E COM VENTURES INC
Form 10-K
April 28, 2006

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

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT

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

For the fiscal year ended January 28, 2006

OR

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

For the transition period from ___________ to ___________

Commission file number: 0-10714

E COM VENTURES, INC.
(Exact name of Registrant as specified in its charter)

Florida	65-0977964
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

251 International Parkway Sunrise, Florida	33325
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (954) 335-9100

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

None

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

Common stock $.01 par value

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

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 12 or Section 15(d) of the Exchange Act. Yes |_| No|X|

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |_|

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2) of the Exchange Act.

Large Accelerated Filer |_| Accelerated Filer |_| Non-Accelerated Filer |X|

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes |_| No|X|

The aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $17.7 million as of July 30, 2005, based on a market price of $15.50 per share. For purposes of the foregoing computation, all executive officers, directors and 5% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such executive officers, directors or 5% beneficial owners are, in fact, affiliates of the registrant.

The number of shares outstanding of the Registrant's common stock as of April 24, 2006: 2,959,791 shares

Documents Incorporated By Reference

Portions of the Registrant's definitive proxy statement for its 2006 annual meeting of shareholders, which proxy statement will be filed no later than 120 days after the close of the Registrant's fiscal year ended January 28, 2006, are hereby incorporated by reference in Part III of this Annual Report on Form 10-K.

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PART I.

ITEM 1. BUSINESS

GENERAL

E Com Ventures, Inc., a Florida corporation ("ECOMV" or the "Company"), performs all of its operations through two wholly-owned subsidiaries, Perfumania, Inc. ("Perfumania"), a Florida corporation, which is a specialty retailer and wholesaler of fragrances and related products, and perfumania.com, Inc., ("perfumania.com"), a Florida corporation, which is an Internet retailer of fragrances and other specialty items.

Perfumania is a leading specialty retailer and wholesale distributor of a wide range of brand name and designer fragrances. Perfumania operates a chain of retail stores specializing in the sale of fragrances at discounted prices up to 75% below the manufacturers' suggested retail prices. Perfumania's wholesale division distributes fragrances and related products primarily to an affiliate. Perfumania.com offers a selection of the Company's more popular products for sale over the Internet and serves as an alternative shopping experience to Perfumania retail customers.

Perfumania operates its wholesale business directly. The retail business is operated through Magnifique Parfumes and Cosmetics, Inc. ("Magnifique"), a wholly-owned subsidiary of Perfumania, although the stores are generally operated under the name Perfumania as described below under "Trade Name and Service Mark." Perfumania's retail stores are generally located in regional malls, manufacturers' outlet malls, life style centers, airports and on a stand-alone basis in suburban strip shopping centers. The number of retail stores in operation at January 28, 2006, January 29, 2005, and January 31, 2004 were 239, 223 and 232, respectively.

Sales of perfumania.com are included within those of our retail business in this Form 10-K. For ease of reference in this Form 10-K, our retail and wholesale business are referred to as segments. See further discussion in Note 12 to our Consolidated Financial Statements.

Our executive offices are located at 251 International Parkway, Sunrise, Florida 33325, our telephone number is (954) 335-9100, our retail internet address is www.perfumania.com. and our business internet address is www.ecomv.com. Through our business website, we make available, free of charge,

our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as is reasonably practicable after we electronically file them with, or furnish them to, the Securities and Exchange Commission. These reports and amendments are also available at www.sec.gov. In addition, we have made our Code of Business Conduct and Ethics available through our website under "about ECOMV - corporate compliance." The reference to our website does not constitute incorporation by reference of the information contained on our website, and the information contained on the website is not part of this Form 10-K.

The Company's fiscal year ends on the Saturday closest to January 31. Fiscal year 2005 ended on January 28, 2006, fiscal year 2004 ended on January 29, 2005 and fiscal year 2003 ended on January 31, 2004. Each of the fiscal years presented contain fifty-two weeks.

RETAIL DIVISION

STRATEGY

Each of Perfumania's retail stores generally offers approximately 300 different fragrance brands for women and men at prices up to 75% below the manufacturer's suggested retail prices. Stores stock brand name and designer brands such as Estee Lauder(R), Yves Saint Laurent(R), Calvin Klein(R), Giorgio Armani(R), Gucci(R), Ralph Lauren/Polo(R), Perry Ellis(R), Liz Claiborne(R), Giorgio(R), Hugo Boss(R), Halston(R), Christian Dior(R), Chanel(R), Cartier(R), and Paris Hilton(R). Perfumania also carries a private label line of bath & body treatment products under the name Jerome Privee(R).

The cornerstone of Perfumania's marketing philosophy is customer awareness that its stores offer an extensive assortment of brand name and designer fragrances at discount prices. Perfumania posts highly visible price tags in its stores, listing both the manufacturers' suggested retail prices and Perfumania's discounted prices to enable customers to make price comparisons. In addition, we utilize sales promotions such as "gift with purchase" and "purchase with purchase" offers. From time to time, we test market in our stores additional specialty gift items.

Perfumania's stores are "full-service" stores. Accordingly, store personnel are trained to establish personal rapport with customers, to identify customer preferences with respect to both product and price range, and to successfully conclude a sale. Management believes that attentive personal service and knowledgeable sales personnel are key factors to the success of Perfumania's retail stores. Perfumania's store personnel are compensated on a salary plus bonus basis. Perfumania has several bonus programs that provide incentives for store personnel to sell merchandise which have higher profit margins. In addition, to provide an incentive to reduce expenses and increase sales, regional and district managers are eligible to receive a bonus if store profitability and operational goals are met. Management believes that a key component of Perfumania's ability to increase profitability will be its ability to hire, train and retain store personnel and district managers. Perfumania conducts comprehensive training programs for store associates, designed to achieve higher levels of customer satisfaction.

Perfumania relies on its distinctive store design and window displays to attract the attention of prospective customers. In addition, Perfumania distributes advertising flyers and brochures by mail in and around its stores and in the malls in which its stores are located. Radio and television advertising is done occasionally in certain geographic regions that have a

cluster of stores. The amount of advertising varies due to the seasonality of the business with the greatest portion in the fourth fiscal quarter. See further discussion at Note 13 to our Consolidated Financial Statements.

RETAIL STORES

Perfumania's standard store design includes signs and merchandise displays which are designed to enhance customer recognition of Perfumania's stores. Perfumania's stores average approximately 1,400 square feet; however, stores located in manufacturers' outlet malls tend to be larger than Perfumania's other stores. A store is typically managed by one manager and one assistant manager. The average number of employees in a Perfumania store is five, including part-time help. Regional and District managers visit stores on a regular basis in an effort to ensure knowledgeable and attentive customer service and compliance with operational policies and procedures.

INFORMATION SYSTEMS

Perfumania has an integrated information system including retail outlet and corporate systems. Perfumania.com has a completely integrated e-commerce system. These systems encompass every significant phase of our operations and provide information for planning, purchasing, pricing, distribution, finance and human resource decisions. E-mail and other information are communicated between the corporate office and store locations through an enterprise-wide Intranet. Daily compilation of sales, gross margin, and inventory levels enables management to analyze profitability and sell-through by item and product line as well as monitor the success of sale promotions. Inventory is tracked through its entire life cycle. Perfumania's point of sale system is standard in all its stores. The system enables communication, pricing and promotion programs, time and attendance reporting, and inventory control.

STORE LOCATION AND EXPANSION

Perfumania's stores are located in 34 states, the District of Columbia and Puerto Rico, with the highest concentration consisting of 40 locations in Florida, 23 in Texas, 21 in California, 18 in New York and 16 in Puerto Rico. Perfumania's current business strategy focuses on maximizing sales by raising the average dollar sale per transaction, increasing transactions per hour, reducing expenses at existing stores, selectively closing under-performing stores and on a limited basis, opening new stores in proven geographic markets. When opening new stores, Perfumania seeks locations primarily in regional and manufacturers' outlet malls, lifestyle centers and, selectively, on a stand-alone basis in suburban shopping centers in metropolitan areas. To achieve economies of scale with respect to advertising and management costs, Perfumania evaluates whether to open additional stores in markets where it already has a presence or whether to expand into additional markets that it believes have a population density and demographics to support a cluster of stores.

In fiscal years 2005, 2004 and 2003, Perfumania opened 26 stores, 14 stores and 11 stores, respectively. Perfumania continuously monitors store performance and from time to time closes under-performing stores, which typically have been older stores in less trafficked locations. During fiscal years 2005, 2004 and 2003, Perfumania closed 5 stores, 27 and 17 stores, respectively. For fiscal year 2006, Perfumania will continue to focus on improving the profitability of its existing stores and management expects to open approximately 30 stores and close approximately 5 stores.

WHOLESALE DIVISION

During fiscal years 2005 and 2004 Perfumania distributed fragrances on a wholesale basis to Quality King Distributors, Inc. ("Quality King"). Quality King distributes pharmaceuticals, health and beauty care products and

fragrances. Our President and Chief Executive Officer, Michael Katz is an executive of Quality King and our principal shareholders, Stephen Nussdorf, the Chairman of our Board of Directors and Glenn Nussdorf, his brother, are shareholders and executives of Quality King. Quality King accounted for 100% of net wholesale sales during fiscal years 2005 and 2004 and 81% of net wholesale sales in 2003. See further discussion at Note 5 to our Consolidated Financial Statements included in Item 8, hereof.

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PERFUMANIA.COM

Perfumania.com provides a number of advantages for retail fragrance sales. Internet fragrance sales are highly competitive and we compete on the basis of selling price, merchandise variety, ease of selection and cost of delivery. Our Internet site enables us to display a larger number of products than traditional store-based or catalog sellers. In addition, the ability to frequently adjust featured selections and edit content and pricing provides significant merchandising flexibility. Our Internet site benefits from the ability to reach a large group of customers from a central location. Additionally, we can also obtain demographic and behavioral data of customers, increasing opportunities for direct marketing and personalized services. Because brand loyalty is a primary factor influencing a fragrance purchase, we believe the ability to physically sense the fragrance product is not critical to the purchasing decision. Perfumania.com's online store provides its customers with value, selection, pricing and convenience.

CHANGE OF CONTROL

Effective January 30, 2004, Ilia Lekach, the Company's then Chairman of the Board and Chief Executive Officer, and several other parties controlled by Mr. Lekach and his wife Deborah Lekach (collectively, "Lekach"), entered into an option agreement (the "Nussdorf Option Agreement") with Stephen Nussdorf and Glenn Nussdorf (the "Nussdorfs"), pursuant to which the Nussdorfs were granted options to acquire up to an aggregate 720,954 shares of the Company's common stock beneficially owned by Lekach, for a purchase price of $12.70 per share, exercisable at various dates. As of May 10, 2004, the Nussdorfs had acquired all 720,954 shares pursuant to the Nussdorf Option Agreement. See further discussion in Note 5 to our Consolidated Financial Statements.

SOURCES OF SUPPLY

During fiscal years 2005 and 2004, Perfumania purchased fragrances from approximately 120 suppliers, including national and international manufacturers, distributors, wholesalers, importers and retailers. Perfumania generally makes its purchases based on an optimal combination of prices, credit terms, quantities and merchandise selection and, accordingly, the extent and nature of Perfumania's purchases from its various suppliers change constantly. Perfumania's purchases generally peak in the third quarter in anticipation of the December Holiday season, which results in higher retail sales in the fourth quarter than in the first three quarters. As is customary in the fragrance industry, Perfumania has no long-term or exclusive contracts with suppliers.

Approximately 22% and 27% of Perfumania's total merchandise purchased in fiscal years 2005 and 2004, respectively, was from our affiliate, Quality King. Approximately 18% and 26% of Perfumania's total merchandise purchased in fiscal years 2005 and 2004, respectively, was from another affiliate, Parlux Fragrances, Inc. ("Parlux"), a manufacturer and distributor of prestige fragrances and related beauty products. Ilia Lekach is the Chairman of the Board and Chief Executive Officer of Parlux. Parlux owns 378,102 shares or

approximately 13% of our outstanding common stock and Lekach separately owns 300,000 or 10% of our outstanding common stock. Besides Quality King and Parlux, no other supplier accounted for more than 10% of our merchandise purchases during 2005 or 2004.

A portion of Perfumania's merchandise is purchased from secondary sources such as distributors, wholesalers, importers and retailers. Merchandise purchased from secondary sources includes trademarked and copyrighted products that were manufactured in the United States, sold to foreign distributors and then re-imported into the United States, as well as trademarked and copyrighted products manufactured and intended for sale in foreign countries. From time to time, U.S. trademark and copyright owners and their licensees and trade associations have initiated litigation or administrative agency proceedings, based on U.S. Customs Service regulations or trademark or copyright laws, seeking to halt the importation into the United States of such "gray market" merchandise or to restrict its resale in the United States, and some of these actions have been successful. However, the U.S. courts remain divided on the extent to which trademark, copyright or other existing laws or regulations can be used to restrict the importation or sale of "gray market" merchandise. In addition, from time to time federal legislation to restrict the importation or sale of "gray market" merchandise has been proposed, but no such legislation has been adopted. No litigation or administrative proceedings related to "gray market" merchandise were brought against us in fiscal years 2005, 2004 or 2003 and no such matters, to our knowledge, are pending.

As is often the case in the fragrance and cosmetics business, some of the merchandise purchased by Perfumania may have been manufactured by entities, particularly foreign licensees and others, who are not the owners of the trademarks or copyrights for the merchandise. Perfumania's secondary market sources generally will not disclose the identity of their suppliers, which they consider to be proprietary trade information. As a result, Perfumania may not always be able to demonstrate that the manufacturer of specific merchandise had proper authority from the trademark or copyright owner to produce the merchandise or permit it to be resold in the United States. Accordingly, there is a risk that if Perfumania were called upon or challenged by the owner of a particular trademark or copyright to demonstrate that specific merchandise was produced and sold with the proper authority and it was unable to do so, Perfumania could, among other things, be restricted from reselling the particular merchandise or be subjected to other liabilities.

Perfumania's business activities could become the subject of legal or administrative actions brought by manufacturers, distributors or others, any of which actions could have a material adverse effect on our business or financial condition. In addition, future judicial, legislative or administrative agency action, including possible import, export, tariff or other trade restrictions, could limit or eliminate some of Perfumania's secondary sources of supply or any of its business activities.

DISTRIBUTION

Perfumania utilizes independent national trucking companies to deliver merchandise to its stores. Retail store deliveries generally are made weekly, with more frequent deliveries during the holiday season. Such deliveries permit the stores to minimize inventory storage space and increase the space available for display and sale of merchandise. To expedite delivery of merchandise to its customers, Perfumania sometimes instructs its suppliers to ship merchandise directly to its wholesale customers. Sales of perfumania.com are shipped through national carriers and are typically delivered within a few days of being

ordered.

COMPETITION

Retail and wholesale perfume businesses are highly competitive. Perfumania's retail competitors include department stores, regional and national retail chains, drug stores, supermarkets, duty-free shops and other specialty retail stores. We believe Perfumania is the largest specialty retailer of discounted fragrances in the United States in terms of number of stores. Some of Perfumania's competitors sell fragrances at discount prices and some are part of large national or regional chains that have substantially greater resources and name recognition than Perfumania. Perfumania's stores compete on the basis of selling price, promotions, customer service, merchandise variety, store location and ambiance. Perfumania believes that its perfumery concept, full-service sales staff, discount prices, large and varied selection of brand name and designer fragrances and attractive shopping environment are important to its competitive position.

EMPLOYEES

At January 28, 2006, we had 1,420 employees, of whom 1,247 were employed in Perfumania's retail stores, 62 were employed in Perfumania's warehouse and distribution operations and 111 were employed in executive, administrative and other positions. Temporary and part-time employees are added between Thanksgiving and Christmas. None of our employees are covered by a collective bargaining agreement and we consider our relationship with our employees to be good.

TRADE NAME AND SERVICE MARK

Perfumania's stores use the trade name and service mark Perfumania(R); Perfumania also operates under the trade names, Also Perfumania, Class Perfumes, Perfumania Too and Perfumania Plus. Perfumania has common law rights to its trade names and service mark in those general areas in which its existing stores are located and has registered the service mark Perfumania(R) with the U.S. Patent and Trademark Office. The registration expires in 2009 and may be renewed for 10-year terms thereafter.

ITEM 1A. RISK FACTORS

The following set forth risk factors that may materially affect the Company and results of operations.

We could face liquidity and working capital constraints if we are unable to generate sufficient cash flows from operations

If we are unable to generate sufficient cash flows from operations to service our obligations, we could face liquidity and working capital constraints, which could adversely impact our future operations and growth.

Failure to comply with covenants in our credit facility could result in our inability to borrow additional funds

Our credit facility requires us to maintain compliance with various financial covenants. Our ability to meet those covenants can be affected by events beyond our control, and therefore we may be unable to meet those covenants. If our actual results deviate significantly from our projections, we may not be in compliance with the covenants and might not be allowed to borrow under the credit facility or may be required to accelerate repayment. If we were not able to borrow under our credit facility, we would be required to develop an alternative source of liquidity, or to sell additional securities which would result in dilution to existing shareholders. Our credit facility expires on May

12, 2007. We are currently negotiating an extension of this facility. We cannot assure we will obtain an extension or replacement credit facilities on favorable terms or be successful in selling additional securities. Without a source of financing, we could experience cash flow difficulties and be forced to curtail our then current operations.

Perfumania may have problems raising money needed in the future, which could adversely impact operations

Our growth strategy includes selectively opening and operating new Perfumania retail locations and increasing the average retail sales per store. We may need to obtain funding to achieve our growth strategy. Additional financing may not be available on acceptable terms, if at all. In order to obtain additional financing, we might issue additional common stock which could dilute our existing shareholders' ownership interest or we may be required to issue securities with greater rights than those currently possessed by holders of our common stock. We may also be required to take other actions, which may lessen the value of our common stock, including borrowing money on terms that are not favorable.

Perfumania's business is subject to seasonal fluctuations, which could lead to fluctuations in our stock price

Perfumania has historically experienced and expects to continue experiencing higher sales in the fourth fiscal quarter than in the first three fiscal quarters. Purchases of fragrances as gift items increase during the Holiday season, which results in significantly higher fourth fiscal quarter retail sales. If our quarterly operating results are below expectations of stock market analysts, our stock price might decline. Sales levels of new and existing stores are affected by a variety of factors, including the retail sales environment, the level of competition, the effect of marketing and promotional programs, acceptance of new product introductions, adverse weather conditions, general economic conditions and other factors beyond our control. Our quarterly results may also vary as a result of the timing of new store openings and store closings, net sales contributed by new stores and fluctuations in comparable sales of existing stores.

Perfumania may experience shortages of the merchandise it needs because it does not have long-term agreements with suppliers

Perfumania's success depends to a large degree on our ability to provide an extensive assortment of brand name and designer fragrances. Perfumania has no long-term purchase contracts or other contractual assurance of continued supply, pricing or access to new products. If Perfumania is unable to obtain merchandise from one or more key suppliers on a timely basis or acceptable terms, or if there is a material change in Perfumania's ability to obtain necessary merchandise, our results of operations could be adversely affected.

Perfumania purchases merchandise from related parties, which may cause a conflict of interest

Approximately 40% and 53%, respectively, of Perfumania's total merchandise purchased in fiscal years 2005 and 2004 were from our affiliates Quality King and Parlux. There may be a conflict of interest between our interest in purchasing at the best price and those of our principal shareholders and affiliates in obtaining the best price for their respective companies.

Perfumania needs to successfully manage its growth

Perfumania may not be able to sustain growth in revenues. Perfumania's growth is somewhat dependent upon opening and operating new retail stores on a profitable basis, which in turn is subject to, among other things, securing suitable store sites on satisfactory terms, hiring, training and retaining qualified management and other personnel, having adequate capital resources and successfully integrating new stores into existing operations. It is possible that Perfumania's new stores might not achieve sales and profitability comparable to existing stores, and it is possible that the opening of new locations might adversely affect sales at existing locations.

Perfumania could be subject to litigation because of the merchandising aspect of its business

Some of the merchandise Perfumania purchases from suppliers might be manufactured by entities who are not the owners of the trademarks or copyrights for the merchandise. The owner of a particular trademark or copyright may challenge Perfumania to demonstrate that the specific merchandise was produced and sold with the proper authority, and if Perfumania is unable to demonstrate this, it could, among other things, be restricted from reselling the particular merchandise. This type of restriction could adversely affect Perfumania's business and results of operations.

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Our stock price volatility could result in securities class action litigation, substantial cost, and diversion of management's attention

The price of our common stock has been and likely will continue to be subject to wide fluctuations in response to a number of events, such as:

- quarterly variations in operating results;
- acquisitions, capital commitments of strategic alliances by us or our competitors;
- legal regulatory matters that are applicable to our business;
- the operating and stock price performances of other companies that investors may deem comparable to us;
- news reports relating to trends in our markets; and
- the amount of shares constituting our public float.

In addition, the stock market in general has experienced significant price and volume fluctuations that often have been unrelated to the performance of specific companies. The broad market fluctuations may adversely affect the market price of our common stock, regardless of our operating performance. Our stock price volatility could result in class action litigation which would require substantial monetary cost to defend, as well as the diversion of management attention from day-to-day activities which could negatively affect operating performance. Such litigation could also have a negative impact on the price of our common stock due to the uncertainty and negative publicity associated with litigation.

Future growth may place strains on our managerial, operational and financial resources

If we grow as expected, a significant strain on our managerial,

operational and financial resources may occur. Further, as the number of our users, advertisers and other business partners grow, we will be required to manage multiple relationships with various customers, strategic partners and other third parties. Future growth or increase in the number of our strategic relationships could strain our managerial, operational and financial resources, inhibiting our ability to achieve the rapid execution necessary to successfully implement our business plan. In addition, our future success will also depend on our ability to expand our sales and marketing organization and our support organization commensurate with the growth of our business and the Internet.

We are subject to competition

Some of Perfumania's competitors sell fragrances at discount prices and some are part of large national or regional chains that have substantially greater resources and name recognition than Perfumania. Perfumania's stores compete on the basis of selling price, customer service, merchandise variety and store location. Many of our current and potential competitors have greater financial, technical, operational, and marketing resources. We may not be able to compete successfully against these competitors in developing our products or services. These factors, as well as demographic trends, economic conditions and discount pricing strategies by competitors, could result in increased competition and could have a material adverse effect on our profitability, operating cash flow, and many other aspects of our business, prospects, results of operations and financial condition.

The loss of or disruption in our distribution facility could have a material adverse effect on our sales

We currently have one distribution facility, which is located in Sunrise, Florida. The loss of, or damage to this facility, as well as the inventory stored therein, would require us to find replacement facilities and assets. In addition, weather conditions, such as natural disasters, including hurricanes, could disrupt our distribution operations. If we cannot replace our distribution capacity and inventory in a timely, cost-efficient manner, it could reduce the inventory we have available for sale, adversely affecting our profitability and operating cash flows.

Expanding our business through acquisitions and investments in other businesses and technologies presents special risks

We may expand through the acquisition of and investment in other businesses. Acquisitions involve a number of special problems, including:

- difficulty integrating acquired technologies, operations, and personnel with our existing business;
- diversion of management's attention in connection with both negotiating the acquisitions and integrating the assets;
- the need for additional financing;
- strain on managerial and operational resources as management tries to oversee larger operations; and
- exposure to unforeseen liabilities of acquired companies.

We may not be able to successfully address these problems. Moreover, our future operating results will depend to a significant degree on our ability to

successfully manage growth or integrate acquisitions.

ITEM 2. PROPERTIES

Our executive offices and distribution center are located in a 179,000 square foot facility in Sunrise, Florida. The facility is leased through December 2017 pursuant to a lease which currently provides for monthly rent of approximately $82,000 with specified increases.

All of Perfumania's retail stores are located in leased premises. Most of the store leases provide for the payment of a fixed amount of base rent plus a percentage of sales, ranging from 3% to 15%, over certain minimum sales levels. Store leases typically require Perfumania to pay its proportionate share of common area expenses, utility charges, insurance premiums, real estate taxes and certain other costs. Some of Perfumania's leases permit the termination of the lease if specified minimum sales levels are not met. See Note 11 to our Consolidated Financial Statements included in Item 8 hereof, for additional information with respect to our store leases.

