22,923	1,513	2,478	2,470	16,462
Tenant-related Commitments	3,380	3,380			
Total	$ 2,716,300	$ 191,427	$ 347,884	$ 942,475	$ 1,234,514

[1] Does not reflect obligations related to the term loan which will no longer be outstanding upon the completion of this offering, the use of the net proceeds and the debt conversion.

Additionally, we may enter into commitments to purchase goods and services in connection with the operations of our properties. Those commitments generally have terms of one-year or less and reflect expenditure levels comparable to our historical expenditures.

As a REIT, we generally will not be subject to federal income tax, provided we distribute all of our REIT taxable income, determined without regard to the dividends paid deduction, to our stockholders. During 2010, we did not pay dividends on our common stock, because as of December 31, 2009, we had a net operating loss, or NOL, carry-forward of approximately $93.4 million that offset our REIT taxable income to zero for federal income tax purposes. However, we declared a common stock distribution of $3.4 million in August 2011, which was paid in December 2011, related to the pass through of 2010 alternative minimum taxable income, or AMTI, to our stockholders.

As of December 31, 2011, the remaining NOL to be carried forward to 2012 was approximately $62.9 million. As a result of the ownership changes that will take place in connection with this offering, we may be limited in our ability to use the remaining NOL carry-forward. However, because our current intention is to pay distributions at or above our taxable income following this offering, we would not have otherwise expected to utilize a significant amount of our NOL to reduce taxable income. We anticipate making future distributions from available cash and cash equivalents or cash flows from operations.

Off-Balance Sheet Arrangements

As of June 30, 2012, we did not have any off-balance sheet arrangements.

Cash Flows

Comparison of Six Months Ended June 30, 2012 to Six Months Ended June 30, 2011

As of June 30, 2012, we had $71.7 million of cash and cash equivalents as compared to $125.0 million as of June 30, 2011. The change between periods was primarily attributable to the use of cash and cash equivalents to reduce our indebtedness and fund acquisitions. These uses of cash were provided primarily from cash generated from operations of $100.7 million during the twelve months ended June 30, 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 $6.3 million to $53.1 million for the six months ended June 30, 2012 as compared to $46.8 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 this offering.

Our net cash used in investing activities is generally used to fund property acquisitions, investments in loans receivable and, to a limited extent, 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 $29.9 million for the six months ended June 30, 2012 as compared to $9.1 million of cash provided by investing activities for the same period in 2011. The increase in cash used for investing activities during 2012 included $58.0 million to fund the acquisition of 50 properties and invest in two unsecured notes, partially offset by cash proceeds of $28.1 million from the disposition of 18 properties, three loan receivable payoffs and transfers of sales proceeds from restricted cash accounts. During the six months ended June 30, 2011, our investing activity primarily related to receipt of cash proceeds of $9.6 million from the sale of properties and collection of principal on loans receivable, net of amounts placed in restricted cash accounts, offset by capital improvements.

Our net cash used in financing activities is generally impacted by our borrowings. Net cash used in financing activities decreased by $18.2 million to $1.0 million for the six months ended June 30, 2012 as compared to $19.2 million for the same period in 2011. This decrease in cash used in financing activities was primarily due to scheduled principal repayments and consent fees paid to lenders offset by $22.7 million of additional borrowings related to our acquisitions. During the comparable period in 2011, cash used for financing activities was attributable to $19.2 million of scheduled principal amortization.

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Comparison of Year Ended December 31, 2011 to Year Ended December 31, 2010

As of December 31, 2011, we had $49.5 million of cash and cash equivalents as compared to $88.3 million as of December 31, 2010.

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 $5.0 million to $94.4 million for the year ended December 31, 2011 as compared to $89.4 million for the same period in 2010.

The increase was primarily attributable to lower overall expenses in 2011, partially offset by a reduction in lease termination income and interest income recognized in 2010.

Our net cash used in investing activities is generally used to fund property acquisitions, investments in loans receivable and, to a limited extent, 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 $23.7 million for the year ended December 31, 2011 as compared to $70.2 million of cash provided by investing activities for the same period in 2010. The increase in cash used for investing during 2011 was primarily attributable to the acquisition of 27 properties and property acquisitions and improvements of $36.6 million, offset by cash proceeds of $15.2 million from the disposition of 27 real estate properties. During 2010, our investing activity primarily related to receipt of cash proceeds of $65.4 million for the sale of five properties, two loans receivable and other assets.

Our net cash used in financing activities is generally impacted by our borrowings. Net cash used in financing activities decreased by $26.8 million to $109.5 million for the year ended December 31, 2011 as compared to $136.3 million for the same period in 2010. This decrease in cash outflow used in financing activities was primarily due to principal repayments of $108.6 million in 2011 offset by $11.4 million of additional borrowings compared to $135.9 million of principal repayments in 2010. Additionally, during 2011, we paid a $6.6 million call premium to certain term loan holders and $3.9 million in distributions to equity owners.

Comparison of Year Ended December 31, 2010 to Year Ended December 31, 2009

Cash and cash equivalents increased by $23.2 million to $88.3 million as of December 31, 2010 as compared to $65.1 million as of December 31, 2009.

Net cash provided by operating activities increased by $42.5 million to $89.4 million for the year ended December 31, 2010 as compared to $46.9 million for 2009. The increase was primarily due to a $41.0 million reduction in cash interest expense during the year ended December 31, 2010. In addition, 2010 operating cash flows were reduced by non-recurring litigation expenses of $22.3 million and 2009 operating cash flows include a non-recurring payment of $21.5 million to terminate the off-market interest rate swap related to the term note payable.

Net cash provided by investing activities decreased by $113.7 million to $70.2 million for the year ended December 31, 2010 as compared to $183.9 million for 2009. The decrease was primarily due to significantly more dispositions during 2009 than during 2010. During 2009, we sold 112 properties and 25 loans receivable, generating $171.3 million of net cash sales proceeds. During 2010, we sold only five properties, two loans receivable and other assets, generating $65.4 million of net cash sales proceeds.

Our net cash used in financing activities decreased by $106.0 million to $136.3 million for the year ended December 31, 2010 as compared to $242.3 million for 2009. This decrease was primarily due to the deleveraging efforts in 2009, which included the repayment of $232.8 million of outstanding debt. By comparison, during 2010, we repaid $135.9 million of our indebtedness, including $54.2 million to repurchase debt at a discount.

New Accounting Pronouncements

In January 2012, the FASB issued Accounting Standards Update, or ASU, No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*, or ASU No. 2011-11. The amendments in this update will enhance disclosures by requiring improved information about financial instruments and derivative instruments that are either: (1) offset in accordance with certain right to setoff conditions prescribed by current accounting guidance; or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with current accounting guidance. The amendments to ASU No. 2011-11 will be effective for the first interim or annual period beginning on or after January 1, 2013. This information will enable users of an entity s financial statements to evaluate the effect or potential effect of netting arrangements on an entity s financial position, including the effect or potential effect or rights of setoff associated with certain financial instruments and derivative instruments. Management does not expect the adoption of ASU No. 2011-11 to have a material impact on the Company s financial statements.

In December 2011, the FASB issued ASU No. 2011-10, *Derecognition of In Substance Real Estate a Scope Clarification (Topic 360)*, or ASU 2011-10. ASU 2011-10 modifies ASC Subtopic 360-20, which specifies circumstances under which the parent (reporting entity) of an in substance real estate entity derecognizes that in substance real estate. Generally, if the parent ceases to have a controlling financial interest (as described under ASC Subtopic 810-10) in the subsidiary as a result of a default on the subsidiary s nonrecourse debt, then the subsidiary s in substance real estate and related debt, as well as the corresponding results of operations, will continue to be included in the consolidated financial statements and not be removed from the consolidated results until legal title to the real estate is transferred. ASU 2011-10 will be effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. Management does not expect the adoption of ASU 2011-10 to have a material impact on the Company s financial statements.

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 secured revolving credit facility that we expect to have upon the completion of this offering. 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 June 30, 2012, 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 $2.0 billion principal balance of pro forma outstanding mortgages and notes payable as of June 30, 2012 were long-term, fixed-rate obligations. For the six months ended June 30, 2012, the weighted average interest rate on our debt, excluding amortization of deferred financing and debt discounts, was approximately 6.10%.

Our term loan ($729 million principal balance outstanding as of June 30, 2012) requires interest payments based on either (1) LIBOR in effect each interest period plus a spread of 3.00% or (2) a base rate as defined in the loan agreement. As of June 30, 2012, the rate on the term loan was 3.78%, based on a 6-month LIBOR rate of 0.78%. On August 1, 2012, the rate was reset to 3.44%, based on a 3-month LIBOR rate of 0.44%, which will remain in effect until November 1, 2012. Upon the completion of this offering the use of the net proceeds and the debt conversion, there will no longer be any amounts outstanding under the term loan.

To limit the effects of changes in interest rates on our operations, we entered into two interest rate caps related to the term loan to reduce the risk of increases in the benchmark LIBOR rate. Including the applicable 3.00% interest rate spread, these interest rate caps effectively limit the annual interest rate on the term loan to no more than 6.00% during their terms. One of these interest rate caps expired on December 31, 2011, and the other is expected to expire or to be settled and no longer outstanding upon the completion of this offering.

We intend to use 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 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 have high credit ratings.

The estimated fair values of our fixed-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 June 30, 2012:

	Carrying Value	Estimated Fair Value
	(in thousands)	
Mortgages and notes payable	$ 1,908,000	$ 1,884,244

MARKET OPPORTUNITY

Unless otherwise indicated, all information in this Market Opportunity section is derived from a market study prepared for us in connection with this offering by Rosen Consulting Group, or RCG, a nationally recognized real estate consulting firm. Because of its fragmented and decentralized nature, information about the net lease market, including its overall size and operating fundamentals, is generally not available at the national level and rarely available at the regional level. However, RCG believes that, in many cases, statistics describing the single-tenant market are generally applicable to the net lease market, as single-tenant properties make up a large share of the net lease market. You should read the following discussion together with the information under the caption Risk Factors.

Outlook

RCG s outlook for the net lease real estate market is positive for the following reasons:

the net lease market has historically provided investors with attractive returns across various economic cycles when compared to other types of real estate investments;

increased single-tenant transaction volume reflects investors growing interest in single-tenant investment opportunities;

the market is well positioned to accommodate increased investment activity given the $1.5 trillion to more than $2.0 trillion of U.S. real estate estimated to be held by corporate owner-occupiers; and

strict lending guidelines, a reduced appetite for risk from both debt and equity investors and upcoming mortgage and corporate debt maturities should yield attractive pricing for many single-tenant, net leased properties and increased opportunities for sale-leaseback transactions.

Economic Trends

Through mid-2012, the U.S. economy experienced a slow and choppy recovery, and RCG expects increasing personal consumption and retail sales to contribute to moderate economic growth in the medium term, resulting in improving operating conditions for tenants of net leased properties, particularly those used in the retail and service industries. RCG expects personal consumption expenditures, which account for approximately 70% of U.S. gross domestic product, to increase and help sustain a more stable, moderate economic recovery. Retail sales rebounded well in 2011 and into 2012, with retail sales (excluding motor vehicles) up by 7.6% in the 18 months ended July 31, 2012. RCG expects retail sales (excluding motor vehicles) to increase by an average rate of 3.4% per year through 2016.

Net Lease Characteristics

Net leased properties offer unique potential benefits as compared to other types of commercial real estate due to the relative stability of rental revenue and inflation mitigation structured into net leases. Other types of commercial real estate typically use gross leases, which place the financial burden of property operating expenses with the property owner, whereas a net lease obligates the tenant to pay for property operating expenses. As a result, net leased real estate is similar, in many respects, to interest bearing corporate bonds in that cash flows are passive, stable and paid at regular intervals. In addition, the inflation risk associated with net leased property is mitigated due to the fact that net leases typically allocate all property operating expenses to the tenant and contain rent escalators pursuant to which rent may be increased on specified dates, often by amounts determined with reference to an inflation measure, such as the CPI. Furthermore, owners of net leased property are less susceptible to short-term variations in economic growth and sentiment, as net leases are generally executed for much longer terms than traditional gross leases. During 2008 and 2009, the average rent growth of net leased properties remained positive on an annual basis while average rents fell among nearly all other major commercial property types.

Net leased properties are frequently purchased through sale-leaseback transactions, which often represent an efficient and economical way for an owner-occupier to raise capital. With proceeds from the sale, a former owner-occupier of real estate in a sale-leaseback transaction may be better positioned to maximize its profitability by removing real estate from its balance sheet, eliminating related depreciation expense and freeing capital invested in real estate for investment into its business.

RCG believes that net leases and sale-leaseback transactions have been particularly attractive in the current environment where economic uncertainty drives investors to stabilized real estate and limited access to debt financing increases owner-occupiers interest in sale-leaseback transactions.

Sector Relative Performance

The net lease market has provided investors with attractive returns, when compared to other types of real estate investments, over the last ten years. Given the net lease market s bond-like income stream, mitigated risks and historical returns, net leased real estate has proven to be an effective investment vehicle across various economic cycles. RCG believes the favorable performance of net lease publicly-traded REITs relative to the wider REIT industry, as measured by the MSCI US REIT Index, or RMS, during the previous ten-year period is attributable, in part, to the stability and predictable revenue growth afforded by the net lease industry s long-term leases, limited re-tenanting risk, favorable lease structures and limited exposure to rising real estate expenses all of which reduce the risks posed by asset bubbles and severe price corrections often associated with various stages of the real estate cycle. For the ten-year period ended August 24, 2012, selected net lease REITs had a total return of 251.6%, significantly outperforming the RMS index during the same period. Net lease REITs outperformed all other REIT sectors and remained positive during the recent economic downturn, illustrating the relative stability of net leased investments.

RCG believes that net leased properties have the potential to provide more stable income streams than corporate bond equivalents, while often priced at wider spreads. Because single-tenant cap rates and BBB-rated corporate bonds are both influenced by a corporation s ability to make lease and interest payments, RCG believes the change in the spread between cap rates for single-tenant properties and BBB corporate bond yields during the recent economic cycle is one factor that illustrates the fluctuations in the risk premium that investors have placed on single-tenant properties. As of June 30, 2012 the spreads between single-tenant cap rates and ten-year BBB corporate and ten-year Treasury bond yields were significantly higher than the average spreads since 2005, which RCG believes represents an attractive single-tenant investment environment. Even if the spreads between single-tenant cap rates and corporate and Treasury bond yields compress to historical levels, RCG believes net leased investments will continue to provide opportunities for investors to obtain superior risk-adjusted returns with predictable, bond-like cash flows.

In addition, when comparing net leased real estate to a bond investment, the residual value of the real estate asset also impacts the net present value of expected cash flows. Though discounted at a higher rate commensurate with perceived real estate risk, this residual real estate value combined with the stream of future lease payments often may result in a higher net present value for a net leased investment when compared with a corporate bond. This mispriced arbitrage between net leased real estate and its corporate or Treasury bond equivalent demonstrates a disconnect in the credit markets, where investors may be pricing risk inaccurately.

Investor Mix

The net leased property risk/return profile differs from conventional multi-tenant commercial real estate, and thus it attracts investors that generally seek out long-term, stable rental revenues that are comparable, in many respects, to debt instruments and often have higher yields. The market for net leased properties is fragmented and decentralized, creating significant opportunities for investors with expertise in the market. Furthermore, as many retail and service properties are often valued under $10 million and located outside of what are considered primary real estate investment markets, net leased retail and service-oriented properties are often outside the investment criteria of large institutional investors. The lack of strong competition from many institutional bidders for smaller-scale net leased retail and service properties benefits investors with expertise in the market.

Various types of investors with a wide range of financial capacity invest in net leased properties, with non-traded and publicly-traded REITs and individuals and families making up the largest groups. Apart from a few sizable non-traded and publicly-traded REITs, most single-tenant, net lease investors hold relatively few assets. With a relatively limited number of potential buyers, the purchase price and lease terms relating to net leased properties often do not reflect the investments intrinsic value. As a result, RCG believes pricing inefficiencies are more significant in the net lease market, which benefits investors with expertise in the market.

Recently, capital flows into the net lease market have increased as investor interest in the sector expands. In the 12 months ended June 30, 2012, net lease-focused traded and non-traded public REITs raised approximately $2.5 billion and $6.1 billion of equity, respectively. The growing capital commitments to the net lease market are indicative of an increase in investor interest in indirect ownership of net leased properties via REITs.

Investment Activity

The volume of single-tenant transactions for office, industrial and retail space peaked in August 2007, rising to more than $39.1 billion in sales on a trailing 12-month basis. As the economic downturn adversely affected the capital markets and forced many companies to curtail planned expansions, single-tenant transaction volumes contracted from pre-economic downturn highs, falling to $9.3 billion in September 2009 on a trailing 12-month basis. The 12-month trailing single-tenant transaction volume reached $22.0 billion through June 30, 2012, which RCG believes reflects investors growing interest in single-tenant investment opportunities. Net lease-focused traded and non-traded public REITs accounted for approximately $10.9 billion, or 34%, of all single-tenant transactions from the beginning of 2011 through June 30, 2012, which illustrates the fragmented nature of the single-tenant market and the ample investment opportunity in the market.

Estimates of the amount of U.S. real estate owned by corporate owner-occupiers, and therefore real estate potentially available for sale-leaseback transactions, range from $1.5 trillion to more than $2.0 trillion of the estimated (by the U.S. Bureau of Economic Analysis) $5.2 trillion of U.S. commercial real estate assets. Although the single-tenant investment market has been active, when compared with the total amount of commercial real estate held by corporate owner-occupiers, RCG believes that the single-tenant market is well positioned to accommodate increased transaction volume and investment activity.

Capital Availability

The reduced access to many forms of traditional debt financing faced by companies (particularly for those without investment grade credit ratings) in the current capital markets environment provides opportunities to invest in sale-leaseback transactions, which fulfills the need for companies to raise capital and the demand from investors for income-oriented investments that offer the opportunity to achieve superior risk-adjusted returns.

As a result of strict lending guidelines and a reduced appetite for risk, the availability of credit remains limited even to creditworthy borrowers even though bond issuances have risen. The total volume of corporate bond issuance contracted sharply from $2.2 trillion per year for the four-year period ended June 30, 2008 to slightly more than $953 billion per year for the four-year period ended June 30, 2012.

For smaller, less creditworthy companies, constricted bank lending (as demonstrated by a sharp reduction in existing bank loan balances) due to a combination of both stringent lending criteria and an effort by banks to bolster reserves by retaining cash have left such companies with limited financing options. In addition, depressed commercial real estate values, troubled legacy assets and reduced real estate sales volumes contributed to a sharp decline in commercial mortgage originations since 2007, with the total volume of outstanding commercial mortgages held by U.S. financial institutions declining every quarter since the first quarter of 2009. RCG expects write-downs and limited new originations to cause commercial mortgages outstanding to decline by an additional $45 billion in 2012. Finally, total U.S. CMBS issuance during the four-year period ended July 31, 2012 was $69.6 billion, significantly below the $646.3 billion issued during the four-year period ended July 31, 2008, and CMBS issuance is expected to be $35 billion in 2012 and $40 billion in 2013, well below the peak of nearly $230 billion in 2007. Due to new regulations and expected relative bond market spreads, RCG believes that bank lending, new mortgage loan originations and CMBS issuances will continue to be more conservative, with lower loan-to-value ratios and more stringent terms, than during the period prior to the economic downturn.

The system-wide deleveraging and ongoing structural shift in the finance industry lead RCG to believe that credit availability will remain tight through the short term. Strict lending guidelines, a reduced appetite for risk from both debt and equity investors and the fact that many companies that financed their real estate facilities with mortgage financing are facing upcoming mortgage and corporate debt maturities should yield attractive pricing for many single-tenant, net leased properties and increased opportunities for sale-leaseback transactions.

BUSINESS AND PROPERTIES

Overview

We invest 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 our tenants conduct retail, service or distribution 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 generate our revenue primarily by leasing our properties to our tenants. As of June 30, 2012, our undepreciated gross investment in real estate and loans totaled approximately $3.6 billion, representing investment in 1,183 properties, including properties securing our mortgage loans. Of this amount, 98.3% consisted of our gross investment in real estate, representing ownership of 1,096 properties, and the remaining 1.7% consisted of commercial mortgage and equipment loans receivable secured by 87 properties or related assets. As of June 30, 2012, our owned properties were approximately 98.2% occupied (based on number of properties), and our leases had a weighted average non-cancelable remaining lease term (based on annual rent) of approximately 11.4 years. Our leases are generally long-term, with non-cancelable initial terms typically of 15 to 20 years and tenant renewal options for additional terms. As of June 30, 2012, approximately 96% of our leases (based on annual rent) provided for increases in future annual base rent.

Our portfolio of 1,096 owned properties was leased to approximately 165 tenants as of June 30, 2012. In February 2012, two of our general merchandising tenants, Shopko and Pamida, completed a merger. As a result Shopko/Pamida contributed 30.2% of our annual rent as of June 30, 2012. No other tenant contributed more than 10% of our annual rent as of June 30, 2012. Our tenants operate in 18 different industries, including: general, specialty and discount retail; restaurants; movie theaters; automotive dealers; educational and recreational facilities; and supermarkets.

Our properties are geographically diversified across 47 states, with only 4 states contributing more than 5.0% of our annual rent.

The diversity of our portfolio has contributed to its stable occupancy. As of June 30, 2012 and December 31, 2011, 2010, 2009, 2008 and 2007, our occupancy rate (based on number of properties) was 98.2%, 98.4%, 96.3%, 99.4%, 99.0%, and 100%, respectively. We believe that the occupancy of our portfolio, particularly during the economic downturn of 2008 through 2010, reflects its strength. As illustrated in the chart below, since inception in 2003 our occupancy has never been below 96.1% (based on number of properties).

Currently, we lease 181 properties to Shopko/Pamida, 179 of which are leased pursuant to three master leases that, as of June 30, 2012, had a weighted average non-cancelable remaining lease term of approximately 13.3 years. Prior to Shopko s merger with Pamida, we leased 114 properties to Shopko (which would have contributed 26.5% of our annual rent as of June 30, 2012) and 67 properties to Pamida (which would have contributed 3.7% of our annual rent as of June 30, 2012). We believe that, over time, the merger of Shopko and Pamida will be beneficial to our portfolio from a credit perspective, because we expect: (1) properties that previously operated under the Pamida brand will be improved and converted to the Shopko brand; and (2) the operations at the 114 of our properties that historically have operated under the Shopko brand will continue as they have historically at the property level. However, no assurance can be given as to the future performance of the merged Shopko/Pamida entity or its stores. See Risk Factors Risks Related to Our Business and Properties A substantial number of our properties are leased to one tenant, which may result in increased risk due to tenant and industry concentrations.