ITEM 3. LEGAL PROCEEDINGS

We are involved in legal proceedings in the ordinary course of business. Management cannot presently predict the outcome of these matters, although management believes that the ultimate resolution of these matters will not have a materially adverse effect on our financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On December 14, 2005, we held our annual meeting of shareholders. At the annual meeting, the shareholders elected Michael W. Katz, Stephen Nussdorf, Carole Ann Taylor, Joseph Bouhadana, and Paul Garfinkle to the Board of Directors. In addition, the shareholders ratified the appointment of Deloitte & Touche LLP as our independent registered public accounting firm. The following table reflects the results of the meeting:

ELECTION OF DIRECTORS:

TOTAL	SHARES VOTED	SHARES VOTED FOR	ABSTAIN/ WITHHELD	NON-VOTES
Michael W. Katz	2,044,921	2,020,458	24,463	908,170
Stephen Nussdorf	2,044,921	2,015,884	29,037	908,170
Carole Ann Taylor	2,044,921	2,042,500	2,421	908,170
Joseph Bouhadana	2,044,921	2,044,121	800	908,170
Paul Garfinkle	2,044,921	2,044,121	800	908,170

RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM:

TOTAL	SHARES VOTED	SHARES VOTED FOR	SHARES VOTED AGAINST	ABSTAIN/ WITHHELD	NON-VOTES

Ratify Appointment of Deloitte & Touche LLP	2,044,921	2,044,171	750	--	908,170

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION

Our common stock is traded on the NASDAQ Stock Market under the symbol ECMV. The following table sets forth the high and low closing sales prices for our common stock for the periods indicated, as reported by the NASDAQ Stock Market.

FISCAL 2005	HIGH	LOW
First Quarter	$14.51	$9.52
Second Quarter	15.99	11.00
Third Quarter	15.50	10.04
Fourth Quarter	17.94	11.39

FISCAL 2004	HIGH	LOW
First Quarter	$14.70	$9.92
Second Quarter	12.16	6.85
Third Quarter	12.04	8.35
Fourth Quarter	15.42	10.02

As of April 10, 2006, there were 54 holders of record which excluded common stock held in street name. The closing sales price for the common stock on April 10, 2006 was $19.27 per share.

DIVIDEND POLICY

We have not declared or paid any dividends on our common stock and do not currently intend to declare or pay cash dividends in the foreseeable future. Payment of dividends, if any, will be at the discretion of the Board of Directors after taking into account various factors, including our financial condition, results of operations, current and anticipated cash needs and plans for expansion. Perfumania is prohibited from paying cash dividends under its line of credit agreement with GMAC Commercial Finance LLC and Wachovia Capital Finance.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information as of January 28, 2006, with respect to our compensation plans under which our equity securities are authorized for issuance.

Number of s
remaining a
for future

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	under e compensati (excluding s reflected i (a)(1
Plan Category:	(a)	(b)	(c)
Equity compensation plans approved by stockholders	239,788	$ 10.27	
Equity compensation plans not approved by stockholders	--	--	
Total	239,788	$ 10.27	

(1) The number of shares available under our 2000 Stock Option Plan automatically increases each year by 3% of the shares of common stock of the Company outstanding at the end of the immediate preceding year.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below are derived from the consolidated financial statements of the Company. The data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Risk Factors" and the Company's consolidated financial statements and related notes.

Our fiscal year ends on the Saturday closest to January 31. All references herein to fiscal years are to the calendar year in which the fiscal year begins; for example, fiscal year 2005 refers to the fiscal year that began on January 30, 2005 and ended on January 28, 2006. All fiscal years presented below contain fifty-two weeks. Fiscal year 2006 will contain fifty-three weeks.

	FISCAL YEAR ENDED		
	JANUARY 28, 2006	JANUARY 29, 2005	JANUARY 31, 2004
	(IN THOUSANDS, EXCEPT FOR SHARE AND		
STATEMENT OF OPERATIONS DATA:			
Net sales, retail division	$ 215,841	$ 201,425	$ 198,479
Net sales, wholesale division	17,853	23,578	14,089
Total net sales	233,694	225,003	212,568
Gross profit, retail division	95,354	90,049	81,923
Gross profit, wholesale division	1,147	1,288	1,454
Total gross profit	96,501	91,337	83,377

Selling, general and administrative expenses	80,677	78,521	82,297
Provision for doubtful accounts	--	--	--
Provision for receivables from affiliate	--	--	--
Provision for impairment of assets and store closings	162	314	593
Depreciation and amortization	5,156	5,875	6,103
Expenses incurred in connection with change of control	--	--	4,931
Total operating expenses	85,995	84,710	93,924
Income (loss) from operations	10,506	6,627	(10,547)
Other income (expense)			
Interest expense, net	(3,878)	(3,326)	(2,153)
Realized loss on investments	--	--	(172)
Miscellaneous expense, net	--	--	--
Income (loss) before income taxes	6,628	3,301	(12,872)
Income tax benefit (provision)	7,637	(150)	--
Net income (loss)	$ 14,265	$ 3,151	$ (12,872)
Weighted average shares outstanding:	--		
Basic	2,949,146	2,832,107	2,454,340
Diluted	3,463,480	3,001,844	2,454,340
Basic income (loss) per share	$ 4.84	$ 1.11	$ (5.24)
Diluted income (loss) per share	$ 4.23	$ 1.06	$ (5.24)
BALANCE SHEET DATA:			
Working capital (deficiency)	$ 12,530	$ 2,240	$ (9,090)
Total assets	113,956	107,817	92,463
Long-term debt, less current portion	12,898	12,972	7,746
Total shareholders' equity	32,239	15,060	10,222
SELECTED OPERATING DATA:			
Number of stores open at end of period	239	223	232
Comparable store sales increase	5.8%	1.8%	1.1%

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Perfumania's retail division accounts for most of our net sales and gross profit. Perfumania's overall profitability depends principally on our ability to purchase a wide assortment of merchandise at favorable prices, attract customers and successfully conclude retail sales. Other factors affecting our profitability include general economic conditions, competition, availability of volume discounts, number of stores in operation, timing of store openings and closings and the effect of special promotions offered by Perfumania.

The following table sets forth items from our Consolidated Statements of Operations expressed as a percentage of total net sales for the periods indicated:

PERCENTAGE OF NET SALES

	FISCAL YEAR		
	2005	2004	2003
Net sales, retail division	92.4%	89.5%	93.4
Net sales, wholesale division	7.6	10.5	6.6
Total net sales	100.0	100.0	100.0
Gross profit, retail division	40.8	40.0	38.5
Gross profit, wholesale division	0.5	0.6	0.7
Total gross profit	41.3	40.6	39.2
Selling, general and administrative expenses	34.5	34.9	38.7
Provision for impairment of assets and store closings	0.1	0.1	0.3
Depreciation and amortization	2.2	2.6	2.9
Expenses incurred in connection with change of control	0.0	0.0	2.3
Total operating expenses	36.8	37.6	44.2
Income (loss) from operations before other expense	4.5	2.9	(5.0
Other expense:			
Interest expense, net	(1.7)	(1.5)	(1.0
Realized loss on investments	0.0	0.0	(0.1
Income (loss) before income taxes	2.8	1.5	(6.0
Income tax benefit (provision)	3.3	(0.1)	0.0
Net income (loss)	6.1%	1.4%	(6.1

FORWARD LOOKING STATEMENTS

Some of the statements in this Annual Report on Form 10-K, including those that contain the words "anticipate," "believe," "plan," "estimate," "expect," "should," "intend," and other similar expressions, are "forward-looking statements' within the meaning of the Private Securities Litigation Reform Act of 1995. Those forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements of those of our industry to be materially different from any future results, performance or achievements expressed or implied by those forward-looking statements. Among the factors that could cause actual results, performance or achievement to differ materially from those described or implied in the forward-looking statements are our ability to service our obligations and refinance our credit facility on acceptable terms, our ability to comply with the covenants in our credit facility, general economic conditions including the level of discretionary spending by consumers, competition, potential technology changes, changes in or the lack of anticipated changes in the regulatory environment in various countries, the ability to secure partnership or joint-venture relationships with other entities, the ability to raise additional capital to finance expansion, the risks inherent in new product and service introductions and the entry into new geographic markets and other factors included in our filings with the Securities and Exchange Commission (the "SEC"), including the Risk Factors included in this Annual Report on Form 10-K. Copies of our SEC filings are available from the SEC or may be obtained upon request from us. We do not undertake any obligation to update the information contained

herein, which speaks only as of this date.

CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of these statements requires management to make judgments and estimates. As such, some accounting policies have a significant impact on amounts reported in these financial statements. The judgments and estimates made can significantly affect results. Materially different amounts would be reported under different conditions or by using different assumptions. A summary of significant accounting policies can be found in Note 2 to the Consolidated Financial Statements.

We consider an accounting policy to be critical if it requires significant judgment and estimates in its application. We have identified certain accounting policies that we consider critical to our business and our results of operations and have provided below additional information on those policies.

Inventory Adjustments and Writeoffs

Inventories are stated at the lower of cost or market, cost being determined on a weighted average cost basis. We review our inventory on a regular basis for excess and potentially slow moving inventory based on prior sales, forecasted demand, historical experience and through specific identification of obsolete or damaged merchandise and we record inventory writeoffs in accordance with our expectations. If there are material changes to these estimates, additional writeoffs could be necessary.

Impairment of Long-Lived Assets

When facts and circumstances indicate that the values of long-lived assets, including intangibles, may be impaired, an evaluation of recoverability is performed by comparing the carrying value of the assets to projected future cash flows in addition to other quantitative and qualitative analyses. Inherent in this process is significant management judgment as to the projected cash flows. Upon indication that the carrying value of such assets may not be recoverable, the Company recognizes an impairment loss as a charge against current operations. Cash flows for retail assets are identified at the individual store level. Judgments are also made as to whether under-performing stores should be closed. Even if a decision has been made not to close an under-performing store, the assets at that store may be impaired. If there are material changes to these judgments or estimates, additional charges could be necessary.

Valuation of Deferred Tax Assets

Statement of Financial Accounting Standard ("SFAS") No. 109, "Accounting for Income Taxes," requires that deferred tax assets be evaluated for future realization and reduced by a valuation allowance to the extent we believe a portion will not be realized. We consider many factors when assessing the likelihood of future realization of our deferred tax assets including our recent cumulative earnings experience by taxing jurisdiction, expectations of future taxable income, the carry-forward periods available to us for tax reporting purposes, and other relevant factors.

We had a net tax benefit in fiscal year 2005 of approximately $7.6 million resulting primarily from the effect of changes in our valuation assessment of

deferred tax assets. The range of possible judgments relating to the valuation of our deferred tax assets is very wide. Significant judgment is required in making this assessment, and it is very difficult to predict when, if ever, our assessment may conclude that the remaining portion of our deferred tax assets is realizable.

FISCAL YEAR 2005 COMPARED TO FISCAL YEAR 2004

Management Overview

During fiscal year 2005 the Company realized its second consecutive year of net income. The Company has achieved this as a result of increasing sales, improving product mix and selection, closing underperforming stores and selectively opening new stores. In addition to the improvements resulting from these actions, the Company has focused on increasing the average transaction per hour, average dollar sale per transaction and number of units per transaction at the retail level to generate increased sales and reduce expenses as a percentage to total sales. Despite the improved results the Company has an accumulated deficit of approximately $37.5 million.

The Company's goal is to continue to increase the number of its stores, either by acquisition of smaller fragrance retailers or by opening new locations. The Company believes there are numerous opportunities for retail store locations domestically and is focused on expansion in markets where the Company already has a presence or by expanding into new geographic regions where the population density and demographics will support a cluster of stores.

Revenues:

	For the year ended ($ in thousands)				
	January 28, 2006	Percentage of Revenues	January 29, 2005	Percentage of Revenues	Percentage Increase (Decrease)
Retail	$ 215,841	92.4%	$ 201,425	89.5%	7.2%
Wholesale	17,853	7.6%	23,578	10.5%	(24.3%
Total Revenues	$ 233,694	100.0%	$ 225,003	100.0%	3.9%

In fiscal year 2005 total revenue increased by $8.7 million or 3.9%. Total retail sales increased by $14.4 million or 7.2%, which included comparable store sales increases of 5.8%. Comparable store sales measure the sales from stores that have been open for one year or more. The average number of stores operated increased from 230 during fiscal year 2004 to 234 in fiscal year 2005. Retail sales during fiscal year 2005 were improved by the greater availability of merchandise brands, quantity of product and more competitive retail prices offered to our customers. In addition, our average dollar sale per transaction and transactions per hour were improved as a result of more efficient scheduling of our retail store associates.

Wholesale sales decreased by $5.7 million or 24.3% as demand for certain wholesale products were less than anticipated and less than the prior year. All wholesale sales are made to Quality King. The Company, through its supplier relationships, is able to obtain certain merchandise at better prices and quantities than Quality King.

Cost of Goods Sold:

	For the year ended ($ in thousands)		
	January 28, 2006	January 29, 2005	Percentage Increase (Decrease)
Retail	$ 120,487	$ 111,376	8.2%
Wholesale	16,706	22,291	(25.1%)
Total cost of goods sold	$ 137,193	$ 133,667	2.6%

Gross Profit:

	For the year ended ($ in thousands)		
	January 28, 2006	January 29, 2005	Percentage Increase (Decrease)
Retail	$ 95,354	$ 90,049	5.9%
Wholesale	1,147	1,288	(10.9%)
Total gross profit	$ 96,501	$ 91,337	5.7%

Gross profit for the retail division increased principally from higher sales as a result of the improvements in retail sales noted above offset in part by lower gross margin percentages. Total gross profit increased as a result of higher sales and gross profit in the retail division offset by the lower sales and lower gross profit in the wholesale division.

Gross Profit Margin Percentages:

	For the year ended	
	January 28, 2006	January 29, 2005
Retail	44.2%	44.7%
Wholesale	6.4%	5.5%
Gross profit margin	41.3%	40.6%

The decrease in gross margin on retail sales resulted principally from price reductions during our promotional events which contributed to the increase in our retail sales.

Operating Expenses:

	For the year ended ($ in thousands)		
	January 28, 2006	January 29, 2005	Percentage Increase (Decrease)
Selling, general and administrative	$ 80,677	$ 78,521	2.7%
Asset impairment charges	162	314	(48.4%)
Depreciation and amortization	5,156	5,875	(12.2%)
Total operating expenses	85,995	84,710	1.5%
Income from operations	$ 10,506	$ 6,627	58.5%

The majority of our selling, general and administrative expenses relate to the retail division. The increase in selling, general and administrative expenses is attributable primarily to higher store operating costs and expenses that are directly variable with sales volume. Additionally, occupancy costs for stores increased from new stores opened during the year and the higher average number of stores in operation compared to fiscal year 2004. During fiscal year 2005 we continued to improve our method of scheduling store associates, which consequently reduced store compensation as a percentage of sales in comparison to fiscal year 2004.

The asset impairment charges in both fiscal years relate to retail store locations with negative cash flows that were either closed or targeted for closure. The asset impairment charges were reduced as we identified fewer stores for closure in fiscal year 2006.

Depreciation and amortization expenses in fiscal year 2005 were reduced by $0.7 million from fiscal year 2004 primarily as a result of software costs associated with year 2000 upgrades being fully amortized.

Other Expenses, Income Tax Benefit (Provision) and Net Income:

	For the year ended ($ in thousands)		
	January 28, 2006	January 29, 2005	Percentage Increase
Interest expense, net	$ 3,877	$ 3,326	16.6%

The increase in interest expense, net is from the higher average loan balance on our revolving line of credit used to fund quicker payments of non-affiliates accounts payable to obtain better prices and to increase product purchases to fulfill higher retail sales. In addition, the Company's average effective interest rate in fiscal year 2005 was 6.6% compared with 4.7% in fiscal year 2004.

	For the year ended ($ in thousands)		
	January 28, 2006	January 29, 2005	Percentage Increase
Income tax benefit (provision)	$ 7,637	$ (150)	--

Income tax benefits recorded in fiscal year 2005 result from management's current assessment that it is now more likely than not that the Company will realize the benefit of certain deferred tax assets. The prior year's valuation allowance was reduced by approximately $11.9 million as of January 28, 2006 due to management's determination that approximately $10.3 million of the Company's deferred tax assets will be utilized. As a result of the reversal of the valuation allowance from the prior fiscal year, $7.6 million has been reflected as a current year tax benefit. We do not expect a benefit of this magnitude to be realized in future periods. We presently expect that our provision for taxes on income for fiscal year 2006 will be higher than expected based on federal statutory rates as a result of state income taxes and the impact of losses from our Puerto Rican operations for which we are less likely to be able to record a tax benefit. See Note 8 to our Consolidated Financial Statements for further discussion.

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	For the year ended ($ in thousands)		
	January 28, 2006	January 29, 2005	Percentage Increase
Net Income	$ 14,265	$ 3,151	353.7%

As a result of our increase in sales and gross profit, the reduction in expenses as a percentage of sales and the realization of the income tax benefits described above our net income was increased by $11.1 million over the net income realized in the prior year.

FISCAL YEAR 2004 COMPARED TO FISCAL YEAR 2003

Revenues:

For the year ended

($ in thousands)

Percentage Percentage of Percentage

	January 29, 2005	of Revenues	January 31, 2004	Revenues	Increase
Retail	$ 201,425	89.5%	$ 198,479	93.4%	1.5%
Wholesale	23,578	10.5%	14,089	6.6%	67.4%
Total Revenues	$ 225,003	100.0%	$ 212,568	100.0%	5.9%

In fiscal year 2004 net sales increased for both wholesale and retail sales. The increase in wholesale sales was due to purchases made by Quality King. The Company, through its supplier relationships, is able to obtain certain merchandise at better prices and quantities than Quality King. Overall retail sales increased by $2.9 million or 1.5% and comparable store sales increased by 1.8%. Comparable store sales measure the sales from stores that have been open for one year or more. The average number of stores operated decreased from 235 during fiscal year 2003 to 230 in fiscal year 2004 primarily due to the closure of older, underperforming stores. We believe that Perfumania's retail sales were negatively impacted in fiscal year 2004 by the overall soft United States economy earlier in the year and management transition following the change in control. However, the later months of fiscal 2004 were improved due to greater availability of merchandise brands, quantity of product and as new management programs, which are discussed below, took effect.

Cost of Goods Sold:

	For the year ended ($ in thousands)		
	January 29, 2005	January 31, 2004	Percentage Increase (Decrease)
Retail	$ 111,376	$ 116,556	(4.4%)
Wholesale	22,291	12,635	76.4%
Total cost of goods sold	$ 133,667	$ 129,191	3.5%

Gross Profit:

	For the year ended ($ in thousands)		
	January 29, 2005	January 31, 2004	Percentage Increase (Decrease)
Retail	$ 90,049	$ 81,923	9.9%
Wholesale	1,288	1,454	(11.4%)

Total gross profit	$ 91,337	$ 83,377	9.5%

Gross profit for the retail division increased principally as a result of lower cost of inventory purchases and marginal adjustments to sales prices. Total gross profit increased as a result of higher sales and profit margins in the retail division offset by higher sales and lower profit margins in the wholesale division.

Gross Profit Margin Percentages:

	For the year ended ($ in thousands)	
	January 29, 2005	January 31, 2004
Retail	44.7%	41.3%
Wholesale	5.6%	10.3%
Gross profit margin	40.6%	39.2%

The decrease in gross margin on wholesale sales resulted from an increase in the cost of the wholesale goods which were sold to Quality King. We were unable to offset this higher cost by increasing sales prices to Quality King. See Note 5 to our Consolidated Financial Statements for further discussion.

Operating Expenses and Income (Loss) from Operations:

	For the year ended ($ in thousands)		
	January 29, 2005	January 31, 2004	Percentage Decrease
Selling, general and administrative	$ 78,521	$ 82,297	(4.6%)
Asset impairment charges	314	593	(47.1%)
Depreciation and amortization	5,875	6,103	(3.7%)
Expenses incurred in connection with change of control	--	4,931	--
Total operating expenses	84,710	93,924	(9.8%)
Income (loss) from operations	$ 6,627	$ (10,547)	--

The decrease in selling, general and administrative expenses is attributable primarily to lower store associate compensation costs, better control of store operating costs and a result of the reduction of our average number of stores. During fiscal 2004 we improved our method of scheduling store associates, modified our sales incentive programs and refocused our advertising and promotional efforts at lower costs. The majority of our selling, general and administrative expenses relate to the retail division

Change of control expenses did not affect fiscal 2004. See further discussion regarding the change of control in Note 5 to our Consolidated Financial Statements. The asset impairment charges in both fiscal years relate to retail store locations with negative cash flows that were either closed or targeted for closure. The asset impairment charges were reduced as we expected less store closures during fiscal year 2005.

Other Expense:

	For the year ended ($ in thousands)		
	January 29, 2005	January 31, 2004	Percentage Increase
Interest expense	$ 3,326	$ 2,153	54.5%
Loss on investments	--	172	--
Total other expense	$ 3,326	$ 2,325	43.1%

The increase in interest expense resulted from higher loan balances on our new expanded revolving line of credit, higher interest rates and the interest expense on our $5 million subordinated convertible note payable to the Nussdorfs.

Provision for Income Taxes:

	For the year ended ($ in thousands)		
	January 29, 2005	January 31, 2004	Percentage Increase
Income tax provision	$ (150)	$ --	--

The tax provision resulted primarily from alternative minimum taxes due to the utilization of net operating loss carry forwards which offset the taxes which would otherwise have been provided for.

Net Income (Loss):

	For the year ended ($ in thousands)		
	January 29, 2005	January 31, 2004	Percentage Increase

Net Income (loss)	$ 3,151	$ (12,872)	--

As a result of our increase in sales and gross profit and the reduction in expenses described above, we realized net income in fiscal year 2004 compared to a net loss in fiscal year 2003.

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LIQUIDITY AND CAPITAL RESOURCES

Our principal capital requirements for operating purposes are to fund Perfumania's inventory purchases, renovate existing stores and selectively open new stores. During fiscal years 2005 and 2004, we financed these requirements primarily through cash flows from operations, borrowings under our line of credit, credit terms from our vendors, including extended terms from our affiliates, issuance of a convertible note and other short-term borrowings. We believe we will have adequate liquidity in fiscal year 2006 to operate our business and to meet our cash requirements.

A summary of our cash flows is as follows:

	For the year ended January 28, 2006
	($ in thousands)
Summary Cash Flow Information:	
Cash provided by operating activities	$ 18,524
Cash used in investing activities	(7,143)
Cash used in financing activities	(11,370)
Increase in cash and cash equivalents	11
Cash and cash equivalents, January 29, 2005	1,250
Cash and cash equivalents. January 28, 2006	$ 1,261

In May 2004, we entered into a three-year senior secured credit facility with GMAC Commercial Finance LLC and Wachovia Capital Finance. The line of credit provides for borrowings of up to $60 million, depending on the Company's levels of eligible inventories. As of January 28, 2006, $20.1 million was outstanding under the line of credit and $19.3 million was available to support normal working capital requirements and other general corporate purposes. Advances under the line of credit are based on a formula of eligible inventories and bears interest at a floating rate ranging from (a) prime to prime plus 1.25% or (b) LIBOR plus 2.5% to 3.75% depending on a financial ratio test. Advances are secured by a first lien on all assets of Perfumania. The credit facility contains limitations on additional borrowings, capital expenditures and other items, and contains various covenants including a fixed charge coverage ratio, a leverage ratio and capital expenditure limits as defined. As of January 28, 2006, we were in compliance with all covenant requirements. We are currently negotiating an extension to our credit facility.

In March 2004, the Nussdorfs provided a $5,000,000 subordinated secured demand loan to Perfumania. The demand loan bore interest at the prime rate plus 1%, required quarterly interest payments and was secured by a security interest in Perfumania's assets pursuant to a Security Agreement, by and among Perfumania and the Nussdorfs. There were no prepayment penalties and the loan was subordinate to all bank related indebtedness. In December 2004, we issued a

Subordinated Convertible Note (the "Note") in exchange for the $5,000,000 subordinated secured demand loan. The Note bears interest at the prime rate plus 1%, requires quarterly interest payments and is secured by a security interest in the Company's assets pursuant to a Security Agreement, by and among the Company and the Nussdorfs. There are no prepayment penalties and the Note is subordinate to all bank related indebtedness. The Note was payable in January 2007 and allows the Nussdorfs to convert the Note into shares of our common stock at a conversion price of $11.25, which equals the closing market price of the Company's common stock on the date the Note was issued. The Nussdorfs have agreed to extend the due date of the Convertible Note to January 2009.

In fiscal year 2005, net cash provided by operating activities was approximately $18.5 million and was generated primarily by net earnings adjusted for non cash depreciation and amortization expenses, a tax benefit from exercise of stock options in prior years, additional extended credit terms for merchandise from our affiliates and a reduction in inventory purchases and inventory levels. We delayed the receipt of certain inventory purchases during the last month of our fiscal year in order to perform our physical inventory counts which contributed to the reduction in our inventory levels. Net cash provided by operating activities was reduced by approximately $4.6 million due to a reduction in the accounts payable-nonaffiliates.

Net cash used in investing activities in fiscal year 2005 was approximately $7.1 million. Investing activities generally represent spending for the renovation of existing stores and new store openings. During fiscal year 2005 we opened 26 new stores and remodeled/relocated 53 stores. We intend to continue improving the appearance of our existing stores and growing the number of stores. We anticipate that we will open approximately 30 new stores and remodel 50 stores in fiscal year 2006.

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In fiscal year 2005, net cash used in financing activities was approximately $11.4 million as a result of the reduction to our net bank borrowings.

Management believes that Perfumania's borrowing capacity under its current credit facility, projected cash flows from operations, other short term borrowings and credit terms from vendors will be sufficient to support our working capital needs, capital expenditures and debt service for at least the next twelve months. There can be no assurance that management's plans and expectations will be successful.

	Payments due by period ($ in thousands)			
Contractual Obligations	Total	less than 1 year	1-3 years	
Bank line of credit (1)	$ 20,148	$ 20,148	--	
Subordinated convertible note payable affiliate (1)	5,000	--	5,000	
Capital lease obligations	15,352	1,249	2,455	
Operating lease obligations	60,773	14,228	20,955	
Total	$ 101,273	$ 35,625	$ 28,410	$

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(1) Debt amounts include principal maturities only.

OFF-BALANCE SHEET ARRANGEMENTS

We have no off-balance sheet arrangements as defined by Item 303 (a)(4) of Regulation S-K.

SEASONALITY AND QUARTERLY RESULTS

Our operations historically have been seasonal, with higher sales in the fourth fiscal quarter than the other three fiscal quarters. Significantly higher fourth quarter retail sales result from increased purchases of fragrances as gift items during the holiday season. Our quarterly results may vary due to the timing of new store openings, net sales contributed by new stores and fluctuations in comparable sales of existing stores. Results of any interim period are not necessarily indicative of the results that may be expected during a full fiscal year.

RECENT ACCOUNTING STANDARDS

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R, "Share-Based Payment," ("SFAS No. 123R") which revises SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This Statement requires an entity to recognize the cost of employee services received in share-based payment transactions and measure the cost on a grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. The provisions of SFAS No. 123R will be effective for the Company's financial statements issued for periods beginning after December 15, 2005. We do not anticipate being significantly affected by this pronouncement as management has no formal plans to issue a significant amount of additional options nor are there any unvested options.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS No. 154"), which replaces APB Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS No. 154 changes the requirements for accounting and reporting a change in accounting principle, and applies to all voluntary changes in accounting principles, as well as changes required by an accounting pronouncement in the unusual instance it does not include specific transition provisions. Specifically, SFAS No. 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the effects of the change, the new accounting principle must be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and a corresponding adjustment must be made to the opening balance of retained earnings for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of the change, the new principle must be applied as if it were adopted prospectively from the earliest date practicable. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS No. 154 does not change the transition provisions of any existing pronouncements. The Company has evaluated the impact of SFAS No. 154 and does not expect the adoption of this statement to have a significant impact on its consolidated balance sheets or statements of operations. The Company will apply

SFAS No. 154 in future periods, when applicable.

CHANGES IN FOREIGN EXCHANGE RATES; INFLATION

Although large fluctuations in foreign exchange rates could have a material effect on the prices we pay for products purchased from outside the United States, such fluctuations have not been material to our results of operations to date. Transactions with foreign suppliers are denominated in United States dollars. We believe inflation has not had a material impact on our results of operations and we are generally able to pass through cost increases by increasing sales prices.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We conduct business in the United States where the functional currency of the country is the United States dollar. As a result, we are not at risk to any foreign exchange translation exposure on a prospective basis.

Our exposure to market risk for changes in interest rates relates primarily to our bank line of credit. The bank line of credit bears interest at a variable rate, as discussed above under "Liquidity and Capital Resources". We mitigate interest rate risk by continuously monitoring the interest rates and reacting to changes in LIBOR and prime rates. As a result of borrowings associated with our operating and investing activities, we are exposed to interest rate risk. As of January 28, 2006 and January 29, 2005, our primary source of funds for working capital and other needs is a line of credit that provides for borrowings up to $60 million.

Of the $33.4 million and $44.7 million of short-term and long-term borrowings on our balance sheet as of January 28, 2006 and January 29, 2005, respectively, approximately 24.6% and 18.4%, respectively, represented fixed rate instruments. The line of credit bears interest at a floating rate ranging from (a) prime to prime plus 1.25%, or (b) LIBOR plus 2.5% to 3.75% depending on financial ratio tests. For fiscal year 2005, the credit facility bore interest at an average rate of 6.6%. A hypothetical 10% adverse move in interest rates would increase fiscal year 2005 interest expense by approximately $0.2 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial information and the supplementary data required in response to this Item are as follows:

	PAGE
E Com Ventures, Inc. and Subsidiaries	
Report of Independent Registered Public Accounting Firm.................	24
Consolidated Balance Sheets as of January 28, 2006 and January 29, 2005...	25
Consolidated Statements of Operations for the Fiscal	

Years Ended January 28, 2006, January 29, 2005 and
January 31, 2004.. 26

Consolidated Statements of Changes in Shareholders' Equity
for the Fiscal Years Ended January 28, 2006, January 29, 2005,
and January 31, 2004.. 27

Consolidated Statements of Cash Flows for the Fiscal
Years Ended January 28, 2006, January 29, 2005, and
January 29, 2004.. 28

Notes to Consolidated Financial Statements.............................. 29

Supplemental schedules have been omitted,
as all required information is disclosed or not applicable.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
E Com Ventures, Inc.
Sunrise, Florida

We have audited the accompanying consolidated balance sheets of E Com Ventures, Inc. and subsidiaries (the "Company") as of January 28, 2006 and January 29, 2005, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three fiscal years in the period ended January 28, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of E Com Ventures, Inc. and subsidiaries as of January 28, 2006 and January 29, 2005, and the results of their operations and their cash flows for each of the three fiscal years in the period ended January 28, 2006, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

Certified Public Accountants

Fort Lauderdale, Florida
April 28, 2006

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E COM VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS:	JANUARY 28, 2006	JANUARY 29, 2005
Current assets:		
Cash and cash equivalents	$ 1,260,444	$ 1,249,543
Trade receivables, no allowance required	819,072	695,812
Deferred tax asset	5,343,839	--
Inventories, net	72,976,845	78,929,639
Prepaid expenses and other current assets	950,146	1,149,723
Total current assets	81,350,346	82,024,717
Property and equipment, net	25,308,899	23,070,723
Goodwill, net	1,904,448	1,904,448
Deferred tax asset	4,935,161	--
Other assets, net	457,627	817,156
Total assets	$ 113,956,481	$ 107,817,044
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Bank line of credit	$ 20,147,978	$ 31,528,212
Accounts payable- non affiliates	13,470,670	18,111,196
Accounts payable, affiliates	26,905,433	23,228,325
Accrued expenses and other liabilities	7,973,168	6,685,494
Current portion of obligations under capital leases	322,284	231,353
Total current liabilites	68,819,533	79,784,580
Subordinated convertible note payable - affiliate	5,000,000	5,000,000
Long-term portion of obligations under capital leases	7,898,354	7,972,455
Total liabilities	81,717,887	92,757,035
Commitments and contingencies (See Note 11)		
Shareholders' equity:		
Preferred stock, $0.10 par value, 1,000,000 shares authorized, none issued	--	--
Common stock, $.01 par value, 6,250,000 shares authorized; 3,857,216 and 3,834,684 shares issued at fiscal year-end 2005 and 2004, respectively	38,572	38,347
Additional paid-in capital	78,260,686	75,347,588
Treasury stock, at cost, 898,249 shares	(8,576,944)	(8,576,944)
Accumulated deficit	(37,483,720)	(51,748,982)

Total shareholders' equity	32,238,594	15,060,009
Total liabilities and shareholders' equity	$ 113,956,481	$ 107,817,044

See accompanying notes to consolidated financial statements.

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E COM VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE FISCAL YEAR ENDED		
	January 28, 2006	January 29, 2005	January
Net sales	$ 233,694,081	$ 225,003,201	$ 212
Cost of goods sold	137,192,922	133,666,605	129
Gross profit	96,501,159	91,336,596	83
Operating expenses:			
Selling, general and administrative expenses	80,677,406	78,521,215	82
Provision for impairment of assets and store closings	162,370	313,888	
Depreciation and amortization	5,155,645	5,874,591	6
Expenses incurred in connection with change of control	--	--	4
Total operating expenses	85,995,421	84,709,694	93
Income (loss) from operations	10,505,738	6,626,902	(10
Other expenses:			
Interest expense, net:			
Affiliates	(371,458)	(248,124)	
Other	(3,506,018)	(3,077,497)	(2
	(3,877,476)	(3,325,621)	(2
Realized loss on investments	--	--	
Income (loss) before income taxes	6,628,262	3,301,281	(12
Income tax benefit (provision)	7,637,000	(150,000)	
Net income (loss)	$ 14,265,262	$ 3,151,281	$ (12
Basic income (loss) per common share	$ 4.84	$ 1.11	$
Diluted income (loss) per common share	$ 4.23	$ 1.06	$

Weighted average number of shares outstanding:			
Basic	2,949,146	2,832,107	2
Diluted	3,463,480	3,001,844	2

See accompanying notes to consolidated financial statements.

E COM VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE FISCAL YEARS ENDED JANUARY 28, 2006, JANUARY 29, 2005
AND JANUARY 31, 2004

	Common Stock		Additional Paid-In Capital
	Shares	Amount	
Balance at February 2, 2003	3,215,761	$ 32,158	$ 71,387,794
Components of comprehensive loss:			
Net loss	--	--	--
Unrealized gain on investments	--	--	--
Total comprehensive loss	--	--	--
Exercise of stock options	69,997	700	235,805
Purchase of treasury stock	--	--	--
Stock Compensation	--	--	2,285,640
Reclass in notes and interest receivable from shareholder and officer	--	--	--
Premium repayment of convertible notes payable	--	--	(243,046)
Balance at January 31, 2004	3,285,758	32,858	73,666,193
Net income	--	--	--
Exercise of stock options	548,926	5,489	1,681,395
Balance at January 29, 2005	3,834,684	38,347	75,347,588
Net income	--	--	--
Exercise of stock options	22,531	225	83,507
Repayment of profits under Section 16(b) of the Exchange Act	--	--	181,591
Tax benefit from exercise of stock options	--	--	2,242,000

Executive compensation contributed to capital	--	--	406,000
Balance at January 28, 2006	3,857,216	$ 38,572	$ 78,260,686

	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Notes and Interest Receivable From Shareholders and Officers
Balance at February 2, 2003	$ (140,404)	$(42,028,563)	$ (311,604)
Components of comprehensive loss:			
Net loss	--	(12,871,700)	--
Unrealized gain on investments	140,404	--	--
Total comprehensive loss	--	--	--
Exercise of stock options	--	--	--
Purchase of treasury stock	--	--	--
Stock Compensation	--	--	--
Net change in notes and interest receivable from shareholder and officer	--	--	311,604
Premium repayment of convertible notes payable	--	--	--
Balance at January 31, 2004	--	(54,900,263)	--
Net income	--	3,151,281	--
Exercise of stock options	--	--	--
Balance at January 29, 2005	--	(51,748,982)	--
Net income	--	14,265,262	--
Exercise of stock options	--	--	--
Receipt of profits under Section 16(b) of the Exchange Act	--	--	--
Tax benefit from exercise of stock options	--	--	--
Executive compensation contributed to			

capital	--	--	--	
Balance at January 28, 2006	$ --	$(37,483,720)	$ --	$

See accompanying notes to consolidated financial statements.

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E COM VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE FI	
	January 28, 2006	Janua
Cash flows from operating activities:		
Net income (loss)	$ 14,265,262	$
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Deferred income tax benefit	(8,037,000)	
Provision for impairment of assets and store closings	162,370	
(Recovery) write-off of inventories	(184,547)	
Depreciation and amortization	5,155,645	
Write-off of discontinued inventory	228,427	
Realized loss on investments	--	
Stock compensation	--	
Change in operating assets and liabilities:		
Trade receivables	(123,260)	
Inventories	5,908,914	(1
Prepaid expenses and other current assets	199,577	
Other assets	218,281	
Accounts payable, non-affiliate	(4,640,526)	
Accounts payable, affiliate	3,677,108	
Accrued expenses and other liabilities	1,693,674	(
Net cash provided by (used in) operating activities	18,523,925	(
Cash flows from investing activities:		
Additions to property and equipment	(7,143,201)	(
Proceeds from sale of investments	--	
Net cash used in investing activities	(7,143,201)	(
Cash flows from financing activities:		
Net borrowings and (repayments) under bank line of credit	(11,380,234)	
Principal payments under capital lease obligations	(254,912)	
Proceeds from note and interest receivable, shareholder and officer	--	
Proceeds from subordinated secured demand loan, affiliate	--	
Repayments of convertible notes payable	--	
Proceeds from exercise of stock options	83,732	
Receipt of profits under Section 16(b) of the Exchange Act	181,591	

Purchases of treasury stock	--	
Net cash provided by (used in) financing activities	(11,369,823)	
Increase (decrease) in cash and cash equivalents	10,901	
Cash and cash equivalents at beginning of period	1,249,543	
Cash and cash equivalents at end of period	$ 1,260,444	$
Cash paid during the period for:		
Interest	$ 3,612,573	$

See accompanying notes to consolidated financial statements.

E COM VENTURES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JANUARY 28, 2006, JANUARY 29, 2005
AND JANUARY 31, 2004

NOTE 1 - NATURE OF BUSINESS

E Com Ventures, Inc., a Florida corporation ("ECOMV" or the "Company"), performs all of its operations through two wholly-owned subsidiaries, Perfumania, Inc. ("Perfumania"), a Florida corporation, which is a specialty retailer and wholesaler of fragrances and related products and perfumania.com, inc., a Florida corporation which is an Internet retailer of fragrances and other specialty items.

Perfumania's retail stores are located in regional malls, manufacturers' outlet malls, life style centers, airports and on a stand-alone basis in suburban strip shopping centers. The number of retail stores in operation at January 28, 2006, January 29, 2005, and January 31, 2004 were 239, 223 and 232, respectively.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Significant accounting principles and practices used by the Company in the preparation of the accompanying consolidated financial statements are as follows:

FISCAL YEAR END

The Company's fiscal year ends the Saturday closest to January 31 to enable the Company's operations to be reported in a manner, which more closely coincides with general retail reporting practices and the financial reporting needs of the Company. In the accompanying notes, fiscal year 2005, 2004 and 2003 refer to the years ended January 28, 2006, January 29, 2005 and January 31, 2004, respectively. The fiscal years presented each contain fifty-two weeks.

MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of

assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates made by management in the accompanying consolidated financial statements relate to inventory write-offs to reduce inventory, self-insured health care reserves, long-lived asset impairments and estimated useful lives of property and equipment. Actual results could differ from those estimates.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include accounts of E Com Ventures, Inc. and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

REVENUE RECOGNITION

Revenue from wholesale transactions is recorded upon shipment of inventory when risk of ownership and title transfers to the buyer. Revenue from store sales is recorded, net of discounts, at the point of sale. Revenue from Internet sales is recognized at the time products are delivered to customers. Returns of store and Internet sales are allowed within 30 days of purchase. Because returns are primarily exchanged, there is no significant effect on revenue and returns are considered immaterial for the three years ended January 28, 2006, January 29, 2005 and January 31, 2004.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

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INVENTORIES

Inventories, consisting of finished goods, are stated at the lower of cost or market with cost being determined on a weighted average method. The cost of inventory includes product cost and freight charges. Writeoffs of potentially slow moving or damaged inventory are recorded based on management's analysis of inventory levels, future sales forecasts and through specific identification of obsolete or damaged merchandise.

In fiscal year 2003 management had identified approximately 3,400 of the Company's 25,000 stock keeping units ("skus") that the Company intended to discontinue selling. The total cost of this inventory as of January 31, 2004 was approximately $9.4 million. The Company recorded a charge of approximately $2.6 million in fiscal year 2003, which represented the difference between the estimated selling value and the weighted average cost of this inventory. Using a similar analytical approach, the Company's inventory write-offs were approximately $200,000 and $400,000 in fiscal years 2005 and 2004, respectively. These charges are included in cost of goods sold in the accompanying consolidated statements of operations.

PROPERTY AND EQUIPMENT

Property and equipment is carried at cost, less accumulated depreciation and amortization. Depreciation for property and equipment, which includes assets under capital leases, is calculated using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the term of the lease including renewal periods that are reasonably assured, or the estimated useful lives of the improvements,

generally ten years. Costs of major additions and improvements are capitalized and expenditures for maintenance and repairs which do not extend the useful life of the asset are expensed when incurred. Gains or losses arising from sales or retirements are included in income.

GOODWILL

Goodwill represents the excess purchase price paid over net assets of businesses acquired resulting from the application of the purchase method of accounting. Goodwill is not amortized but is tested annually for impairment at the end of the Company's fiscal year. No impairment occurred as a result of the annual tests in fiscal years 2005, 2004, and 2003.

OTHER INTANGIBLE ASSETS

Other intangible assets include store design, real estate leases and non-compete agreements which were recorded based upon their relative fair values at the date of acquisition as determined by management with the assistance of an independent valuation consultant. Other intangible assets do not include goodwill. The amortization of intangible assets totaled approximately $140,000, $232,000, and $229,000 in fiscal years 2005, 2004, and 2003, respectively. There is no further amortization of intangible assets anticipated during fiscal year 2006 as all intangible assets with finite lives were fully amortized as of January 28, 2006.

INCOME TAXES

Income tax expense is based principally on pre-tax financial income. Deferred tax assets and liabilities are recognized for the differences between the financial reporting carrying values and the tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is recognized to reduce net deferred tax assets to amounts that management believes are more likely than not expected to be realized.

BASIC AND DILUTED INCOME (LOSS) PER SHARE

Basic income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per common share includes, in periods in which they are dilutive, the dilutive effect of those common stock equivalents where the average market price of the common shares exceeds the exercise prices for the respective years. As described below, for fiscal year 2003, incremental shares attributed to common stock equivalents and convertible notes were not included because the results would have been anti-dilutive.

Basic and diluted loss per share are computed as follows:

	FISCAL YEAR		
	2005	2004	
Numerator:			
Net income (loss) - basic	$ 14,265,262	$ 3,151,281	$
Add: interest on convertible note	371,458	44,131	

Net income (loss) - diluted	$ 14,636,720	$ 3,195,412	$
Denominator:			
Weighted average number of shares for basic net income (loss) per share	2,949,146	2,832,107	
Options to purchase common stock	69,890	105,024	
Convertible note	444,444	64,713	
Denominator for dilutive net income (loss) per share	3,463,480	3,001,844	
Basic net income (loss) per share	$ 4.84	$ 1.11	$
Diluted net income (loss) per share	$ 4.23	$ 1.06	$

Excluded from the above computations of weighted-average shares for diluted earnings per share were options to purchase 5,256 shares, 86,256 shares and 696,436 shares of common stock for fiscal years 2005, 2004 and 2003, respectively, because the exercise price was greater than the average market price of the Company's common stock during the period and, therefore, the effect is antidilutive.

ASSET IMPAIRMENT

The Company reviews long-lived assets and makes a provision for impairment whenever events or changes in circumstances indicate that the projected cash flows of related activities may not provide for recovery of the asset. An impairment loss is generally recorded when the net book value of assets exceeds projected undiscounted future cash flows. The impairment loss is determined based on the difference between the net book value and the fair value of the assets. The estimated fair value is based on anticipated discounted future cash flows. Any impairment is charged to operations in the period in which it is identified.

STOCK BASED COMPENSATION

The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 123R, "Share-Based Payment," which revises SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB 25. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This Statement requires an entity to recognize the cost of employee services received in share-based payment transactions and measure the cost on a grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. The provisions of SFAS No. 123R will be effective for the Company's financial statements issued for periods beginning after December 15, 2005. The Company does not anticipate being significantly affected by this pronouncement as management has no formal plans to issue a significant amount of additional options nor are there any unvested options. The pro-forma effects of our stock based compensation are presented below (in thousands except for per share data):

	FISCAL YEAR		
	2005	2004	2
Net income (loss)	$ 14,265	$ 3,151	$
Add: Total stock-based employee compensation expense included in reported net loss, net of tax	--	--	
Deduct: Total stock-based employee compensation expense determined under fair market value based method, net of tax	(883)	(95)	
Proforma net income (loss)	$ 13,382	$ 3,056	$
Net income (loss) per common share-basic:			
As reported	$ 4.84	$ 1.11	$
Stock based compensation	(0.30)	(0.03)	
Proforma	$ 4.54	$ 1.08	$
Net income (loss) per common share-diluted:			
As reported	$ 4.23	$ 1.06	$
Stock based compensation	(0.26)	(0.03)	
Proforma	$ 3.97	$ 1.03	$

The fair value for these stock options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	FISCAL YEAR		
	2005	2004	2003
Expected life (years)	7	7	7
Expected volatility	164%	168%	165%
Risk-free interest rates	3.88%	4.08%	3.68%
Dividend yield	0%	0%	0%

For the purposes of the proforma presentation of employee stock-based compensation expense, the Company currently amortizes the expense over the related vesting period. The weighted average estimated fair values of options granted during fiscal year 2005, 2004, and 2003 were $12.42, $11.12 and $4.79, respectively.

INVESTMENTS

Equity securities classified as available for sale are adjusted to fair market value as of the balance sheet date based on quoted market prices. The related unrealized gain (loss) on investments is reflected in other comprehensive income (loss) and accumulated other comprehensive income (loss) on the consolidated statements of changes in shareholders' equity and consolidated balance sheets, respectively. Realized losses on investments resulting from the

sale or other-than-temporary declines in fair market values of securities classified as available for sale are included in the results of operations. The Company had no equity security investments as of January 28, 2006 and January 29, 2005.

PRE-OPENING EXPENSES

Pre-opening expenses related to opening new stores are expensed as incurred.

SHIPPING AND HANDLING FEES AND COSTS

Income generated from shipping and handling fees is classified as revenues. The Company classifies the costs related to shipping and handling as cost of goods sold. The income and cost associated with shipping and handling when combined is immaterial.

ADVERTISING COSTS

Advertising expense for the fiscal years 2005, 2004 and 2003 was approximately $1,650,000, $1,441,000 and $1,876,000, respectively, and is charged to expense when incurred. There was no cooperative advertising amounts received from vendors for fiscal years 2005 and 2004. In fiscal year 2003 the Company received $200,000 in cooperative advertising amounts which was recorded as an offset to advertising expense.

RECLASSIFICATION

Certain fiscal year 2004 and 2003 amounts have been reclassified to conform with the fiscal 2005 presentation.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment," which revises SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This Statement requires an entity to recognize the cost of employee services received in share-based payment transactions and measure the cost on a grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. The provisions of SFAS No. 123R will be effective for the Company's financial statements issued for periods beginning after December 15, 2005. The Company does not anticipate being significantly affected by this pronouncement as management has no formal plans to issue a significant amount of additional options nor are there any unvested options.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS No. 154"), which replaces APB Opinion No. 120, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." SFAS No. 154 changes the requirements for accounting and reporting a change in accounting principle, and applies to all voluntary changes in accounting principles, as well as changes required by an accounting pronouncement in the unusual instance it does not include specific transition provisions. Specifically, SFAS No. 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine the period-specific effects or the cumulative effect of the change. When it is

impracticable to determine the effects of the change, the new accounting principle must be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and a corresponding adjustment must be made to the opening balance of retained earnings for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of the change, the new principle must be applied as if it were adopted prospectively from the earliest date practicable. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS No. 154 does not change the transition provisions of any existing pronouncements. The Company has evaluated the impact of SFAS No. 154 and does not expect the adoption of this statement to have a significant impact on its consolidated balance sheets or statements of operations. The Company will apply SFAS No. 154 in future periods, when applicable.