Expected Impact of Shopko/Pamida Merger on Pre-Merger Pamida Properties

Shopko/Pamida has indicated that it intends to convert Pamida properties to the Shopko store concept and brand by the end of 2012 and that it will make a significant cash investment in connection with the conversion process to improve store design and layout, purchase new interior and exterior signage, update fixtures and expand the merchandise mix. The conversions are scheduled to be done in six phases, the first two of which have been completed as of August 9, 2012. Based on financial information supplied to us by Shopko/Pamida, Shopko/Pamida has significantly increased both sales and gross margins at the stores converted in the first two phases.

The leases relating to the Pamida properties are now guaranteed by the Shopko Guarantor.

Expected Impact of Shopko/Pamida Merger on Pre-Merger Shopko Properties

Prior to the merger, the 114 properties that we leased to Shopko had a property-level rent coverage ratio in excess of our target underwriting standard of 2.0x, and, after the merger, for the 13 weeks ended April 28, 2012, the 179 properties that we leased to the combined Shopko/Pamida entity continued to have a property-level rent coverage ratio in excess of our target underwriting standard of 2.0x (in each case, based on information provided to us by Shopko/Pamida). For a discussion of how we calculate property-level rent coverage, see Business and Properties Risk Management Tenant Financial Distress Risk Early Lease Termination Risk Measurement.

After giving effect to various merger costs and expenses associated with converting Pamida properties to the Shopko brand, as of April 28, 2012, Shopko/Pamida s shadow rating, as generated by a product licensed by us from Moody s Analytics, continues to meet the targeted average for our portfolio.

We believe that the operations at the properties that historically have operated under the Shopko brand will continue as they have historically at the property level. Based on financial information provided to us by Shopko prior to the merger, Shopko s operating performance had improved in recent years in a competitive environment. Additionally 96.3% of the properties that we leased to Shopko prior to its merger with Pamida operated within 10 miles of a Walmart for the last eight years (99.1% for the last four years), demonstrating the competitive viability of these properties.

As we look to selectively grow our portfolio, we will seek to leverage the experience of our senior management team and our existing underwriting, leasing, asset management and reporting infrastructure. We believe the acquisition of additional operationally essential retail, service and distribution properties, coupled with our $3.6 billion seasoned investment portfolio, will provide the opportunity to achieve superior risk-adjusted returns. We intend to continue to actively manage our existing portfolio and invest in real estate that produces stable rental revenue that increases over time pursuant to contractually specified rent increases.

Our History

We were formed in 2003 and became a public company in December 2004. We were subsequently taken private by a consortium of private investors in August 2007 in a transaction that was structured and led by an affiliate of Macquarie Capital (USA) Inc., one of the underwriters of this offering. Following our privatization, we initially continued to execute our business plan and grow our portfolio. However, during 2008, in response to deteriorating economic conditions, we shifted our focus to reducing our indebtedness and managing our portfolio. From January 1, 2008 to June 30, 2012, we reduced our indebtedness by $627.6 million. The vast majority of the owned properties in our portfolio as of June 30, 2012 were acquired prior to our privatization under the direction of our former senior management team. Our senior management team is comprised of executives with significant real estate, capital markets and net lease industry experience. Thomas H. Nolan, Jr., our Chief Executive Officer, has been active in the real estate industry for over 25 years, holding numerous leadership positions in private and public real estate companies. Peter M. Mavoides, our President and Chief Operating Officer, has been active in the single-tenant, net lease industry for over 14 years, holding leadership positions for the past 9 years. During the last twelve months, we have completed approximately $111.5 million of acquisitions.

Subsequent to June 30, 2012, we also completed a property substitution with 84 Lumber, pursuant to which 84 Lumber removed 14 vacant and/or underperforming properties from its master lease with us and replaced them with 22 properties that have an aggregate property-level profitability equal to or greater than that of the properties being removed. For additional information on this property substitution, please see Management s Discussion and Analysis of Financial Conditions and Results of Operations Liquidity and Capital Resources Description of Certain Debt CMBS Loan Secured by 84 Lumber Properties.

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.

Competitive Strengths

We believe the following competitive strengths contribute to the stability of our rental revenues and distinguish us from our competitors:

Large Scale and Diversified Portfolio. As of June 30, 2012, our portfolio consisted of 1,096 owned properties, with approximately 165 tenants operating in 47 states and diversified across 18 different industries, including: general, specialty and discount retail; restaurants; movie theaters; automotive dealers; educational and recreational facilities; and supermarkets. We believe it would be difficult for a new competitor to replicate such a diversified portfolio on a comparable scale. The diversity of our portfolio reduces the risks associated with adverse events affecting a particular tenant or an economic decline in any particular state or industry. Additionally, the scale of our portfolio allows us to make acquisitions without introducing additional concentration risks. In addition, our operating platform is scalable and will allow us to make new investments without the need for significant additional administrative or management costs.

Long-Term Triple-Net Leases. As of June 30, 2012, our owned properties were approximately 98.2% occupied (based on number of properties), with a weighted average non-cancelable remaining lease term (based on annual rent) of approximately 11.4 years. Due to the triple-net structure of 95% of our leases (based on annual rent) as of June 30, 2012, we do not expect to incur significant capital expenditures, and the potential impact of inflation on our operating expenses is minimal. Additionally, as of June 30, 2012, approximately 96% of our leases (based on annual rent) provided for increases in future annual base rent.

Established Company with Proven Performance. Our company has been actively investing in triple-net leased real estate since 2003, is well-known within the industry and benefits from an established infrastructure supporting our underwriting, leasing, asset management and reporting functions. From our inception in 2003 through June 30, 2012, we made gross investments of approximately $4.11 billion in properties and loans receivable. The vast majority of our owned properties as of June 30, 2012 were acquired prior to our privatization. Since our inception, our occupancy has never been below 96.1% (based on number of properties), despite the economic downturn of 2008 through 2010. We believe that our experience, in-depth knowledge of the triple-net lease market and extensive network of long-standing relationships in the real estate industry contribute to the stability of our rental revenues and also provide us access to a pipeline of attractive investment opportunities to allow us to expand our revenue base.

Disciplined Underwriting and Risk Management Expertise. Our developed underwriting and risk management expertise enhances our ability to identify and structure investments that provide superior risk-adjusted returns, due to specific investment risks that we believe can be identified and mitigated through intensive credit and real estate analysis, tailored lease structures (such as master leases) and ongoing tenant monitoring. When underwriting new acquisitions we generally target property-level rent coverage ratios in excess of 2.0x. Since our inception in 2003 through June 30, 2012, our estimated cumulative loss resulting from properties and loans receivable experiencing financial distress, which we define as tenant bankruptcy or tenant non-performance resulting in our possession of the properties, was $130.5 million (of which we have realized $113.4 million of losses), or 3.2% of our original gross investment since inception. Our recovery rate on properties and loans receivable experiencing financial distress (including an estimate for properties in distress that have not yet been resolved) during that period is 69.4%. We believe our developed underwriting and risk management expertise has contributed to identifying and mitigating risk and our recovery rate. For a discussion of how we calculated estimated cumulative loss and our recovery rate, see Risk Management Tenant Financial Distress Risk Historical Summary of Tenant Financial Distress Portfolio.

Experienced Management Team. Our senior management has significant experience in the real estate industry and in managing public companies. Our Chairman and Chief Executive Officer, Thomas H. Nolan, Jr., has been active in the real estate industry for over 25 years, holding numerous leadership positions in private and public real estate companies. Our President and Chief Operating Officer, Peter M. Mavoides, has been active in the single-tenant, net lease industry for over 14 years, holding leadership positions for the past 9 years. Our Chief Financial Officer, Michael A. Bender, has held leadership positions for over 20 years in finance and real estate. Our Senior Vice President, Gregg A. Seibert, who has been with us since our inception, has over 20 years of experience in real estate finance, including over 15 years of leadership responsibilities in credit, acquisitions and portfolio management in the sale-leaseback sector.

Attractive In-Place Long-Term Indebtedness. Upon the completion of this offering and the debt conversion, we expect to have approximately $2.0 billion principal balance of non-recourse mortgage indebtedness outstanding on a pro forma basis, which had a weighted average maturity of 6.3 years as of June 30, 2012 and an average annual interest rate of approximately 6.10% for the six months ended June 30, 2012 (excluding non-cash interest expense attributable to the amortization of deferred financing costs and debt discounts). Prior to January 1, 2016, we only have $138.8 million of balloon payments due at maturity. Approximately $1.7 billion principal balance of our pro forma indebtedness is fully or partially amortizing, providing for an ongoing reduction in principal prior to maturity. In addition, we expect to have a $100 million secured revolving credit facility upon the completion of this offering to help fund future acquisitions and for general corporate purposes.

Business and Growth Strategies

Our objective is to maximize stockholder value by seeking superior risk-adjusted returns, with an emphasis on stable rental revenue, by investing primarily in operationally essential real estate leased on a long-term, triple-net basis. 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. For example, by acquiring multiple properties from a small or middle market company and leasing them back to the seller under a master lease, the leased properties may represent a meaningful percentage of the tenant s overall operations and increase the importance of the lease to the tenant s business. 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.

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

Generally, we consider regional companies with less than 50 locations and between $10 million and $100 million in annual sales to be small companies, and regional and national companies with between 50 and 500 locations and $100 million to $2 billion in annual sales to be middle market companies. Most of our tenants and prospective tenants are not rated by Moody s, S&P or any other nationally recognized statistical rating organization. In the absence of a credit rating, we estimate creditworthiness by using financial information provided to us by a tenant or prospective tenant and a credit modeling product that we license from Moody s Analytics. The shadow rating that we generate with this product 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, S&P or another nationally recognized statistical rating organization.

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. We believe the efficacy of our underwriting and risk management processes is illustrated by the historical performance of 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 June 30, 2012, we had 52 master leases that had a weighted average non-cancelable remaining lease term (based on annual rent) of 12.9 years and contributed approximately 63.2% of our annual rent. Our largest master lease, consisting of 112 properties, contributed 26.4% of our annual rent, and our smallest master lease, consisting of two properties, contributed less than 1% of our annual rent. The average number of properties included under our master leases as of June 30, 2012 was 12.1.

- *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. See Risk Management. 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-term return on our invested capital.

- *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. As of June 30, 2012, Shopko/Pamida contributed 30.2% of our annual rent. No other tenant contributed more than 10% of our annual rent, and no one single property contributed more than 2.1% of our annual rent.

- *Selective Asset Dispositions.* As part of our active portfolio management, we may selectively dispose of assets that we conclude do not offer a return commensurate with the investment risk, contribute to unwanted geographic, industry or tenant concentrations or otherwise do not contribute to achieving our objective. We do not believe that the sale of properties will constitute a major portion of our business.

Enhance Our Portfolio through Contractual Growth. Approximately 96% of our leases (based on annual rent) contain contractual provisions that increase the rental revenue over the term of the lease. Of these leases, approximately 26% contain fixed contractual rental increases, and the remaining 74% contain increases based on the lesser of a fixed contractual percentage increase or the increase in the CPI. Assuming the same CPI growth experienced during the 12 months ended June 30, 2012, our contractual rent growth for the 12 months ending June 30, 2013 would be $3.1 million. Included in this amount is the impact of increases in rent under our master leases with Shopko/Pamida ($0.5 million), and our lease with Universal Pool Co., Inc., which is scheduled to occur in September 2012 ($0.4 million). Rents under our master leases with Shopko/Pamida adjust every three years, and rents under our master leases with Universal Pool Co., Inc. adjust every five years.

Selectively Grow Our Portfolio through Acquisitions. We plan to selectively make acquisitions that contribute to our portfolio s tenant, industry and geographic diversification. According to RCG, through June 30, 2012 the 12-month trailing investment volume in single-tenant properties was $22.0 billion. Given this volume of transactions in the single-tenant market, we believe there will be ample acquisition opportunities fitting our acquisition criteria.

During the last twelve months, we have completed approximately $111.5 million of acquisitions consistent with our underwriting criteria. 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.

Continue to Deleverage Our Portfolio. Upon the completion of this offering and the debt conversion, we will have approximately $2.0 billion principal balance of non-recourse mortgage indebtedness outstanding on a pro forma basis (this represents a decrease of approximately $1.4 billion of indebtedness from January 1, 2008). Additionally, most of our remaining debt will be 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 $157.6 million prior to January 1, 2016. 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.

Risk Management

When managing our portfolio of existing investments or evaluating new investments, we typically consider two broad categories of risk: (1) tenant financial distress risk; and (2) lease renewal risk.

Tenant Financial Distress Risk

This broad category represents the risk of experiencing losses in connection with a tenant experiencing financial distress, which we define as tenant bankruptcy or tenant non-performance under its lease resulting in our possession of the property. We typically consider tenant financial distress risk in three broad stages: (1) credit risk; (2) early lease termination risk; and (3) real estate recovery risk. We seek to measure and manage each of these stages of tenant financial distress risk through various processes.

Credit Risk

Credit risk is the risk that a tenant s financial condition and operating results will deteriorate to such an extent that it becomes unable or unwilling to meet its obligations to us.

Measurement. We measure credit risk by performing an extensive credit review of a tenant or prospective tenant and conducting detailed research on the industry in which it competes in an effort to evaluate financial flexibility, risks that may adversely affect its business and its capacity to meet its obligations.

We use a product provided by Moody s Analytics that calculates EDF to assist us in estimating the likelihood that a tenant or prospective tenant will default on its obligations to make payments to us over a specified period of time, typically one year. An EDF may range from a 0.01% risk of default to a 35% risk of default. We typically seek to enter into leases with companies with 1-year EDFs of less than 4.0%. This product also generates a shadow rating that we use in evaluating a tenant s or prospective tenant s ability to meet its obligations, such as lease payments. We typically seek to enter into leases with companies with shadow ratings equal to or greater than B2, as generated by the product that we license from Moody s Analytics, and to maintain a portfolio average above Ba2. An EDF and a shadow rating are calculated based upon financial information supplied to us by a tenant or prospective tenant and various proprietary data and assumptions that Moody s Analytics incorporates into the product. We believe that this product is useful in assessing credit risk and detecting any credit deterioration among our tenants, however an EDF is only an estimate of default probability. Similarly, 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. It is possible that actual default rates may be higher than those suggested by EDFs and shadow ratings. Moreover, an EDF and a shadow rating are substantially influenced by the financial information that is used in generating these metrics, which is provided to us by our tenants and prospective tenants without independent verification on our part and, in many instances, is unaudited, and we must assume the appropriateness of the estimates and judgments that were made by the party preparing the financial information. An important consideration in entering into a lease with a new tenant is the quality of the tenant s financial statements and our ability to receive financial information from the tenant over the term of the lease.

Management. We seek to manage credit risk by diversifying our portfolio among numerous tenants operating in multiple industries in an effort to reduce the adverse impact of a downturn in the business of a particular tenant or industry. In addition, we seek to manage credit risk by placing investments deemed to present high risk on a credit watch list that we update and review weekly. Placement on our credit watch list results in a higher level of monitoring and development and implementation of a risk minimization strategy.

Our Experience. Since our inception in 2003 through June 30, 2012, 34 tenants or borrowers, relating to 123 of our properties and loans receivable (representing an original gross investment since inception for such assets of $426.4 million), have experienced financial distress. The term original gross investment means our (and for the periods prior to our July 31, 2007 privatization, our Predecessor s) initial purchase price for investments without giving effect to any adjustments to the book basis of our investments arising from our privatization or accumulated depreciation.

Early Lease Termination Risk

Early lease termination risk is the risk that a lease with a tenant experiencing financial distress terminates before its scheduled expiration, for example, because we take possession of a property from a non-performing tenant or because the lease is rejected in bankruptcy proceedings.

Measurement. In general, we measure the likelihood of early lease termination by estimating the performance of the leased properties relative to rental payments due under the lease. We believe that property-level operations are a key measure of risk, inasmuch as a tenant typically views the operating performance of the leased property as the first source of funding to meet its obligations under the lease. Additionally, we believe that property-level operations significantly influence the importance of the leased property to a tenant relative to other locations and the long-term value of the property and attractiveness to prospective tenants. Specifically, we generally evaluate a lease s property-level rent coverage ratio which we calculate by dividing (1) earnings before interest, taxes, depreciation, amortization and cash rent attributable to the leased property (or properties, in the case of a master lease) by (2) the annual base rental obligation. We also evaluate a property s rent coverage ratio after applying an estimate of overhead expense and any other known obligations of the tenant attributable to the leased property. We generally seek to enter into new leases with property-level rent coverage ratios in excess of 2.0x; however, we enter into leases with lower property-level rent coverage ratios if we believe there are other credit characteristics that we consider to be attractive. When calculating property-level rent coverage ratios, we must rely on financial information provided to us by our tenants or prospective tenants without independent verification on our part and assume the appropriateness of the estimates and judgments that were made by the party preparing the financial information. Substantially all of our tenants provide corporate-level financial information, and approximately 80.9% of our lease investment portfolio require the tenant to provide us with property-level performance information.

Management. When a lease s property-level rent coverage ratio deteriorates below the range that we target, we seek to enter into an active dialogue with the tenant to understand the cause of the deterioration and to closely monitor the tenant in an effort to protect the value of our investment. Specifically, we may pursue asset substitutions, tenant repurchases of poorly performing assets or asset sales. In addition, we manage early lease termination risk by investing in properties that are operationally essential, thereby seeking to reduce the risk that a lease will be rejected in bankruptcy. Where appropriate, we enter into master leases, pursuant to which we lease multiple properties to a single tenant on an all or none basis, which prevents a tenant from cherry picking well-performing properties and abandoning less attractive locations. Finally, we generally 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.

Our Experience. Since our inception in 2003 through June 30, 2012, out of the 123 properties and loans receivable relating to tenants or borrowers that experienced financial distress, leases with respect to 25 properties were affirmed in bankruptcy with no modification. The leases or loans with respect to the remaining 98 assets (representing an original gross investment of $306.6 million) had leases that were modified or terminated early or are unresolved (or in the case of loans, were written off).

Real Estate Recovery Risk

Real estate recovery risk is the risk of a loss on an investment in connection with our disposition or re-leasing of a property vacated as a result of financial distress.

Measurement. We measure real estate recovery risk by using a combination of current market data and our historical recovery rates on re-leased properties and property dispositions. In addition, we use national real estate transaction database services, such as Costar Group, Inc. and LoopNet, Inc., to monitor and assess sale and rent data for comparable properties. We also review the physical condition of our investments. Our pre-acquisition due diligence generally includes a review of the physical condition of a property that contributes to our assessment of potential alternative uses for the property and its residual value.

Management. We manage real estate recovery risk by seeking to acquire properties for a purchase price at or below the current market rate and entering into leases that provide for market-level rental payments. When acquiring properties we generally engage an independent third party to conduct an appraisal that evaluates the current market and validates the acquisition pricing.

Our Experience. Since our inception in 2003 through June 30, 2012, out of the 98 assets with respect to which leases were modified or terminated early or are unresolved (or in the case of loans, were written off) due to financial distress, 46 were sold, 21 were leased to new tenants, 13 remain vacant, 12 had leases that were amended in bankruptcy, three were transferred to a lender in a deed-in-lieu of foreclosure transaction and three have had write-offs, collectively resulting in an estimated loss of $130.5 million (of which $113.4 million had been realized as of June 30, 2012) on an original gross investment in such assets of $306.6 million.

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Historical Summary of Tenant Financial Distress Portfolio

Since our inception in 2003 through June 30, 2012, we have experienced or expect to experience $130.5 million of aggregate losses (of which we have realized $113.4 million as of June 30, 2012) due to financial distress, or 3.2% of our total original gross investment of approximately $4.11 billion. During that period, of the $426.4 million of original gross investment associated with properties and loans receivable experiencing financial distress, we have recovered or estimate that we will recover $295.9 million (of which we have realized $275.5 million as of June 30, 2012), which represents a realized and estimated 69.4% recovery rate, as illustrated in the table below and the related footnotes:

Financial Distress Portfolio	**Realized and Estimated Recovery (dollars in millions)**
Original gross investment	$ 426.4[(1)]
Realized and estimated losses	130.5[(2)]
Realized and estimated recovery	$ 295.9
Realized and estimated recovery rate	69.4%

(1) Our original gross investment in properties and loans receivable that experienced financial distress is summarized as follows:

	Financial Distress Portfolio		
	Number of Properties/ Loans	**Original Gross Investment (in millions)**	**Percent of Total Original Gross Investment[(a)]**
Leases Affirmed in Bankruptcy	**25**	**$ 119.8**	**2.9%**
Leases with Loss Experience			
Leases rejected in bankruptcy	51	122.2	3.0%
Master lease early termination agreements[(b)]	18	44.4	1.1%
Leases terminated early by Spirit	14	58.7	1.4%
Leases amended in bankruptcy	12	77.2	1.9%
Leases currently in bankruptcy			
Loan Write-Offs	3	4.1	0.1%
Total investments experiencing losses	**98**	**306.6**	**7.5%**
Total Financial Distress Portfolio	**123**	**$ 426.4**	**10.4%**

(a) Equals original gross investment divided by our total original gross investment since inception of approximately $4.11 billion.

(b) We opportunistically seek to enter into amendments to master leases in connection with negotiated resolutions of tenant bankruptcies in order to maximize our recovery. Because of the all or none nature of our master leases, the tenant cannot seek release of selected assets without negotiating a lease termination fee with us. In conjunction with the 18 properties under master leases where the tenant was in bankruptcy, we negotiated lease termination fees of $12.3 million. We believe that we would not have been able to negotiate these recoveries absent the master lease structure.

(2) Our realized and estimated losses on properties and loans receivable that experienced financial distress is summarized as follows:

Status of Investments Experiencing Losses

	Number of Properties/ Loans	**Original Gross Investment (in millions)**	**Percent of Total Original Gross Investment**[a]	**Realized and Estimated Loss (in millions)**[b]	**Loss (% of total original gross investment)**[i]
Resolved					
Sold	46	$ 122.4	3.0%	$ 74.8[c]	1.8%
Leased to a new tenant	21	58.2	1.4%	19.8[d]	0.5%
Amended in bankruptcy	12	77.2	1.9%	13.5[e]	0.3%
Deed-in-lieu	3	7.3	0.2%	2.9[f]	0.1%
Loan write-offs	3	4.1	0.1%	2.4[g]	0.1%
Pending Resolution					
Remaining vacant	13	37.4	0.9%	17.1[h]	0.4%
Unresolved in bankruptcy					
Total Investments Experiencing Losses	**98**	**$ 306.6**	**7.5%**	**$ 130.5**	**3.2%**

(a) Equals original gross investment divided by our total original gross investment since inception of approximately $4.11 billion.