NOTE 3 - NON-CASH TRANSACTIONS

Supplemental disclosures of non-cash investing and financing activities:

NON-CASH TRANSACTIONS	FISCAL YEAR 2005	2004	2003
Equipment and building acquired under capital leases	$ 259,430	$ 463,525	$ 414,
Unrealized gain (loss) on investments	--	--	140,
Subordinated debt issued to affiliate	--	--	5,000,
Subordinated debt exchanged for subordinated convertible note payable, affiliate	--	5,000,000	
Compensation cost for President and Chief Executive Officer contributed to capital	406,000	--	

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of:

	FISCAL YEAR ENDED January 28, 2006	January 29, 2005	Estim
Furniture, fixtures and equipment	$ 27,595,254	$ 24,945,705	
Leasehold improvements	30,307,293	27,055,275	shorter of
Equipment under capital leases	330,293	521,161	shorter of
Building under capital lease	8,188,945	8,188,945	
	66,421,785	60,711,086	
Less:			
Accumulated depreciation and amortization	(41,112,886)	(37,640,363)	
	$ 25,308,899	$ 23,070,723	

See Note 11 for further discussion of capital leases.

Approximately $4,164,000 of point of sale registers were reclassified from equipment under capital leases to furniture, fixtures and equipment in fiscal year 2004 as the leases matured and the Company exercised its option to purchase the registers. In addition, the Company disposed of equipment under capital leases with an original cost of approximately $2,090,000 in fiscal year 2004, on equipment that was fully depreciated. There was no effect in the Company's consolidated statement of operations.

Depreciation and amortization expense for fiscal years 2005, 2004, and 2003 was $5,155,645, $5,874,591, and $6,102,823, respectively. Accumulated depreciation for building and equipment under capital leases was $1,475,817 and $1,238,231 as of January 28, 2006 and January 29, 2005, respectively.

NOTE 5 - RELATED PARTY TRANSACTIONS

Effective January 30, 2004, Ilia Lekach, the Company's then Chairman of the Board and Chief Executive Officer, IZJD Corp. and Pacific Investment Group Inc., each of which are wholly-owned by Mr. Lekach and Deborah Lekach, Mr. Lekach's wife (collectively, "Lekach"), entered into the Nussdorf Option Agreement, with Stephen Nussdorf and Glenn Nussdorf (the "Nussdorfs"), pursuant to which the Nussdorfs were granted options to acquire up to an aggregate 720,954 shares of the Company's common stock beneficially owned by Lekach, for a purchase price of $12.70 per share exercisable in specified installments.

Effective February 10, 2004, Mr. Lekach's employment with the Company was terminated and Mr. Lekach ceased serving as an employee and officer of the Company. In addition, on February 10, 2004, Mr. Lekach resigned from the Board of Directors and Stephen L. Nussdorf was appointed the Company's Chairman of the Board and Michael W. Katz was appointed the Company's President and Chief Executive Officer.

As of April 26, 2004, Mr. Lekach exercised stock options to acquire 318,750 common shares resulting in proceeds to the Company of approximately $851,000 and the Nussdorfs acquired 595,954 shares from Mr. Lekach pursuant to the Nussdorf Option Agreement. Mr. Lekach had stock options for another 125,000 shares, which were required to be issued to Mr. Lekach by the Company pursuant to the terms of his employment agreement as a consequence of the change of control. These 125,000 options were only to be issued by the Company to Mr. Lekach upon approval of an amendment to the Company's 2000 Stock Option Plan. Such an amendment was approved at a special meeting of the Company's shareholders on April 29, 2004. Proceeds to the Company were $500,000 when Mr. Lekach exercised the 125,000 options. The Nussdorfs exercised their option to acquire the remaining 125,000 shares subject to the Nussdorf Option Agreement and the Nussdorfs own an aggregate 1,113,144 shares or approximately 38% of the total number of shares of the Company's common stock as of January 28, 2006, excluding shares issuable upon conversion of the Convertible Note discussed below in Note 6. Lekach owns 300,000 shares or approximately 10% of the total number of shares of the Company's common stock as of January 28, 2006.

As a consequence of the change in control provisions set forth in the employment agreements of Mr. Lekach, various executive officers and a consultant, the Company issued a total of 244,252 options for the Company's common stock in January 2004, which included the 125,000 options required to be issued to Mr. Lekach. Since the exercise prices of the options were less than

the market price of the Company's common stock on the grant date, the Company incurred a non-cash stock based compensation expense of approximately $2,286,000. In addition, pursuant to the change of control provisions in the same employment and consulting agreements, the Company accrued approximately $2,645,000 in January 2004, representing amounts subsequently paid to these same individuals as a result of the change of control. These charges totaling approximately $4,931,000 are included in "Expenses incurred in connection with change of control" on the accompanying consolidated statement of operations for the year ended January 31, 2004.

The Nussdorfs are officers and principals of Quality King Distributors, Inc. ("Quality King"). Quality King distributes pharmaceuticals, health and beauty care products and fragrances. The Company's President and Chief Executive Officer, Michael Katz is an executive of Quality King and the Company's principal shareholders, Stephen Nussdorf, the Chairman of the Company's Board of Directors and Glenn Nussdorf, his brother, are shareholders and executives of Quality King. During fiscal year 2005, the Company purchased approximately $30,547,000 of merchandise from Quality King and its affiliates, representing approximately 23% of the Company's total purchases, and sold approximately $17,853,000 of different merchandise to Quality King, which represented 100% of the Company's wholesale sales. There were approximately $39,317,000 and $5,960,000 of purchases from Quality King and approximately $23,570,000 and $11,366,000 of merchandise sold to Quality King during fiscal years 2004 and 2003 respectively. The wholesale sales made to Quality King result from the Company's supplier relationships and its ability to obtain certain merchandise at better prices and quantities than Quality King. The amounts due to Quality King at January 28, 2006 and January 29, 2005, were approximately $17,240,000 and $13,234,000 respectively. Accounts payable due to Quality King are non-interest bearing and are included in the accounts payable affiliate in the Company's consolidated balance sheets.

Parlux Fragrances, Inc. ("Parlux"), whose Chairman of the Board of Directors and Chief Executive Officer is Ilia Lekach, owns approximately 13% of the Company's outstanding common stock. Purchases of products from Parlux amounted to approximately $23,004,000, $38,360,000, and $27,701,000 in fiscal years 2005, 2004 and 2003, representing approximately 18%, 20% and 23%, respectively, of the Company's total purchases. The amount due to Parlux on January 28, 2006 and January 29, 2005, was approximately $9,666,000 and $9,994,000, respectively. Accounts payable due to Parlux are non-interest bearing. The amounts due to Parlux are included in the accounts payable affiliates in the accompanying consolidated balance sheets.

NOTE 6 - BANK LINE OF CREDIT AND NOTES PAYABLE

The bank line of credit and notes payable consist of the following:

	January 28, 2006	January 29, 2005
Bank line of credit, interest payable monthly, secured by a pledge of substantially all of Perfumania's assets	$ 20,147,978	$ 31,528,212
Subordinated convertible note payable affiliate - long term	$ 5,000,000	$ 5,000,000

In May 2004, Perfumania entered into a three-year senior secured credit facility with GMAC Commercial Finance LLC and Wachovia Capital Finance. The line

of credit provides for borrowings of up to $60 million depending on the Company's levels of eligible inventories. As of January 28, 2006, $20.1 million was outstanding under the line of credit and $19.3 million was available to support normal working capital requirements and other general corporate purposes. Advances under the line of credit are based on a formula of eligible inventories and bears interest at a floating rate ranging from (a) prime to prime plus 1.25% or (b) LIBOR plus 2.5% to 3.75% depending on a financial ratio test. The effective interest rate on the line of credit was between 6.88% and 7.25% as of January 28, 2006. Advances are secured by a first lien on all assets of Perfumania. The credit facility contains limitations on additional borrowings, capital expenditures and other items, and contains various covenants including a fixed charge coverage ratio, a leverage ratio and capital expenditure limits as defined. The credit facility expires in May 2007. As of January 28, 2006, Perfumania was in compliance with its covenant requirements. Company's management is currently negotiating an extension to this credit facility.

In March 2004, the Nussdorfs provided a $5,000,000 subordinated secured demand loan to Perfumania. The demand loan required quarterly interest payments at the prime rate plus 1%. There were no prepayment penalties and the loan was subordinate to all bank related indebtedness. On December 9, 2004, the Company issued a Subordinated Convertible Note (the "Convertible Note") in exchange for the $5,000,000 subordinated secured demand loan. The Convertible Note bears interest at the prime rate plus 1%, requires quarterly interest payments and is secured by a security interest in the Company's assets pursuant to a Security Agreement, by and among the Company and the Nussdorfs. There are no prepayment penalties and the Convertible Note is subordinate to all bank related indebtedness. The Convertible Note was payable in January 2007 and allows the Nussdorfs to convert the Convertible Note into shares of the Company's common stock at a conversion price of $11.25, which equals the closing market price of the Company's common stock on the date of the exchange. The Nussdorfs have agreed to extend the due date of the Convertible Note to January 2009.

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NOTE 7 - IMPAIRMENT OF ASSETS

Based on a review of the Company's retail store locations with negative cash flows, the Company recognized non-cash impairment charges relating to its retail operations of approximately $0.2 million, $0.3 million and $0.6 million during fiscal years 2005, 2004 and 2003, respectively. These charges were determined based on the difference between the carrying amounts of the assets, representing primarily fixtures and leasehold improvements, at particular store locations and the fair values of the assets on a store-by-store basis. The estimated fair values are based on anticipated future cash flows discounted at a rate commensurate with the risk involved. These impairment losses are included in provision for impairment of assets and store closings in the accompanying consolidated statements of operations.

NOTE 8 - INCOME TAXES (AS RESTATED)

Subsequent to the issuance of the Company's consolidated financial statements for fiscal year 2004, the Company determined that it had incorrectly excluded the after tax effects of temporary differences in the amount of approximately $3.0 million related to capital lease obligations of property and equipment and $2.4 million of Puerto Rican net operating loss carryforwards in the computation of its deferred income tax accounts. The error understated the related components of deferred tax assets, with an offsetting understated valuation allowance, as of January 29, 2005 of approximately $5.4 million. Since

the Company had recorded a full valuation allowance related to its deferred tax assets as of January 29, 2005 and prior to fiscal year 2003, the error had no impact on the net deferred tax assets reflected in the balance sheet as of January 29, 2005 or on the provision for income taxes in the accompanying consolidated statements of operations for the years ended January 29, 2005 and January 31, 2004. However, the below disclosures give effect to the correction of the error from disclosures previously reported.

The income tax benefit (provision) is comprised of the following amounts:

	FISCAL YEAR ENDED		
	January 28, 2006	January 29, 2005	January 31, 2004
Current:			
Federal	$ (200,000)	$ (75,000)	$ --
State	(200,000)	(75,000)	--
	(400,000)	(150,000)	--
Deferred:			
Federal	7,199,000	--	--
State	838,000	--	--
	8,037,000	--	--
Income tax benefit (provision)	$ 7,637,000	$ (150,000)	$ --

The income tax benefit (provision) differs from the amount obtained by applying the statutory Federal income tax rate to pretax income as follows:

	FISCAL YEAR ENDED		
	January 28, 2006	January 29, 2005	January 31, 2
Benefit (expense) at federal statutory rates	$ (2,253,609)	$ (1,122,436)	$ 4,376,37
Non-deductible expenses	(18,000)	(33,152)	(906,51
Change in valuation allowance	9,675,699	210,556	(2,607,17
Other	232,910	795,032	(862,69
Income tax benefit (provision)	$ 7,637,000	$ (150,000)	$ -

Net deferred tax assets reflect the tax effect of the following differences between financial statement carrying amounts and tax basis of assets and liabilities as follows:

	FISCAL YEAR ENDED	
	January 28, 2006	January 29, 2005
Assets:		
Net operating loss & tax credit carryforwards	$ 3,755,471	$ 6,482,224
Puerto Rican net operating loss carryforwards	2,730,392	2,352,642
Capital loss carryforward	1,571,773	1,571,773
Inventories	1,008,025	1,257,747
Property and equipment	4,688,345	3,723,148
Goodwill	246,816	296,382
Self insured reserves and other	580,343	535,948
Total deferred tax assets	14,581,165	16,219,864
Valuation allowance	(4,302,165)	(16,219,864)
Net deferred tax assets	$ 10,279,000	$ --

The Company previously recorded a full valuation allowance related to its deferred tax assets as realization of these assets was not more likely than not. Management has now determined that it is more likely than not that certain of the Company's deferred tax assets will be realized. As a result, the reversal of the valuation allowance of approximately $9.7 million has been reflected as a benefit in the tax provision for fiscal year 2005. In addition, the reversal of approximately $2.2 million of valuation allowance related to the exercise of stock options has been recorded in the consolidated statements of changes in shareholders' equity. The remaining valuation allowance of approximately $4.3 million relates to capital loss carryforwards and Puerto Rican net operating loss carryforwards where management has determined that the benefit of those deferred tax assets are not more likely than not to be realized. Puerto Rican net operating loss carryforwards begin expiring in fiscal year 2007.

In evaluating the reasonableness of the valuation allowance, management assesses whether it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. Ultimately, the realization of deferred tax assets is dependant upon generation of future taxable income during those periods in which temporary differences become deductible and/or credits can be utilized. To this end, management considers the level of historical taxable income, the scheduled reversal of deferred tax assets and projected future taxable income. Based on these considerations, and the carry-forward availability of the deferred tax assets, management believes it is more likely than not that the Company will realize the benefit of the deferred tax asset, net of the January 28, 2006 valuation allowance. The Company's net operating loss carryforwards begin to expire in 2019.

NOTE 9 - SHAREHOLDERS' EQUITY

PREFERRED STOCK

The Company's Articles of Incorporation authorize the issuance of up to 1,000,000 shares of preferred stock. The preferred stock may be issued from time to time at the discretion of the Board of Directors without shareholders' approval. The Board of Directors is authorized to issue these shares in different series and, with respect to each series, to determine the dividend rate, and provisions regarding redemption, conversion, liquidation preference and other rights and privileges. As of January 28, 2006, no preferred stock had been issued.

TREASURY STOCK

From time to time the Company's Board of Directors has approved the repurchase of the Company's common stock. As of January 28, 2006, the Company had repurchased approximately 898,000 shares of common stock for approximately $8.6 million. There were no repurchases during fiscal years 2005 or 2004.

STOCK OPTION PLANS

The Company currently has two plans which provide for equity-based awards to its employees and directors. Pursuant to the 2000 Stock Option Plan (the "Stock Option Plan") and 2000 Directors Stock Option Plan (the "Directors Plan") (collectively, the "Plans"), 375,000 shares and 30,000 shares of common stock, respectively, were initially reserved for issuance upon exercise of options under the Stock Option Plan and the Directors Plan. Additionally, the number of shares available under the Stock Option Plan automatically increases each year by an amount equal to 3% of the shares of common stock of the Company outstanding at the end of the immediate preceding year. The Company's Board of Directors, or a committee thereof, administers and interprets the Stock Option Plan. The Stock Option Plan provides for the granting of both "incentive stock options" (as defined in Section 422A of the Internal Revenue Code) and non-statutory stock options. Options can be granted under the Stock Option Plan on such terms and at such prices as determined by the Board, except that the per share exercise price of options will not be less than the fair market value of the common stock on the date of grant. Only non-employee directors are eligible to receive options under the Directors Plan. The Directors Plan provides for an automatic grant of an option to purchase 500 shares of common stock upon election as a director of the Company and an automatic grant of 1,000 shares of common stock upon such person's re-election as a director of the Company, in both instances at an exercise price equal to the fair value of the common stock on the date of grant.

As a result of the change in control described in Note 5, 244,252 options were issued in fiscal year 2003 which were immediately exercisable. The Company incurred a charge of approximately $2,286,000 in non-cash compensation expense as a result of the issuance of these options which represented the difference between the market price and exercise price, on the issuance date of these options.

Options granted under the Stock Option Plan are exercisable after the period or periods specified in the option agreement, and options granted under the Directors Plan are exercisable immediately. Options granted under the Plans are not exercisable after the expiration of 10 years from the date of grant.

A summary of the Company's option activity, and related information for each of the three fiscal years ended January 28, 2006 is as follows:

	2005		2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	212,032	$ 9.46	809,238	$ 4.99
Granted	110,666	12.42	5,334	11.12

Exercised	(22,531)	3.71	(548,926)	3.08
Cancelled	(60,379)	13.82	(53,614)	7.65
Outstanding at end of year	239,788	$ 10.27	212,032	$ 9.46
Options exercisable at end of year	239,788	$ 10.27	212,032	$ 9.46

The following table summarizes information about stock options outstanding at January 28, 2006:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	NUMBER EXERCISABLE	Weighted Average Remaining Exercise Price
$2.00 - $7.76	72,344	$ 4.87	5.99	72,344	$ 4.87
$8.24 - $12.52	42,188	10.93	4.77	42,188	10.93
$12.99	100,000	12.99	9.42	100,000	12.99
$13.00 - $21.52	25,256	13.89	6.83	25,256	13.89
	239,788	$ 10.27	7.29	239,788	$ 10.27

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NOTE 10- EMPLOYEE BENEFIT PLANS

The Company has a 401(k) Savings and Investment Plan ("the Plan"). Pursuant to such Plan, participants may make contributions to the Plan up to a maximum of 20% of total compensation or $13,000, whichever is less, and the Company, at its discretion, may match such contributions to the extent of 25% of the first 6% of a participant's contribution. The Company's matching contributions vest over a 4-year period. In addition to matching contributions, the Company may make additional contributions on a discretionary basis in order to comply with certain Internal Revenue Code regulations prohibiting discrimination in favor of highly compensated employees. The Company did not match contributions during fiscal year 2005 and 2004 and matching contributions during fiscal year 2003 were not significant.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

The Company is self-insured for employee medical benefits under the Company's group health plan. The Company maintains stop loss coverage for individual medical claims in excess of $80,000 and for annual Company medical claims which exceed approximately $2.1 million in the aggregate. While the ultimate amount of claims incurred are dependent on future developments, in management's opinion, recorded reserves are adequate to cover the future payment of claims incurred as of January 28, 2006. However, it is possible that recorded reserves may not be adequate to cover the future payment of claims. Adjustments, if any, to estimates recorded resulting from ultimate claim payments will be

reflected in operations in the periods in which such adjustments are determined. The self-insurance reserve at January 28, 2006 and January 29, 2005 was approximately $229,000 and $426,000, respectively, which is included in accrued expenses and other liabilities in the accompanying consolidated balance sheets.

The Company leases space for its retail stores. The lease terms vary from month to month leases to ten year leases, in some cases with options to renew for longer periods. Various leases contain clauses, which adjust the base rental rate by the prevailing Consumer Price Index, as well as requiring additional rent based on a percentage of gross sales in excess of a specified amount.

Rent expense is as follows:

	FISCAL YEAR		
	2005	2004	2003
Minimum rentals	$ 14,635,031	$ 14,067,187	$ 14,297,451
Contingent rentals	1,449,216	1,349,318	1,261,577
Total	$ 16,084,247	$ 15,416,505	$ 15,559,028

Future minimum lease commitments under non-cancelable operating leases at January 28, 2006 are as follows:

FISCAL YEAR	
2006	$ 14,228,433
2007	11,972,759
2008	8,982,443
2009	7,442,825
2010	5,815,649
Thereafter	12,330,830
Total future minimum lease payments	$ 60,772,939

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The Company's capitalized leases consist of a corporate office and distribution facility in Sunrise, Florida, as well as computer hardware and software. The lease for the corporate office and distribution facility is for approximately 14 years with monthly rent ranging from approximately $81,000 to $104,000. The lease terms for the computer hardware and software vary from one to three years. The following is a schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments, at January 28, 2006:

FISCAL YEAR	
2006	$ 1,249,082
2007	1,237,775
2008	1,217,482
2009	1,231,779
2010	1,239,766
Thereafter	9,175,867
Total future minimum lease payments	15,351,751

Less: Amount representing interest	(7,131,113)
Present value of minimum lease payments	8,220,638
Less: Current portion	(322,284)
	$ 7,898,354

The depreciation expense relating to capital leases is included in depreciation and amortization expense in the accompanying consolidated statements of operations.

The Company is involved in various legal proceedings in the ordinary course of business. Management cannot presently predict the outcome of these matters, although management believes that the ultimate resolution of these matters will not have a materially adverse effect on the Company's financial position.

NOTE 12 - SEGMENT INFORMATION

Segment information is prepared on the same basis that the Company's management reviews financial information. The Company operates in two industry segments, specialty retail sales and wholesale distribution of fragrances and related products. Retail sales include sales through our Internet site, perfumania.com. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 2. The Company does not allocate operating and other expenses to its segments. Financial information for these segments is summarized in the following table.

	FISCAL YEAR		
	2005	2004	2003
Net sales:			
Retail	$ 215,841,101	$ 201,424,708	$ 198,478,506
Wholesale	17,852,980	23,578,493	14,089,063
	$ 233,694,081	$ 225,003,201	$ 212,567,569
Gross profit:			
Retail	$ 95,353,919	$ 90,048,875	$ 81,923,375
Wholesale	1,147,240	1,287,721	1,453,645
	$ 96,501,159	$ 91,336,596	$ 83,377,020

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NOTE 13- QUARTERLY FINANCIAL DATA (UNAUDITED)

Unaudited summarized financial results for fiscal years 2005 and 2004 follows (in thousands, except for per share data):

2005 QUARTER	FIRST	SECOND	THIRD	FOURTH
Net sales	$ 43,278	$ 54,199	$ 43,657	$ 87,560
Gross profit	17,863	21,521	20,529	36,587

Net income (loss)	(2,066)	(222)	(1,114)	17,667
Net income (loss) per basic share	(0.70)	(0.08)	(0.38)	5.98
Net income (loss) per diluted share	(0.70)	(0.08)	(0.38)	5.11

2004 QUARTER	FIRST	SECOND	THIRD	FOURTH
Net sales	$ 43,571	$ 48,471	$ 50,803	$ 82,158
Gross profit	17,505	20,868	19,740	33,224
Net income (loss)	(2,638)	(529)	(1,103)	7,421
Net income (loss) per basic share	(1.00)	(0.18)	(0.38)	2.54
Net income (loss) per diluted share	(1.00)	(0.18)	(0.38)	2.30

The Company realizes higher sales, gross profit and net income in the fourth fiscal quarter than the other three fiscal quarters due to increased purchases of fragrances as gift items during the holiday season.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of January 28, 2006, that our disclosure controls and procedures are effective. During the preparation of the financial statements for fiscal year 2005, and as a result of updates in projected taxable income we changed our assessment of the need for the valuation allowances on deferred tax assets and enhanced the operating effectiveness of our reconciliation procedures surrounding financial reporting related to accounting for deferred income taxes. There have been no additional changes in our internal control over financial reporting during the quarter ended January 28, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Except as disclosed below, the information called for by this item is incorporated by reference from E Com Ventures, Inc. Annual Meeting of Shareholders - Notice and Proxy Statement - 2005 (to be filed pursuant to Regulation 14A not later than 120 days after the close of the fiscal year) in accordance with General Instruction 6 to the Annual Report on Form 10-K.

The Company has adopted a Code of Business Conduct and Ethics that applies to all of the Company's officers, directors and employees.

ITEM 11. EXECUTIVE COMPENSATION

The information called for by this item is incorporated by reference from E Com Ventures, Inc. Annual Meeting of Shareholders - Notice and Proxy Statement - 2005 (to be filed pursuant to Regulation 14A not later than 120 days after the close of the fiscal year) in accordance with General Instruction G to the Annual Report on Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information is required by Item 403 of Regulation S-K relating to the ownership of our common stock by certain beneficial owners and management and is incorporated by reference from E Com Ventures, Inc. Annual Meeting of Shareholders - Notice and Proxy Statement - 2005 (to be filed pursuant to Regulation 14A not later than 120 days after the close of the fiscal year) in accordance with General Instruction G to the Annual Report on Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information is incorporated by reference from E Com Ventures, Inc. Annual Meeting of Shareholders - Notice and Proxy Statement - 2005 (to be filed pursuant to Regulation 14A not later than 120 days after the close of the fiscal year) in accordance with General Instruction G to the Annual Report on Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information is incorporated by reference from E Com Ventures, Inc. Annual Meeting of Shareholders - Notice and Proxy Statement - 2005 (to be filed pursuant to Regulation 14A not later than 120 days after the close of the fiscal year) in accordance with General Instruction G to the Annual Report on Form 10-K.

PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

(1) Financial Statements

An index to financial statements for the fiscal years ended January 28, 2006, January 29, 2005 and January 31, 2004 appears on page 23.

(2) Financial Statement Schedules

None

(3) Exhibits

EXHIBIT	DESCRIPTION	PAGE NUMBER OR INCORPORATED BY REFERENCE FROM

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3.1	Amended and Restated Articles of Incorporation	(1)
3.2	Bylaws	(2)
10.5	1991 Stock Option Plan, as amended*	(3)
10.6	1992 Directors Stock Option Plan, as amended*	(3)
10.7	Series A Securities Purchase Agreement	(4)
10.8	Series B Securities Purchase Agreement	(5)
10.9	Series C Securities Purchase Agreement	(6)
10.10	Series D Securities Purchase Agreement	(6)
10.11	2000 Stock Option Plan*	(7)
10.12	2000 Directors Stock Option Plan*	(7)
10.13	Amended and Restated Revolving Credit and Security Agreement with GMACCommercial Credit LLC, and Congress Financial Corporation (Florida), date May 12, 2004	(11)
10.14	Nussdorf Subordinated Secured Demand Note	(11)
10.15	Lease agreement with Victory Investment Group, LLC, dated October 21, 2002	(8)
10.16	Waiver and Amendment to the Revolving Credit and Security Agreement with GMAC Commercial Credit LLC, dated April 29,2004	(11)
10.17	Amendment to the 2000 Stock Option Plan*	(9)
10.18	Nussdorf Subordinated Secured Convertible Note	(10)
21.1	Subsidiaries of the Registrant	(12)
23.1	Consent of Deloitte & Touche LLP	(12)
31.1	Certification of the Chief Executive Officer pursuant to Section 302 ofthe Sarbanes-Oxley Act of 2002	(12)
31.2	Certification of the Chief Financial Officer pursuant to Section 302 ofthe Sarbanes-Oxley Act of 2002	(12)
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	(12)
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	(12)

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* Management contract or compensatory plan or arrangement

(1) Incorporated by reference to the exhibit of the same description filed with the Company's 1993 Form 10-K (filed April 28, 1994).

(2) Incorporated by reference to the exhibit of the same description filed with the Company's Registration Statement on Form S-1 (No 33-46833).

(3) Incorporated by reference to the exhibit of the same description filed with the Company's 1995 Form 10-K (filed April 26, 1996).

(4) Incorporated by reference to the exhibit of the same description filed with the Company's Registration Statement on Form S-1 filed June 11, 1999 (No. 333-80525).

(5) Incorporated by reference to the exhibit of the same description filed with the Company's Registration Statement on Form S-1/A, filed August 31, 1999 (No. 333-80525).

(6) Incorporated by reference to the exhibit of the same description filed with the Company's Registration Statement on Form S-3 filed April 25, 2000 (No. 333-35580).

(7) Incorporated by reference to the exhibit of the same description filed with the Company's Proxy Statement (filed October 6, 2000).

(8) Incorporated by reference to the exhibit of the same description filed with the Company's 2002 Form 10-K (filed April 30, 2003).

(9) Incorporated by reference to Appendix A to the Company's Proxy Statement (filed April 16, 2004).

(10) Incorporated by reference to the exhibit of the same description filed with the Company's Form 8-K (filed in December 14, 2004).

(11) Incorporated by reference to the exhibit of the same description filed with the Company's 2004 Form 10-K (filed April 29, 2005).

(12) Filed Herewith.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, April 28, 2006.

E Com Ventures, Inc.

By: /s/ MICHAEL W. KATZ

Michael W. Katz,
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ A. MARK YOUNG

A. Mark Young,
Chief Financial Officer
(Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ MICHAEL W. KATZ Michael W. Katz	President and Chief Executive Officer (Principal Executive Officer)	April 28, 2006
/s/ STEPHEN NUSSDORF Stephen Nussdorf	Chairman of the Board of Directors	April 28, 2006
/s/ A. MARK YOUNG A. Mark Young	Chief Financial Officer, (Principal Accounting Officer)	April 28, 2006
/s/ DONOVAN CHIN Donovan Chin	Chief Financial Officer Perfumania, Inc.,	April 28, 2006
/s/ CAROLE ANN TAYLOR Carole Ann Taylor	Director	April 28, 2006
/s/ JOSEPH BOUHADANA Joseph Bouhadana	Director	April 28, 2006
/s/ PAUL GARFINKLE Paul Garfinkle	Director	April 28, 2006

ing results and price of our securities.

Our charter, the partnership agreement of our Operating Partnership and Maryland law contain provisions that may delay or prevent a change of control transaction.

Our charter contains 9.8% ownership limits. Our charter, subject to certain exceptions, authorizes our directors to take such actions as are necessary and desirable to limit any person to actual or constructive ownership of no more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of our capital stock and

no more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of our common stock. In addition, the articles supplementary for our 6.625% Series B Cumulative Redeemable Preferred Stock, par value $0.01 per share (the "Series B Preferred Stock"), and our 6.875% Series C Cumulative Redeemable Preferred Stock, par value $0.01 per share (the "Series C Preferred Stock") provide that generally no person may own, or be deemed to own by virtue of the attribution provisions of the Code, either more than 9.8% in value or in number of shares, whichever is more restrictive, of our outstanding Series B Preferred Stock or Series C Preferred Stock. Our board of directors, in its sole discretion, may exempt a proposed transferee from the ownership limits. However, our board of directors may not grant an exemption from the ownership limits to any proposed transferee whose ownership, direct or indirect, of more than 9.8% of the value or number of our outstanding shares of our common stock, our Series B Preferred Stock or our Series C Preferred Stock could jeopardize our status as a REIT. The ownership limits contained in our charter and the restrictions on ownership of our common stock may delay or prevent a transaction or a change of control that might be in the best interest of our stockholders.

Our board of directors may create and issue a class or series of preferred stock without stockholder approval. Subject to the rights of holders of Series B Preferred Stock and Series C Preferred Stock to approve the classification or issuance of any class or series of stock ranking senior to the Series B Preferred Stock or Series C Preferred Stock, our board of directors is empowered

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under our charter to amend our charter to increase or decrease the aggregate number of shares of our common stock or the number of shares of stock of any class or series that we have authority to issue, to designate and issue from time to time one or more classes or series of preferred stock and to classify or reclassify any unissued shares of our common stock or preferred stock without stockholder approval. Subject to the rights of holders of Series B Preferred Stock and Series C Preferred Stock discussed above, our board of directors may determine the relative rights, preferences and privileges of any class or series of preferred stock issued. The issuance of preferred stock could also have the effect of delaying or preventing a change of control transaction that might otherwise be in the best interests of our stockholders.

Certain provisions in the partnership agreement for our Operating Partnership may delay or prevent unsolicited acquisitions of us. Provisions in the partnership agreement for our Operating Partnership could discourage third parties from making proposals involving an unsolicited acquisition of us or change of our control, although some stockholders might consider such proposals, if made, desirable. These provisions include, among others:

- redemption rights of qualifying parties;
- transfer restrictions on our common units;
- the ability of the general partner in some cases to amend the partnership agreement without the consent of the limited partners; and
- the right of the limited partners to consent to transfers of the general partnership interest and mergers under specified circumstances.

Any potential change of control transaction may be further limited as a result of provisions of the partnership unit designation for the LTIP units, which require us to preserve the rights of LTIP unit holders and may restrict us from amending the partnership agreement for our Operating Partnership in a manner that would have an adverse effect on the rights of LTIP unit holders.

Certain provisions of Maryland law could inhibit changes in control. Certain provisions of the Maryland General Corporation Law ("MGCL") may have the effect of inhibiting a third party from making a proposal to acquire us or impeding a change of control under circumstances that might be in the best interest of our stockholders, including:

- "business combination" provisions that, subject to 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) for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter impose special appraisal rights and special stockholder voting requirements on these combinations; and
- "control share" provisions that provide that "control shares" of our company (defined as shares which, 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 "control shares") have no voting rights 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.

We have elected to opt out of these provisions of the MGCL, in the case of the business combination provisions of the MGCL, by resolution of our board of directors, and in the case of the control share provisions of the MGCL, pursuant to a provision in our bylaws. Only upon the approval of our stockholders, our board of directors may repeal the foregoing opt-outs from the business combination provisions of the MGCL and opt in to the control share provisions of the MGCL in the future.

Additionally, Title 8, Subtitle 3 of the MGCL, permits our board of directors, without stockholder approval and regardless of what is currently provided in our charter or our bylaws, to implement takeover defenses, some of which (for example, a classified board) we do not currently have. These provisions may have the effect of inhibiting a third party from making an acquisition proposal for our company or of delaying, deferring or preventing a change in control of our company under circumstances that might be in the best interest of our stockholders.

Our charter, bylaws, the partnership agreement for our Operating Partnership and Maryland law also contain other provisions that may delay, defer or prevent a transaction or a change of control that might be in the best interest of our stockholders.

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Under their employment agreements, our executive officers have the right to terminate their employment and, under certain conditions, receive severance, which may adversely affect us.

The employment agreements with our executive officers provide that each executive may terminate his or her employment and, under certain conditions, receive severance based on two or three times (depending on the officer) the annual total of salary and bonus and immediate vesting of equity-based awards. In the case of certain terminations, they would not be restricted from competing with us after their departure.

Compensation awards to our management may not be tied to or correspond with our improved financial results or the stock price, which may adversely affect us.

The compensation committee of our board of directors is responsible for overseeing our compensation and employee benefit plans and practices, including our executive compensation plans and our incentive compensation and equity-based compensation plans. Our compensation committee has significant discretion in structuring compensation packages and may make compensation decisions based on any number of factors. As a result, compensation awards may not be tied to or correspond with improved financial results at our company or the share price of our common stock.

Our board of directors can take many actions without stockholder approval.

Our board of directors has overall authority to oversee our operations and determine our major corporate policies. This authority includes significant flexibility. For example, our board of directors can do the following:

- amend or revise at any time and from time to time our investment, financing, borrowing and dividend policies and our policies with respect to all other activities, including growth, debt, capitalization and operations;
- amend our policies with respect to conflicts of interest provided that such changes are consistent with applicable legal requirements;
- within the limits provided in our charter, prevent the ownership, transfer and/or accumulation of shares in order to protect our status as a REIT or for any other reason deemed to be in the best interests of us and our stockholders;
- issue additional shares without obtaining stockholder approval, which could dilute the ownership of existing stockholders;
- amend our charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series, without obtaining stockholder approval;
- subject to the rights of holders of Series B Preferred Stock and of Series C Preferred Stock, classify or reclassify any unissued shares of our common stock or preferred stock, set the preferences, rights and other terms of such classified or reclassified shares, without obtaining stockholder approval;
- make certain amendments to our equity incentive plan;
- employ and compensate affiliates;
- direct our resources toward investments that do not ultimately appreciate over time;
- change creditworthiness standards with respect to third-party tenants; and
- determine that it is no longer in our best interests to continue to qualify as a REIT.

Any of these actions could increase our operating expenses, impact our ability to make distributions or reduce the value of our assets without giving you, as a stockholder, the right to vote.

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

Maryland law provides that a director or officer has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our charter eliminates our directors' and officers' liability 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 established by a final judgment and which is material to the cause of action. Our bylaws require us to indemnify our directors and officers to the maximum extent permitted by Maryland law for liability actually incurred in connection with any proceeding to which they may be made, or threatened to be made, a party, except to the

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extent that the act or omission of the director or officer was material to the matter giving rise to the proceeding and was either committed in bad faith or was the result of active and deliberate dishonesty, the director or officer actually received an improper personal benefit in money, property or services, or, in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist under common law. In addition, we may be obligated to fund the defense costs incurred by our directors and officers.

The number of shares of our common stock available for future sale, including by our affiliates or investors in our Operating Partnership, could adversely affect the market price of our common stock, and future sales by us of shares of our common stock may be dilutive to existing stockholders.

Sales of substantial amounts of shares of our common stock in the public market, or upon exchange of common units or exercise of any options, or the perception that such sales might occur could adversely affect the market price of our common stock. The exchange of common units for common stock, the exercise of any stock options or the vesting of any restricted stock granted under our 2011 Plan, the issuance of our common stock or common units in connection with property, portfolio or business acquisitions and other issuances of our common stock or common units could have an adverse effect on the market price of the shares of our common stock. The existence of shares of our common stock reserved for issuance under our 2011 Plan or upon exchange of common units may adversely affect the terms upon which we may be able to obtain additional capital through the sale of equity securities. We also have filed a registration statement with the SEC allowing us to offer, from time to time, an indefinite amount of equity securities (including common or preferred stock) on an as-needed basis and subject to our ability to affect offerings on satisfactory terms based on prevailing conditions. In addition, our board of directors authorized us to issue shares of common stock in our “at-the-market” offering program. Our ability to execute our business strategy depends on our access to an appropriate blend of debt financing, including unsecured lines of credit and other forms of secured and unsecured debt, and equity financing, including issuances of common and preferred stock. No prediction can be made about the effect that future distributions or sales of our common stock will have on the market price of our common shares. In addition, future sales by us of our common stock may be dilutive to existing stockholders.

Future offerings of debt securities, which would be senior to our common stock upon liquidation, or equity securities, which would dilute our existing stockholders and may be senior to our common stock for the purposes of distributions, may adversely affect the market price of our securities.

Our common stock is ranked junior to our Series B Preferred Stock and Series C Preferred Stock. Our outstanding Series B Preferred Stock and Series C Preferred Stock also has or will have a preference upon our dissolution, liquidation or winding up in respect of assets available for distribution to our stockholders. Holders of our common stock are not entitled to preemptive rights or other protections against dilution. In the future, we may attempt to increase our capital resources by making additional offerings of debt or equity securities, including commercial paper, medium-term notes, senior or subordinated notes and classes of preferred or common stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our securities or both. 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. Thus, our stockholders bear the risk of our future offerings reducing the market price of our securities and diluting their proportionate ownership.

The market price and trading volume of our common stock may be volatile.

The market price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. If the market price of our common stock declines significantly, you may be unable to resell your shares at or above the price at which they traded when you acquired them. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect the market price of our common stock or result in fluctuations in the market price or trading volume of our common stock include:

- actual or anticipated variations in our quarterly operating results;
- changes in our operations or earnings estimates or publication of research reports about us or the industry;

- changes in our dividend policy;
- increases in market interest rates that lead purchasers of our shares to demand a higher yield;
- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we incur in the future;

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- our ability to comply with applicable financial covenants in our unsecured credit facility, unsecured term loans, unsecured notes, and other loan agreements;
- additions or departures of key management personnel;
- actions by institutional stockholders;
- the realization of any of the other risk factors presented in this report;
- speculation in the press or investment community; and
- general U.S. and worldwide market and economic conditions.

General Real Estate Risks

Our performance and value are subject to general economic conditions and risks associated with our real estate assets. The investment returns available from equity investments in real estate depend on the amount of income earned and capital appreciation generated by the properties, as well as the expenses incurred in connection with the properties. If our properties do not generate income sufficient to meet operating expenses, including debt service and capital expenditures, then our ability to pay distributions to our stockholders could be adversely affected. In addition, there are significant expenditures associated with an investment in real estate (such as mortgage payments, real estate taxes and maintenance costs) that generally do not decline when circumstances reduce the income from the property. Income from and the value of our properties may be adversely affected by:

- changes in general or local economic climate;
- the attractiveness of our properties to potential tenants;
- changes in supply of or demand for similar or competing properties in an area;
- bankruptcies, financial difficulties or lease defaults by our tenants;
- changes in interest rates and availability of permanent mortgage funds that may render the sale of a property difficult or unattractive or otherwise reduce returns to stockholders;
- changes in operating costs and expenses and our ability to control rents;
- changes in or increased costs of compliance with governmental rules, regulations and fiscal policies, including changes in tax, real estate, environmental and zoning laws, and our potential liability thereunder;
- our ability to provide adequate maintenance and insurance;
- changes in the cost or availability of insurance, including coverage for mold or asbestos;
- unanticipated changes in costs associated with known adverse environmental conditions or retained liabilities for such conditions;
- periods of high interest rates and tight money supply;
- tenant turnover;
- general overbuilding or excess supply in the market; and
- disruptions in the global supply chain caused by political, regulatory or other factors including terrorism.

In addition, periods of economic slowdown or recession, rising interest rates or declining demand for real estate, or public perception that any of these events may occur, would result in a general decrease in rents or an increased occurrence of defaults under existing leases, which would adversely affect our financial condition and results of operations. Future terrorist attacks may result in declining economic activity, which could reduce the demand for, and the value of, our properties. To the extent that future attacks impact our tenants, their businesses similarly could be adversely affected, including their ability to continue to honor their existing leases.

For these and other reasons, we cannot assure you that we will be profitable or that we will realize growth in the value of our real estate properties.

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Actions by our competitors may decrease or prevent increases in the occupancy and rental rates of our properties.

We compete with other owners, operators and developers of real estate, some of which own properties similar to ours in the same markets and submarkets 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 potential tenants, and we may be pressured to reduce our rental rates below those we currently charge in order to retain tenants when our tenants' leases expire.

A significant portion of our properties have leases that expire in the next three years and we may be unable to renew leases, lease vacant space or re-lease space as leases expire.

Our results of operations, cash flows, cash available for distribution, and the value of our securities would be adversely affected if we are unable to lease, on economically favorable terms, a significant amount of space in our operating properties. As of December 31, 2016, leases with respect to approximately 44.8% (excluding month to month leases, which comprises an additional 0.4%) of our total annualized base rental revenue will expire before December 31, 2019. We cannot assure you that expiring leases will be renewed or that our properties will be re-leased at base rental rates equal to or above the current market rental rates. In addition, the number of vacant or partially vacant industrial properties in a market or submarket could adversely affect our ability to re lease the space at attractive rental rates.

A property that incurs a vacancy could be difficult to sell or re-lease.

A property may incur a vacancy either by the continued default of a tenant under its lease or the expiration of one of our leases. In addition, certain of the properties we acquire may have some level of vacancy at the time of closing. Certain of our properties may be specifically suited to the particular needs of a tenant. We may have difficulty obtaining a new tenant for any vacant space we have in our properties. If the vacancy continues for a long period of time, we may suffer reduced revenue resulting in less cash available to be distributed to stockholders. In addition, the resale value of a property could be diminished because the market value of a particular property will depend principally upon the value of the leases of such property.

We may not have funding for future tenant improvements.

When a tenant at one of our properties does not renew its lease or otherwise vacates its space in one of our buildings, it is likely that, in order to attract one or more new tenants, we will be required to expend funds to construct new tenant improvements in the vacated space. Except with respect to our current reserves for capital expenditures, tenant improvements and leasing commissions, we cannot assure you that we will have adequate sources of funding available to us for such purposes in the future.

Bankruptcy laws will limit our remedies if a tenant becomes bankrupt and rejects the lease and we may be unable to collect balances due on our leases.

If a tenant becomes bankrupt or insolvent, that could diminish the income we receive from that tenant's lease. Our tenants may experience downturns in their operating results due to adverse changes to their business or economic conditions, and those tenants that are highly leveraged may have a higher possibility of filing for bankruptcy or insolvency. We may not be able to evict a tenant solely because of its bankruptcy. On the other hand, a bankruptcy court might authorize the tenant to terminate its lease with us. If that happens, our claim against the bankrupt tenant for unpaid future rent would be an unsecured prepetition claim subject to statutory limitations, and therefore such amounts received in bankruptcy are likely to be substantially less than the remaining rent we otherwise were owed under the lease. In addition, any claim we have for unpaid past rent could be substantially less than the amount owed. If the lease for such a property is rejected in bankruptcy, our revenue would be reduced and could adversely impact our ability to pay distributions to stockholders.

Real estate investments are not as liquid as other types of investments.

Real estate investments are not as liquid as other types of investments, and this lack of liquidity may limit our ability to react promptly to changes in economic or other conditions. In addition, significant expenditures associated with real estate investments, such as mortgage payments, real estate taxes and maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investments. In addition, we intend to comply with the safe harbor rules relating to the number of properties that can be disposed of in a year, the tax bases and the costs of improvements made to these properties, and other items that enable a REIT to avoid punitive taxation on the sale of

assets. Thus, our ability at any time to sell assets or contribute assets to property funds or other entities in which we have an ownership interest may be restricted. This lack of liquidity may limit our ability to vary our portfolio promptly in response to changes in economic or other conditions.

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Acquired properties may be located in new markets where we may face risks associated with investing in an unfamiliar market.

We have acquired, and may continue to acquire, properties in markets that are new to us. When we acquire properties located in these markets, we may face risks associated with a lack of market knowledge or understanding of the local economy, forging new business relationships in the area and unfamiliarity with local government and permitting procedures.

Uninsured losses relating to real property may adversely affect your returns.

We attempt to ensure that all of our properties are adequately insured to cover casualty losses. However, there are certain losses, including losses from floods, earthquakes, acts of war, acts of terrorism or riots, that are not generally insured against or that are not generally fully insured against because it is not deemed economically feasible or prudent to do so. In addition, changes in the cost or availability of insurance could expose us to uninsured casualty losses. In the event that any of our properties incurs a casualty loss that is not fully covered by insurance, the value of our assets will be reduced by the amount of any such uninsured loss, and we could experience a significant loss of capital invested and potential revenue in these properties and could potentially remain obligated under any recourse debt associated with the property. Moreover, we, as the indirect general partner of our Operating Partnership, generally will be liable for all of our Operating Partnership's unsatisfied recourse obligations, including any obligations incurred by our Operating Partnership as the general partner of joint ventures. In addition, we may have no source of funding to repair or reconstruct the damaged property, and we cannot assure you that any such sources of funding will be available to us for such purposes in the future. We evaluate our insurance coverage annually in light of current industry practice through an analysis prepared by outside consultants.

Contingent or unknown liabilities could adversely affect our financial condition.

As part of the formation transactions related to our IPO, we assumed existing liabilities of contributed operating companies and liabilities in connection with contributed properties, some of which may be unknown or unquantifiable. Unknown liabilities might include liabilities for cleanup or remediation of undisclosed environmental conditions beyond the scope of our environmental insurance coverage, claims of tenants, vendors or other persons dealing with the entities prior to our IPO, tax liabilities, and accrued but unpaid liabilities whether incurred in the ordinary course of business or otherwise. In addition, we may in the future acquire properties, or may have previously owned properties, subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities. As a result, if a liability were asserted against us based on ownership of any of these entities or properties, then we might have to pay substantial sums to settle it, which could adversely affect our cash flows.

Environmentally hazardous conditions may adversely affect our operating results.

Under various federal, state and local environmental laws, a current or previous owner or operator of real property may be liable for the cost of removing or remediating hazardous or toxic substances on such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Even if more than one person may have been responsible for the contamination, each person covered by the environmental laws may be held responsible for all of the clean up costs incurred. In addition, third parties may sue the owner or operator of a site for damages based on personal injury, natural resources or property damage or other costs, including investigation and clean up costs, resulting from the environmental contamination. The presence of hazardous or toxic substances on one of our properties, or the failure to properly remediate a contaminated property, could give rise to a lien in favor of the government for costs it may incur to address the contamination, or otherwise adversely affect our ability to sell or lease the property or borrow using the property as collateral. Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated. A property owner who violates environmental laws may be subject to sanctions which may be enforced by governmental agencies or, in certain circumstances, private parties. In connection with the acquisition and ownership of our properties, we may be exposed to such costs. The cost of defending against environmental claims, of compliance with environmental regulatory requirements or of remediating any contaminated property could materially adversely affect our business, assets or results of operations and, consequently, amounts available for distribution to our stockholders.

Environmental laws in the U.S. also require that owners or operators of buildings containing asbestos properly manage and maintain the asbestos, adequately inform or train those who may come into contact with asbestos and undertake special precautions, including removal or other abatement, in the event that asbestos is disturbed during building renovation or demolition. These laws may impose fines and penalties on building owners or operators who fail to comply with these requirements and may allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos. Some of our properties contain asbestos containing building materials.

We invest in properties historically used for industrial, light manufacturing and commercial purposes. Some of these properties contain, or may have contained, underground storage tanks for the storage of petroleum products and other hazardous or toxic substances. All of these operations create a potential for the release of petroleum products or other hazardous or toxic substances. Some of our properties are adjacent to or near other properties that have contained or currently contain underground storage tanks

used to store petroleum products or other hazardous or toxic substances. In addition, certain of our properties are on or are adjacent to or near other properties upon which others, including former owners or tenants of our properties, have engaged, or may in the future engage, in activities that may release petroleum products or other hazardous or toxic substances.

From time to time, we may acquire properties, or interests in properties, with known adverse environmental conditions where we believe that the environmental liabilities associated with these conditions are quantifiable and that the acquisition will yield a superior risk adjusted return. In such an instance, we underwrite the costs of environmental investigation, clean up and monitoring into the cost. Further, in connection with property dispositions, we may agree to remain responsible for, and to bear the cost of, remediating or monitoring certain environmental conditions on the properties.