(b) When calculating loss experience and evaluating the historical performance of our investment decisions, we use our original gross investment because it eliminates subsequent adjustments to the book basis of our investments arising from our privatization and accumulated depreciation, which we believe are not indicative of the performance of investment decisions over time.

(c) Loss equals:
(i) our original gross investment in the property; *minus*
(ii) the amount of gross sale proceeds; *minus*
(iii) any lease termination fee and any rental revenue received by us from an interim tenant.

(d) Loss equals:
(i) our original gross investment in the property; *minus*
(ii) the product of: (A) our original gross investment in the property; and (B) a fraction the numerator of which is the annual cash rental rate (before abatements) pursuant to the new lease and the denominator of which is the annual cash rental rate (before abatements) pursuant to the terminated lease immediately preceding its termination; *minus*
(iii) any lease termination fee and any rental revenue received by us from an interim tenant; *plus*
(iv) any costs incurred in re-leasing the property.

(e) Loss equals:
(i) our original gross investment in the property; *minus*
(ii) the product of: (A) our original gross investment in the property; and (B) a fraction the numerator of which is the annual cash rental rate (before abatements) pursuant to the new lease and the denominator of which is the annual cash rental rate (before abatements) pursuant to the terminated lease immediately preceding its termination.

(f) Loss equals:
(i) our original gross investment in the property; *minus*
(ii) the principal amount of indebtedness secured by the property on the date of the deed-in-lieu transfer.

(g) Loss equals:
(i) our original gross investment in the loan receivable; *minus*
(ii) any amortization and principal payments received before such loan was written-off.

(h) Estimated loss equals:
(i) our original gross investment in the property; *multiplied by*
(ii) our historical weighted average percentage loss on properties (A) leased to a new tenant, (B) sold and (C) transferred to a lender in a deed-in-lieu transaction (each, before accounting for any lease termination fee or any rental revenue received by us from an interim tenant); *minus*
(iii) any lease termination fee and any rental revenue received by us from an interim tenant with respect to such properties.

(i) Equals loss divided by our total original gross investment since inception of approximately $4.11 billion.

Thirteen of our properties with leases that were terminated early remain vacant. For the properties remaining vacant, we have estimated our expected losses based in part upon our historical average loss on properties leased to a new tenant, sold and transferred to a lender in a deed-in-lieu transaction, in each case before accounting for any lease termination fee or any rental revenue received by us from an interim tenant. While we believe our historical loss experience provides a reasonable basis for us to estimate our expected future losses, our actual losses on these 13 properties could exceed our estimate by a material amount. Additionally, we calculated our realized losses on properties as described in the above table. There are alternative methodologies that could be used for calculating losses on properties, and the use of a different methodology could result in a larger loss.

We believe that it is appropriate to use our original gross investment when calculating realized and estimated losses on our tenant financial distress portfolio and evaluating the historical performance of our investment decisions because original gross investment does not include subsequent adjustments to the net carrying value of our investments arising from our July 2007 privatization and accumulated depreciation, which we believe are not indicative of the performance of investment decisions over time. For the reasons discussed below, we do not believe that there is a single GAAP measure that is comparable to our analysis. First, our analysis is utilized as a risk management tool and therefore only includes assets in our tenant financial distress portfolio. Second, the net carrying value of an asset under GAAP does not correspond to its original gross investment used in our analysis due, in significant part, to purchase accounting. As a result of our July 2007 privatization, the carrying value of our real estate portfolio increased due to purchase accounting rules requiring each asset be recorded at its fair value as of the date of our privatization. Finally, the timing and recognition criteria under which losses are recognized are different under GAAP than those used in our calculation of realized and estimated losses on our tenant financial distress portfolio. Under our analysis, a reduction in actual or expected contractual cash rental rate from an asset included in the tenant financial distress portfolio triggers the recording of a loss. Under GAAP, however, an impairment loss is only recorded if the expected undiscounted cash flows from an asset are less than the net carrying amount of that asset. Additionally, because our analysis excludes the impact of depreciation, the loss on a distressed asset sale may be greater as compared to GAAP, because the net carrying amount of the asset under GAAP is net of depreciation.

Lease Renewal Risk

Lease renewal risk is the risk that a tenant will determine not to renew a lease upon its expiration. Properties vacated following lease expiration are either re-leased or marketed for sale based on our judgment of which approach will maximize recovery value. Since we commenced operations in 2003, we have achieved a 78.4% lease renewal rate. Specifically, out of the 51 leases that expired before June 30, 2012, 40 leases were renewed. During the remainder of 2012, 2013 and 2014, leases relating to 0.6%, 0.8% and 2.6%, respectively, of total annual rent are scheduled to expire.

Our Investments

We seek to offer potential tenants responsive and specifically tailored solutions for their long-term financing requirements. In support of our primary business of owning and leasing real estate, we may also strategically originate or acquire long-term, commercial mortgage and equipment loans receivable. The terms of the leases and loans are dictated by the expected remaining useful life of the financed assets and the needs of our tenants. Our primary investments are described below.

Sale-Leaseback Transactions

We acquire a significant portion of our properties through sale-leaseback transactions. In a sale-leaseback transaction, we acquire property and lease it back to the seller under a long term, triple-net lease. 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. Our leases typically have non-cancelable initial terms of 15 to 20 years and tenant renewal options for additional periods. Additionally, our leases generally contain rent escalation provisions that periodically increase the base rent payable by the tenant under the lease. Generally, our rent escalators increase rent on 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.

Mortgages and Other Financing Products

Although we focus on sale-leaseback transactions, in situations where a sale-leaseback transaction is not attractive to a prospective seller/lessee or us, we may structure our investment in a particular property as a mortgage loan secured by the property. We attempt to structure mortgage loans in a manner that provides us with economic returns similar to those that we would expect to receive had the investment been structured as a sale-leaseback transaction. Any mortgage loan we make will have a maximum maturity of 20 years. In addition, in support of our primary business of investing in real estate, we selectively offer other financing products, such as equipment financing for furniture and fixtures and general purpose financing.

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. It is our intention to pursue a long-term capital strategy that brings our leverage profile in line with that of our peers over time. Although we are not required to maintain a particular leverage ratio, 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.

As of June 30, 2012, our debt principal balance outstanding totaled $2.7 billion, or 74.6% of aggregate gross investments. Our pro forma debt principal balance outstanding as of June 30, 2012, assuming the completion of this offering, the debt conversion and related transactions, would have been $2.0 billion, or 54.4% of total pro forma aggregate gross investments. Within the first year following this offering, we expect to further pay down debt, as we have approximately $29.0 million in scheduled principal amortization and balloon payments due for the remainder of 2012. Within the first year following this offering, we also anticipate selectively growing our portfolio, using debt financing at a level comparable to or below our pro forma leverage. As a result, we are targeting a leverage ratio for the first year following this offering that is comparable to or slightly lower than our June 30, 2012 pro forma level.

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 portion of our debt has been long-term borrowings secured by specific real estate assets or, more typically, pools of real estate assets. As of June 30, 2012, our pro forma debt principal balance outstanding of approximately $2.0 billion was primarily comprised of a $949.8 million master trust facility and 28 CMBS loans with an aggregate principal balance of $1.0 billion. We anticipate using a number of different sources to finance our acquisitions and operations going forward, including cash from operations, issuance of debt securities, 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 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.

Our Real Estate Investment Portfolio

As of June 30, 2012, our gross investment in real estate and loans totaled approximately $3.6 billion, representing investment in 1,183 properties. Of this amount, 98.3% consisted of our gross investment in real estate, representing ownership of 1,096 properties, and the remaining 1.7% consisted of commercial mortgage and equipment loans receivable secured by 87 properties or related assets. Our owned properties are leased to approximately 165 tenants operating in 47 states and diversified across 18 different industries, including: general, specialty and discount retail; restaurants; movie theaters; automotive dealers; educational and recreational facilities; and supermarkets. Over 95% of our leases (based on annual rent) as of June 30, 2012 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.

Investment Diversification

Diversification by Tenant

The following table lists the top 10 tenants of our owned real estate properties (based on annual rent) as of June 30, 2012:

	Tenant	**Number of Properties**	**Annual Rent (in thousands)[1]**	**Percent of Total Annual Rent**
1.	Shopko Stores/Pamida Operating Co., LLC	181	$ 83,101	30.2%
2.	84 Properties, LLC	101	18,437	6.7
3.	Carmike Cinemas, Inc.	12	8,010	2.9
4.	Universal Pool Co., Inc.	14	6,193	2.2
5.	CBH20, LP (Camelback Ski Resort)	1	5,694	2.1
6.	Casual Male Retail Group Inc.	1	4,814	1.7
7.	United Supermarkets, LLC	14	4,555	1.7
8.	Main Event Entertainment, LP	6	4,477	1.6
9.	NE Opco, Inc.	6	4,378	1.6
10.	Carmax, Inc.	4	3,931	1.4
	Other	756	131,901	47.9
	Total	**1,096**	**275,491**	**100%**

[1] We define annual rent as rental revenue for the quarter ended June 30, 2012 multiplied by four.

As shown in the table above, as of June 30, 2012, the merged Shopko/Pamida entity contributed 30.2% of our total annual rent. 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. Currently, we lease 181 properties to Shopko/Pamida, 179 of which are leased pursuant to three master leases that, as of June 30, 2012, had a weighted average non-cancelable remaining lease term of approximately 13.3 years. Prior to Shopko s merger with Pamida, we leased 114 properties to Shopko (which would have contributed 26.5% of our annual rent as of June 30, 2012) and 67 properties to Pamida (which would have contributed 3.7% of our annual rent as of June 30, 2012).

We believe that, over time, the merger of Shopko and Pamida will be beneficial to our portfolio from a credit perspective, because we expect: (1) properties that previously operated under the Pamida brand will be improved and converted to the Shopko brand; and (2) the operations at the 114 of our properties that historically have operated under the Shopko brand will continue as they have historically at the property level. However, no assurance can be given as to the future performance of the merged Shopko/Pamida entity or its stores. See Risk Factors Risks Related to Our Business and Properties A substantial number of our properties are leased to one tenant, which may result in increased risk due to tenant and industry concentrations.

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Expected Impact of Shopko/Pamida Merger on Pre-Merger Pamida Properties

Shopko/Pamida has indicated that it intends to convert Pamida properties to the Shopko store concept and brand by the end of 2012 and that it will make a significant cash investment in connection with the conversion process to improve store design and layout, purchase new interior and exterior signage, update fixtures and expand the merchandise mix. The conversions are scheduled to be done in six phases, the first two of which have been completed as of August 9, 2012. Based on financial information supplied to us by Shopko/Pamida, Shopko/Pamida has significantly increased both sales and gross margins at the stores converted in the first two phases.

The leases relating to the Pamida properties are now guaranteed by the Shopko Guarantor.

Expected Impact of Shopko/Pamida Merger on Pre-Merger Shopko Properties

Prior to the merger, the 114 properties that we leased to Shopko had a property-level rent coverage ratio in excess of our target underwriting standard of 2.0x, and, after the merger, for the 13 weeks ended April 28, 2012, the 179 properties that we leased to the combined Shopko/Pamida entity continued to have a property-level rent coverage ratio in excess of our target underwriting standard of 2.0x (in each case, based on information provided to us by Shopko/Pamida). For a discussion of how we calculate property-level rent coverage, see Business and Properties Risk Management Tenant Financial Distress Risk Early Lease Termination Risk Measurement.

After giving effect to various merger costs and expenses associated with converting Pamida properties to the Shopko brand, as of April 28, 2012, Shopko/Pamida s shadow rating, as generated by a product licensed by us from Moody s Analytics, continues to meet the targeted average for our portfolio.

We believe that the operations at the properties that historically have operated under the Shopko brand will continue as they have historically at the property level. Based on financial information provided to us by Shopko prior to the merger, Shopko s operating performance had improved in recent years in a competitive environment. Additionally, 96.3% of the properties that we leased to Shopko prior to its merger with Pamida operated within 10 miles of a Walmart for the last eight years (99.1% for the last four years), demonstrating the competitive viability of these properties.

Corporate-level EBITDAR for Specialty Retail Shops Holding Corp., the guarantor of the Shopko/Pamida leases, was $23.7 million, $181.5 million, $194.4 million and $167.2 million for the 13 weeks ended April 28, 2012 and the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010, respectively. Corporate-level adjusted EBITDAR for the Shopko Guarantor for the 13 weeks ended April 28, 2012 and the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010 was $34.4 million, $190.1 million, $201.2 million and $174.2 million, respectively. This represented a corporate-level coverage ratio of adjusted EBITDAR to cash interest paid and rent expense of 1.06x, 1.44x, 1.50x and 1.34x, respectively, for the corresponding periods referenced. Shopko s financial information, included elsewhere in this prospectus, has been retroactively restated to give effect to the consummation of Shopko s merger with Pamida on February 7, 2012. In addition to certain of the items included in deriving adjusted corporate-level EBITDAR, we believe that the Shopko Guarantor s results of operations for the 13 weeks ended April 28, 2012, the period during which period the Shopko/Pamida merger was completed, were adversely affected by (1) other increases in selling, general and administrative expenses and (2) other costs, including costs associated with liquidating Pamida merchandise, restocking Pamida properties and converting Pamida properties to the Shopko brand. Additionally, the retail industry generally exhibits seasonality, with the first quarter of each fiscal year typically contributing a smaller percentage of annual corporate-level EBITDAR. For example, the first 13 weeks of Shopko Guarantor s fiscal years ended January 28, 2012 contributed 19.4% of its annual corporate-level EBITDAR. However, no assurance can be given that the historical seasonality trends of the retail industry will persist. Shopko/Pamida s financial condition and results of operations will depend, in part, upon the successful integration of the Pamida acquisition and the conversion of most Pamida locations to the Shopko store concept and brand. The conversion of the Pamida locations will likely involve substantial costs, and these costs may reduce Shopko/Pamida s EBITDAR

and corporate-leverage coverage ratio of EBITDAR to interest expense, net and rent expense ratio in future periods. See Risk Factors Risks Related to Our Business and Properties A substantial number of our properties are leased to one tenant, which may result in increased risk due to tenant and industry concentrations. No assurance can be given as to the future performance of the merged Shopko/Pamida entity or its stores.

Corporate-level EBITDAR represents net income (loss) before interest expense, net, depreciation and amortization, income tax expense (benefit) and rent. For a reconciliation of corporate-level EBITDAR to net income (loss), the nearest GAAP equivalent, see below. Corporate-level adjusted EBITDAR represents net income (loss) before interest expense, net, depreciation and amortization, income tax expense (benefit) and rent, as further adjusted to eliminate the impact of certain items we do not consider indicative of the Shopko Guarantor s core operating performance and for which the Shopko Guarantor is allowed to adjust in calculating EBITDAR under the terms of its leases with us. For a reconciliation of corporate-level adjusted EBITDAR to net income (loss), the nearest GAAP equivalent, see below.

The following table sets forth a reconciliation of the Shopko Guarantor s corporate-level EBITDAR and corporate-level adjusted EBITDAR to net income (loss), the nearest GAAP equivalent, for the periods presented on a combined basis as a result of the consummation of the merger on February 7, 2012:

Post-Merger Shopko/Pamida Combined Corporate-Level EBITDAR:	**13 Weeks Ended (in thousands)**		**Fiscal Years Ended (in thousands)**		
	April 28, 2012	**April 30, 2011**	**January 28, 2012**	**January 29, 2011**	**January 30, 2010**
Net (loss) income	$ (13,624)	$ (5,647)	$ 6,989	$ 38,701	$ 838
Adjustments:					
Add: Interest expense, net	10,000	8,802	35,867	36,979	35,180
Add: Depreciation and amortization	8,698	8,449	34,194	29,793	28,567
Deduct: Income tax (benefit)	(8,210)	(2,030)	(963)	(15,162)	(503)
Add: Rent expense	26,839	25,682	105,368	104,103	103,144
Corporate-level EBITDAR	23,703	35,256	181,455	194,414	167,226
Adjustments:					
Add: Option expense(1)	121	139	495	551	435
Add: LIFO adjustment(2)	1,400	737	4,200	1,900	3,800
Add: Property and equipment impairment charge(3)	153		791	672	802
Add: Interest accretion(4)	670	840	3,146	3,689	1,936
Add: Merger related expenses(5)	8,328				
Corporate-level adjusted EBITDAR	$ 34,375	$ 36,972	$ 190,087	$ 201,226	$ 174,199
Cash interest paid(6)	$ 5,723	$ 6,602	$ 26,469	$ 29,966	$ 27,010
Corporate-level coverage ratio(7)	0.64x	1.02x	1.28x	1.38x	1.21x
Corporate-level adjusted coverage ratio(8)	1.06x	1.15x	1.44x	1.50x	1.34x

(1) Represents non-cash equity compensation expense for the periods presented.

(2) Represents an adjustment to translate operating results from a LIFO presentation to a FIFO presentation.

(3) Represents non-cash impairment charges for the periods presented relating to certain property and equipment due to the assessment that the carrying amount of such property and equipment would not be recoverable based upon the expected future operating cash flows of such property and equipment.

(4) Represents charge to selling, general and administrative expense from interest accretion related to closed store liabilities.

(5) Represents certain of Shopko/Pamida s merger-related expenses, which were included in selling, general and administrative expense during the periods presented.

(6) Cash paid during the period related to interest.

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(7) Represents ratio of corporate-level EBITDAR to interest expense, net and rent expense.

(8) Represents ratio of corporate-level adjusted EBITDAR to cash interest paid and rent expense.

Subject to receiving approval from us and the lender whose loan is secured by our 84 Lumber properties, our master lease with 84 Lumber permits 84 Lumber to remove properties from the lease and replace them with different 84 Lumber properties of like kind and quality and of equal or greater appraised value. Under the terms of the master lease, property substitutions may not change the timing or amount of 84 Lumber s financial obligations to us. Pursuant to an amendment to the 84 Lumber Loan Agreement, we received lender consent to allow 84 Lumber to substitute, subject to certain terms and conditions, 14 vacant and/or underperforming properties with 22 properties that have an aggregate property-level profitability equal to or greater than that of the properties being removed. The substitution increased the number of properties included in the master lease from 101 to 109.

Diversification by Industry

The following table sets forth information regarding the diversification of our owned real estate properties among different industries (based on annual rent) as of June 30, 2012:

Industry	Number of Properties	Percent of Total Annual Rent(1)
General and discount retail properties	181	30.2%
Restaurants - quick service	371	10.5
Restaurants - casual dining	133	8.2
Specialty retail properties	43	7.9
Movie theatres	23	7.9
Building material suppliers	102	6.8
Industrial properties	28	5.4
Educational properties	22	4.8
Automotive dealers, parts and service properties	75	4.5
Recreational properties	8	3.7
Convenience stores / car washes	33	2.6
Supermarkets	20	1.9
Distribution properties	37	1.5
Health clubs / gyms	5	1.1
Interstate travel plazas	3	1.1
Medical / other office properties	2	*
Drugstores	9	*
Call centers	1	*
Total	**1,096**	**100%**

* Less than 1%

(1) We define annual rent as rental revenue for the quarter ended June 30, 2012 multiplied by four.

Diversification by Geography

The following table sets forth information regarding the geographic diversification of our owned real estate properties as of June 30, 2012:

Location	Number of Properties	Percent of Total Annual Rent[1]
Wisconsin	57	11.5%
Texas	82	8.8
Illinois	83	6.6
Pennsylvania	47	5.2
Minnesota	38	4.6
Arizona	25	4.5
Georgia	72	4.0
Florida	55	3.5
Michigan	34	3.2
Indiana	36	3.2
Nebraska	18	3.2
Ohio	51	3.1
Massachusetts	6	2.9
California	8	2.6
Utah	14	2.2
Tennessee	54	2.2
North Carolina	25	2.1
Idaho	9	2.1
Iowa	32	1.9
Kentucky	37	1.8
Alabama	44	1.8
Washington	9	1.6
Missouri	30	1.6
Montana	7	1.5
South Dakota	9	1.4
Oklahoma	14	1.4
Virginia	26	1.3
Oregon	6	1.3
New York	27	1.3
West Virginia	19	1.1
Kansas	7	*
South Carolina	13	*
Colorado	7	*
Louisiana	13	*
Maryland	15	*
Arkansas	7	*
Nevada	2	*
New Jersey	2	*
Mississippi	11	*
Wyoming	8	*
New Mexico	4	*
Delaware	2	*
Vermont	2	*
North Dakota	2	*
Rhode Island	1	*
Maine	20	*
New Hampshire	6	*
Total properties owned	**1,096**	**100%**

* Less than 1%

(1) We define annual rent as rental revenue for the quarter ended June 30, 2012 multiplied by four.

Lease Expirations

The following table sets forth a summary schedule of lease expirations for leases in place as of June 30, 2012. As of June 30, 2012, the weighted average non-cancelable remaining initial term of our leases (based on annual rent), was 11.4 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
Remainder of 2012	4	$ 1,600	0.6%
2013	15	2,176	0.8
2014	52	7,072	2.6
2015	21	4,608	1.7
2016	23	2,748	1.0
2017	34	6,416	2.3
2018	33	11,068	4.0
2019	58	11,864	4.3
2020	86	27,820	10.1
2021	131	22,164	8.1
2022 and thereafter	619	177,504	64.5
Vacant	20		
Total owned properties	**1,096**	**$ 275,040**	**100%**

[1] We define annual rent as rental revenue for the quarter ended June 30, 2012 multiplied by four.

Expiring Mortgage and Loan Interest Income

The following table summarizes the scheduled expiring contractual annual interest income as a result of principal maturities and amortization of principal from our mortgage and other loans receivable as of June 30, 2012:

	Expiring Mortgage Loans Interest Income	Expiring Equipment and Other Loans Interest Income (in thousands)	Total Expiring Annual Interest Income
Remainder of 2012	$ 177	$ 147	$ 324
2013	174	87	261
2014	174	258	432
2015	195	371	566
2016	214	308	522
2017	325	109	434
2018	1,128	19	1,147
2019	454	13	467
2020	311	12	323
2021	1.109	6	1,115
2022 and thereafter	681	335	1,016
Total	**$ 4,942**	**$ 1,665**	**$ 6,607**

Loan Maturities

The following table summarizes the scheduled cash flows from principal maturities and amortization of our mortgage and other loans receivable as of June 30, 2012:

	Mortgage Loans Principal Maturities	Equipment and Other Loans Principal Maturities	Total Maturities	Percent of Total Principal Amount
		(in thousands)		
Remainder of 2012	$ 864	$ 844	$ 1,708	2.6%
2013	1,879	1,551	3,430	5.3
2014	2,091	2,837	4,928	7.6
2015	2,325	3,672	5,997	9.3
2016	2,671	2,205	4,876	7.5
2017	7,519	697	8,216	12.7
2018	9,652	125	9,777	15.1
2019	3,246	138	3,384	5.2
2020	3,593	97	3,690	5.7
2021	15,071	66	15,137	23.3
2022 and thereafter	3,251	441	3,692	5.7
Total	**$ 52,162**	**$ 12,673**	**$ 64,835**	**100%**
Premium on loans receivable	1,203		1,203	
Other [1]	39	(10)	29	
Loan loss provision	(3,940)	(1,157)	(5,097)	
Investment in loans receivable	$ 49,464	$ 11,506	$ 60,970	

[1] Unamortized portion of initial direct costs associated with originating or acquiring loans.