Before acquiring a property, we typically obtain a preliminary assessment of environmental conditions at the property that meets certain specifications, often referred to as "Phase I environmental site assessment" or "Phase I environmental assessment." It is intended to discover and evaluate information regarding the environmental condition of the surveyed property and surrounding properties. A Phase I environmental assessment generally includes an historical review, a public records review, an investigation of the surveyed site and surrounding properties, and preparation and issuance of a written report, but does not include soil sampling or subsurface investigations and typically does not include an asbestos survey. Material environmental conditions, liabilities or compliance concerns may arise after the environmental assessment has been completed. Moreover, there can be no assurance that:

- future laws, ordinances or regulations will not impose any material environmental liability; or
- the current environmental condition of our properties will not be affected by tenants, by the condition of land or operations in the vicinity of our properties (such as releases from underground storage tanks), or by third parties unrelated to us.

Compliance or failure to comply with the Americans with Disabilities Act and other similar regulations could result in substantial costs.

Under the ADA, places of public accommodation must meet certain federal requirements related to access and use by disabled persons. Noncompliance could result in the imposition of fines by the federal government or the award of damages to private litigants. If we are required to make unanticipated expenditures to comply with the ADA, including removing access barriers, then our cash flows and the amounts available for distributions to our stockholders may be adversely affected. While we believe that our properties are currently in material compliance with these regulatory requirements, the requirements may change or new requirements may be imposed that could require significant unanticipated expenditures.

Some of our properties are subject to a ground lease that exposes us to the loss of such property upon breach or termination of the ground lease and may limit our ability to sell the property.

We own some properties through leasehold interests in the land underlying the building and we may acquire additional buildings in the future that are subject to similar ground leases. As lessee under a ground lease, we are exposed to the possibility of losing the property upon expiration, or an earlier breach by us, of the ground lease.

In the future, our ground leases may contain certain provisions that may limit our ability to sell certain of our properties. In addition, in the future, in order to assign or transfer our rights and obligations under certain of our ground leases, we may be required to obtain the consent of the landlord which, in turn, could adversely impact the price realized from any such sale.

We also own properties that benefit from payment in lieu of tax ("PILOT") programs or similar programs and to facilitate such tax treatment our ownership in this property is structured as a leasehold interest with the relevant municipality serving as lessor. With respect to such arrangements, we have the right to purchase the fee interest in the property for a nominal purchase price, so the risk factors set forth above for traditional ground leases are mitigated by our ability to convert such leasehold interests to fee interests. In the event of such a conversion of our ownership interests, however, any preferential tax treatment offered by the PILOT programs will be lost.

We may be unable to sell a property if or when we decide to do so, including as a result of uncertain market conditions.

We expect to hold the various real properties in which we invest until such time as we decide that a sale or other disposition is appropriate given our investment objectives. Our ability to dispose of properties on advantageous terms depends on factors beyond our control, including competition from other sellers and the availability of attractive financing for potential buyers of our properties. We cannot predict the various market conditions affecting real estate investments which will exist at any particular time in the future. Due to the uncertainty of market conditions which may affect the future disposition of our properties, we cannot assure you that we will be able to sell our properties at a profit in the future. Accordingly, the extent to which you will receive cash distributions and realize potential appreciation on our real estate investments will be dependent upon fluctuating market conditions.

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Furthermore, we may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot assure you that we will have funds available to correct such defects or to make such improvements.

If we sell properties and provide financing to purchasers, defaults by the purchasers would adversely affect our cash flows.

If we decide to sell any of our properties, we presently intend to use our best efforts to sell them for cash. However, in some instances we may sell our properties by providing financing to purchasers. If we provide financing to purchasers, we will bear the risk that the purchaser may default, which could negatively impact our cash distributions to stockholders and result in litigation and related expenses. Even in the absence of a purchaser default, the distribution of the proceeds of sales to our stockholders, or their reinvestment in other assets, will be delayed until the promissory notes or other property we may accept upon a sale are actually paid, sold, refinanced or otherwise disposed of.

Risks Related to Our Debt Financings

Our operating results and financial condition could be adversely affected if we are unable to make required payments on our debt.

Our charter and bylaws do not limit the amount or percentage of indebtedness that we may incur, and we are subject to risks normally associated with debt financing, including the risk that our cash flows will be insufficient to meet required payments of principal and interest. There can be no assurance that we will be able to refinance any maturing indebtedness, that such refinancing would be on terms as favorable as the terms of the maturing indebtedness or that we will be able to otherwise obtain funds by selling assets or raising equity to make required payments on maturing indebtedness.

In particular, loans obtained to fund property acquisitions may be secured by first mortgages on such properties. If we are unable to make our debt service payments as required, a lender could foreclose on the property or properties securing its debt. This could cause us to lose part or all of our investment. Certain of our existing secured indebtedness is, and future secured indebtedness may be, cross-collateralized and, consequently, a default on this indebtedness could cause us to lose part or all of our investment in multiple properties.

Increases in interest rates could increase the amount of our debt payments and adversely affect our ability to make distributions to our stockholders.

As of December 31, 2016, we had total outstanding debt of approximately $1.0 billion, including $28.0 million of debt subject to variable interest rates (excluding amounts that were hedged to fix rates), and we expect that we will incur additional indebtedness in the future. Interest we pay reduces our cash available for distributions. Since we have incurred and may continue to incur variable rate debt, increases in interest rates raise our interest costs, which reduces our cash flows and our ability to make distributions to you. If we are unable to refinance our indebtedness at maturity or meet our payment obligations, the amount of our distributable cash flows and our financial condition would be adversely affected, and we may lose the property securing such indebtedness. In addition, if we need to repay existing debt during periods of rising interest rates, we could be required to sell one or more of our properties at times which may not permit realization of the maximum return on such investments.

Covenants in our unsecured credit facility, unsecured term loans, unsecured notes and mortgage notes and any future debt instruments could limit our flexibility, prevent us from paying distributions, and adversely affect our financial condition or our status as a REIT.

The terms of certain of our mortgage notes require us to comply with loan-to-collateral-value ratios, debt service coverage ratios and, in the case of an event of default, limitations on the ability of our subsidiaries that are borrowers under our mortgage notes to make distributions to us or our other subsidiaries. In addition, our unsecured credit facility, unsecured term loans and unsecured notes require us to comply with loan-to-collateral-value ratios, debt service coverage ratios, leverage ratios, recourse indebtedness thresholds, fixed charge coverage ratios and tangible net worth thresholds and limits. Our existing loan covenants may reduce flexibility in our operations, and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness even if we have satisfied our payment obligations. In addition, upon a default, our unsecured credit facility, unsecured term loans and unsecured notes, will limit, among other things, our ability to pay dividends, even if we are otherwise in compliance

with our financial covenants. Other indebtedness that we may incur in the future may contain financial or other covenants more restrictive than those in our unsecured credit facility, unsecured term loans, unsecured notes and mortgage notes.

In addition, as of December 31, 2016, we had certain secured loans that are cross-collateralized by multiple properties. If we default on any of these loans we may then be required to repay such indebtedness, together with applicable prepayment charges, to avoid foreclosure on all cross-collateralized properties within the applicable pool. Moreover, our unsecured credit facility, unsecured term loans and unsecured notes contain, and future borrowing facilities may contain, certain cross-default provisions which are triggered in the event that our other material indebtedness is in default. These cross-default provisions may require us

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to repay or restructure the facilities in addition to any mortgage or other debt that is in default. If our properties were foreclosed upon, or if we are unable to refinance our indebtedness at maturity or meet our payment obligations, we would be adversely affected.

We are a holding company and conduct all of our operations through our Operating Partnership. We do not have, apart from our ownership of 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 our securities. We will also rely on distributions from our Operating Partnership to meet our debt service and other obligations, including our obligations to make distributions required to maintain our REIT status. The ability of subsidiaries of our Operating Partnership to make distributions to our Operating Partnership, and the ability of our Operating Partnership to make distributions to us in turn, will depend on their operating results and on the terms of any loans that encumber the properties owned by them. Such loans may contain lockbox arrangements, reserve requirements, financial covenants and other provisions that restrict the distribution of funds. In the event of a default under these loans, the defaulting subsidiary would be prohibited from distributing cash. For example, our subsidiaries are party to mortgage notes that prohibit, in the event of default, their distribution of any cash to a related party, including our Operating Partnership. As a result, a default under any of these loans by the borrower subsidiaries could cause us to have insufficient cash to make the distributions required to maintain our REIT status.

Financing arrangements involving balloon payment obligations may adversely affect us.

Most of our financing arrangements require us to make a lump-sum or “balloon” payment at maturity. Our ability to make a balloon payment at maturity is uncertain and, in the event that we do not have sufficient funds to repay the debt at maturity of these loans, we will need to refinance this debt. If the credit environment is constrained at the time the balloon payment is due, we may not be able to refinance the existing financing on acceptable terms and may be forced to choose from a number of unfavorable options. These options include agreeing to otherwise unfavorable financing terms on one or more of our unencumbered assets, selling one or more properties on disadvantageous terms or defaulting on the loan and permitting the lender to foreclose. The effect of a refinancing or sale could affect the rate of return to stockholders and the projected time of disposition of our assets. In addition, payments of principal and interest made to service our debts may leave us with insufficient cash to pay the distributions that we are required to pay to maintain our qualification as a REIT.

If mortgage debt or unsecured debt is unavailable at reasonable rates, we may not be able to finance or refinance our properties.

If mortgage debt or unsecured debt is unavailable at reasonable rates, we may not be able to finance the purchase of properties. In addition, we run the risk of being unable to refinance mortgage debt or unsecured debt when the loans come due or of being unable to refinance such debt on favorable terms. If interest rates are higher when we refinance such debt, our net income could be reduced. We may be unable to refinance such debt at appropriate times, which may require us to sell properties on terms that are not advantageous to us or could result in the foreclosure of any mortgaged properties. In addition, we locked in our fixed-rate debt at a point in time when we were able to obtain favorable interest rates, principal amortization and other terms. When we refinance our debt, prevailing interest rates and other factors may result in paying a greater amount of debt service, which will adversely affect our cash flow, and, consequently, our cash available for distribution to our stockholders.

Our hedging strategies may not be successful in mitigating our risks associated with interest rates and could reduce the overall returns on your investment.

We use various derivative financial instruments to provide a level of protection against interest rate risks, but no hedging strategy can protect us completely. These instruments involve risks, such as the risk that the counterparties may fail to honor their obligations under these arrangements, that these arrangements may not be effective in reducing our exposure to interest rate changes and that a court could rule that such agreements are not legally enforceable. These instruments may also generate income that may not be treated as qualifying REIT income for purposes of the 75% or 95% REIT income tests. In addition, the nature and timing of hedging transactions may influence the effectiveness of our hedging strategies. Poorly designed strategies or improperly executed transactions could actually increase our risk and losses. Moreover, hedging strategies involve transaction and other costs. We cannot assure you that our hedging strategy and the derivatives that we use will adequately offset the risk of interest rate volatility or that

our hedging transactions will not result in losses that may reduce the overall return on your investment.

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U.S. Federal Income Tax Risks

Failure to qualify as a REIT would reduce our net earnings available for investment or distribution.

Our qualification as a REIT will depend upon our ability to meet requirements regarding our organization and ownership, distributions of our income, the nature and diversification of our income and assets and other tests imposed by the Code. If we fail to qualify as a REIT for any taxable year after electing REIT status, we will be subject to federal income tax on our taxable income at regular corporate rates. In addition, we would generally be disqualified from treatment as a REIT for the four taxable years following the year in which we failed to qualify as a REIT. Losing our REIT status would reduce our net earnings available for investment or distribution to stockholders because of the additional tax liability. In addition, dividends to stockholders would no longer qualify for the dividends paid deduction and we would no longer be required to make distributions. If this occurs, we might be required to borrow funds or liquidate some investments in order to pay the applicable tax.

Even if we qualify as a REIT for federal income tax purposes, we may be subject to other tax liabilities that reduce our cash flow and our ability to make distributions to our stockholders.

Even if we qualify as a REIT for federal income tax purposes, we may be subject to some federal, state and local taxes on our income or property. For example:

- To qualify as a REIT, we must distribute annually at least 90% of our REIT taxable income to our stockholders (which is determined without regard to the dividends-paid deduction or net capital gain). To the extent that we satisfy the distribution requirement but distribute less than 100% of our REIT taxable income, we will be subject to federal corporate income tax on the undistributed income.
- We will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions we pay 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.
- If we have net income from the sale of foreclosure property that we hold primarily for sale to customers in the ordinary course of business or other non qualifying income from foreclosure property, we must pay a tax on that income at the highest corporate income tax rate.
- If we sell an asset, other than foreclosure property, that we hold primarily for sale to customers in the ordinary course of business, our gain would be subject to the 100% "prohibited transaction" tax unless such sale were made by our taxable REIT subsidiary ("TRS") or if we qualify for a safe harbor from tax.

We intend to make distributions to our stockholders to comply with the REIT requirements of the Code.

REIT distribution requirements could adversely affect our ability to execute our business plan.

From time to time, we may generate taxable income greater than our income for financial reporting purposes, or our taxable income may be greater than our cash flow available for distribution to stockholders. If we do not have other funds available in these situations, we could be required to borrow funds, sell investments at disadvantageous prices, make taxable distributions of our stock or debt securities or find another alternative source of funds to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the REIT distribution requirement and to avoid corporate income tax and the 4% excise tax in a particular year. These alternatives could increase our costs or reduce the value of our equity. Thus, compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

To maintain our REIT status, we may be forced to forego otherwise attractive opportunities, which may delay or hinder our ability to meet our investment objectives and reduce our stockholders' overall return.

To qualify as a REIT, we must satisfy certain tests on an ongoing basis concerning, among other things, the sources of our income, nature of our assets and the amounts we distribute to our stockholders. We may be required to make distributions to stockholders at times when it would be more advantageous to reinvest cash in our business or when we do not have funds readily available for distribution. Compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits and the value of our stockholders' investment.

Recharacterization of sale leaseback transactions may cause us to lose our REIT status.

In certain circumstances, we expect to purchase real properties and lease them back to the sellers of such properties. While we intend to structure any such sale leaseback transaction such that the lease will be characterized as a "true lease" for tax purposes, thereby allowing us to be treated as the owner of the property for federal income tax purposes, we

cannot assure you that the

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Internal Revenue Service (“IRS”) will not challenge such characterization. In the event that any such sale leaseback transaction is challenged and recharacterized as a financing transaction or loan for federal income tax purposes, deductions for depreciation and cost recovery relating to such property would be disallowed. If a sale leaseback transaction were so recharacterized, we might fail to satisfy the REIT qualification “asset tests” or “income tests” and, consequently, lose our REIT status effective with the year of recharacterization. Alternatively, the amount of our REIT taxable income could be recalculated which might also cause us to fail to meet the distribution requirement for a taxable year.

We may be subject to adverse legislative or regulatory tax changes.

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 adversely affect our stockholders or us. We cannot predict how changes in the tax laws might affect our stockholders 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, or may reduce the relative attractiveness of an investment in a REIT compared to a corporation not qualified as a REIT.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our target properties fit into two general categories:

- Warehouse/Distribution—properties generally 200,000 to 1,000,000 square feet in size with ceiling heights between 22 feet and 36 feet and used to store and ship various materials and products.
- Light Manufacturing—properties generally 75,000 to 250,000 square feet in size with ceiling heights between 16 feet and 22 feet and used to manufacture all types of goods and products.

During the year ended December 31, 2016, we acquired 47 buildings consisting of approximately 10.3 million square feet for approximately $471.8 million. These acquisitions had a weighted average remaining lease term of approximately 6.5 years as of the acquisition date, weighted by square footage.

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As of December 31, 2016, we owned the properties listed below.

State	City	Number of Buildings	Asset Type[1]	CBSA[2]	Total Rentable Square Feet
Alabama					
	Montgomery	1	Warehouse / Distribution	Montgomery, AL	332,000
	Phenix City	1	Warehouse / Distribution	Columbus, GA-AL	117,568
Arkansas					
	Rogers	1	Warehouse / Distribution	Fayetteville-Springdale-Rogers, AR-MO	400,000
Arizona					
	Phoenix	1	Warehouse / Distribution	Phoenix-Mesa-Scottsdale, AZ	102,747
California					
	Camarillo	2	Warehouse / Distribution	Oxnard-Thousand Oaks-Ventura, CA	732,606
	Visalia	1	Warehouse / Distribution	Visalia-Porterville, CA	635,281
Colorado					
	Golden	1	Warehouse / Distribution	Denver-Aurora-Lakewood, CO	227,500
	Grand Junction	1	Warehouse / Distribution	Grand Junction, CO	82,800
	Longmont	1	Warehouse / Distribution	Boulder, CO	159,611
Connecticut					
	Avon	1	Light Manufacturing	Hartford-West Hartford-East Hartford, CT	78,400
	East Windsor	2	Warehouse / Distribution	Hartford-West Hartford-East Hartford, CT	271,111
	North Haven	3	Warehouse / Distribution	New Haven-Milford, CT	824,727
Delaware					
	Newark	2	Flex / Office	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	52,665
	New Castle	1	Warehouse / Distribution	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	485,987
Florida					
	Daytona Beach	1	Light Manufacturing	Deltona-Daytona Beach-Ormond Beach, FL	142,857
	Ocala	1	Warehouse / Distribution	Orlando-Kissimmee-Sanford, FL	619,466
	Orlando	1	Light Manufacturing	Orlando-Kissimmee-Sanford, FL	215,900
	Orlando	1	Warehouse / Distribution	Orlando-Kissimmee-Sanford, FL	155,000
	Pensacola	1	Flex / Office	Pensacola-Ferry Pass-Brent, FL	30,620
Georgia					

	Calhoun	1	Warehouse / Distribution	Calhoun, GA	151,200
	Dallas	1	Warehouse / Distribution	Atlanta-Sandy Springs-Roswell, GA	92,807
	Forest Park	2	Warehouse / Distribution	Atlanta-Sandy Springs-Roswell, GA	799,200
	LaGrange	1	Warehouse / Distribution	LaGrange, GA	219,891
	Norcross	1	Warehouse / Distribution	Atlanta-Sandy Springs-Roswell, GA	152,036
	Savannah	1	Warehouse / Distribution	Savannah, GA	504,200
	Shannon	1	Warehouse / Distribution	Rome, GA	568,516
	Smyrna	1	Warehouse / Distribution	Atlanta-Sandy Springs-Roswell, GA	102,000
	Statham	1	Warehouse / Distribution	Atlanta-Sandy Springs-Roswell, GA	225,680
Idaho					
	Idaho Falls	1	Warehouse / Distribution	Idaho Falls, ID	90,300
	Pocatello	1	Flex / Office	Pocatello, ID	43,353
Illinois					
	Belvidere	9	Warehouse / Distribution	Rockford, IL	1,133,018
	DeKalb	1	Warehouse / Distribution	Chicago-Naperville-Elgin, IL-IN-WI	146,740
	Gurnee	2	Warehouse / Distribution	Chicago-Naperville-Elgin, IL-IN-WI	562,500
	Harvard	1	Light Manufacturing	Chicago-Naperville-Elgin, IL-IN-WI	126,304
	Itasca	1	Warehouse / Distribution	Chicago-Naperville-Elgin, IL-IN-WI	202,000
	Libertyville	1	Warehouse / Distribution	Chicago-Naperville-Elgin, IL-IN-WI	251,961
	Libertyville	1	Flex / Office	Chicago-Naperville-Elgin, IL-IN-WI	35,141
	Machesney Park	1	Warehouse / Distribution	Rockford, IL	80,000

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State	City	Number of Buildings	Asset Type(1)	CBSA(2)	Total Rentable Square Feet
	Montgomery	1	Warehouse / Distribution	Chicago-Naperville-Elgin, IL-IN-WI	584,301
	Sauk Village	1	Warehouse / Distribution	Chicago-Naperville-Elgin, IL-IN-WI	375,785
	South Holland	1	Warehouse / Distribution	Chicago-Naperville-Elgin, IL-IN-WI	202,902
	West Chicago	1	Warehouse / Distribution	Chicago-Naperville-Elgin, IL-IN-WI	249,470
	West Chicago	5	Light Manufacturing	Chicago-Naperville-Elgin, IL-IN-WI	305,874
	Wood Dale	1	Light Manufacturing	Chicago-Naperville-Elgin, IL-IN-WI	137,607
	Woodstock	1	Light Manufacturing	Chicago-Naperville-Elgin, IL-IN-WI	129,803
Indiana					
	Albion	7	Light Manufacturing	Kendallville, IN	261,013
	Elkhart	2	Warehouse / Distribution	Elkhart-Goshen, IN	170,100
	Kendallville	1	Light Manufacturing	Kendallville, IN	58,500
	Fort Wayne	1	Warehouse / Distribution	Fort Wayne, IN	108,800
	Franklin	1	Warehouse / Distribution	Indianapolis-Carmel-Anderson, IN	703,496
	Goshen	1	Warehouse / Distribution	Elkhart-Goshen, IN	366,000
	Lafayette	3	Warehouse / Distribution	Lafayette-West Lafayette, IN	466,400
	Marion	1	Warehouse / Distribution	Marion, IN	249,600
	Portage	1	Warehouse / Distribution	Chicago-Naperville-Elgin, IL-IN-WI	212,000
	South Bend	1	Warehouse / Distribution	South Bend-Mishawaka, IN-MI	225,000
Iowa					
	Marion	1	Warehouse / Distribution	Cedar Rapids, IA	95,500
	Sergeant Bluff	1	Flex / Office	Sioux City, IA-NE-SD	148,131
Kansas					
	Lenexa	2	Warehouse / Distribution	Kansas City, MO-KS	276,219
	Olathe	1	Warehouse / Distribution	Kansas City, MO-KS	496,373
	Wichita	3	Warehouse / Distribution	Wichita, KS	248,550
Kentucky					

	Bardstown	1	Warehouse / Distribution	Louisville/Jefferson County, KY-IN	102,318	
	Danville	1	Warehouse / Distribution	Danville, KY	757,047	
	Erlanger	1	Warehouse / Distribution	Cincinnati, OH-KY-IN	108,620	
	Hebron	1	Warehouse / Distribution	Cincinnati, OH-KY-IN	109,000	
	Louisville	2	Warehouse / Distribution	Louisville/Jefferson County, KY-IN	497,820	
Louisiana						
	Shreveport	1	Warehouse / Distribution	Shreveport-Bossier City, LA	420,259	
Maine						
	Belfast	5	Flex / Office	—	318,979	(3)
	Biddeford	2	Warehouse / Distribution	Portland-South Portland, ME	265,126	
	Gardiner	1	Warehouse / Distribution	Augusta-Waterville, ME	265,000	
	Lewiston	1	Flex / Office	Lewiston-Auburn, ME	60,000	
	Portland	1	Warehouse / Distribution	Portland-South Portland, ME	100,600	
Maryland						
	Hampstead	1	Warehouse / Distribution	Baltimore-Columbia-Towson, MD	1,035,249	
	Sparks	2	Flex / Office	Baltimore-Columbia-Towson, MD	34,800	
Massachusetts						
	Chicopee	1	Warehouse / Distribution	Springfield, MA	217,000	
	Malden	2	Light Manufacturing	Boston-Cambridge-Newton, MA-NH	109,943	
	Norton	1	Warehouse / Distribution	Providence-Warwick, RI-MA	200,000	
	Stoughton	2	Warehouse / Distribution	Boston-Cambridge-Newton, MA-NH	258,213	
	Westborough	1	Warehouse / Distribution	Worcester, MA-CT	121,700	
Michigan						
	Chesterfield	4	Warehouse / Distribution	Detroit-Warren-Dearborn, MI	478,803	
	Grand Rapids	1	Warehouse / Distribution	Grand Rapids-Wyoming, MI	301,317	