Our Recent Acquisition Activity

We have begun to pursue acquisition opportunities and have completed approximately $111.5 million of property acquisitions during the last twelve months.

We have identified and are in various stages of reviewing and negotiating a number of additional potential acquisition opportunities. As of August 31, 2012, we were actively reviewing 80 potential acquisition opportunities having an aggregate transaction value of approximately $1.6 billion, based on our preliminary discussions with sellers and our internal assessment of the properties values. We consider an investment under review when we have signed a confidentiality agreement, we have exchanged financial information and we are in active negotiations with respect to the investment. Investments under review are subject to significant change, and after further due diligence, we may decide not to pursue any or all of these transactions.

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.

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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.

Employees

Upon the completion of this offering, we expect to have approximately 37 full-time employees.

Principal Executive Offices

Our principal offices are located at 14631 North Scottsdale Road, Suite 200, Scottsdale, Arizona 85254. We currently occupy approximately 13,300 square feet of space leased from an unaffiliated third party. We believe that our facilities are adequate for our present and future operations and that adequate additional space will be available if needed in the future.

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.

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 ADA, our properties are required to meet federal requirements related to access and use by disabled persons. 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.

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 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.

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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 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 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. See Risk Factors Risks Related to Our Properties and Our Business 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.

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MANAGEMENT

Our Directors, Director Nominees and Executive Officers

Upon the completion of this offering, our board of directors will consist of seven members, a majority of whom will be independent within the meaning of the listing standards of the NYSE. Each of our directors will be elected by our stockholders to serve until the next annual meeting of our stockholders and until his or her successor is duly elected and qualifies. See Certain Provisions of Maryland Law and of Our Charter and Bylaws Our Board of Directors. We expect the first annual meeting of our stockholders after this offering will be held in 2013. Each officer will serve until his or her successor is elected and qualifies or until his or her death, or his or her resignation or removal. Any officer may be removed, with or without cause, by the board of directors, but such removal will be without prejudice to the contract rights, if any, of the officer so removed.

The following table sets forth certain information concerning the individuals who will be our directors and executive officers upon the completion of this offering:

Name	Age	Position
Thomas H. Nolan, Jr.	55	Chairman of our Board of Directors and Chief Executive Officer
Peter M. Mavoides	45	President and Chief Operating Officer
Michael A. Bender	53	Chief Financial Officer and Senior Vice President
Mark L. Manheimer	36	Senior Vice President
Gregg A. Seibert	48	Senior Vice President
Kevin M. Charlton	46	Director
Todd A. Dunn	49	Director
David J. Gilbert	54	Director
Richard I. Gilchrist	66	Director
Diane M. Morefield	54	Director
Nicholas P. Shepherd	54	Director

Biographical Summaries of Directors and Executive Officers

The following are biographical summaries of the experience of our directors and executive officers.

Thomas H. Nolan, Jr. Mr. Nolan joined us as Chairman of our board of directors and Chief Executive Officer in September 2011. Mr. Nolan previously worked for General Growth Properties, Inc. or GGP, serving as Chief Operating Officer from March 2009 to December 2010 and as President from October 2008 to December 2010. He also served as a director of GGP from 2005 to 2010. GGP filed for protection under Chapter 11 of the U.S. Bankruptcy Code in April 2009 and emerged from bankruptcy in November 2010. Mr. Nolan was a member of the senior management team that led GGP s reorganization and emergence from bankruptcy, which included the restructuring of $15.0 billion in project-level debt, payment in full of all of GGP s pre-petition creditors and the securing of $6.8 billion in equity commitments. From July 2004 to February 2008, Mr. Nolan served as a Principal and Chief Financial Officer of Loreto Bay Company, the developer of the Loreto Bay master planned community in Baja, California. From October 1984 to July 2004, Mr. Nolan held various financial positions with AEW Capital Management, L.P., a national real estate investment advisor, and from 1998 to 2004, he served as Head of Equity Investing and as President and Senior Portfolio Manager of The AEW Partners Funds. Mr. Nolan earned a BA in Business Administration from the University of Massachusetts. Mr. Nolan was selected by our board of directors to serve as a director and Chairman of our board of directors based on his executive management experience, and specifically, his extensive experience in the real estate investment industry.

Peter M. Mavoides. Mr. Mavoides joined us as President and Chief Operating Officer in September 2011. Mr. Mavoides previously worked for Sovereign Investment Company as its President and Chief Executive Officer from May 2003 to January 2011. Sovereign Investment Company is a private equity firm that focuses on investment opportunities relating to long-term, net-leased real estate. Prior to joining Sovereign Investment

Company, Mr. Mavoides was employed by Eastdil Realty, a subsidiary of Wells Fargo Bank, and worked in the banking group at Citigroup, where he focused on the structuring of sale-leaseback transactions. Mr. Mavoides earned a BS from the United States Military Academy and an MBA from the University of Michigan.

Michael A. Bender. Mr. Bender has served as our Chief Financial Officer and Senior Vice President since February 2010. He joined us in October 2007 as Vice President and Chief Accounting Officer. Prior to joining us in 2007, Mr. Bender spent over 20 years in finance and accounting and held positions including Assistant Corporate Controller for Allied Waste, Inc., Vice President of Global External Reporting for American Express Corporation, Chief Financial Officer for FINOVA Realty Capital and senior manager for Deloitte & Touche, LLP. Mr. Bender earned a BS in Accounting and MBA from Arizona State University and has been a certified public accountant since 1984.

Mark L. Manheimer. Mr. Manheimer joined us as Senior Vice President in April 2012. Mr. Manheimer previously worked for Cole Real Estate Investments, where he served as its Director of Acquisitions and Vice President and Head of Retail Sale-Leaseback Acquisitions from 2009 to 2012. Prior to joining Cole Real Estate Investments, Mr. Manheimer was employed by Realty Income Corporation, where he focused on underwriting sale-leaseback transactions from 2005 to 2009. Mr. Manheimer previously worked in the Leveraged Finance Group at First Union Securities (now Wells Fargo Securities), at Patriarch Partners, a private equity firm, from 2001 to 2003 and at FTI Consulting, a turnaround consulting firm from 2004 to 2005. Mr. Manheimer earned a BS from the University of Florida and an MBA from the University of Notre Dame.

Gregg A. Seibert. Mr. Seibert has served as our Senior Vice President since September 2003. He served as Senior Vice President Capital Markets from March 2010 to January 2011 and as Senior Vice President Underwriting from September 2003 to March 2010. Mr. Seibert is responsible for acquisitions and special projects. Prior to joining us, Mr. Seibert worked for over nine years at Franchise Finance Corporation of America (FFCA), and held positions as Vice President and Senior Vice President of Underwriting and Research and Senior Vice President of Acquisitions until FFCA s acquisition in August 2001 by GE Capital Corporation (GECC), where he served as a Senior Vice President until he joined us. From 1989 to 1994, Mr. Seibert was a Vice President in the commercial real estate lending group of Bank of America, and from 1988 to 1989, served as an investment analyst with the Travelers Insurance Company. Mr. Seibert earned a BS in Finance from the University of Missouri and an MBA in Finance from the University of Missouri Graduate School of Business.

Kevin M. Charlton. Mr. Charlton is a Managing Director in the Principal Transactions Group of Macquarie Capital (USA) Inc., and leads a team that oversees its existing portfolio of North American investments. Prior to joining Macquarie Capital (USA) Inc. in 2009, Mr. Charlton worked as Managing Director at Investcorp International. Prior to joining Investcorp International in August 2002, he worked for JPMorganChase and McKinsey & Company and as a contractor in the Astrophysics Division at NASA Headquarters. In addition to serving on our board of directors, Mr. Charlton has served on the boards of directors of over 15 private companies and their subsidiaries in a variety of roles and is currently on the board of directors of Harley Marine Services, Taurus Aerospace Group, Utility Service Partners, Columbus Senior Living and Basin Tools, and is an observer of the board of directors of Dynacast International. He graduated from the Kellogg School of Management at Northwestern University and has graduate and undergraduate degrees in Aerospace Engineering from the University of Michigan and Princeton University. Mr. Charlton was selected by our board of directors to serve as a director based on his extensive experience in the financial industry and as a member of boards of directors.

Todd A. Dunn. Mr. Dunn served as Chief Executive Officer and as a member of the board of directors of United Plastics Group, a supplier of injection-molded plastic components to the medical, automotive, industrial and consumer sectors, from 2010 until it was sold to MedPlast, a portfolio company of Baird Capital Partners, in April 2012. From 2003 to 2009, Mr. Dunn worked for FleetPride, Inc., an independent distributor of heavy duty truck and trailer parts, serving as President and Chief Executive Officer from 2005 to 2009, Senior Vice President, Chief Administrative Officer and Chief Financial Officer from 2004 to 2005 and Vice President and Chief Financial Officer from 2003 to 2004. From 1999 to 2003, Mr. Dunn served as Senior Vice President and Chief Financial Officer of Tartan Textiles, Inc. and, from 1998 to 1999, served as Vice President and Chief

Financial Officer of Quality Distribution Service Partners. Mr. Dunn worked for SLM Power Group, Inc. from 1989 to 1998, serving as Business Manager and as Vice President and Chief Financial Officer. From 1985 to 1989, Mr. Dunn worked for First City BanCorporation of Texas/First City Bank of Corpus Christi. Mr. Dunn received a BBA in Finance from the University of Texas at Austin. Mr. Dunn was selected by our board of directors to serve as a director based on his extensive experience in business and the financial industry.

David J. Gilbert. Mr. Gilbert has served as the Chief Investment Officer and Head of Acquisitions of Clarion Partners, a real estate investment company formerly owned by ING Group, since 2010 and is a member of Clarion Partners executive board, compensation committee and operating committee and Chairman of its investment committee. Mr. Gilbert is also responsible for Clarion Partners Research and Investment Strategy Group, ensuring that research is fully integrated into all phases of the investment process. Mr. Gilbert joined Clarion Partners in 2007 as a Managing Director and Global Head of the ING Global Opportunity Fund. From 2005 to 2007, he worked as a Managing Director and head of the Alternative Real Estate Group at JPMorgan Asset Management and, from 1998 to 2004, worked as a General Partner and head of the Worldwide Real Estate Group at JPMorgan Partners, which is the private equity branch of JPMorgan Chase. He also served as the Co-Chairman of The Peabody Funds, an $830 million global real estate opportunity fund jointly sponsored by JPMorgan Partners and The O Connor Group, from 2001 to 2004. From 1996 to 1998, Mr. Gilbert served as a Senior Investment Officer of the California Public Employees Retirement System (CalPERS) and, from 1982 to 1996, worked in the real estate industry in various positions at JPMorgan & Company, Prudential Real Estate Investors, First Boston Corporation and Salomon Brothers, Inc. From 1980 to 1982, Mr. Gilbert worked for Price Waterhouse as an auditor and consultant. Mr. Gilbert received a BA in accounting from the University of Massachusetts Amherst and an MBA in real estate finance from the Wharton School of Finance at the University of Pennsylvania. Mr. Gilbert was selected by our board of directors to serve as a director based on his 30 years of experience in the real estate industry.

Richard I. Gilchrist. Mr. Gilchrist has been a Senior Advisor responsible for acquisitions and investments at The Irvine Company, a privately-held real estate investment company, since July 2011 after having served as President of its Investment Properties Group from 2006 to 2011. He served as President and Co-Chief Executive Officer and on the board of directors of Maguire Properties, Inc., a publicly-held REIT, from 2002 to 2006. From 1997 to 2001, Mr. Gilchrist served as Chief Executive Officer, President and member of the board of directors of Commonwealth Atlantic Properties, a privately-held REIT. From 1995 to 1997, he served as the Co-Chairman and Managing Partner of Common Wealth Partners, a real estate company he co-founded. From 1982 to 1995, Mr. Gilchrist worked at Maguire Thomas Partners, serving as General Counsel from 1982 to 1984, Partner from 1984 to 1985, and Senior Partner from 1985 to 1995. Mr. Gilchrist co-founded the real estate law firm of Gilchrist & Rutter in 1982 and also worked as an attorney at Flint & MacKay from 1971 to 1981. He currently serves on the board of directors of two publicly-traded REITs, Ventas, Inc. and BioMed Realty Trust, and serves on the executive compensation committee of Ventas, Inc., and the audit and compensation committees of BioMed Realty Trust. Mr. Gilchrist is a member of the Whittier College Board of Trustees and served as its Chairman from 2003 to 2011 where he received his BA in 1968. He is also a member of the Advisory Board of the University of California, Los Angeles Law School, where he earned a JD in 1971. Mr. Gilchrist was selected by our board of directors to serve as a director based on his extensive experience in the real estate industry, including having served as an executive officer of several private REITs and one public REIT and his experience as a member of the board of directors of two public REITs.

Diane M. Morefield. Ms. Morefield has served as the Executive Vice President, Chief Financial Officer of Strategic Hotels & Resorts, Inc., a publicly-traded REIT that owns luxury hotels and resorts, since April 2010. From December 2009 to March of 2010, Ms. Morefield served as a Senior Consultant at CTS Holdings, Inc., a business advisory and project management firm. From November 2007 through June 2009, Ms. Morefield served as Chief Financial Officer of Equity International, a privately-held investment company focused exclusively on real estate related businesses operating outside of the United States. During this time, Ms. Morefield was responsible for financial reporting, investor relations, portfolio management, treasury and was actively involved in significant capital raising. From April 2007 through October 2007, Ms. Morefield served as

Chief Financial Officer of Joseph Freed & Associates, LLC, a family owned, privately-held real estate development and operating company specializing in retail, residential and mixed-use projects. From July 1997 to September 2006, Ms. Morefield was employed by Equity Office Properties Trust, the largest publicly-traded office REIT and owner of office buildings in the United States, serving as Regional Senior Vice President for the company s Midwest region from 2004 to 2006 and Senior Vice President Investor Relations from 1997 to 2004. Ms. Morefield worked as a Senior Manager of the Solutions Consulting Group of Deloitte & Touche LLP from 1994 to 1997. From 1983 to 1993, she worked at Barclays Bank PLC, serving as Vice President/Team Leader of the Real Estate Group from 1986 to 1993, Assistant Vice President in 1985 and a loan officer from 1983 to 1984. From 1980 to 1983, Ms. Morefield worked as a Senior Auditor and Staff Accountant at Arthur Andersen & Co. Ms. Morefield is a member of The Chicago Network, Leadership Greater Chicago Fellows Program (Class of 2006), and, in May 2003, completed the Northwestern University Kellogg School of Management: Women s Board Director Development Program. She is also a board member of the Chicagoland Chamber of Commerce. Ms. Morefield received a BS in Accountancy from the University of Illinois and an MBA from The University of Chicago. Ms. Morefield was selected by our board of directors to serve as a director based on her extensive experience in the real estate industry, including her current service as an executive officer of a public REIT and her prior business experience as an executive officer of several private companies investing in the real estate industry.

Nicholas P. Shepherd. Mr. Shepherd has served as the President and Chief Executive Officer of Carlson Restaurants Inc, which is the parent company of TGI Friday s Inc., since February 2009. He also serves on the board of directors of Carlson Restaurants Inc. and as Chairman of the board of directors of TGI Friday s Inc. During 2008, Mr. Shepherd served as Chairman of the board of directors and Chief Executive Officer of Sagittarius Brands, Inc., a private restaurant holding company which owned and operated the Del Taco and Captain D s restaurant brands. From 1995 to 2007, Mr. Shepherd worked for Blockbuster, Inc., serving as the Chief Operating Officer during 2007, President of Blockbuster North American from 2004 to 2007, Executive Vice President and Chief Marketing and Merchandising Officer from 2001 to 2004, Senior Vice President, International from 1998 to 2001 and Vice President and General Manager from 1995 to 1999. From 1993 to 1995, Mr. Shepherd served as a Divisional Officer of Comet Group PLC, an electronics retailer in the UK and, from 1991 to 1993, served as a Senior Partner and founder of The Service Practice, which specialized in the development and performance measurement of service systems for retail businesses. From 1986 to 1991, Mr. Shepherd worked for Grand Metropolitan PLC, serving as the General Manager of Pastificio Restaurants from 1989 to 1991, Head of European Operations of Continental Restaurants from 1988 to 1989 and Brand Development Director of the Retail Enterprise Group from 1986 to 1988. He worked as an Operations Manager for Allied Lyons PLC from 1985 to 1986 and as an Operations Manager and Brand Development Manager for Whitbread PLC from 1979 to 1985. Mr. Shepherd earned his bachelor s degree in business management and hospitality from Sheffield Hallamshire University. Mr. Shepherd was selected by our board of directors to serve as a director based on his extensive experience in business and as an executive of a public company.

Family Relationships

There are no family relationships among any of our directors or executive officers.

Corporate Governance Profile

We have structured our corporate governance in a manner we believe closely aligns our interests with those of our stockholders. Notable features of our corporate governance structure include the following:

- our board of directors is not classified, with each of our directors subject to election annually;

- of the seven persons who will serve on our board of directors immediately after the completion of this offering, we expect our board of directors to determine that six, or 86%, of our directors satisfy the listing standards for independence of the NYSE and Rule 10A-3 under the Exchange Act;

- we anticipate that at least one of our directors will qualify as an audit committee financial expert as defined by the SEC;

- we have opted out of the business combination and control share acquisition statutes in the MGCL; and

- we do not have a stockholder rights plan.

Our directors will stay informed about our business by attending meetings of our board of directors and its committees and through supplemental reports and communications. Our independent directors are expected to meet regularly in executive sessions without the presence of our corporate officers or non-independent directors.

Role of Our Board of Directors in Risk Oversight

One of the key functions of our board of directors is informed oversight of our risk management process. Our board of directors administers this oversight function directly, with support from its three standing committees, the audit committee, the nominating and corporate governance committee and the compensation committee, each of which addresses risks specific to its respective areas of oversight. In particular, as more fully described below, our audit committee has the responsibility to consider and discuss our major financial risk exposures and the steps our management has taken to monitor and control these exposures, including guidelines and policies to govern the process by which risk assessment and management is undertaken. The audit committee also monitors compliance with legal and regulatory requirements, in addition to oversight of the performance of our internal audit function. Our nominating and corporate governance committee provides oversight with respect to corporate governance and ethical conduct and monitors the effectiveness of our corporate governance guidelines, including whether such guidelines are successful in preventing illegal or improper liability-creating conduct. Our compensation committee assesses and monitors whether any of our compensation policies and programs has the potential to encourage excessive risk-taking.

Board Committees

Our board of directors has established three standing committees: an audit committee, a compensation committee and a nominating and corporate governance committee. The principal functions of each committee are briefly described below. We intend to comply with the listing requirements and other rules and regulations of the NYSE, as amended or modified from time to time, with respect to each of these committees and each of these committees will be comprised exclusively of independent directors. Additionally, our board of directors may from time to time establish other committees to facilitate the board s oversight of management of the business and affairs of our company.

Audit Committee

Upon the completion of this offering, our audit committee will consist of three of our independent directors. We expect that the chairman of the audit committee will qualify as an audit committee financial expert as that term is defined by the applicable SEC regulations and NYSE corporate governance standards. We expect that our board will determine that each of the members of our audit committee is financially literate as that term is defined by the NYSE corporate governance listing standards. Prior to the completion of this offering, we expect to adopt an audit committee charter, which defines the audit committee s principal functions, including oversight related to:

- our accounting and financial reporting processes;

- the integrity of our consolidated financial statements and financial reporting process;

- our systems of disclosure controls and procedures and internal control over financial reporting;

- our compliance with financial, legal and regulatory requirements;

- the evaluation of the qualifications, independence and performance of our independent registered public accounting firm;

- the performance of our internal audit functions; and

- our overall risk exposure and management.

The audit committee will also be responsible for engaging, evaluating, compensating, and overseeing an independent registered public accounting firm, reviewing with the independent registered public accounting firm the plans for and results of the audit engagement, approving services that may be provided by the independent registered public accounting firm, including audit and non-audit services, reviewing the independence of the independent registered public accounting firm, considering the range of audit and non-audit fees and reviewing the adequacy of our internal accounting controls. The audit committee also will prepare the audit committee report required by SEC regulations to be included in our annual report. Ms. Morefield has been designated as chair and Mr. Gilbert and Mr. Dunn have been appointed as members of the audit committee.

Compensation Committee

Upon the completion of this offering, our compensation committee will consist of three of our independent directors. Prior to the completion of this offering, we expect to adopt a compensation committee charter, which will define the compensation committee s principal functions, to include:

- assisting the board of directors in developing and evaluating potential candidates for executive officer positions and overseeing the development of executive succession plans;

- annually reviewing and approving our corporate goals and objectives with respect to compensation for executive officers and, at least annually, evaluating each executive officer s performance in light of such goals and objectives to set his or her annual compensation, including salary, bonus and equity and non-equity incentive compensation, subject to approval by the board of directors;

- providing oversight of management s decisions regarding the performance, evaluation and compensation of other officers;

- reviewing our incentive compensation arrangements to confirm that incentive pay does not encourage unnecessary risk taking and to review and discuss, at least annually, the relationship between risk management policies and practices, business strategy and our executive officers compensation;

- reviewing and discussing with management our compensation discussion and analysis required by SEC regulations and recommending to the board of directors that such compensation discussion and analysis be included in our annual report; and

- preparing the compensation committee report to be included in our annual report.

Mr. Gilbert has been designated as chair and Mr. Gilchrist and Mr. Charlton have been appointed as members of the compensation committee.

Nominating and Corporate Governance Committee

Upon the completion of this offering, our nominating and corporate governance committee will consist of three of our independent directors. Prior to the completion of this offering, we expect to adopt a nominating and governance committee charter, which will define the nominating and corporate governance committee s principal functions, to include:

identifying individuals qualified to become members of our board of directors and ensuring that our board of directors has the requisite expertise and its membership consists of persons with sufficiently diverse and independent backgrounds;

developing, and recommending to the board of directors for its approval, qualifications for director candidates and periodically reviewing these qualifications with the board of directors;

reviewing the committee structure of the board of directors and recommending directors to serve as members or chairs of each committee of the board of directors;

reviewing and recommending committee slates annually and recommending additional committee members to fill vacancies as needed;

developing and recommending to the board of directors a set of corporate governance guidelines applicable to us and, at least annually, reviewing such guidelines and recommending changes to the board of directors for approval as necessary;

overseeing the annual self-evaluations of the board of directors and management; and

reviewing and approving or ratifying any transaction between us and a related person that is required to be disclosed under the rules of the SEC.