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State	City	Number of Buildings	Asset Type[(1)]	CBSA[(2)]	Total Rentable Square Feet
	Holland	1	Warehouse / Distribution	Grand Rapids-Wyoming, MI	195,000
	Holland	1	Light Manufacturing	Holland, MI	177,062
	Kentwood	1	Light Manufacturing	Grand Rapids-Wyoming, MI	85,157
	Lansing	4	Warehouse / Distribution	Lansing-East Lansing, MI	770,425
	Marshall	1	Light Manufacturing	Battle Creek, MI	57,025
	Novi	2	Warehouse / Distribution	Detroit-Warren-Dearborn, MI	245,860
	Plymouth	1	Warehouse / Distribution	Detroit-Warren-Dearborn, MI	125,214
	Sterling Heights	1	Warehouse / Distribution	Detroit-Warren-Dearborn, MI	108,000
	Walker	1	Warehouse / Distribution	Grand Rapids-Wyoming, MI	210,000
	Warren	1	Warehouse / Distribution	Detroit-Warren-Dearborn, MI	268,000
Minnesota					
	Brooklyn Park	1	Warehouse / Distribution	Minneapolis-St. Paul-Bloomington, MN-WI	200,720
	Carlos	1	Light Manufacturing	Alexandria, MN	196,270
	New Hope	1	Light Manufacturing	Minneapolis-St. Paul-Bloomington, MN-WI	107,348
	Rogers	1	Warehouse / Distribution	Minneapolis-St. Paul-Bloomington, MN-WI	386,724
	Savage	1	Warehouse / Distribution	Minneapolis-St. Paul-Bloomington, MN-WI	244,050
Missouri					
	Earth City	1	Warehouse / Distribution	St. Louis, MO-IL	116,783
	Hazlewood	1	Warehouse / Distribution	St. Louis, MO-IL	305,550
	Kansas City	1	Warehouse / Distribution	Kansas City, MO-KS	226,576
	O'Fallon	1	Warehouse / Distribution	St. Louis, MO-IL	77,000
Nevada					
	Reno	1	Light Manufacturing	Reno, NV	87,264
New Hampshire					

	Londonderry	1	Warehouse / Distribution	Boston-Cambridge-Newton, MA-NH	125,060
	Nashua	1	Warehouse / Distribution	Manchester-Nashua, NH	337,391
New Jersey					
	Burlington	2	Warehouse / Distribution	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	1,552,121
	Lopatcong	1	Warehouse / Distribution	Allentown-Bethlehem-Easton, PA-NJ	87,500
	Piscataway	1	Warehouse / Distribution	New York-Newark-Jersey City, NY-NJ-PA	228,000
New York					
	Buffalo	1	Warehouse / Distribution	Buffalo-Cheektowaga-Niagara Falls, NY	117,000
	Cheektowaga	1	Warehouse / Distribution	Buffalo-Cheektowaga-Niagara Falls, NY	121,760
	Farmington	1	Warehouse / Distribution	Rochester, NY	149,657
	Gloversville	3	Warehouse / Distribution	Gloversville, NY	211,554
	Johnstown	3	Warehouse / Distribution	Gloversville, NY	169,602
	Johnstown	1	Light Manufacturing	Gloversville, NY	42,325
North Carolina					
	Charlotte	4	Warehouse / Distribution	Charlotte-Concord-Gastonia, NC-SC	884,276
	Charlotte	1	Light Manufacturing	Charlotte-Concord-Gastonia, NC-SC	104,852
	Durham	1	Warehouse / Distribution	Durham-Chapel Hill, NC	80,600
	Huntersville	1	Warehouse / Distribution	Charlotte-Concord-Gastonia, NC-SC	185,570
	Lexington	1	Warehouse / Distribution	Winston-Salem, NC	201,800
	Mebane	2	Warehouse / Distribution	Burlington, NC	606,840
	Mebane	1	Light Manufacturing	Burlington, NC	202,691
	Mooresville	1	Warehouse / Distribution	Charlotte-Concord-Gastonia, NC-SC	300,000
	Mountain Home	1	Warehouse / Distribution	Asheville, NC	146,014
	Newton	1	Warehouse / Distribution	Hickory-Lenoir-Morganton, NC	187,200
	Pineville	1	Light Manufacturing	Charlotte-Concord-Gastonia, NC-SC	75,400
	Rural Hall	1	Warehouse / Distribution	Winston-Salem, NC	250,000

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State	City	Number of Buildings	Asset Type[(1)]	CBSA[(2)]	Total Rentable Square Feet
	Smithfield	1	Warehouse / Distribution	Raleigh, NC	191,450
	Winston-Salem	1	Warehouse / Distribution	Winston-Salem, NC	385,000
Ohio					
	Boardman	1	Warehouse / Distribution	Youngstown-Warren-Boardman, OH-PA	175,900
	Boardman	1	Light Manufacturing	Youngstown-Warren-Boardman, OH-PA	95,000
	Cincinnati	1	Flex / Office	Cincinnati, OH-KY-IN	114,532
	Columbus	1	Warehouse / Distribution	Columbus, OH	186,000
	Dayton	1	Warehouse / Distribution	Dayton, OH	205,761
	Fairborn	1	Warehouse / Distribution	Dayton, OH	258,680
	Fairfield	1	Warehouse / Distribution	Cincinnati, OH-KY-IN	206,448
	Gahanna	1	Warehouse / Distribution	Columbus, OH	383,000
	Grove City	1	Warehouse / Distribution	Columbus, OH	175,512
	Hamilton	1	Warehouse / Distribution	Cincinnati, OH-KY-IN	245,000
	Macedonia	1	Warehouse / Distribution	Akron, OH	201,519
	Mason	1	Light Manufacturing	Cincinnati, OH-KY-IN	116,200
	North Jackson	1	Warehouse / Distribution	Youngstown-Warren-Boardman, OH-PA	209,835
	North Jackson	1	Redevelopment	Youngstown-Warren-Boardman, OH-PA	307,315
	Oakwood Village	1	Warehouse / Distribution	Cleveland-Elyria, OH	75,000
	Salem	1	Light Manufacturing	Salem, OH	271,000
	Seville	2	Warehouse / Distribution	Cleveland-Elyria, OH	345,000
	Springfield	1	Warehouse / Distribution	Springfield, OH	350,500
	Streetsboro	1	Warehouse / Distribution	Akron, OH	343,416
	Strongsville	1	Warehouse / Distribution	Cleveland-Elyria, OH	161,984
	Toledo	1	Warehouse / Distribution	Toledo, OH	177,500

	Twinsburg	1	Warehouse / Distribution	Akron, OH	150,974
	West Chester	1	Warehouse / Distribution	Cincinnati, OH-KY-IN	269,868
Oklahoma					
	Oklahoma City	2	Warehouse / Distribution	Oklahoma City, OK	303,740
	Catoosa	1	Light Manufacturing	Tulsa, OK	100,100
	Tulsa	1	Warehouse / Distribution	Tulsa, OK	175,000
Oregon					
	Salem	2	Light Manufacturing	Salem, OR	155,900
Pennsylvania					
	Allentown	1	Warehouse / Distribution	Allentown-Bethlehem-Easton, PA-NJ	289,900
	Elizabethtown	1	Warehouse / Distribution	Lancaster, PA	206,236
	Lancaster	1	Warehouse / Distribution	Lancaster, PA	240,529
	Langhorne	1	Warehouse / Distribution	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	102,000
	Langhorne	2	Light Manufacturing	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	287,647
	Mechanicsburg	3	Warehouse / Distribution	Harrisburg-Carlisle, PA	747,054
	Muhlenberg Townsh	1	Warehouse / Distribution	Reading, PA	394,289
	New Kingston	1	Warehouse / Distribution	Harrisburg-Carlisle, PA	330,000
	O'Hara Township	1	Warehouse / Distribution	Pittsburgh, PA	887,084
	Reading	1	Warehouse / Distribution	Reading, PA	248,000
	Williamsport	1	Warehouse / Distribution	Williamsport, PA	250,000
South Carolina					
	Columbia	1	Light Manufacturing	Columbia, SC	185,600
	Duncan	2	Warehouse / Distribution	Spartanburg, SC	787,380
	Edgefield	1	Light Manufacturing	Augusta-Richmond County, GA-SC	126,190
	Fountain Inn	1	Warehouse / Distribution	Greenville-Anderson-Mauldin, SC	168,087

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State	City	Number of Buildings	Asset Type(1)	CBSA(2)	Total Rentable Square Feet
	Graniteville	1	Warehouse / Distribution	Augusta-Richmond County, GA-SC	450,000
	Greenville	1	Warehouse / Distribution	Greenville-Anderson-Mauldin, SC	157,500
	Greenwood	2	Light Manufacturing	Greenwood, SC	175,055
	Greer	4	Warehouse / Distribution	Greenville-Anderson-Mauldin, SC	290,000
	Laurens	1	Warehouse / Distribution	Greenville-Anderson-Mauldin, SC	125,000
	Piedmont	3	Warehouse / Distribution	Greenville-Anderson-Mauldin, SC	400,000
	Rock Hill	1	Warehouse / Distribution	Charlotte-Concord-Gastonia, NC-SC	315,520
	Simpsonville	2	Warehouse / Distribution	Greenville-Anderson-Mauldin, SC	411,994
	Spartanburg	6	Warehouse / Distribution	Spartanburg, SC	1,209,260
	Ware Shoals	1	Light Manufacturing	Greenwood, SC	20,514
	West Columbia	3	Warehouse / Distribution	Columbia, SC	569,532
South Dakota					
	Rapid City	1	Flex / Office	Rapid City, SD	132,365
Tennessee					
	Chattanooga	3	Warehouse / Distribution	Chattanooga, TN-GA	646,200
	Cleveland	1	Warehouse / Distribution	Cleveland, TN	151,704
	Clinton	1	Warehouse / Distribution	Knoxville, TN	166,000
	Jackson	1	Warehouse / Distribution	Jackson, TN	235,855
	Jefferson City	1	Warehouse / Distribution	Morristown, TN	486,109
	Knoxville	1	Warehouse / Distribution	Knoxville, TN	108,400
	Loudon	1	Warehouse / Distribution	Knoxville, TN	104,000
	Madison	1	Warehouse / Distribution	Nashville-Davidson--Murfreesboro--Franklin, TN	418,406
	Mascot	1	Warehouse / Distribution	Knoxville, TN	130,560
	Mascot	1		Knoxville, TN	130,560

	Murfreesboro	1	Light Manufacturing Warehouse / Distribution	Nashville-Davidson--Murfreesboro--Franklin, TN	102,505	
	Nashville	1	Warehouse / Distribution	Nashville-Davidson--Murfreesboro--Franklin, TN	150,000	
	Portland	1	Warehouse / Distribution	Nashville-Davidson--Murfreesboro--Franklin, TN	414,043	
	Vonore	1	Warehouse / Distribution	Knoxville, TN	342,700	
Texas						
	Arlington	2	Warehouse / Distribution	Dallas-Fort Worth-Arlington, TX	290,132	
	Cedar Hill	1	Warehouse / Distribution	Dallas-Fort Worth-Arlington, TX	420,000	
	El Paso	6	Warehouse / Distribution	El Paso, TX	1,404,198	
	Fort Worth	1	Warehouse / Distribution	Dallas-Fort Worth-Arlington, TX	101,500	
	Garland	1	Light Manufacturing	Dallas-Fort Worth-Arlington, TX	253,900	
	Garland	1	Warehouse / Distribution	Dallas-Fort Worth-Arlington, TX	164,914	
	Houston	2	Warehouse / Distribution	Houston-The Woodlands-Sugar Land, TX	352,834	
	Houston	2	Light Manufacturing	Houston-The Woodlands-Sugar Land, TX	408,599	
	San Antonio	1	Warehouse / Distribution	San Antonio-New Braunfels, TX	247,861	
	Waco	1	Warehouse / Distribution	Waco, TX	66,400	
Virginia						
	Buena Vista	1	Light Manufacturing	—	172,759	(3)
	Chester	1	Warehouse / Distribution	Richmond, VA	100,000	
	Harrisonburg	1	Warehouse / Distribution	Harrisonburg, VA	357,673	
	Independence	1	Warehouse / Distribution	—	120,000	(3)
Wisconsin						
	Appleton	1	Light Manufacturing	Appleton, WI	113,379	
	Chippewa Falls	2	Light Manufacturing	Eau Claire, WI	97,400	
	De Pere	1	Warehouse / Distribution	Green Bay, WI	200,000	
	DeForest	1	Warehouse / Distribution	Madison, WI	254,431	
	East Troy	1	Warehouse / Distribution	Whitewater-Elkhorn, WI	149,624	

Germantown	1	Warehouse / Distribution	Milwaukee-Waukesha-West Allis, WI	202,500

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State	City	Number of Buildings	Asset Type(1)	CBSA(2)	Total Rentable Square Feet
	Hartland	1	Warehouse / Distribution	Milwaukee-Waukesha-West Allis, WI	121,050
	Janesville	1	Warehouse / Distribution	Janesville-Beloit, WI	700,000
	Kenosha	1	Light Manufacturing	Chicago-Naperville-Elgin, IL-IN-WI	175,052
	Mayville	1	Light Manufacturing	Beaver Dam, WI	339,179
	Milwaukee	2	Warehouse / Distribution	Milwaukee-Waukesha-West Allis, WI	117,564
	New Berlin	1	Warehouse / Distribution	Milwaukee-Waukesha-West Allis, WI	205,063
	Sun Prairie	1	Warehouse / Distribution	Madison, WI	427,000
	West Allis	4	Warehouse / Distribution	Milwaukee-Waukesha-West Allis, WI	241,977
	Yorkville	1	Warehouse / Distribution	Racine, WI	98,151
Total		314			60,878,204

(1) Flex / Office are properties that are generally 50,000 to 200,000 square feet in size and used for office space, light manufacturing, research and development and warehousing.

(2) We define Core Based Statistical Area ("CBSA") as a U.S. geographic area defined by the Office of Management and Budget that consists of one or more counties (or equivalents) anchored by an urban center of at least 10,000 people plus adjacent counties that are socioeconomically tied to the urban center by commuting.

(3) These properties do not have a CBSA.

As of December 31, 2016, 46 of our 314 buildings were encumbered by mortgage indebtedness totaling $164.3 million (excluding unamortized deferred financing fees, debt issuance costs, and fair market value premiums). See Note 4 in the accompanying Notes to the Consolidated Financial Statements and the accompanying Schedule III for additional information.

Property Diversification

The following table sets forth information relating to diversification by building type in our portfolio as of December 31, 2016.

Building Type	Number of Buildings	Square Footage		Occupancy Rate(1)	Total Annualized Base Rental Revenue	
		Square Feet	%		Amount (in thousands)	%
Warehouse/Distribution	243	53,674,674	88.2 %	95.6 %	$201,208	87.0 %
Light Manufacturing	54	5,925,629	9.7 %	96.3 %	23,120	10.0 %
Total Operating Portfolio	297	59,600,303	97.9 %	95.7 %	$224,328	97.0 %
Redevelopment	1	307,315	0.5 %	—	—	—
Flex/Office	16	970,586	1.6 %	62.6 %	6,994	3.0 %
Total/weighted average	314	60,878,204	100.0%	94.7 %	$231,322	100.0%

(1) We define Occupancy Rate as the percentage of total leasable square footage for which the lease term has commenced as of the close of the reporting period.

Geographic Diversification

The following table sets forth information about the ten largest states in our portfolio based on total annualized base rental revenue as of December 31, 2016.

Top Ten States

	Number of CBSA's	% of Total Annualized Base Rental Revenue	
Illinois	2	8.2	%
Ohio	9	7.5	%
South Carolina	6	7.4	%
Pennsylvania	7	6.9	%
Texas	5	6.0	%
North Carolina	7	5.8	%
Michigan	5	5.4	%
Wisconsin	10	5.3	%
New Jersey	3	4.9	%
Tennessee	6	4.9	%
Total	60	62.3	%

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Industry Diversification

The following table sets forth information about the ten largest tenant industries in our portfolio based on total annualized base rental revenue as of December 31, 2016.

Top Ten Tenant Industries	% of Total Annualized Base Rental Revenue	
Automotive	13.6	%
Ind Equip, Component & Metals	11.3	%
Air Freight & Logistics	11.2	%
Containers & Packaging	9.6	%
Food & Beverages	8.7	%
Retail	7.2	%
Personal Products	6.6	%
Household Durables	5.3	%
Business Services	5.2	%
Non-Profit/Government	3.6	%
Total	82.3	%

Tenant Diversification

As of December 31, 2016, our buildings were leased to 275 tenants. The following table sets forth information about the ten largest tenants in our portfolio based on total annualized base rental revenue as of December 31, 2016.

Top Ten Tenants	Number of Leases	% of Total Annualized Base Rental Revenue	
General Service Administration	1	3.1	%
XPO Logistics Supply Chain Inc.	4	2.2	%
Deckers Outdoor Corporation	2	1.8	%
Solo Cup Company	1	1.7	%
Generation Brands, LLC	1	1.1	%
Exel Logistics	3	1.1	%
Perrigo Holland	2	1.0	%
American Tire Distributors Inc.	4	1.0	%
Spencer Gifts, LLC	1	1.0	%
Armacell, LLC	3	0.9	%
Total	22	14.9	%

Lease Diversification

The following table sets forth information about the ten largest leases in our portfolio based on total annualized base rental revenue as of December 31, 2016.

Top Ten Leases	% of Total Annualized Base Rental Revenue

General Service Administration	3.1	%
Solo Cup Company	1.7	%
XPO Logistics Supply Chain Inc.	1.2	%
Generation Brands, LLC	1.1	%
Deckers Outdoor Corporation	1.1	%
Spencer Gifts, LLC	1.0	%
Closetmaid Corporation	0.9	%
Jo-Ann Stores, LLC	0.9	%
Archway Marketing Serv., Inc.	0.8	%
CareFusion 213, LLC	0.8	%
Total	12.6	%

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Scheduled Lease Expirations

As of December 31, 2016, our weighted average in place remaining lease term was approximately 4.2 years. For the year ended December 31, 2016, we have achieved approximately a 69.5% tenant retention rate for those tenants whose leases were scheduled to expire in 2016. The following table sets forth a summary of lease expirations for leases in place as of December 31, 2016, plus available space, for each of the ten calendar years beginning with 2017 and thereafter in our portfolio. The information in the table assumes that tenants exercise no renewal options, purchase options, or early termination rights.

Lease Expiration Year	Number of Leases Expiring	Total Rentable Square Feet	% of Total Occupied Square Feet		Total Annualized Base Rental Revenue (in thousands)	% of Total Annualized Base Rental Revenue	
Available	—	3,254,516	—		—	—	
Month-to-month leases	7	281,824	0.5	%	$ 885	0.4	%
2017	45	5,393,284	9.4	%	22,956	9.9	%
2018	65	11,038,428	19.2	%	43,394	18.8	%
2019	52	9,642,460	16.7	%	37,175	16.1	%
2020	34	7,931,114	13.8	%	33,024	14.3	%
2021	39	6,468,139	11.2	%	27,361	11.8	%
2022	24	3,331,130	5.8	%	13,737	5.9	%
2023	12	2,537,340	4.4	%	9,005	3.9	%
2024	9	2,152,791	3.7	%	7,709	3.3	%
2025	11	1,788,742	3.1	%	7,550	3.3	%
2026	13	2,930,441	5.1	%	10,728	4.6	%
Thereafter	19	4,127,995	7.1	%	17,798	7.7	%
Total/weighted average	330	60,878,204	100.0	%	$ 231,322	100.0	%

Item 3. Legal Proceedings

From time to time, we are a 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, individually or in the aggregate, would be expected to have a material effect on our business, financial condition or results of operations if determined adversely to our company.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II.

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

Information about our equity compensation plans and other related stockholder matters is incorporated by reference to our definitive Proxy Statement for our 2017 Annual Meeting of Stockholders.

Market Information

Our common stock has been listed on the NYSE since April 15, 2011, and is traded under the symbol "STAG." The closing share price for our common stock on February 14, 2017, as reported by the NYSE, was $23.94. For the year ended December 31, 2016, our total stockholder return was 38.0%, assuming an investment in our common stock on December 31, 2015 and that all dividends were reinvested. The following table sets forth, for the periods indicated, the high and low sale prices in dollars on the NYSE for our common stock as well as the dividends declared per share of common stock.

Quarter ended	High	Low	Dividends Per Common Share(1)
December 31, 2016	$24.41	$21.21	$0.347499
September 30, 2016	$25.51	$22.68	$0.347499
June 30, 2016	$23.83	$19.42	$0.347499
March 31, 2016	$20.54	$14.97	$0.347499
December 31, 2015	$21.13	$18.01	$0.345000
September 30, 2015	$21.29	$16.66	$0.345000
June 30, 2015	$23.81	$19.89	$0.337500
March 31, 2015	$27.61	$22.28	$0.337500

(1) On November 2, 2016, our board of directors declared the common stock dividend for the months ending January 31, 2017, February 28, 2017 and March 31, 2017 at a monthly rate of $0.116667 per share of common stock. On February 15, 2017, our board of directors declared the common stock dividend for the months ending April 30, 2017, May 31, 2017, and June 30, 2017, at a monthly rate of $0.116667 per share of common stock.

Holders of Our Common Stock

As of February 14, 2017, we had approximately 65 stockholders of record. This figure does not reflect the beneficial ownership of shares held in the nominee name.

Dividends

To maintain our qualification as a REIT, we must make annual distributions to our stockholders of at least 90% of our taxable net income (not including net capital gains). Dividends are declared at the discretion of our board of directors and depend on actual and anticipated cash from operations, our financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code and other factors our board of directors may consider relevant.

Common Units and Recent Sales of Unregistered Securities

None.

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Performance Graph

The following graph provides a comparison of the cumulative total return on our common stock with the cumulative total return on the Standard & Poor's 500 Index and the MSCI US REIT Index. The MSCI US REIT Index represents performance of publicly-traded REITs. Returns over the indicated period are based on historical data and should not be considered indicative of future returns. The graph covers the period from December 31, 2011 to December 31, 2016 and assumes that $100 was invested in our common stock and in each index on December 31, 2011 and that all dividends were reinvested.

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act, or incorporated by reference into any filing by us under the Securities Act, except as shall be expressly set forth by specific reference in such filing.

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Item 6. Selected Financial Data

The following sets forth selected financial and operating data for our company on a historical consolidated basis. The following data should be read in conjunction with the Consolidated Financial Statements and Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Annual Report on Form 10-K. Our selected historical Consolidated Balance Sheet information as of December 31, 2016, December 31, 2015, December 31, 2014, December 31, 2013 and December 31, 2012, and our selected historical Consolidated Statement of Operations data for the years ended December 31, 2016, December 31, 2015, December 31, 2014, December 31, 2013 and December 31, 2012, have been derived from the audited financial statements of STAG Industrial, Inc. Certain prior year amounts have been reclassified to conform to the current year presentation. The results of operations for all periods presented have been adjusted to reflect discontinued operations.

	Year Ended December 31,				
	2016	2015[(1)]	2014[(1)]	2013	2012
Statements of Operations Data:					
Revenue					
Total revenue	$250,243	$218,633	$173,816	$133,893	$84,052
Expenses					
Property	48,904	42,627	33,388	24,010	12,841
General and administrative	33,395	28,750	26,396	17,867	14,617
Property acquisition costs	4,567	4,757	4,390	3,427	4,218
Depreciation and amortization	125,444	110,421	87,703	67,556	42,427
Loss on impairments	16,845	29,272	2,840	—	622
Other expenses	1,149	1,048	803	621	339
Total expenses	230,304	216,875	155,520	113,481	75,064
Other income (expense)					
Interest income	10	9	15	13	19
Interest expense	(42,923)	(36,098)	(25,109)	(20,319)	(16,110)
Gain on interest rate swaps	—	—	—	—	215
Loss on extinguishment of debt	(3,261)	—	(686)	—	(929)
Gain on the sales of rental property, net	61,823	4,986	2,799	—	—
Total other income (expense)	15,649	(31,103)	(22,981)	(20,306)	(16,805)
Net income (loss) from continuing operations	$35,588	$(29,345)	$(4,685)	$106	$(7,817)
Total income (loss) attributable to discontinued operations	—	—	—	4,796	(2,382)
Net income (loss)	$35,588	$(29,345)	$(4,685)	$4,902	$(10,199)
Less: income (loss) attributable to noncontrolling interest after preferred stock dividends	1,069	(1,962)	(992)	(620)	(3,720)
Less: preferred stock dividends	13,897	10,848	10,848	9,495	6,210
Less: amount allocated to participating securities	384	385	345	262	122
Net income (loss) attributable to common stockholders	$20,238	$(38,616)	$(14,886)	$(4,235)	$(12,811)
Net income (loss) per share from continuing operations attributable to the common stockholders — basic and diluted	$0.29	$(0.58)	$(0.28)	$(0.20)	$(0.44)
Income (loss) per share from discontinued operation attributable to common stockholders — basic and diluted	—	—	—	0.10	(0.07)
Net income (loss) per share attributable to common stockholders — basic and diluted	$0.29	$(0.58)	$(0.28)	$(0.10)	$(0.51)

Balance Sheets Data (December 31):					
Rental property, before accumulated depreciation and amortization	$2,541,705	$2,188,642	$1,809,895	$1,389,214	$1,059,715
Rental property, after accumulated depreciation and amortization	$2,116,836	$1,839,967	$1,558,434	$1,222,360	$957,607
Total assets	$2,186,156	$1,901,782	$1,623,802	$1,266,460	$1,003,342
Total debt	$1,036,139	$980,248	$680,478	$552,270	$477,433
Total liabilities	$1,119,230	$1,043,925	$731,924	$591,896	$513,882
Total equity	$1,066,926	$857,857	$891,878	$674,564	$489,460
Other Data:					
Dividend declared per common share	$1.389996	$1.365	$1.29	$1.20	$1.07
Cash flow provided by operating activities	$135,423	$121,707	$96,676	$82,687	$48,011
Cash flow used in investing activities	$(347,112)	$(372,038)	$(421,713)	$(325,231)	$(417,203)
Cash flow provided by financing activities	$211,870	$238,464	$342,225	$230,228	$371,700

(1) These amounts are revised as shown in Note 2 to the Consolidated Financial Statements.