Mr. Shepherd has been designated as chair and Mr. Dunn and Mr. Charlton have been appointed as members of the nominating and corporate governance committee.

Compensation Committee Interlocks and Insider Participation

None of our executive officers serves, or in the past has served, as a member of the board of directors or compensation committee, or other committee serving an equivalent function, of any entity that has one or more executive officers who serve as members of our board of directors or our compensation committee. None of the members of our compensation committee is, or has ever been, an officer or employee of our company.

Code of Business Conduct and Ethics

Upon the completion of this offering, our board of directors will adopt a new code of business conduct and ethics that applies to our directors, officers and employees. Among other matters, our code of business conduct and ethics will be designed to deter wrongdoing and to promote:

honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

full, fair, accurate, timely and understandable disclosure in our SEC reports and other public communications;

compliance with applicable governmental laws, rules and regulations;

prompt internal reporting of violations of the code to appropriate persons identified in the code; and

accountability for adherence to the code of business conduct and ethics.

Any waiver of the code of business conduct and ethics for our directors or executive officers must be approved by a majority of our independent directors, and any such waiver shall be promptly disclosed as required by law and NYSE regulations.

Indemnification

We intend to enter into indemnification agreements with each of our directors and executive officers that will obligate us to indemnify them to the maximum extent permitted by Maryland law as discussed under Certain Provisions of Maryland Law and of Our Charter and Bylaws Limitation of Liability and Indemnification of Directors and Officers. The indemnification agreements will provide that, if a director or executive officer is a party or is threatened to be made a party to any proceeding by reason of his or her service as a director, officer, employee or agent of our company or as a director, officer, partner, member, manager or trustee of any other foreign or domestic corporation, real estate investment trust, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise that he or she is or was serving in such capacity at our request, we must indemnify the director or executive officer for all expenses and liabilities actually and reasonably incurred by him or her, or on his or her behalf, to the maximum extent permitted under Maryland law, including in any proceeding brought by the director or executive officer to enforce his or her rights under the indemnification agreement, to the extent provided by the agreement. The indemnification agreements will also require us to advance reasonable expenses incurred by the indemnitee within ten days of the receipt by us of a statement from the indemnitee requesting the advance, provided the statement evidences the expenses and is accompanied or preceded by:

a written affirmation of the indemnitee s good faith belief that he or she has met the standard of conduct necessary for indemnification; and

a written undertaking, which may be unsecured, by the indemnitee or on his or her behalf to repay the amount paid if it shall ultimately be established that the standard of conduct has not been met.

The indemnification agreements will also provide for procedures for the determination of entitlement to indemnification, including requiring such determination be made by independent counsel after a change of control of us.

Our charter will permit us, and our bylaws will obligate us, to the maximum extent permitted by Maryland law, to indemnify and to pay or reimburse reasonable expenses in advance of final disposition of a proceeding to (1) any of our present or former directors or officers who is made or threatened to be made a party to the proceeding by reason of his or her service in that capacity or (2) any individual who, while serving as our director or officer and at our request, serves or has served as a director, officer, partner, member, manager, trustee, employee or agent of another corporation, real estate investment trust, partnership, limited liability company, joint venture, trust, employee benefit plan or any other enterprise and who is made or threatened to be made a party to the proceeding by reason of his or her service in that capacity, as discussed under Certain Provisions of Maryland Law and of Our Charter and Bylaws Limitation of Liability and Indemnification of Directors and Officers.

In addition, our directors and officers may be entitled to indemnification pursuant to the terms of the partnership agreement of our operating partnership.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling our company pursuant to the foregoing provisions, we have been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This section discusses the principles underlying our policies and decisions with respect to the compensation of our executive officers who are named in the 2011 Summary Compensation Table below and the principal factors relevant to an analysis of these policies and decisions. In 2011, our named executive officers and their positions were as follows:

- Thomas H. Nolan, Jr., Chief Executive Officer;
- Charles H. Cremens, former President and Chief Executive Officer;
- Michael A. Bender, Senior Vice President, Chief Financial Officer;
- Gregg A. Seibert, Senior Vice President; and
- Peter M. Mavoides, President and Chief Operating Officer.

Mr. Cremens served as our President and Chief Executive Officer until July 2011. Mr. Nolan joined our company in June 2011 as a consultant, and our board of directors ratified Mr. Nolan as Chief Executive Officer effective as of July 9, 2011.

The following discussion and analysis of compensation arrangements of our named executive officers should be read together with the compensation tables and related disclosures set forth below. This discussion may contain forward-looking statements that are based on our current plans, considerations, expectations and determinations regarding future compensation programs. Actual compensation programs that we adopt following the completion of this offering may differ materially from the currently-planned programs summarized in this discussion.

Determination of Compensation

Roles of Our Board of Directors and Chief Executive Officer in Compensation Decisions

Our board of directors, in conjunction with our Chief Executive Officer, has been responsible for overseeing our executive compensation program, as well as determining and approving the ongoing compensation arrangements for our Chief Executive Officer and other named executive officers. Our board of directors and Chief Executive Officer meet periodically as necessary throughout the year to review adjustments to the compensation, including base salary, annual bonus and long-term equity awards, for our named executive officers. We expect that, following the completion of this offering, the compensation committee will oversee our compensation program for all named executive officers.

Our Chief Executive Officer evaluates the individual performance and contributions of each other named executive officer and reports to our board of directors his determinations regarding the other named executive officers compensation. Our Chief Executive Officer does not participate in any formal discussion with our board of directors regarding decisions on his own compensation and recuses himself from meetings when his compensation is discussed.

We do not generally rely on formulaic guidelines or react to short-term changes in business performance for determining the mix or levels of cash and equity-based compensation, but rather maintain a flexible compensation program that allows us to adapt components and levels of compensation to motivate, reward and retain individual named executive officers within the context of our desire to attain financial and operational goals. Subjective factors considered in compensation determinations include a named executive officer s responsibilities, leadership abilities, skills, contributions as a member of the executive management team and contributions to our overall performance and whether the total compensation potential and structure is sufficient to ensure the retention of a named executive officer when considering the compensation potential that may be available elsewhere.

Engagement of Compensation Consultants

We have retained Christenson Advisors, or Christenson, a compensation consulting firm, to provide advice regarding the compensation program for our employees following the completion of this offering. We requested that Christenson provide analysis and recommendations regarding base salaries, annual bonuses and long-term incentive compensation for our employees, including our named executive officers, and a director compensation program for non-employee members of our board of directors. Christenson has not performed and does not currently provide any other services to management or our company, other than providing de minimis advice to our company for no additional fee relating to company-paid health insurance premiums for our broad-based group health plan.

Executive Compensation Philosophy and Objectives

The market for experienced management is highly competitive in our industry. Our goal is to attract and retain the most highly qualified executives to manage each of our business functions. In doing so, we draw upon a pool of talent that is highly sought after by similarly-sized real estate investment trusts and other real estate companies. Our executive compensation philosophy recognizes that, given that the market for experienced management is highly competitive in our industry, key and core to our success is our ability to attract and retain the most highly-qualified executives to manage each of our business functions.

We regard as fundamental that executive officer compensation be structured to provide competitive base salaries and benefits to attract and retain superior employees, and to provide incentive compensation to motivate executive officers to attain, and to reward executive officers for attaining, financial, operational, individual and other goals that are consistent with increasing stockholder value. We also believe that our executive compensation program should include a long-term incentive component that aligns executives interests with our stockholders interests. The objective of our long-term incentive awards, including equity-based compensation, is to encourage executives to focus on our long-term growth and incentivize executives to manage our company from the perspective of stockholders with a meaningful stake in our success.

We view the components of our executive compensation program as related but distinct, and we expect to regularly reassess the total compensation of our named executive officers to ensure that our overall compensation objectives are met. Historically, not all components have been provided to our named executive officers. We have considered, but not relied upon exclusively, the following factors in determining the appropriate level for each compensation component: our understanding of the competitive market based on the collective experience of members of our board of directors and their review of compensation surveys; our recruiting and retention goals; our view of internal equity and consistency; the length of service of our executive officers; our overall performance; and other considerations our board of directors and/or Chief Executive Officer determines are relevant.

Each of the primary elements of our executive compensation program is discussed in more detail below. While we have identified particular compensation objectives that each element of executive compensation serves, our compensation programs are designed to be flexible and complementary and to collectively serve all of the executive compensation objectives described above. Accordingly, whether or not specifically mentioned below, we believe that, as a part of our overall executive compensation policy, each individual element, to a greater or lesser extent, serves each of our compensation objectives and that, collectively, they are effective in achieving our overall objectives.

Elements of Executive Compensation Program

The following describes the primary components of our executive compensation program for each of our named executive officers, the rationale for each component and how compensation amounts are determined.

Base Salary

We provide our named executive officers with a base salary to compensate them for services rendered to our company during the fiscal year. The base salary payable to each named executive officer is intended to provide a fixed component of compensation reflecting the executive s skill set, experience, role and responsibilities. Generally, initial base salary amounts were established based on consideration of, among other factors, the scope of the named executive officer s responsibilities, years of service and the general knowledge of our board of directors or Chief Executive Officer of the competitive market based on, among other things, experience with other companies and our industry. Thereafter, the base salaries of our named executive officers have been reviewed periodically by our board of directors or Chief Executive Officer and merit salary increases have been made as deemed appropriate based on such factors as the scope of an executive officer s responsibilities, individual contribution, prior experience and sustained performance.

In January 2011, based on our board of directors assessment of his role and responsibilities and contributions to our company, the base salary for Mr. Bender was increased as set forth in the table below. Also in January 2011, we entered into a new employment offer letter with Mr. Seibert that provided for a restructured bonus opportunity, as discussed under Annual Performance-Based Compensation below. Due to the restructured bonus opportunity, Mr. Seibert s 2011 base salary was reduced as set forth in the table below. Because Messrs. Nolan s and Mavoides base salaries were initially established when they joined our company in 2011 and Mr. Cremens only served until July 2011, these named executive officers did not receive a base salary increase in 2011.

Named Executive Officer	Final 2010 Annual Base Salary Rate ($)	2011 Annual Base Salary Rate ($)
Michael A. Bender	250,000	290,000
Gregg A. Seibert	320,850	180,000

Annual Performance-Based Compensation

We use cash bonuses to motivate our named executive officers to achieve our short-term financial and strategic objectives while making progress towards our longer-term growth and other goals. We do not maintain a formal bonus program, and annual bonuses have historically been determined by the Chief Executive Officer (or, with respect to the Chief Executive Officer s bonus, our board of directors) in his sole discretion based on the Chief Executive Officer s or our board of directors assessment of the executive s performance and the performance of our company.

In 2011, we entered into employment agreements with each of Messrs. Nolan, Bender and Maviodes, pursuant to which the named executive officer is eligible to receive a discretionary annual bonus targeted at 150%,100% and 100% of base salary, respectively, based on the achievement of performance criteria established by our board of directors at any time prior to the end of the applicable fiscal year. Mr. Nolan s amended employment agreement provides that his maximum bonus opportunity will be equal to 200% of his base salary. As an inducement for Mr. Nolan to join our company, we agreed, as part of the arm s-length negotiation of his employment agreement, that his pro-rated annual bonus for the 2011 fiscal year would not be less than $400,000. For 2011, our board of directors determined that in the event that we successfully completed the term loan restructuring and/or the initial filing of the registration statement relating to this offering during the year, Messrs. Nolan, Bender and Mavoides would be eligible to receive a discretionary annual bonus. As both of these milestones were achieved in 2011, our board of directors determined to award Mr. Nolan his maximum annual bonus for the year (200% of base salary), and to award each of Messrs. Bender and Mavoides an annual bonus at a level that was one-third above each executive s target annual bonus for the year. The annual bonuses were pro rated for Messrs. Nolan and Mavoides to reflect their partial year of service, as they each joined our company in 2011. The resulting 2011 annual cash bonuses equaled $456,438, $386,667 and $170,959, respectively, for Messrs. Nolan, Bender and Mavoides.

Under his amended consulting agreement, Mr. Cremens was eligible to receive a cash bonus of $4,500,000 in 2011 if, by April 15, 2011: (1) a change of control (as defined in the amended consulting agreement) of Redford Holdco, LLC, or Redford (which is owned by investors who sponsored our privatization and certain members of our current and former management team), or our company had not occurred; (2) the independent auditors for Redford issued an opinion with respect to the 2010 fiscal year of Redford without any material caveat or exception; and (3) our company hired a senior management team, including a permanent chief executive officer. If such cash bonus had not been earned, the amended consulting agreement alternatively provided that Mr. Cremens would be entitled to a cash bonus, payable upon a change of control, of up to $8,750,000, plus 2% of any proceeds (as defined in the amended consulting agreement) in excess of $550,000,000. Although the hiring of our senior management team was not completed until several months after the April 2011 date in Mr. Cremens consulting agreement, the independent auditors issued a satisfactory opinion by April 15, 2011, and our board of directors awarded Mr. Cremens the $4,500,000 cash bonus described above (in exchange for which Mr. Cremens delivered a general release of claims against our company). Mr. Cremens also received a $1,000,000 discretionary bonus upon successful completion of the credit agreement amendment relating to the term loan.

In addition, in January 2011 we entered into an employment offer letter with Mr. Seibert, pursuant to which he was eligible to receive a 2011 bonus of up to $250,000 upon the successful completion of fully leasing certain specified properties. Mr. Seibert received a $50,000 bonus in 2011 based on the successful completion of fully leasing one property. In addition, our board of directors awarded a discretionary $100,000 bonus to Mr. Seibert based on its assessment of his performance in 2011, including the successful partial leasing of two of the specified properties.

Long-Term Equity-Based Incentives

The goals of our long-term equity-based awards are to reward and encourage long-term corporate performance based on the value of our stock and, thereby, to align the interests of our executive officers, including our named executive officers, with those of our stockholders. Since our privatization, we have offered long-term incentives to our named executive officers through grants of profits interest units and restricted units in Redford. The size and form of the initial equity awards for our named executive officers typically have been established through arm s-length negotiation at the time the individual was hired or at the time at which we entered into an employment agreement with the named executive officer. In making these awards, we considered, among other things, the prospective role and responsibility of the individual, competitive factors, the amount of equity-based compensation held by the executive officer at his or her former employer, our board of directors collective experience with compensation paid in respect of similar roles and in companies in similar stages of growth and industries as us at the time the executive officer was hired, the cash compensation received by the executive officer and the need to create a meaningful opportunity for reward predicated on the creation of long-term stockholder value.

Certain of our named executive officers currently hold profits interest units in Redford. In 2007, Messrs. Bender and Seibert were granted profits interest units in Redford that are subject to vesting at a rate of 20% per year following the grant date. Upon the completion of this offering, each award will be vested in full.

In connection with entering into each of their employment agreements, on December 15, 2011, Redford granted restricted units in Redford to Messrs. Nolan, Bender and Mavoides. Each restricted unit award will vest: (1) 50% upon an initial public offering of our company or Redford occurring on or prior to December 31, 2012, with the remaining 50% to vest either (a) in three equal annual installments on the first through third anniversaries of the initial public offering or (b) in full upon a subsequent change of control (as defined in each amended employment agreement) of our company or Redford; or (2) 100% upon a change of control of our company or Redford occurring on or prior to December 31, 2012, subject, in each case, to the executive s continued employment with our company through the applicable vesting date(s). If an initial public offering or change of control of our company or Redford does not occur on or prior to December 31, 2012, each restricted unit award will terminate and be forfeited. These awards are also set forth in the 2011 Summary Compensation Table, the Grants of Plan-Based Awards in 2011 table and the Outstanding Equity Awards at 2011 Fiscal Year-End table below. Messrs. Nolan, Bender and Mavoides have agreed with Redford to terminate and cancel their respective restricted unit awards immediately prior to the completion of this offering, and we will grant Messrs. Nolan, Bender and Mavoides shares, shares and shares, respectively, of restricted common stock of our company (based on the mid-point of the price range set forth on the front cover of this prospectus), which shall be subject to substantially the same vesting terms as the restricted unit awards. As a result, 50% of such shares of restricted stock will vest upon the completion of this offering, with the remaining 50% to vest either (i) in three equal annual installments on the first through third anniversaries of this offering or (ii) in full upon a subsequent change of control (as defined in each amended employment agreement) of our company, subject, in each case, to the executive s continued employment with our company through the applicable vesting date(s). We may withhold shares of restricted stock otherwise issuable upon vesting in order to satisfy tax withholding obligations associated with the vesting of such shares.

In connection with the completion of this offering, we intend to adopt the Incentive Award Plan. For additional information regarding the Incentive Award Plan, see the section entitled Incentive Award Plan below. We expect to make grants of restricted common stock pursuant to the Incentive Award Plan to certain of our employees, including our named executive officers, upon the completion of this offering. We anticipate that the restricted stock grants awarded to our named executive officers in connection with this offering will be subject to time-based vesting in annual installments over a period of three years commencing on the date of grant, subject to the executive s continued employment with us. Each restricted stock award is expected to be denominated as a specified dollar value, and the actual number of shares issued will be calculated at or prior to grant by dividing the total denominated dollar value of the award by the per share initial public offering price of our common stock. We expect that the aggregated denominated dollar value of all restricted stock awards granted to executive officers and other employees in connection with this offering (not including the restricted stock grants discussed in the paragraph above) will be approximately $13.5 million, including the following grants to our named executive officers.

Named Executive Officer	Restricted Stock Denominated Grant Value ($)
Thomas H. Nolan	4,800,000
Michael A. Bender	2,250,000
Gregg A. Seibert	750,000
Peter M. Mavoides	2,700,000

These restricted stock grants will be awarded to reflect the increased expectations in our named executive officers once we become a public company, to incentivize and reward increases in long-term stockholder value and to further align their interests with those of our stockholders, as well as to encourage retention of our named executive officers. The dollar value associated with Mr. Seibert s award was established as part of the negotiation process for his employment agreement dated January 3, 2012. For additional information, refer to Potential Payments Upon Termination or Change of Control Employment Agreements below.

We do not currently have any formal stock ownership requirements or guidelines for our named executive officers. Our board of directors or, upon the completion of this offering, compensation committee, will continue to periodically review best practices and re-evaluate our position with respect to such requirements or guidelines.

Retirement Savings

We have established a 401(k) retirement savings plan for our employees, including our named executive officers, who satisfy certain eligibility requirements. Our named executive officers are eligible to participate in the 401(k) plan on the same terms as other full-time employees. The Code allows eligible employees to defer a portion of their compensation, within prescribed limits, on a pre-tax basis through contributions to the 401(k) plan. Currently, we match contributions made by participants in the 401(k) plan up to a specified percentage of the employee contributions, and these matching contributions are fully vested as of the date on which the contribution is made. We believe that providing a vehicle for tax-deferred retirement savings though our 401(k) plan, and making fully vested matching contributions, adds to the overall desirability of our executive compensation package and further incentivizes our employees, including our named executive officers, in accordance with our compensation policies.

Employee Benefits and Perquisites

All of our full-time employees, including our named executive officers, are eligible to participate in our health and welfare plans, including:

medical and dental benefits, as well as vision discounts;

medical and dependent care flexible spending accounts;

short-term and long-term disability insurance;

accidental death and dismemberment insurance; and

life insurance.

With the exception of the flexible spending accounts, premiums for each of our employee s health and welfare plans were paid in full by our company for the 2011 plan year. In addition, we contributed $750 to the medical flexible spending account for each individual who was employed on January 1, 2011. We design our employee benefits programs to be affordable and competitive in relation to the market, and we modify our employee benefits programs as needed based upon regular monitoring of applicable laws and practices in the competitive market.

These benefits are provided to our named executive officers on the same general terms as they are provided to all of our full-time employees, with the exception of certain additional supplemental long-term disability insurance, which covers participating executives, including our named executive officers, in addition to any related gross-up of taxes to make the named executive officers whole. We also reimburse certain of our named executive officers for reasonable legal fees and expenses incurred in connection with the negotiation of an employment agreement. In addition, we have agreed under certain circumstances to pay directly or reimburse our named executive officers for certain travel and/or relocation expenses incurred, in addition to any related tax gross-up, in connection with commuting and/or a relocation made at the request of our company. We believe that providing these benefits is a relatively inexpensive way to enhance the competitiveness of the executives compensation packages.

In the future, we may provide perquisites or other personal benefits in limited circumstances, such as where we believe it is appropriate to assist an individual named executive officer in the performance of his duties, to make our named executive officers more efficient and effective, and for recruitment, motivation and/or retention purposes. Future practices with respect to perquisites or other personal benefits for our named executive officers will be approved and subject to periodic review by our board of directors or compensation committee. We do not expect these perquisites to be a material component of our compensation program.

Severance and Change of Control-Based Compensation

As more fully described below under the caption Potential Payments Upon Termination or Change of Control, certain of our named executive officers employment agreements that were in effect during 2011 provided for certain payments and/or benefits upon a qualifying termination of employment or in connection with a change of control. In addition, in 2011 we maintained the Change of Control Severance Plan for Certain

Covered Participants of Spirit Finance Corporation, or the Change of Control Severance Plan, Change of Control/IPO Bonus Policy and the Employee Handbook severance pay program for the benefit of certain of our employees.

Payments and/or benefits provided upon a termination by our company without cause or by the employee for good reason in the amended employment agreements for Messrs. Nolan, Bender and Mavoides include, without limitation, (1) a multiple of base salary, (2) in certain cases, accelerated vesting of the executive s restricted unit award, (3) a lump-sum cash payment ranging from $150,000 to $1,000,000 and (4) with respect to Mr. Mavoides only, a prorated performance bonus for our company s fiscal year in which the termination occurs. The amended employment agreements also provide for gross-up payments to reimburse these executives for any excise taxes imposed on the executive in connection with a change of control (as defined in each amended employment agreement) that occurs following the completion of this offering.

The Change of Control Severance Plan provides certain executives with payments and/or benefits in the event of a termination without cause or for good reason that occurs in connection with a change of control (each, as defined in the Change of Control Severance Plan), including (1) a multiple of base salary and bonus opportunity, (2) a pro rated bonus opportunity, (3) accelerated vesting of equity awards and (4) outplacement services, and pro rated bonus opportunity upon a termination of employment due to death, disability or retirement (as defined in the Change of Control Severance Plan). The Change of Control/IPO Bonus Policy provides that our employees, including our named executive officers, are eligible for a discretionary bonus upon a qualifying change of control or initial public offering of our company, thus enabling them to share in the opportunities and rewards created by the transaction. The severance pay program set forth in our Employee Handbook provides each participant with at least two months severance upon a termination of employment by our company other than for cause (as defined in the Employee Handbook). During 2011, Mr. Seibert was the only named executive officer covered by the Change of Control Severance Plan and the severance pay program.

We believe that job security and terminations of employment, both within and outside of the change of control context, are causes of significant concern and uncertainty for senior executives and that providing protections to our named executive officers in these contexts is therefore appropriate in order to alleviate these concerns and allow the executives to remain focused on their duties and responsibilities to our company in all situations.

Tax and Accounting Considerations

Code Section 162(m)

Generally, Section 162(m) of the Code, or Section 162(m), disallows a tax deduction for any publicly-held corporation for individual compensation exceeding $1.0 million in any taxable year to its chief executive officer and each of its three other most highly compensated executive officers, other than its chief financial officer, unless compensation qualifies as performance-based compensation within the meaning of the Code. As we are not currently publicly traded, our board of directors and Chief Executive Officer have not previously taken the deductibility limit imposed by Section 162(m) into consideration in setting compensation. Following this offering, we expect that our compensation committee may seek to qualify the variable compensation paid to our named executive officers for an exemption from the deductibility limitations of Section 162(m). As such, in approving the amount and form of compensation for our named executive officers in the future, our compensation committee will consider all elements of the cost to our company of providing such compensation, including the potential impact of Section 162(m). However, our compensation committee may, in its judgment, authorize compensation payments that do not comply with the exemptions in Section 162(m) when it believes that such payments are appropriate to attract and retain executive talent.

Furthermore, under a Section 162(m) transition rule for compensation plans of corporations which are privately held and which become publicly held in an initial public offering, certain awards under the Incentive

Award Plan and other pre-existing plans will not be subject to Section 162(m) until the expiration of a post-closing transition period, which will occur on the earliest to occur of our annual stockholders meeting in 2016, a material modification or expiration of the applicable plan or the exhaustion of the shares or other compensation reserved for issuance under the plan.

Code Section 409A

Section 409A of the Code, or Section 409A, requires that nonqualified deferred compensation be deferred and paid under plans or arrangements that satisfy the requirements of the statute with respect to the timing of deferral elections, timing of payments and certain other matters. Failure to satisfy these requirements can expose employees and other service providers to accelerated income tax liabilities, penalty taxes and interest on their vested compensation under such plans. Accordingly, as a general matter, it is our intention to design and administer our compensation and benefits plans and arrangements for all of our employees and other service providers, including our named executive officers, so that they are either exempt from, or satisfy the requirements of, Section 409A.

Code Section 280G

Section 280G of the Code, or Section 280G, disallows a tax deduction with respect to excess parachute payments to certain executives of companies which undergo a change of control. In addition, Section 4999 of the Code, or Section 4999, imposes a 20% excise tax on the individual with respect to the excess parachute payment. Parachute payments are compensation linked to or triggered by a change of control and may include, but are not limited to, bonus payments, severance payments, certain fringe benefits, and payments and acceleration of vesting from long-term incentive plans including stock options and other equity-based compensation. Excess parachute payments are parachute payments that exceed a threshold determined under Section 280G based on the executive s prior compensation. In approving the compensation arrangements for our named executive officers following this offering, our compensation committee will consider all elements of the cost to our company of providing such compensation, including the potential impact of Section 280G. However, our compensation committee may, in its judgment, authorize compensation arrangements that could give rise to loss of deductibility under Section 280G and the imposition of excise taxes under Section 4999 when it believes that such arrangements are appropriate to attract and retain executive talent.

Accounting for Stock-Based Compensation

We follow FASB Accounting Standards Codification Topic 718, or ASC Topic 718, for our stock-based compensation awards. ASC Topic 718 requires companies to calculate the grant date fair value of their stock-based awards using a variety of assumptions. ASC Topic 718 also requires companies to recognize the compensation cost of their stock-based awards in their income statements over the period that an employee is required to render service in exchange for the award. Grants of stock options, restricted stock, restricted stock units and other equity-based awards under our equity incentive award plans will be accounted for under ASC Topic 718. Our compensation committee will regularly consider the accounting implications of significant compensation decisions, especially in connection with decisions that relate to our equity incentive award plans and programs. As accounting standards change, we may revise certain programs to appropriately align accounting expenses of our equity awards with our overall executive compensation philosophy and objectives.

Compensation Tables

2011 Summary Compensation Table

The following table sets forth information concerning the compensation of our named executive officers for the year ended December 31, 2011.

Name and Principal Position	Year	Salary($)	Bonus($)(1)	Stock Awards($)(2)	Non-Equity Incentive Plan Compensation($)	All Other Compensation($)(3)	Total($)
Thomas H. Nolan, Chief Executive Officer	2011	227,500(4)	456,438	6,000,000		25,312	6,709,250
Charles H. Cremens, Former Chief Executive Officer and President	2011		5,500,000			700,000	6,200,000
Michael A. Bender, Senior Vice President and Chief Financial Officer	2011	290,000	386,667	1,000,000		19,743	1,696,410
Gregg A. Seibert, Senior Vice President	2011	185,869(5)	100,000		50,000(6)	23,710	359,579
Peter M. Mavoides, President, Chief Operating Officer	2011	127,500(4)	170,959	1,000,000		52,318	1,350,777

(1) Amounts represent bonus payments earned by our named executive officers in 2011. The bonuses for Messrs. Nolan and Mavoides were pro rated to reflect their partial year of service with our company in 2011.

(2) Amounts represent the full grant date fair value of Redford restricted units granted during 2011, calculated in accordance with ASC Topic 718, rather than the amounts paid to or realized by the named individuals. For a discussion of the assumptions used to calculate the value of all Redford restricted unit awards made to named executive officers, refer to Note 13 to our consolidated financial statements included in this prospectus. Messrs. Nolan, Bender and Mavoides have agreed with Redford to terminate and cancel their respective restricted unit awards immediately prior to the completion of this offering, and we will grant Messrs. Nolan, Bender and Mavoides shares, shares and shares, respectively, of restricted common stock of our company (based on the mid-point of the price range set forth on the front cover of this prospectus), which shall be subject to substantially the same vesting terms as the restricted unit awards.

(3) The following table sets forth the amounts of other compensation, including perquisites, paid to, or on behalf of, our named executive officers during 2011 included in the All Other Compensation column. Perquisites and other personal benefits are valued based on the aggregate incremental cost to us.

Name	Life Insurance($)(a)	Supplemental Long-Term Disability($)(b)	Commuting and Lodging Reimbursement ($)(c)	401(k) Plan Company Contributions ($)	Consulting Fee ($)(d)
Thomas H. Nolan	112				25,200
Charles H. Cremens					700,000
Michael A. Bender	558	9,385		9,800	
Gregg A. Seibert	670	13,240		9,800	
Peter M. Mavoides	112	9,628	42,578		

(a) Amounts represent life insurance premiums paid by our company for policies on behalf of our named executive officers.

(b) Amounts represent premium payments by our company for supplemental long-term disability insurance policies for Messrs. Bender, Seibert and Mavoides equal to $6,509, $9,500 and $6,735, respectively, plus related tax gross-up payments equal to $2,876, $3,740 and $2,893, respectively.

(c) Represents amount paid by our company for commuting and lodging expenses incurred by Mr. Mavoides in the amount of $29,783, plus a related tax gross-up payment in the amount of $12,795.

(d) Amounts represent aggregate fees earned by Messrs. Nolan and Cremens for consulting services performed in 2011. Under Mr. Nolan s amended employment agreement, he was entitled to receive $2,800 for each day on which consulting services were rendered. Mr. Cremens consulting services agreement provided that he was entitled to receive a monthly consulting fee equal to $100,000.

(4) Amounts shown in the Salary column represent the base salary of the named executive officer for the partial-year of service with our company in 2011. For 2011, the annual base salary rate for Messrs. Nolan and Mavoides was equal to $700,000 and $450,000, respectively.

(5) Mr. Seibert s 2011 annual base salary rate was reduced from $320,850 to $180,000, effective January 16, 2011.

(6)

Pursuant to Mr. Seibert s employment offer letter, Mr. Seibert was eligible to receive a bonus based on the successful completion of fully leasing specified properties in 2011. Amount represents the bonus received by Mr. Seibert based on his actual achievement of the performance goals.

Grants of Plan-Based Awards in 2011

The following table sets forth information regarding grants of plan-based awards made to our named executive officers for the year ended December 31, 2011.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards				
Name	**Grant Date**	**Threshold($)**	**Target($)**	**Maximum($)**	**All Other Stock Awards: Number of Units (#)**	**Grant Date Fair Value of Unit Awards ($)(1)**
Thomas H. Nolan	December 15, 2011				12,537,852	6,000,000
Michael A. Bender	December 15, 2011				2,089,642	1,000,000
Gregg A. Seibert	January 12, 2011(2)	50,000		250,000		
Peter M. Mavoides	December 15, 2011				2,089,642	1,000,000

(1) Amounts represent the full grant date fair value of Redford restricted units granted during 2011, calculated in accordance with ASC Topic 718, rather than the amounts paid to or realized by the named individuals. For a discussion of the assumptions used to calculate the value of all Redford restricted unit awards made to executive officers, refer to Note 13 to our consolidated financial statements included in this prospectus. Messrs. Nolan, Bender and Mavoides have agreed with Redford to terminate and cancel their respective restricted unit awards immediately prior to this offering, and we will grant Messrs. Nolan, Bender and Mavoides shares, shares and shares, respectively, of restricted common stock of our company (based on the mid-point of the price range set forth on the front cover of this prospectus), which shall be subject to substantially the same vesting terms as the restricted unit awards.

(2) Pursuant to his employment offer letter, for 2011 the minimum bonus amount that Mr. Seibert was eligible to receive in the event that he successfully leased only one of the specified properties was $50,000. In the event that Mr. Seibert successfully leased all of the specified properties in 2011, he would have been entitled to a bonus payment equal to $250,000.

Narrative Disclosure to 2011 Summary Compensation Table and Grants of Plan-Based Awards Table

Thomas H. Nolan, Jr.

In June 2011 we entered into, and subsequently amended, an employment agreement with Mr. Nolan. The initial term of the amended employment agreement will end on September 4, 2014, and on that date, the term of the amended employment agreement automatically will be extended for one year, unless earlier terminated by either our company or Mr. Nolan.

Pursuant to the amended employment agreement, Mr. Nolan commenced his services to our company in the capacity of a consultant (reporting to the Chairman of our board of directors). During this consulting period, Mr. Nolan was entitled to receive a fee of $2,800 for each day on which services were rendered. Since succeeding Mr. Cremens, Mr. Nolan has served as our Chief Executive Officer, and continues to serve in that capacity pursuant to the amended employment agreement.

Pursuant to the amended employment agreement, during the term of his employment, Mr. Nolan also serves as the Chief Executive Officer of Redford and Chairman of the board of directors of our company and Redford (subject to applicable law or the reasonable discretion of the underwriters of this offering). During the employment term, Mr. Nolan is entitled to receive an annual base salary of $700,000, which is subject to increase at the discretion of our board of directors. In addition, Mr. Nolan is eligible to receive an annual discretionary cash performance bonus targeted at 150% of his base salary (with a maximum bonus opportunity equal to 200% of his base salary) based on the achievement of performance criteria established by our board of directors or compensation committee at any time prior to the end of the applicable fiscal year. The amended employment agreement provides that Mr. Nolan was entitled to receive a guaranteed bonus for services performed in 2011 equal to at least $400,000, subject to his continued employment through the payment date.

In connection with entering into the original employment agreement, Redford granted Mr. Nolan an award of restricted units in Redford. The restricted unit award will vest: (1) 50% upon an initial public offering of our company or Redford occurring on or prior to December 31, 2012, with the remaining 50% to vest either (a) in three equal annual installments on the first through third anniversaries of the initial public offering or (b) in full upon a subsequent change of control (as defined in the amended employment agreement) of our company or Redford; or (2) 100% upon a change of control of our company or Redford occurring on or prior to December 31, 2012, subject, in each case, to the executive s continued employment with our company through the applicable vesting date(s). If an initial public offering or change of control of our company or Redford does not occur on or prior to December 31, 2012, the restricted unit award will terminate and be forfeited. As discussed, Mr. Nolan has agreed with Redford to terminate and cancel his restricted unit award immediately prior to this offering, and we will grant Mr. Nolan shares of restricted common stock of our company (based on the mid-point of the price range set forth on the front cover of this prospectus), which shall be subject to substantially the same vesting terms as the restricted unit award. As a result, 50% of such shares of restricted stock will vest upon the completion of this offering, with the remaining 50% to vest either (i) in three equal annual installments on the first through third anniversaries of this offering or (ii) in full upon a subsequent change of control (as defined in each amended employment agreement) of our company, subject, in each case, to Mr. Nolan s continued employment with our company through the applicable vesting date(s). We may withhold shares of restricted stock otherwise issuable upon vesting in order to satisfy tax withholding obligations associated with the vesting of such shares.

Under the amended employment agreement, Mr. Nolan is eligible to participate in customary health, welfare and fringe benefit plans. In addition, Mr. Nolan is entitled to reimbursement of: (1) reasonable moving expenses, up to $100,000, incurred in connection with Mr. Nolan s relocation from Illinois; and (2) legal fees and expenses incurred in connection with the negotiation of the amended employment agreement. The amended employment agreement also contains customary confidentiality, non-compete, non-solicitation, non-disparagement and inventions/intellectual property provisions.

The amended employment agreement also provides for certain payments and benefits upon a termination by our company without cause, by Mr. Nolan for good reason (each, as defined in the amended employment agreement) or as a result of our company s non-extension of the amended employment agreement, which are described under Potential Payments Upon Termination or Change of Control below.

Charles H. Cremens

In May 2009 we entered into, and in November 2010 we amended, a consulting services agreement with Mr. Cremens. Pursuant to the amended consulting agreement, Mr. Cremens was entitled to receive a monthly fee of $100,000 and company-paid travel and lodging for expenses incurred in connection with providing services for our company. In addition, the amended consulting agreement provided that Mr. Cremens would be entitled to receive a $4,500,000 cash bonus within ten business days of April 15, 2011, subject to his continued service to our company through such date, if: (1) a change of control of Redford or our company (as defined in the amended consulting agreement) had not occurred; (2) the independent auditors for Redford issued an opinion with respect to the 2010 fiscal year of Redford without any material caveat or exception; and (3) our company hired a senior management team, including a permanent chief executive officer. If such cash bonus had not been earned, the amended consulting agreement alternatively provided that Mr. Cremens would be entitled to a cash bonus, payable upon a change of control, of up to $8,750,000, plus 2% of any proceeds (as defined in the amended consulting agreement) in excess of $550,000,000.

In May 2011, we entered into a Bonus Payment and Release Agreement with Mr. Cremens pursuant to which we paid him a cash bonus equal to $4,500,000, and in July 2011, Mr. Cremens was paid a discretionary cash bonus of $1,000,000 upon the successful completion of the credit agreement amendment relating to the term loan. See Elements of Executive Compensation Program Annual Performance-Based Compensation above. Mr. Cremens ceased providing services to our company in July 2011.

Michael A. Bender

In August 2011 we entered into, and subsequently amended, an employment agreement with Mr. Bender. The initial term of the amended employment agreement will end on August 4, 2014, and on that date, the term of the amended employment agreement will automatically be extended for one year, unless earlier terminated by either party. During the term of the amended employment agreement, Mr. Bender will serve as our Chief Financial Officer.

Pursuant to the amended employment agreement, Mr. Bender is entitled to receive an annual base salary of $290,000, which is subject to increase at the discretion of our board of directors. In addition, commencing with the 2011 calendar year, Mr. Bender is eligible to receive an annual discretionary cash performance bonus targeted at 100% of his base salary based on the achievement of performance criteria established by our board of directors or compensation committee at any time prior to the end of the applicable fiscal year.

In connection with entering into the original employment agreement, Redford granted Mr. Bender an award of restricted units in Redford. The restricted unit award will vest: (1) 50% upon an initial public offering of our company or Redford occurring on or prior to December 31, 2012, with the remaining 50% to vest either (a) in three equal annual installments on the first through third anniversaries of the initial public offering or (b) in full upon a subsequent change of control (as defined in the amended employment agreement) of our company or Redford; or (2) 100% upon a change of control of our company or Redford occurring on or prior to December 31, 2012, subject, in each case, to the executive s continued employment with our company through the applicable vesting date(s). If an initial public offering or change of control of our company or Redford does not occur on or prior to December 31, 2012, the restricted unit award will terminate and be forfeited. As discussed, Mr. Bender has agreed with Redford to terminate and cancel his restricted unit award immediately prior to this offering, and we will grant Mr. Bender shares of restricted common stock of our company (based on the mid-point of the price range set forth on the front cover of this prospectus), which shall be subject to substantially the same vesting terms as the restricted unit award. As a result, 50% of such shares of restricted stock will vest upon the completion of this offering, with the remaining 50% to vest either (i) in three equal annual installments on the first through third anniversaries of this offering or (ii) in full upon a subsequent change of control (as defined in each amended employment agreement) of our company, subject, in each case, to Mr. Bender s continued employment with our company through the applicable vesting date(s). We may withhold shares of restricted stock otherwise issuable upon vesting in order to satisfy tax withholding obligations associated with the vesting of such shares.

Under the amended employment agreement, Mr. Bender is eligible to participate in customary health, welfare and fringe benefit plans. In addition, Mr. Bender is entitled to reimbursement of legal fees and expenses incurred in connection with the negotiation of the amended employment agreement. The amended employment agreement also contains customary confidentiality, non-compete, non-solicitation, non-disparagement and inventions/intellectual property provisions.

The amended employment agreement also provides for certain payments and benefits upon a termination by our company without cause, by Mr. Bender for good reason (each, as defined in the amended employment agreement) or as a result of our company s non-extension of the employment term, which are described under Potential Payments Upon Termination or Change of Control below.

Gregg A. Seibert

2011 Employment Offer Letter. In January 2011 we entered into an employment offer letter with Mr. Seibert. Under the employment offer letter, Mr. Seibert was entitled to receive an annual base salary of $180,000. In addition, for fiscal year 2011, Mr. Seibert was eligible to receive a cash bonus of up to $250,000 based upon the successful leasing of specified properties in 2011. The employment offer letter also provided that Mr. Seibert was entitled to participate in our company s health, severance and fringe benefit plans and programs.

2012 Employment Agreement. In January 2012 we entered into, and in May 2012 we amended, an employment agreement with Mr. Seibert that amends and restates his employment offer letter. The initial term of the amended employment agreement will end on January 3, 2015; on that date, the term of the employment agreement will automatically be extended for one year, unless earlier terminated. During the term of the amended employment agreement, Mr. Seibert will serve as a Senior Vice President.

Pursuant to the amended employment agreement, Mr. Seibert is entitled to receive an annual base salary of $250,000 (effective January 1, 2012), which is subject to increase at the discretion of our board of directors. In addition, Mr. Seibert is eligible to receive an annual discretionary cash performance bonus targeted at 100% of his base salary based on the achievement of performance criteria established by our board of directors or compensation committee at any time prior to the end of the year in which the annual bonus may be earned.

In connection with entering into the amended employment agreement, in the event that an initial public offering of our company or Redford occurs during the initial three-year employment term, then (i) Mr. Seibert will be granted an award equal to $750,000 of equity in the entity whose securities are sold to the public (which is expected to vest over a period of three years), subject to his continued employment through the grant date, and (ii) it is expected that Mr. Seibert will receive an additional equity grant in such entity equal to 100% of his base salary, to be granted at the end of the first year of the initial term, subject to his continued employment.

Under the amended employment agreement, Mr. Seibert is eligible to participate in customary health, welfare and fringe benefit plans. In addition, Mr. Seibert is entitled to reimbursement of legal fees and expenses incurred in connection with the negotiation of the employment agreement. The amended employment agreement also contains customary confidentiality, non-compete, non-solicitation, non-disparagement and inventions/intellectual property provisions.

Under the amended employment agreement, if Mr. Seibert s employment is terminated by our company without cause, by the executive for good reason (each, as defined in the amended employment agreement) or by reason of our company s failure to extend the term of the employment agreement at the end of the initial three-year employment term or at the end of the one-year extension period(s) thereafter, then in addition to any accrued amounts Mr. Seibert would be entitled to receive: (1) continuation payments totaling one times Mr. Seibert s annual base salary then in effect, payable over the 12-month period following the termination of employment; (2) a lump-sum cash payment in an amount equal to the annual cash bonus earned by Mr. Seibert in the year prior to the year in which the termination occurs; (3) an amount equal to the most recent annual cash bonus paid to Mr. Seibert during the three-year period immediately preceding the year in which the termination occurs, pro rated for the portion of the year of termination during which Mr. Seibert was employed with our company; and (4) in the event Mr. Seibert has been awarded, prior to the date of termination, the $750,000 equity award described in the paragraph above, accelerated vesting of such award.

In addition, under the amended employment agreement, in the event that Mr. Seibert is terminated by reason of his death or disability, Mr. Seibert will be entitled to receive, in addition to payment of accrued compensation and benefits through the date of termination, an amount equal to the most recent annual cash bonus paid during the three-year period immediately preceding the year in which the termination occurs, pro rated for the portion of the year of termination during which Mr. Seibert was employed with our company.

Mr. Seibert s right to receive the severance payments described above is subject to continued compliance with certain restrictive covenants and his delivery of an effective general release of claims in favor of our company.

Peter M. Mavoides

In September 2011 we entered into, and subsequently amended, an employment agreement with Mr. Mavoides. The initial term of the amended employment agreement will end on September 19, 2014, and on that date, the term of the amended employment agreement will automatically be extended for one year, unless earlier terminated. During the term of the amended employment agreement, Mr. Mavoides will serve as our President and Chief Operating Officer.

Pursuant to the amended employment agreement, Mr. Mavoides is entitled to receive an annual base salary of $450,000, which is subject to increase at the discretion of our board of directors. In addition, Mr. Mavoides is eligible to receive an annual discretionary cash performance bonus targeted at 100% of his base salary based on the achievement of performance criteria established by our board of directors or compensation committee at any time prior to the end of the applicable fiscal year.

In connection with entering into the original employment agreement, Mr. Mavoides was granted an award of restricted units in Redford. The restricted unit award will vest: (1) 50% upon an initial public offering of our company or Redford occurring on or prior to December 31, 2012, with the remaining 50% to vest either (a) in three equal annual installments on the first through third anniversaries of the initial public offering or (b) in full upon a subsequent change of control (as defined in the amended employment agreement) of our company or Redford; or (2) 100% upon a change of control of our company or Redford occurring on or prior to December 31, 2012, subject, in each case, to the executive s continued employment with our company through the applicable vesting date(s). If an initial public offering or change of control of our company or Redford does not occur on or prior to December 31, 2012, the restricted unit award will terminate and be forfeited. As discussed, Mr. Mavoides has agreed with Redford to terminate and cancel his restricted unit award immediately prior to this offering, and we will grant Mr. Mavoides shares of restricted common stock of our company (based on the mid-point of the price range set forth on the front cover of this prospectus), which shall be subject to substantially the same vesting terms as the restricted unit award. As a result, 50% of such shares of restricted stock will vest upon the completion of this offering, with the remaining 50% to vest either (i) in three equal annual installments on the first through third anniversaries of this offering or (ii) in full upon a subsequent change of control (as defined in each amended employment agreement) of our company, subject, in each case, to Mr. Mavoides continued employment with our company through the applicable vesting date(s). We may withhold shares of restricted stock otherwise issuable upon vesting in order to satisfy tax withholding obligations associated with the vesting of such shares.

Under the amended employment agreement, Mr. Mavoides is eligible to participate in customary health, welfare and fringe benefit plans. In addition, Mr. Mavoides is entitled to reimbursement of reasonable moving, commuting and lodging expenses, and an amount equal to any excise taxes incurred with respect to such reimbursement, incurred in connection with Mr. Mavoides relocation to Arizona. The amended employment agreement also contains customary confidentiality, non-compete, non-solicitation, non-disparagement and inventions/intellectual property provisions.

The amended employment agreement also provides for certain payments and benefits upon a termination without cause, for good reason (each, as defined in the amended employment agreement) or as a result of our company s non-extension of the employment term, which are described under the caption Potential Payments Upon Termination or Change of Control below.

Outstanding Equity Awards at 2011 Fiscal Year-End

The following table summarizes the number of shares of our common stock and other securities underlying outstanding equity incentive plan awards for each named executive officer as of December 31, 2011.

		Unit Awards(1)	
Name	**Grant Date**	**Number of Units That Have Not Vested (#)**	**Market Value Of Units That Have Not Vested ($)**
Thomas H. Nolan	December 15, 2011(2)	12,537,852	6,000,000
Michael A. Bender	August 1, 2007(3)	264,232	
	December 15, 2011(2)	2,089,642	1,000,000
Gregg A. Seibert	August 1, 2007(3)	2,201,935	
Peter M. Mavoides	December 15, 2011(2)	2,089,642	1,000,000

(1) The market value of the Redford restricted units held by Messrs. Nolan, Bender and Mavoides was calculated by multiplying the fair market value of a unit in Redford, as determined by Redford s board of directors based on an independent third party valuation of Redford and our company, by the number of unvested restricted units outstanding under the award. The market value of the Redford profits interest units held by Messrs. Bender and Seibert as of December 31, 2011 was determined to be zero based on an independent third party valuation of Redford and our company.

(2) Represents Redford restricted units, which will vest (a) 50% upon an initial public offering of our company or Redford occurring on or prior to December 31, 2012, with the remaining 50% to vest either (i) in three equal annual installments on the first through third anniversaries of the initial public offering or (ii) in full upon a subsequent change of control of our company or Redford; or (b) 100% upon a change of control of our company or Redford occurring on or prior to December 31, 2012, subject, in each case, to the executive s continued employment with our company through the applicable vesting date(s). Messrs. Nolan, Bender and Mavoides have agreed with Redford to terminate and cancel their respective restricted unit awards immediately prior to this offering, and we will grant Messrs. Nolan, Bender and Mavoides shares, shares and shares, respectively, of restricted common stock of our company (based on the mid-point of the price range set forth on the front cover of this prospectus), which shall be subject to substantially the same vesting terms as the restricted unit awards.

(3) Represents profits interest units in Redford, which vested at a rate of 20% on the first through fifth anniversaries of August 1, 2007. Upon the completion of this offering, each profits interest unit award will be vested in full.

2011 Option Exercises and Units Vested

We have not granted any stock options to our named executive officers. The following table summarizes vesting of units applicable to our named executive officers during the year ended December 31, 2011.

	Unit Awards	
Name	**Number of Units Acquired Upon Vesting (#)(1)**	**Value Realized On Vesting ($)(2)**
Michael A. Bender	264,232	
Gregg A. Seibert	2,201,935	

(1) Represents Redford profits interest units that vested in 2011.

(2) Amounts shown are based on the fair market value of the Redford profits interest units held by Messrs. Bender on Seibert on the applicable vesting dates, which was determined to be zero based on an independent third party valuation of Redford and our company.

Potential Payments Upon Termination or Change of Control

Our named executive officers are entitled to certain payments and benefits upon a qualifying termination of employment or a change of control. The following discussion describes the payments and benefits to which our named executive officers would have become entitled upon a qualifying termination of employment or a change of control occurring on December 31, 2011.

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Employment Agreements

Under the amended employment agreements for Messrs. Nolan, Bender and Mavoides, if the executive s employment is terminated by our company without cause, by the executive for good reason (each, as defined in the amended employment agreements) or by reason of our company s failure to extend the term of the executive s amended employment agreement at the end of the initial three-year employment term or at the end of the one-year extension period(s) thereafter, then in addition to any accrued amounts,

Mr. Nolan would be entitled to receive the following:

(1) continuation payments totaling two times Mr. Nolan s annual base salary then in effect, payable over the 24-month period following the termination of employment;

(2) a lump-sum payment equal to $1,000,000;

(3) in the event an initial public offering of our company or Redford has occurred on or prior to December 31, 2012 and prior to the termination date, accelerated vesting of the restricted unit award held by Mr. Nolan; and

(4) in the event of a qualifying termination of employment on or after December 31, 2011, payment of the $400,000 cash bonus to which Mr. Nolan would have been entitled (had he remained employed) for services performed in 2011, to the extent not paid prior to the termination date;

Mr. Bender would be entitled to receive the following:

(1) continuation payments totaling two times Mr. Bender s annual base salary then in effect, payable over the 24-month period following the termination of employment;

(2) a lump-sum payment equal to $150,000; and

(3) in the event an initial public offering of our company or Redford has occurred on or prior to December 31, 2012 and prior to the termination date, accelerated vesting of the restricted unit award held by Mr. Bender;

Mr. Mavoides would be entitled to receive the following:

(1) continuation payments totaling one times Mr. Mavoides annual base salary then in effect, payable over the 12-month period following the termination of employment;

(2) a lump-sum payment equal to $150,000;

(3) a prorated performance bonus for our company s fiscal year in which the termination occurs, based on performance achieved for the entire year; and

(4) in the event an initial public offering of our company or Redford has occurred on or prior to December 31, 2012 and prior to the termination date, accelerated vesting of the restricted unit award held by Mr. Mavoides.

Each executive s right to receive the severance payments described above is subject to continued compliance with certain restrictive covenants and his delivery of an effective general release of claims in favor of our company. In the event that a change of control (as defined in each amended employment agreement) of our company occurs on or following our initial public offering and an excise tax is imposed as a result of any compensation or benefits provided to the executive in connection with such change of control, our company will pay or reimburse the executive an amount equal to such excise tax plus any taxes resulting from such payment or reimbursement. In the event of a change of control prior to the completion of our initial public offering, we have agreed to use our best efforts to obtain a stockholder vote satisfying the requirements of Section 280G of the Code such that none of the payments will be subject to the excise tax. If the stockholder vote is not obtained, the payments to the executives will be reduced such that the executive will only be entitled to an amount that will not trigger the excise tax.

Each amended employment agreement also provides that the restricted unit awards held by Messrs. Nolan, Bender and Mavoides would vest in full upon a change of control of our company or Redford occurring on or prior to December 31, 2012.

Change of Control Severance Plan

In June 2011, we adopted the Change of Control Severance Plan. Under the Change of Control Severance Plan, eligible executives will be entitled to receive the following payments and benefits in the event of a termination of employment by our company without cause or by the executive for good reason, in either case, within two years following, or under certain circumstances prior to, a change of control (each, as defined in the Change of Control Severance Plan): (1) a lump sum cash payment equal to the sum of (a) the executive s annual base salary and (b) the executive s most recent annual cash bonus paid during the three-year period immediately preceding the year in which the termination occurs; (2) accelerated vesting of all outstanding stock options, stock appreciation rights and restricted stock granted by our company; (3) a lump sum cash payment equal to the most recent annual cash bonus paid during the three-year period immediately preceding the year in which the termination occurs, pro-rated for the portion of the year of termination during which the named executive officer was employed with our company; and (4) reasonable outplacement services to be provided and paid by our company until the second anniversary of the termination date, in an aggregate amount up to 15% of the named executive officer s annual base salary. These amounts are in addition to any accrued compensation and benefits through the date of termination.

Under the Change of Control Severance Plan, in the event the executive is terminated by reason of death, disability or retirement (as defined in the Change of Control Severance Plan), he will be entitled to receive, in addition to payment of accrued compensation and benefits through the date of termination, a lump sum cash payment equal to the most recent annual cash bonus paid during the three-year period immediately preceding the year in which the termination occurs, pro rated for the portion of the year of termination during which the named executive officer was employed with our company.

Mr. Seibert was the only named executive officer eligible to participate in the Change of Control Severance Plan in 2011. As of January 2012, Mr. Seibert became eligible to receive severance payments pursuant to the terms and conditions provided in his 2012 employment agreement, and is therefore no longer eligible to participate in the Change of Control Severance Plan.

Change of Control/IPO Bonus Policy

In June 2011, we adopted the Change of Control/IPO Bonus Policy. Under the Change of Control/IPO Bonus Policy, upon the occurrence of either a change of control (as defined in the Change of Control Severance Plan) or an initial public offering of our company, a bonus pool will be established that equals 20% of the aggregate annual base salary for each eligible employee. Each eligible employee will be eligible to receive a cash payment from the bonus pool in an amount to be determined by our Chief Executive Officer in his discretion and approved by our board of directors. Each of our named executive officers (other than Mr. Cremens) is eligible to participate in the Change of Control/IPO Bonus Policy.

Employee Handbook Severance Pay Program

Under the severance pay program set forth in our Employee Handbook, upon a termination of employment by our company other than for cause (as defined in our Employee Handbook), each participant is entitled to receive a lump sum payment equal to two weeks of such participant s base salary for each full year of service to our company or, if greater, two months of the employee s base salary. In 2011 Mr. Seibert was the only named executive officer eligible to participate in our severance pay program and as of December 31, 2011 he was eligible to receive four and one-half months of his base salary upon a qualifying termination. As of January 2012, Mr. Seibert became eligible to receive severance payments pursuant to the terms and conditions provided in his 2012 employment agreement, and is therefore no longer eligible to participate in our severance pay program.

Mr. Cremens

In July 2011, Mr. Cremens ceased providing services to our company. Mr. Cremens was not entitled to any severance in connection with the termination of his services.

Summary of Potential Payments

The following table summarizes the payments that would be made to certain of our named executive officers upon the occurrence of certain qualifying terminations of employment, assuming such named executive officer s termination of employment with our company occurred on December 31, 2011 and, where relevant, that a change of control of our company occurred on December 31, 2011. Amounts shown in the table below do not include (1) accrued but unpaid salary and (2) other benefits earned or accrued by the named executive officer during his employment that are available to all salaried employees, such as accrued vacation. Mr. Cremens did not receive any severance payments in connection with his termination of services in July 2011.

Name	Benefit	Termination Upon Death, Disability or Retirement	Termination Without Cause, For Good Reason or due to Company Non-Renewal of Employment Agreement (No Change of Control)($)	Change of Control (No Termination) ($)(1)	Termination Without Cause, For Good Reason or due to Company Non-Renewal of Employment Agreement In Connection with a Change of Control ($)(1)(2)
Thomas H. Nolan	Cash Severance(3)		2,400,000		2,400,000
	Pro Rata Bonus(4)		400,000		400,000
	Accelerated Vesting(5)			6,000,000	6,000,000
	Total		**2,800,000**	**6,000,000**	**8,800,000**
Michael A. Bender	Cash Severance(3)		730,000		730,000
	Accelerated Vesting(5)			1,000,000	1,000,000
	Total		**730,000**	**1,000,000**	**1,730,000**
Gregg A. Seibert	Cash Severance		67,500(6)		420,638(7)
	Pro Rata Bonus(8)	240,638			240,638
	Outplacement Services(9)				27,000
	Total	**240,638**	**67,500**		**688,276**
Peter M. Mavoides	Cash Severance(3)		600,000		600,000
	Pro Rata Bonus(10)		170,959		170,959
	Accelerated Vesting(5)			1,000,000	1,000,000
	Total		**770,959**	**1,000,000**	**1,770,959**

(1) Assumes that, to the extent required under Section 280G of the Code, amounts would have been approved by our stockholders and therefore not reduced pursuant to the named executive officer s employment agreement. Furthermore, amounts do not include any payments under the Change of Control/IPO Bonus Policy, as those amounts are payable in the discretion of our Chief Executive Officer and our board of directors and are therefore not presently determinable.

(2) Represents amounts to which named executive officers are entitled upon a qualifying termination of employment in connection with a change of control of our company. Amounts shown in this column would not be in addition to amounts shown in the Termination Without Cause, For Good Reason or due to

Company Non-Renewal of Employment Agreement (No Change of Control)   and/or the   Change of Control (No Termination)   column.

(3) Represents (a) continuation of salary payments for the applicable payout period and (b) the lump-sum cash non-salary payments provided under the named executive officer s amended employment agreement.

(4) Represents the minimum 2011 bonus to which Mr. Nolan would have been entitled for services performed in 2011.

(5) Represents the aggregate value of the named executive officer s Redford restricted units that would have vested on an accelerated basis, determined by multiplying the number of units that would have accelerated by the estimated fair market value of a unit in Redford on December 31, 2011 ($0.48).

(6) Under the Employee Handbook severance pay program, upon a termination of employment by our company other than for cause, Mr. Seibert would be entitled to the greater of (a) two weeks of his base salary for each full year of service to our company or (b) two months of his base salary. As of December 31, 2011 Mr. Seibert was eligible to receive four and one-half months of his base salary pursuant to the severance pay program.

(7) Represents the sum of Mr. Seibert s annual base salary in effect on December 31, 2011 and the bonus he received in 2010 (with respect to 2009 services), the last annual bonus paid to Mr. Seibert during the three year period immediately preceding 2011, which Mr. Seibert would have been entitled to receive under the Change of Control Severance Plan.

(8) Represents the bonus Mr. Seibert received in 2010 (with respect to 2009 services), the last annual bonus paid to Mr. Seibert during the three year period immediately preceding 2011. Upon a qualifying termination of employment, this amount would be pro-rated to reflect services performed in the year in which termination occurs.

(9) Represents 15% of Mr. Seibert s 2011 base salary, the maximum amount that our company would have been obligated to pay for company-provided outplacement services for up two years following a termination of employment.

(10) Represents Mr. Mavoides prorated performance bonus for 2011, based on performance achieved for the entire year.

Director Compensation

In 2011, none of our non-employee directors received cash or equity compensation for their services as a director. In connection with this offering, we intend to approve and implement a compensation program for our non-employee directors not affiliated with Macquarie Capital (USA) Inc., whom we refer to as eligible directors, that consists of annual retainer fees and long-term equity awards. The program is expected to provide eligible directors with a one-time grant of 5,000 shares of restricted stock in connection with this offering that will vest in full on the first anniversary of the completion of this offering, subject to continued service on our board of directors. In addition, under the program eligible directors are expected to receive a combination of cash and equity-based compensation, as described below:

Cash Compensation

Each eligible director will be entitled to receive an annual cash retainer of $70,000, in addition to board of directors meeting fees equal to $1,000 per meeting for in-person attendance and $500 per meeting for telephonic attendance. In addition, the committee chairpersons and Lead Independent Director will receive the following annual cash retainers (as applicable):

Audit committee chair: $20,000

Compensation committee chair: $10,000

Nominating and corporate governance committee chair: $10,000

Lead Independent Director: $20,000

Pursuant to the program, all annual retainers will be paid quarterly in arrears.

Equity Compensation

Under the program, an eligible director who joins the board of directors after the completion of this offering will receive a grant of restricted stock covering a number of shares having a value equal to $80,000 when he or she joins our board of directors. Each restricted stock grant will vest in full on the first anniversary of the initial election of appointment of the eligible director, subject to the eligible director s continued service with our company through the applicable vesting date.

In addition, under the program, an eligible director will receive an annual common stock grant valued at $80,000 on the date of each annual meeting of our stockholders.

Incentive Award Plan

We intend to adopt the Incentive Award Plan subject to approval by our current stockholders, under which we may grant cash and equity incentive awards to eligible service providers in order to attract, motivate and retain the talent for which we compete. The material terms of the Incentive Award Plan, as it is currently contemplated, are summarized below. Our board of directors is still in the process of developing, approving and implementing the Incentive Award Plan and, accordingly, this summary is subject to change prior to the effectiveness of the registration statement of which this prospectus is a part.

Eligibility and Administration

Our employees, consultants and directors, and employees, consultants and directors of our operating partnership and our respective subsidiaries will be eligible to receive awards under the Incentive Award Plan. The Incentive Award Plan will be administered by our board of directors with respect to awards to non-employee directors and by our compensation committee with respect to other participants, each of which may delegate its duties and responsibilities to committees of our directors and/or officers (referred to collectively as the plan administrator), subject to certain limitations that may be imposed under Section 162(m) of the Code, Section 16 of the Exchange Act and/or stock exchange rules, as applicable. The plan administrator will have the authority to make all determinations and interpretations under, prescribe all forms for use with, and adopt rules for the administration of, the Incentive Award Plan, subject to its express terms and conditions. The plan administrator will also set the terms and conditions of all awards under the Incentive Award Plan, including any vesting and vesting acceleration conditions.

Limitation on Awards and Shares Available

An aggregate of shares of our common stock (which includes the shares that will be subject to awards granted upon the completion of this offering) will be initially available for issuance under awards granted pursuant to the Incentive Award Plan, which shares may be treasury shares, authorized but unissued shares, or shares purchased in the open market. If an award under the Incentive Award 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 Incentive Award Plan. However, the following shares may not be used again for grant under the Incentive Award Plan: (1) shares tendered or withheld to satisfy grant or exercise price or tax withholding obligations associated with an award; (2) shares subject to a stock appreciation right, or SAR, that are not issued in connection with the stock settlement of the SAR on its exercise; and (3) shares purchased on the open market with the cash proceeds from the exercise of options.

Awards granted under the Incentive Award Plan upon the assumption of, or in substitution for, awards authorized or outstanding under a qualifying equity plan maintained by an entity with which we enter into a merger or similar corporate transaction will not reduce the shares available for grant under Incentive Award Plan. After the expiration of a transition period that may apply following the effective date of this offering, the maximum number of shares of our common stock that may be subject to one or more awards granted to any one participant pursuant to the Incentive Award Plan during any calendar year is 500,000 and the maximum amount that may be paid under a cash award pursuant to the Incentive Award Plan to any one participant during any calendar year period is $5,000,000.

Awards

The Incentive Award Plan provides for the grant of stock options, including incentive stock options, or ISOs, and nonqualified stock options, or NSOs, restricted stock, dividend equivalents, stock payments, restricted stock units, or RSUs, performance shares, other incentive awards, long term incentive plan units, or LTIP units, SARs and cash awards. Certain awards under the Incentive Award Plan may constitute or provide for a deferral of compensation, subject to Section 409A of the Code, which may impose additional requirements on the terms and conditions of such awards. All awards under the Incentive Award Plan will be set forth in award agreements, which will detail all terms and conditions of the awards, including any applicable vesting and payment terms and post-termination exercise limitations. Awards other than cash awards will generally be settled in shares of our common stock, but the plan administrator may provide for cash settlement of any award. A brief description of each award type follows.

Stock Options. Stock options provide for the purchase of shares of our common stock in the future at an exercise price set on the grant date. ISOs, by contrast to NSOs, may provide tax deferral beyond exercise and favorable capital gains tax treatment to their holders if certain holding period and other requirements of the Code are satisfied. The exercise price of a stock option may not be less than 100% of the fair market value of the underlying share on the date of grant (or 110% in the case of ISOs granted to certain significant stockholders), except with respect to certain substitute options granted in connection with a corporate transaction. The term of a stock option may not be longer than ten years (or five years in the case of ISOs granted to certain significant stockholders). Vesting conditions determined by the plan administrator may apply to stock options and may include continued service, performance and/or other conditions.

SARs. SARs entitle their holder, upon exercise, to receive from us an amount equal to the appreciation of the shares subject to the award between the grant date and the exercise date. The exercise price of a SAR may not be less than 100% of the fair market value of the underlying share on the date of grant (except with respect to certain substitute SARs granted in connection with a corporate transaction) and the term of a SAR may not be longer than ten years. Vesting conditions determined by the plan administrator may apply to SARs and may include continued service, performance and/or other conditions.

Restricted Stock, RSUs and Performance Shares. Restricted stock is an award of nontransferable shares of our common stock that remain forfeitable unless and until specified conditions are met, and which may be subject to a purchase price. RSUs are contractual promises to deliver shares of our common stock in the future, which may also remain forfeitable unless and until specified conditions are met. Delivery of the shares underlying these awards may be deferred under the terms of the award or at the election of the participant, if the plan administrator permits such a deferral. Performance shares are contractual rights to receive a range of shares of our common stock in the future based on the attainment of specified performance goals, in addition to other conditions which may apply to these awards. Conditions applicable to restricted stock, RSUs and performance shares may be based on continuing service with us or our affiliates, the attainment of performance goals and/or such other conditions as the plan administrator may determine.

Stock Payments, Other Incentive Awards, LTIP Units and Cash Awards. Stock payments are awards of fully vested shares of our common stock that may, but need not, be made in lieu of base salary, bonus, fees or other cash compensation otherwise payable to any individual who is eligible to receive awards. Other incentive awards are awards other than those enumerated in this summary that are denominated in, linked to or derived from shares of our common stock or value metrics related to our shares, and may remain forfeitable unless and until specified conditions are met. LTIP units are awards of units of our operating partnership intended to constitute profits interests within the meaning of the relevant IRS Revenue Procedure guidance, which may be convertible into shares of our common stock. Cash awards are cash incentive bonuses subject to performance goals.

Dividend Equivalents. Dividend equivalents represent the right to receive the equivalent value of dividends paid on shares of our common stock and may be granted alone or in tandem with awards other than stock options or SARs. Dividend equivalents are credited as of dividend payments dates during the period between the date an award is granted and the date such award vests, is exercised, is distributed or expires, as determined by the plan administrator. Dividend equivalents may not be paid on awards granted under the Incentive Award Plan unless and until such awards have vested.

Performance Awards

Performance awards include any of the awards that are granted subject to vesting and/or payment based on the attainment of specified performance goals. The plan administrator will determine whether performance awards are intended to constitute qualified performance-based compensation, or QPBC, within the meaning of Section 162(m) of the Code, in which case the applicable performance criteria will be selected from the list below in accordance with the requirements of Section 162(m) of the Code.

Section 162(m) of the Code imposes a $1,000,000 cap on the compensation deduction that we may take in respect of compensation paid to our covered employees (which should include our Chief Executive Officer and our next three most highly compensated employees other than our Chief Financial Officer), but excludes from the calculation of amounts subject to this limitation any amounts that constitute QPBC. Under current tax law, we do not expect Section 162(m) of the Code to apply to awards under the Incentive Award Plan until the earliest to occur of our annual stockholders meeting in 2016, a material modification of the Incentive Award Plan or exhaustion of the share supply under the Incentive Award Plan. However, QPBC performance criteria may be used with respect to performance awards that are not intended to constitute QPBC.

In order to constitute QPBC under Section 162(m) of the Code, in addition to certain other requirements, the relevant amounts must be payable only upon the attainment of pre-established, objective performance goals set by our compensation committee and linked to stockholder-approved performance criteria. For purposes of the Incentive Award Plan, one or more of the following performance criteria will be used in setting performance goals applicable to QPBC, and may be used in setting performance goals applicable to other performance awards: (1) net earnings (either before or after one or more of the following: (a) interest, (b) taxes, (c) depreciation, (d) amortization and (e) non-cash equity-based compensation); (2) gross or net sales or revenue; (3) net income (either before or after taxes); (4) adjusted net income; (5) operating earnings or profit; (6) cash flow (including, but not limited to, operating cash flow and free cash flow); (7) return on assets; (8) return on capital; (9) return on stockholders equity; (10) total stockholder return; (11) return on sales; (12) gross or net profit or operating margin; (13) costs; (14) FFO; (15) expenses; (16) working capital; (17) earnings per share; (18) adjusted earnings per share; (19) price per share of common stock; (20) regulatory body approval for commercialization of a product; (21) implementation or completion of critical projects; (22) market share; (23) economic value; (24) debt levels or reduction; (25) sales-related goals; (26) comparisons with other stock market indices; (27) operating efficiency; (28) employee satisfaction; (29) financing and other capital raising transactions; (30) recruiting and maintaining personnel; and (31) year-end cash, any of which may be measured either in absolute terms for us or any operating unit of our company or as compared to any incremental increase or decrease or as compared to results of a peer group or to market performance indicators or indices. The Incentive Award Plan also permits the plan administrator to provide for objectively determinable adjustments to the applicable performance criteria in setting performance goals for QPBC awards.

Certain Transactions

The plan administrator has broad discretion to take action under the Incentive Award Plan, as well as make adjustments to the terms and conditions of existing and future awards, to prevent the dilution or enlargement of intended benefits and facilitate necessary or desirable changes in the event of certain transactions and events affecting our common stock, such as stock dividends, stock splits, mergers, acquisitions, consolidations and other corporate transactions. In addition, in the event of certain non-reciprocal transactions with our stockholders known as equity restructurings, the plan administrator will make equitable adjustments to the Incentive Award Plan and outstanding awards. In the event of a change in control of our company (as defined in the Incentive Award Plan), to the extent that the surviving entity declines to continue, convert, assume or replace outstanding awards, then all such awards will become fully vested and exercisable in connection with the transaction. Upon or in anticipation of a change of control, the plan administrator may cause any outstanding awards to terminate at a specified time in the future and give the participant the right to exercise such awards during a period of time determined by the plan administrator in its sole discretion. Individual award agreements may provide for additional accelerated vesting and payment provisions.

Foreign Participants, Claw-Back Provisions, Transferability, and Participant Payments

The plan administrator may modify award terms, establish subplans and/or adjust other terms and conditions of awards, subject to the share limits described above, in order to facilitate grants of awards subject to the laws and/or stock exchange rules of countries outside of the United States. All awards will be subject to the provisions of any claw-back policy implemented by our company to the extent set forth in such claw-back policy and/or in the applicable award agreement. With limited exceptions for estate planning, domestic relations orders, certain beneficiary designations and the laws of descent and distribution, awards under the Incentive Award Plan are generally non-transferable prior to vesting, and are exercisable only by the participant. With regard to tax withholding, exercise price and purchase price obligations arising in connection with awards under the Incentive Award Plan, the plan administrator may, in its discretion, accept cash or check, shares of our common stock that meet specified conditions, a market sell order or such other consideration as it deems suitable.

Plan Amendment and Termination

Our board of directors may amend or terminate the Incentive Award Plan at any time; however, except in connection with certain changes in our capital structure, stockholder approval will be required for any amendment that increases the number of shares available under the Incentive Award Plan, reprices any stock option or SAR, or cancels any stock option or SAR in exchange for cash or another award when the option or SAR price per share exceeds the fair market value of the underlying shares. No award may be granted pursuant to the Incentive Award Plan after the tenth anniversary of the date on which our board of directors adopts the Incentive Award Plan.

Additional REIT Restrictions

The Incentive Award Plan provides that no participant will be granted, become vested in the right to receive or acquire or be permitted to acquire, or will have any right to acquire, shares under an award if such acquisition would be prohibited by the restrictions on ownership and transfer of our stock contained in our charter or would impair our status as a REIT.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Registration Rights Agreement

We are a party to a registration rights agreement with Redford, investors in Redford (including Macquarie Group (US) Holdings No. 1 Pty Limited, Kaupthing hf., Isis Investments Limited and entities affiliated with TPG-Axon), the TLC lenders and certain members of our management team. The agreement provides for various registration rights. See Description of Our Capital Stock Registration Rights Registration Rights Agreement.

Indemnification of Directors and Officers

We expect to enter into an indemnification agreement with each of our directors and executive officers as described in Management Indemnification.

Advisory Management Agreement

From March 2008 through June 2011, we were externally managed by an affiliate, Spirit Finance Capital Management, LLC, or the Manager, under an advisory management agreement, or the Advisory Management Agreement. On June 30, 2011, we terminated the Advisory Management Agreement and acquired all of the assets and liabilities of the Manager for a net purchase price of approximately nine thousand dollars. In connection with this acquisition, the personnel of the Manager became our employees. This transaction has been accounted for as a combination of entities under common control; accordingly, our consolidated financial statements have been retroactively restated to reflect the consolidation and all transactions between the affiliated entities have been eliminated. The Manager was responsible for managing all of our day-to-day operations, including monitoring our investment portfolio, identifying assets for acquisition and disposition and other activities on our behalf in return for payment of management fees. As of June 30, 2011, we have assumed the role of managing and performing all of our business operations, which were formerly executed by the Manager, and are a self-administered and self-managed REIT.

In April 2009, $4.4 million of fees earned by the Manager were distributed pro rata to its equity investors with (1) Macquarie Investment Holdings No. 2 Pty Limited, (2) Kaupthing hf. and Isis Investments Limited, together, and (3) entities affiliated with TPG-Axon each receiving $1.1 million, respectively. There were no additional distributions during the entire period of the Advisory Management Agreement.

Relationships with Macquarie Capital (USA) Inc.

Kevin M. Charlton, a member of our board of directors, is a Managing Director in the Principal Transactions Group of Macquarie Capital (USA) Inc. Our August 2007 privatization was structured and led by an affiliate of Macquarie Capital (USA) Inc. Upon the completion of this offering, Macquarie Group (US) Holdings No. 1 Pty Limited, an affiliate of Macquarie Capital (USA) Inc., will own approximately % of our common stock. Macquarie Capital (USA) Inc. is also one of the joint book-running managers of this offering and will receive its pro rata share of the underwriting discounts and commissions. Set forth below is a summary of certain transactions that we have completed with Macquarie Capital (USA) Inc. and its affiliates.

In December 2010, we entered into two interest rate caps with Macquarie Bank Limited, Sydney, an affiliate of Macquarie Investment Holdings No. 2 Pty Limited and of Macquarie Capital (USA) Inc., and paid approximately $0.5 million in fees.

In July 2011, we paid approximately $5.0 million in fees to Macquarie Capital (USA) Inc. for acting as our financial advisor in connection with the amendment to our term loan and certain other consulting work.

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Settlement Agreement

On February 4, 2010, certain former senior executives resigned from their positions with us and the Manager. On February 11, 2010, these individuals filed a lawsuit against the Manager, us, an affiliate of Macquarie Capital (USA) Inc. and certain other parties, and we and the other defendants filed counterclaims. On April 5, 2010, certain of these individuals filed an additional complaint against certain of our stockholders and directors, us, the Manager and certain other parties as nominal defendants. In December 2010, a final and binding settlement agreement was entered into and all claims were dismissed. Costs related to defending ourselves and settling the claims totaled $22.4 million, net of insurance recoveries, which has been fully paid.

POLICIES WITH RESPECT TO CERTAIN ACTIVITIES

The following is a discussion of certain of our investment, financing and other policies. These policies have been determined by our board of directors and, in general, may be amended or revised from time to time by our board of directors without a vote of our stockholders.

Investment Policies

Investments in Real Estate or Interests in Real Estate

We will conduct all of our investment activities through our operating partnership and its subsidiaries. Our objective is to maximize stockholder value by seeking superior risk-adjusted returns, with an emphasis on stable rental revenue, by investing primarily in operationally essential real estate leased on a long-term, triple-net basis. For a discussion of our properties and our acquisition and other strategic objectives, see Business and Properties.

We expect to pursue our objective primarily through the ownership by our operating partnership of our existing properties and other acquired properties and assets. We currently intend to invest primarily in single-tenant, operationally essential real estate. 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. We intend to engage in future investment activities in a manner that is consistent with the maintenance of our status as a REIT for federal income tax purposes. In addition, we may purchase assets for long-term investment, expand and improve the properties we presently own or other acquired properties, or sell such properties, in whole or in part, when circumstances warrant.

We may also participate with third parties in property ownership, through joint ventures or other types of co-ownership. These types of investments may permit us to own interests in larger assets without unduly reducing our diversification and, therefore, provide us with flexibility in structuring our portfolio. We will not, however, enter into a joint venture or other partnership arrangement to make an investment that would not otherwise meet our investment policies.

Equity investments in acquired properties may be subject to existing mortgage financing and other indebtedness or to new indebtedness which may be incurred in connection with acquiring or refinancing these properties. Debt service on such financing or indebtedness will have a priority over any dividends with respect to our common stock. Investments are also subject to our policy not to be treated as an investment company under the Investment Company Act of 1940, as amended, or the 1940 Act.

Investments in Real Estate Mortgages

While our current portfolio primarily consists of, and our business strategies emphasize, equity investments in single-tenant, operationally essential real estate, we may invest in mortgages, other types of real estate interests and equipment and other loans in a manner that is consistent with our qualification as a REIT. We have strategically originated or acquired long-term, commercial mortgage and equipment loans to provide financing solutions to our tenants. As of June 30, 2012, of our total investment portfolio, 98.3% represented our gross investment in properties that we own and the remaining 1.7% represented mortgage, equipment and other loans receivable. We may further invest in mortgages, equipment and other loans receivable and there is no restriction on the proportion of our assets that may be invested in a type of asset or any single asset. However, we do not intend to have more than 5% of our portfolio invested in mortgages, equipment and other loans. Investments in mortgages, equipment and other loans run the risk that one or more borrowers may default under the loans and that the collateral securing those loans may not be sufficient to enable us to recoup our full investment.

Securities of or Interests in Persons Primarily Engaged in Real Estate Activities and Other Issuers

Subject to the percentage of ownership limitations and the income and asset tests necessary for REIT qualification, we may invest in securities of other REITs, other entities engaged in real estate activities or securities of other issuers, including for the purpose of exercising control over such entities. We do not intend that our investments in securities will require us to register as an investment company under the 1940 Act, and we would intend to divest such securities before any such registration would be required.

Investments in Other Securities

Other than as described above, we do not intend to invest in any additional securities such as bonds, preferred stocks or common stock.

Dispositions

In order to maximize the performance and manage the risks within our portfolio, we intend to selectively dispose of any of our properties that we determine are not suitable for long-term investment purposes based upon management s review of our portfolio. We will ensure that such action would be in our best interest and consistent with our qualification as a REIT.

Financings and Leverage Policy

We anticipate using a number of different sources to finance our acquisitions and operations, including cash flows from operations, asset sales, seller financing, issuance of debt securities, private financings (such as additional bank credit facilities, which may or may not be secured by our assets), property-level mortgage debt, common or preferred equity issuances or any combination of these sources, to the extent available to us, or other sources that may become available from time to time. Any debt that we incur may be recourse or non-recourse and may be secured or unsecured. We also may take advantage of joint venture or other partnering opportunities as such opportunities arise in order to acquire properties that would otherwise be unavailable to us. We may use the proceeds of our borrowings to acquire assets, to refinance existing debt or for general corporate purposes.

Although we are not required to maintain any particular leverage ratio, we intend, when appropriate, to employ prudent amounts of leverage and to use debt as a means of providing additional funds for the acquisition of assets, to refinance existing debt or for general corporate purposes. Our charter and bylaws do not limit the amount of debt that we may incur. Our board of directors has not adopted a policy limiting the total amount of debt that we may incur.

Our board of directors will consider a number of factors in evaluating the amount of debt that we may incur. Our board of directors may from time to time modify its views regarding the appropriate amount of debt financing in light of then-current economic conditions, relative costs of debt and equity capital, market values of our properties, general conditions in the market for debt and equity securities, fluctuations in the market price of our common stock, growth and acquisition opportunities and other factors. Our decision to use leverage in the future to finance our assets will be at our discretion and will not be subject to the approval of our stockholders.

Equity Capital Policies

To the extent that our board of directors determines to obtain additional capital, we may issue debt or equity securities, including senior securities, retain earnings (subject to provisions in the Code requiring distributions of income to maintain REIT qualification) or pursue a combination of these methods.

Existing stockholders will have no preemptive right to common or preferred stock or units issued in any securities offering by us, and any such offering might cause a dilution of a stockholder s investment in us. Although we have no current plans to do so, we may in the future issue shares of our common stock or units in our operating partnership in connection with acquisitions of property.

We may, under certain circumstances, purchase shares of our common stock or other securities in the open market or in private transactions with our stockholders, provided that those purchases are approved by our board of directors. Our board of directors has no present intention of causing us to repurchase any shares of our common stock or other securities, and any such action would only be taken in conformity with applicable federal and state laws and the applicable requirements for qualification as a REIT.

We have not issued common stock or any other securities in exchange for property or any other purpose, but we may engage in such activities in the future.

We have not engaged in trading, underwriting or agency distribution or sale of securities of other than our operating partnership and do not intend to do so.

Code of Business Conduct and Ethics

Upon the completion of this offering, we will adopt a code of business conduct and ethics that seeks to identify and mitigate conflicts of interest between our employees, directors and officers and our company. However, we cannot assure you that these policies or provisions of law will always be successful in eliminating or minimizing the influence of such conflicts, and if they are not successful, decisions could be made that might fail to reflect fully the interests of stockholders.

Interested Director Transactions

Pursuant to the MGCL, a contract or other transaction between us and a director or between us and any other corporation or other entity in which any of our directors is a director or has a material financial interest is not void or voidable solely because of such common directorship or interest, the presence of such director at the meeting at which the contract or transaction is authorized, approved or ratified or the counting of the director s vote in favor thereof, if:

the fact of the common directorship or interest is disclosed or known to our board of directors or a committee of our board, and our board or such committee authorizes, approves or ratifies the contract or transaction by a majority of disinterested directors, even if the disinterested directors constitute less than a quorum;

the fact of the common directorship or interest is disclosed or known to our stockholders entitled to vote thereon, and the contract or transaction is authorized, approved or ratified by a majority of the votes cast by the stockholders entitled to vote other than the votes of shares owned of record or beneficially by the interested director or corporation, firm or other entity; or

the contract or transaction is fair and reasonable to us.

Reporting Policies

We intend to make available to our stockholders our annual reports, including our audited financial statements. After this offering, we will become subject to the information reporting requirements of the Exchange Act. Pursuant to those requirements, we will be required to file annual and periodic reports, proxy statements and other information, including audited financial statements, with the SEC.

OUR ORGANIZATIONAL STRUCTURE

The following chart shows our company, our principal operating subsidiaries and the ownership of our common stock after the completion of this offering, the use of the net proceeds and the debt conversion.

(1) Upon the completion of this offering and the debt conversion, the purchasers of common stock in this offering, the converted TLC lenders, continuing investors (other than our directors, executive officers and other employees) and our directors, executive officers and other employees as a group will own shares, shares, shares (based on the mid-point of the price range set forth on the front cover of this prospectus) and shares (including shares of restricted common stock granted pursuant to the Incentive Award Plan) (based on the mid-point of the price range set forth on the front cover of this prospectus), respectively, of our outstanding common stock. See Pricing Sensitivity Analysis.

(2) If the underwriters exercise their over-allotment option in full, the purchasers of common stock in this offering, the converted TLC lenders, continuing investors (other than our directors, executive officers and other employees) and directors, executive officers and other employees as a group will own %, % (based on the mid-point of the price range set forth on the front cover of this prospectus), % and % (based on the mid-point of the price range set forth on the front cover of this prospectus), respectively, of our outstanding common stock.

(3) Upon the completion of this offering, we expect our operations to be carried on through Spirit Realty, L.P., our operating partnership, which will be formed as a Delaware limited partnership. Spirit General OP Holdings, LLC, one of our wholly-owned subsidiaries, will be the sole general partner and own 1% of our operating partnership. Spirit Realty Capital, Inc., the REIT, will be the sole limited partner and own the remaining 99% of our operating partnership.

(4) Our properties are typically owned by special purposes entities.

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PRICING SENSITIVITY ANALYSIS

Throughout this prospectus, we provide certain information based on the assumption that we price our shares at the mid-point of the price range set forth on the front cover of this prospectus. However, certain of this information will be affected if the actual price per share in this offering is different from that mid-point.

The number of shares of our common stock to be issued to the TLC lenders in the debt conversion will depend in part on the initial public offering price, the number of shares to be issued and the date of the completion of this offering. In connection with an amendment to our term loan credit agreement entered into on July 8, 2011, we entered into a conversion agreement with the TLC lenders pursuant to which each TLC lender granted us the right to convert all or a portion of the TLC held by such lenders into shares of our common stock in connection with a Qualifying IPO (as such term is defined in the conversion agreement), which, among other things, requires an initial underwritten public offering resulting in sufficient net proceeds to us to allow us to repay in full the TLB and any unconverted principal amount of TLC, together with accrued and unpaid interest thereon, and all other amounts in respect of TLB and TLC due and payable at such time. We have exercised this right and will convert all $330 million of our outstanding TLC into shares of our common stock upon the completion of this offering. Pursuant to the conversion agreement, the number of shares of our common stock to be issued in the debt conversion will equal (1) the sum of (a) one, plus (b) the Conversion Premium (expressed as a decimal and as defined below), multiplied by (2) the quotient of (a) the outstanding unpaid principal amount of TLC, divided by (b) the initial public offering price per share. The Conversion Premium (as such term is defined in the conversion agreement) shall not be less than 10.00% nor greater than 17.00% and is tied to the Capitalization Rate (as defined below). The Capitalization Rate means a number, expressed as a percentage, equal to the quotient of (1) our Net Operating Income (as such term is defined in our term loan credit agreement) for the 12 months immediately preceding the month in which a Qualifying IPO is completed, or trailing 12-month net operating income, divided by (2) an amount equal to the sum of (a) an amount equal to the product of (i) the initial public offering price per share, multiplied by (ii) the aggregate number of shares of our common stock issued and outstanding immediately after the consummation of a Qualifying IPO (including shares of our common stock to be issued in the debt conversion), plus (b) the aggregate unpaid principal amount of our Indebtedness (as such term is defined in the conversion agreement) outstanding at the time of the consummation of a Qualifying IPO, minus (c) the aggregate amount of our Cash (as such term is defined in the conversion agreement) at the time of the consummation of a Qualifying IPO. If a Qualifying IPO is completed prior to finalizing our Net Operating Income for the month immediately preceding the month in which the Qualifying IPO takes place, we will calculate our Net Operating Income for the 12 months immediately preceding the month in which the Qualifying IPO takes place using an estimate of our Net Operating Income for the last month of such 12-month period. To the extent our actual Net Operating Income for the month is different from our estimate of Net Operating Income, we may be obligated to issue additional shares to the TLC lenders. In addition, we have estimated our Indebtedness and Cash balances as of the completion of this offering for the purposes of providing the table below. To the extent our actual Indebtedness or Cash balances as of the completion of this offering are different from our estimates, we may be obligated to issue additional shares to the TLC lenders. Based on our past operations, we do not expect our actual Net Operating Income or Indebtedness and Cash balances to differ materially from our estimates, and thus the number of any additional shares we may be required to issue to the TLC lenders is expected to be immaterial.

We expect to make grants of restricted common stock pursuant to the Incentive Award Plan to certain of our employees, including our named executive officers, upon the completion of this offering. We anticipate that the restricted stock grants awarded to our named executive officers in connection with this offering will be subject to time-based vesting in annual installments over a period of three years commencing on the date of grant, subject to the executive s continued employment with us. Each restricted stock award is expected to be denominated as a specified dollar value, and the actual number of shares issued will be calculated at or prior to grant by dividing the total denominated dollar value of the award by the per share initial public offering price of our common stock.

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An assumed initial public offering price of $ per share, which is the mid-point of the price range set forth on the front cover of this prospectus, would result in a Conversion Premium of % and shares of our common stock being issued to the TLC lenders and shares of our common stock owned by or granted to our directors, executive officers and other employees (including shares of restricted common stock to be granted pursuant to the Incentive Award Plan). The following table sets forth the total number of shares to be issued in the debt conversion, the number of shares owned by continuing investors (other than our directors, executive officers and other employees), the number of shares owned by or granted to directors, executive officers and other employees and the total number of shares to be issued and outstanding upon the completion of this offering and the debt conversion, assuming different initial public offering prices within the price range set forth on the front cover of this prospectus and no exercise of the underwriters over-allotment option:

	Assumed Initial Public Offering Price Per Share								
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
TLC Lenders									
Conversion premium	%	%	%	%	%	%	%	%	%
Number of shares to be issued to entities affiliated with Highland Capital Management in the debt conversion[1]									
Number of shares to be issued to entities affiliated with GoldenTree Asset Management LP in the debt conversion [1]									
Number of shares to be issued to Midtown Acquisitions L.P. in the debt conversion[1]									