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Item 7. 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 in conjunction with our consolidated financial statements and related notes included elsewhere in this report.

Overview

We are a REIT focused on the acquisition, ownership, and operation of single-tenant, industrial properties throughout the U.S. We seek to (i) identify properties that offer relative value across all locations, industrial property types, and tenants through the principled application of our proprietary risk assessment model, (ii) operate our properties in an efficient, cost-effective manner, and (iii) capitalize our business appropriately given the characteristics of our assets. We are a Maryland corporation and our common stock is publicly traded on the NYSE under the symbol "STAG."

We are organized and conduct our operations to qualify as a REIT under Sections 856 through 860 of the Code, and generally are not subject to federal income tax to the extent we currently distribute our income to our stockholders and maintain our qualification as a REIT. We remain subject to state and local taxes on our income and property and to U.S. federal income and excise taxes on our undistributed income.

Our qualification and taxation as a REIT depends upon our ability to meet on a continuing basis, through actual annual operating results, qualification tests in the federal income tax laws. Those tests involve the percentage of income that we earn from specified sources, the percentage of our assets that falls within specified categories, the diversity of our capital stock ownership and the percentage of our earnings that we distribute.

As of December 31, 2016, we owned 314 buildings in 37 states with approximately 60.9 million rentable square feet, consisting of 243 warehouse/distribution buildings, 54 light manufacturing buildings, 16 flex/office buildings, and one building in redevelopment. As of December 31, 2016, our buildings were approximately 94.7% leased to 275 tenants, with no single tenant accounting for more than approximately 3.1% of our total annualized base rental revenue and no single industry accounting for more than approximately 13.6% of our total annualized base rental revenue.

We own our interests in all of our properties and conduct substantially all of our business through our Operating Partnership. We are the sole member of the sole general partner of the Operating Partnership. As of December 31, 2016, we owned approximately 95.7% of the common equity of our Operating Partnership, and our current and former executive officers, directors, senior employees and their affiliates, and third parties who contributed properties to us in exchange for common equity in our Operating Partnership, owned the remaining 4.3%. We completed our IPO and related formation transactions, pursuant to which we succeeded to the business of our predecessor, on April 20, 2011.

Factors That May Influence Future Results of Operations

Our ability to increase revenues or cash flow will depend in part on our (i) external growth, specifically acquisition activity and (ii) internal growth, specifically occupancy and rental rates on our portfolio. A variety of other factors, including those noted below, also affect our future results of operations.

Outlook

The outlook for our business remains positive, albeit on a moderated basis in light of continued slow economic growth, some uncertainty regarding the new U.S. presidential administration and its policy initiatives, and continued asset appreciation. The federal funds target rate was raised 25 basis points in December; however, the target rate remains very low, in a range of 0.50% to 0.75%. This range aligns with the Central Bank's consistent commentary that future rate hikes would be gradual and rates will likely remain historically low for an extended period of time. At the

same time, its most recent commentary suggests increasing comfort with hiking rates again in the near future. If interest rates were to rise further as a result of Federal Reserve policy action (short-term interest rates) or changes in market expectations and capital flows (long-term interest rates), we believe strengthening economic conditions are likely to accompany these changes. This strengthening of economic conditions combined with the currently favorable industrial supply/demand environment should translate to a net positive result for our business. Specifically, our existing portfolio should benefit from rising rental rates and our acquisition activity should benefit from higher yields. Furthermore, we believe certain characteristics of our business should position us well in a rising interest rate environment, including the fact that we have minimal floating rate debt exposure (taking into account our hedging activities) and that many of our competitors for the assets we purchase tend to be smaller local investors who are likely to be more heavily impacted by interest rate increases.

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The results of the U.S. presidential election was largely unanticipated by the media, and it remains unclear what impact new policies will have on the economy. The positive capital market moves since the election appear to indicate net favorable expectations on key areas, including corporate tax, healthcare, regulation, infrastructure, and trade. Other notable items with economic impacts include the continued relative strength of the U.S. dollar versus competing currencies (including the euro and pound), the continuation of relatively low oil prices, and Brexit. A strong U.S. dollar can harm U.S. exporters and U.S. multi-nationals; however, it can also benefit foreign multi-nationals positively, which support U.S. subsidiaries and operate U.S. industrial properties. Oil price declines over the past two years and the lack of a sustained rebound in price have put significant pressure on oil and gas exploration and production companies, resulting in many oil and gas sector bankruptcies, while simultaneously benefiting many industries (e.g. automotive, freight) and consumers' disposable incomes. In June, the passing of the U.K.'s referendum to separate itself from the European Union, known as Brexit, was a major surprise to the markets. The process to renegotiate financial and economic relationships and the resulting outcomes will take many years to unfold. Right now, the decline in value of the pound is a short-term benefit to U.K. exporters. The long-term impacts on the U.S. and global economy are unclear. We believe our direct exposure to the U.K. market is limited. Of our tenants that do have direct exposure to the U.K., we believe they are well-diversified businesses. We will continue to monitor these trends for short-term and long-term impacts to us.

Several economic indicators and other factors provide insight into the U.S. economic environment and industrial demand. Presently, we believe the key factors include gross domestic product ("GDP") growth rate, unemployment rate, non-farm payrolls, Conference Board consumer confidence index, manufacturing-purchasing manager index ("ISM"), the 10-year Treasury yield, U.S. total vehicle sales, and durable goods new orders. Below are recent trends in each of these factors.

Economic Indicators(1)	December 31, 2016	September 31, 2016	June 30, 2016	March 31, 2016	December 31, 2015
GDP Growth Rate	(2)	3.5%	1.4%	0.8%	0.9%
Unemployment Rate	4.7%	4.9%	4.9%	5.0%	5.0%
Change in Non-Farm Employment (in thousands)	156.0	208.0	271.0	186.0	271.0
Consumer Confidence Index	113.3	104.1	97.4	96.1	96.3
ISM(3)	54.7%	51.5%	53.2%	51.8%	48.0%
10-year Treasury Yield	2.45%	1.60%	1.49%	1.78%	2.27%
Seasonally Adjusted Annualized Rate US Total Vehicle Sales (in thousands)	18,680	18,059	17,161	17,032	17,830
Manufacturing New Orders: Durable Goods (in millions)	227,108	228,204	219,055	228,499	223,402

(1) Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Conference Board, Board of Governors of the Federal Reserve System, U.S. Census Bureau, and Institute for Supply Management. Each statistic is the latest revision available at the time of publishing this report.

(2) This statistic was not available at the time of publishing this report.

(3) ISM is a composite index based on a survey of over 300 purchasing and supply executives from across the country who respond to a monthly questionnaire about changes in production, new orders, new export orders, imports, employment, inventories, prices, lead-times, and timelines of supplier deliveries in their companies. When the index is over 50, it indicates expansion, while a reading below 50 signals contraction.

Currently, the GDP growth rate, growing non-farm employment, strong U.S. total vehicle sales, ISM level, consumer confidence, and low interest rates are positive fundamental signs for industrial demand. Expanding job count and the ongoing low unemployment rate suggests consumers will be spending more money on goods in the foreseeable future. The strengthening U.S. dollar means that U.S. consumers may be purchasing a relatively larger amount of imported goods and that U.S. companies are likely to lower their rate of exports. This is likely to be a net positive for industrial

real estate demand as imports tend to lead to greater net absorption than do exports. At the end of December 2016, the consumer confidence index reached a 13-year high and the ISM level reached its highest level in two years. On the negative side, the 2016 speculative grade corporate default rate surpassed its long-term average and reached 5.1%, significantly driven by oil and gas and mining industry defaults. We expect default rates to be stable in the coming year behind positive economic growth. However, we believe improving commodity markets and capital markets stability will be important in supporting this outlook. We also note that while automotive sales closed the year strong, they have moderated their growth in recent months and we are seeing many large multinational companies experience weak organic growth, commonly due to negative currency effects and commodity price deflation. We believe the combination of these observations signal some caution in underlying economic strength; however, we still expect an increase in industrial activity and more demand for industrial space in the foreseeable future given the job growth, low-interest rate environment, and GDP growth.

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Several industrial specific trends contribute to the expected demand increase, including:

- an increasing attractiveness of the U.S. as a manufacturing and distribution location because of the size of the U.S. consumer market, an increase in overseas labor costs and the overall cost of supplying and shipping goods (i.e. the shortening and fattening of the supply chain);
- the overall quality of the transportation infrastructure in the U.S.; and
- the rise of e-commerce (as compared to the traditional retail store distribution model) and the concomitant demand by e-commerce industry participants for well-located, functional distribution space.

Furthermore, the lack of material speculative development in most of our markets and the broader failure of supply to keep pace with demand in many of our markets may improve occupancy levels and rental rates in our portfolio. We believe, however, that industrial supply, more so than other real estate property types, has historically had a short lead time and can appear quickly. We have started to see a notable pick-up in development activity in a growing number of the more active industrial markets, but this has yet to take firm hold on a broader scale. We will continue to monitor the supply and demand fundamentals for industrial real estate and assess its impact on our business.

Conditions in Our Markets

The buildings in our portfolio are located in markets throughout the United States. Positive or negative changes in economic or other conditions, new supply, adverse weather conditions and natural disasters and other factors in these markets may affect our overall performance.

Rental Income

We receive income primarily in the form of rental income from the tenants who occupy our buildings. The amount of rental income generated by the buildings in our portfolio depends principally on occupancy and rental rates. As of December 31, 2016, our Operating Portfolio was approximately 95.7% leased and our lease rates as defined by GAAP on new and renewal leases together grew approximately 7.3% and 7.2% during the years ended December 31, 2016 and December 31, 2015, respectively. Future economic downturns or regional downturns affecting our submarkets that impair our ability to renew or re-lease space and the ability of our tenants to fulfill their lease commitments, as in the case of tenant bankruptcies, could adversely affect our ability to maintain or increase rental rates at our buildings. Our ability to lease our properties and the attendant rental rate is dependent upon, among other things, (i) the overall economy, (ii) the supply/demand dynamic in our markets, (iii) the quality of our properties, including age, clear height, and configuration, and (iv) our tenants’ ability to meet their contractual obligations to us.

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The following table provides a summary of our Operating Portfolio leases executed during the years ended December 31, 2016 and December 31, 2015. Certain leases contain rental concessions; any such rental concessions are accounted for on a straight-line basis over the term of the lease.

Operating Portfolio	Square Feet	Cash Basis Rent Per Square Foot[1]	GAAP Basis Rent Per Square Foot[2]	Total Turnover Costs Per Square Foot[3]	Cash Rent Change[1]	GAAP Rent Change[2]	Weighted Average Lease Term[4] (years)	Rental Concessions per Square Foot[5]
Year ended December 31, 2016								
New Leases[6]	749,275	$ 3.90	$ 4.16	$ 2.25	(0.5)%	4.0 %	8.2	$ 0.42
Renewal Leases[7]	4,817,462	4.02	4.14	0.56	1.4 %	7.4 %	4.8	0.15
Total/weighted average	5,566,737	$ 4.00	$ 4.14	$ 0.79	1.3 %	7.3 %	5.3	$ 0.18
Temporary Leases[8]	1,329,245							
Total leasing activity	6,895,982							
Year ended December 31, 2015								
New Leases[6]	1,393,810	$ 3.40	$ 3.28	$ 1.85	10.8 %	18.3 %	7.9	$ 0.44
Renewal Leases[7]	2,921,673	3.89	4.04	0.60	(0.8)%	4.7 %	4.1	0.06
Total/weighted average	4,315,483	$ 3.73	$ 3.87	$ 1.01	1.4 %	7.2 %	5.4	$ 0.18
Temporary Leases[8]	1,234,600							
Total leasing activity	5,550,083							

(1) We define Cash Basis Rent Change as the percentage change in base rent (excluding straight-line rent adjustments and above/below market lease amortization as required by GAAP) of the Comparable Lease. We define a Comparable Lease as a lease with a similar lease structure as compared to the previous in-place lease, excluding new leases for space that was not occupied under our ownership, leases on space with downtime in excess of two years, leases with materially different lease structures, leases associated with known vacates at the time of acquisition, and leases with credit-related modifications.

(2) We define GAAP Rent Change as the percentage change in the average base rent over the contractual lease term (excluding above/below market lease amortization) of the Comparable Lease.

(3) We define Turnover Costs as the costs for improvements of vacant and renewal spaces, as well as the commissions for leasing transactions. Turnover Costs per square foot represent the total turnover costs expected to be incurred on the leases signed during the period and do not reflect actual expenditures for the period.

(4) We define Weighted Average Lease Term as the contractual lease term in years as of the lease start date weighted by square footage.

(5) Represents the total concession (free rent) for the entire lease term.

(6) We define a New Lease as any lease that is signed for an initial term equal to or greater than twelve months for any vacant space; this includes a new tenant or an existing tenant that is expanding into new (additional) space.

(7) We define a Renewal Lease as a lease signed by an existing tenant to extend the term for twelve months or more, including (i) a renewal of the same space as the current lease at lease expiration, (ii) a renewal of only a portion of the current space at lease expiration and (iii) an early renewal or workout, which ultimately does extend the original term for twelve months or more.

(8) We define a Temporary Lease or a License Agreement as any lease that is signed for an initial term of less than twelve months; this includes short-term new leases and short-term renewal leases.

Property Operating Expenses

Our property operating expenses generally consist of utilities, real estate taxes, management fees, insurance and site repair and maintenance costs. For the majority of our tenants, our property operating expenses are controlled, in part, by the triple net provisions in tenant leases. In our triple net leases, the tenant is responsible for all aspects of and costs

related to the building and its operation during the lease term, including utilities, taxes, insurance and maintenance costs. However, we also have modified gross leases and gross leases in our building portfolio. The terms of those leases vary and on some occasions we may absorb building related expenses of our tenants. In our modified gross leases, we are responsible for some building related expenses during the lease term, but the cost of most of the expenses is passed through to the tenant for reimbursement to us. In our gross leases, we are responsible for all costs related to the building and its operation during the lease term. Our overall performance will be affected by the extent to which we are able to pass-through property operating expenses to our tenants.

Scheduled Lease Expirations

Our ability to re-lease space subject to expiring leases will impact our results of operations and is affected by economic and competitive conditions in our markets and by the desirability of our individual buildings. Leases that comprise approximately 9.9% of our total annualized base rental revenue will expire during the period from January 1, 2017 to December 31, 2017, excluding month to month leases. We assume, based upon internal renewal probability estimates that some of our tenants will renew and others will vacate and the associated space will be re-let subject to downtime assumptions. Assuming we do not dispose of any of these buildings, we expect that the rental rates on the respective new leases will generally be lower than the rates under existing leases expiring during the period January 1, 2017 to December 31, 2017, thereby resulting in lower revenue from the same space.

As of December 31, 2016, we had approximately 3.3 million square feet of currently available space in our buildings. Of the approximately 5.2 million square feet of leases that expired during the year ended December 31, 2016, we have renewed

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approximately 3.6 million square feet subject to leases, resulting in a 69.5% Operating Portfolio tenant retention rate for the year ended December 31, 2016. As of December 31, 2016, for the period January 1, 2017 to December 31, 2017, none of our top ten leases, based on December 31, 2016 total annualized base rental revenue, will be expiring.

Tenant Retention

The following table provides a summary of our Operating Portfolio tenant retention for the years ended December 31, 2016, December 31, 2015, and December 31, 2014.

Operating Portfolio Tenant Retention	Retention %[(1)]		Weighted Average Lease Term (years)	Expiring Square Feet	Renewal Square Feet[(2)]	Cash Rent Change		GAAP Rent Change	
Year ended December 31, 2016	69.5	%	4.7	5,210,736	3,620,369	3.0	%	8.2	%
Year ended December 31, 2015	69.5	%	2.8	4,895,033	3,401,317	4.5	%	8.9	%
Year ended December 31, 2014	70.8	%	3.5	3,295,096	2,331,698	5.8	%	8.5	%
Total/weighted average	69.8	%	3.7	13,400,865	9,353,384	4.2	%	8.5	%

(1) We define Retention as the percentage determined by taking Renewal Lease square footage commencing in the period divided by square footage of leases expiring in the period. Neither the Renewal Leases nor leases expiring include Temporary Leases or License Agreements. Retention excludes leases associated with known vacates at the time of acquisition, leases with credit-related modifications, and early terminations.

(2) We define Renewal Square Feet as the square footage of renewal leases commencing during the period, irrespective of the date signed.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. We base our estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied resulting in a different presentation of our financial statements. From time to time, we evaluate our estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current information. Below is a discussion of accounting policies that we consider critical in that they may require complex judgment in their application or require estimates about matters that are inherently uncertain.

Rental Property and Deferred Leasing Intangibles

Rental property is carried at cost less accumulated depreciation and amortization. Expenditures for maintenance and repairs are expensed as incurred. Significant renovations and betterments that extend the economic useful lives of assets are capitalized.
We capitalize costs directly related to the development, pre-development, redevelopment or improvement of rental property. Real estate taxes, compensation costs of development personnel, insurance, interest, and other directly related costs during construction periods are capitalized as incurred and depreciated commencing with the date the property is substantially completed. Such costs begin to be capitalized to the development projects from the point we are undergoing the necessary activities to get the development project ready for its intended use and cease when the development projects are substantially completed and held available for occupancy. Interest is capitalized based on

actual capital expenditures from the period when development or redevelopment commences until the asset is ready for its intended use, at the weighted average borrowing rate of our unsecured indebtedness during the period.

For properties classified as held for sale, we cease depreciating and amortizing the rental property and value the rental property at the lower of depreciated and amortized cost or fair value, less costs to dispose. We present those properties classified as held for sale with any qualifying assets and liabilities associated with those properties as held for sale in the accompanying Consolidated Balance Sheets.

We allocate the purchase price of business combinations of properties based upon the fair value of the assets and liabilities acquired, which generally consist of land, buildings, tenant improvements, mortgage debt assumed, and deferred leasing intangibles, which includes in-place leases, above market and below market leases, and tenant relationships. The portion of the purchase price that is allocated to above and below market leases is valued based on the present value of the difference between prevailing market rates and the in-place rates measured over a period equal to the remaining term of the lease term plus the term of any bargain renewal options. The above and below market lease values are amortized into rental income over the remaining term plus the terms of bargain renewal options or assumed exercise of early termination options of the respective leases. The purchase price is further allocated to in-place lease values and tenant relationships based on our evaluation of the specific characteristics of each tenant's lease and its overall relationship with the respective tenant. The value of in-place lease intangibles and tenant relationships,

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which are included as components of deferred leasing intangibles, are amortized over the remaining lease term (and expected renewal periods of the respective lease for tenant relationships or assumed exercise of early termination options for in-place lease intangibles) as increases to depreciation and amortization expense. If a tenant terminates its lease, the unamortized portion of above and below market leases is accelerated into rental income and the in-place lease value and tenant relationships are accelerated into depreciation or amortization expense over the shortened lease term.

The purchase price allocated to deferred leasing intangible assets are included in rental property on our Consolidated Balance Sheets and the purchase price allocated to deferred leasing intangible liabilities are included in deferred leasing intangibles on our Consolidated Balance Sheets under the liabilities section.

In determining the fair value of the debt assumed, we discount the spread between the future contractual interest payments and hypothetical future interest payments on mortgage debt based on a current market rate. The associated fair market value debt adjustment is amortized through interest expense over the life of the debt on a basis which approximates the effective interest method.

Using information available at the time of acquisition, we allocate the total consideration to tangible assets and liabilities and identified intangible assets and liabilities, as discussed above. We may adjust the preliminary purchase price allocations after obtaining more information about asset valuations and liabilities assumed.

We evaluate the carrying value of all tangible and intangible real estate assets held for use for possible impairment when an event or change in circumstance has occurred that indicates their carrying value may not be recoverable. The evaluation includes estimating and reviewing anticipated future undiscounted cash flows to be derived from the asset and the ultimate sale of the asset. If such cash flows are less than the asset’s carrying value, an impairment charge is recognized to the extent by which the asset’s carrying value exceeds the estimated fair value. Estimating future cash flows is highly subjective and such estimates could differ from actual results.

Depreciation and amortization expense is computed using the straight-line method based on the following lives.

Building	40 Years
Building and land improvements	Up to 20 years
Tenant improvements	Shorter of useful life or terms of related lease
Above and below market leases and other deferred leasing intangibles	Terms of the related lease plus terms of bargain renewal options or assumed exercise of early termination options
Tenant relationships	Terms of the related lease plus estimated renewal period
Assumed debt fair value premium/discount	Terms of the related loan

Goodwill

The excess of the cost of an acquired business over the net of the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed is recorded as goodwill. Our goodwill of $4.9 million represents amounts allocated to the assembled workforce from the acquired management company, and is presented in prepaid expenses and other assets on the accompanying Consolidated Balance Sheets. Goodwill has an indeterminate life and is not amortized, but is tested for impairment on an annual basis at December 31, or more frequently if events or changes in circumstances indicate that the asset might be impaired. We take a qualitative approach to consider whether an impairment of goodwill exists prior to quantitatively determining the fair value of the reporting unit in step one of the impairment test. We have not recorded any impairments to goodwill through December 31, 2016.

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Use of Derivative Financial Instruments

We record all derivatives on the accompanying Consolidated Balance Sheets at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting, and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. We may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or we elect not to apply hedge accounting.

In accordance with fair value measurement guidance, we made an accounting policy election to measure the credit risk of our derivative financial instruments that are subject to master netting arrangements on a net basis by counterparty portfolio. Credit risk is the risk of failure of the counterparty to perform under the terms of the contract. We minimize the credit risk in the interest rate swaps by entering into transactions with various high-quality counterparties. Our exposure to credit risk at any point is generally limited to amounts recorded as assets on the accompanying Consolidated Balance Sheets.

Fair Value of Financial Instruments

Financial instruments include cash and cash equivalents, restricted cash, tenant accounts receivable, interest rate swaps, accounts payable, accrued expenses, unsecured credit facility, unsecured term loans, unsecured notes and mortgage notes. The fair values of the cash and cash equivalents, restricted cash, tenant accounts receivable, accounts payable and accrued expenses approximate their carrying or contract values because of the short term maturity of these instruments. See Note 4 in the accompanying Notes to Consolidated Financial Statements for the fair values of our debt. See Note 5 in the accompanying Notes to Consolidated Financial Statements for the fair values of our interest rate swaps.

We adopted fair value measurement provisions for our financial instruments recorded at fair value. The guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Incentive and Equity-Based Employee Compensation Plans

We grant equity-based compensation awards to our employees and directors in the form of restricted shares of common stock, LTIP units, outperformance programs, and performance units. See Notes 6, 7 and 8 in the accompanying Notes to Consolidated Financial Statements for further discussion of restricted shares of common stock, LTIP units, and the outperformance programs and performance units, respectively. We measure equity-based compensation expense based on the fair value of the awards on the grant date and recognize the expense ratably over the vesting period, and forfeitures are recognized in the period in which they occur.

Revenue Recognition

All current leases are classified as operating leases and rental revenue is recognized on a straight-line basis over the term of the lease (and expected bargain renewal terms or assumed exercise of early termination options) when collectability is reasonably assured. Differences between rental revenue earned and amounts due under the lease are charged or credited, as applicable, to accrued rental revenue. Additional rents from expense reimbursements for insurance, real estate taxes and certain other expenses are recognized in the period in which the related expenses are incurred.

Early lease termination fees are recorded in rental income on a straight-line basis from the notification date of such termination to the then remaining (not the original) lease term, if any, or upon collection if collection is not reasonably assured.

We earn revenue from asset management fees, which are included in our Consolidated Statements of Operations in other income. We recognize revenue from asset management fees when the related fees are earned and are realized or realizable.

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By the terms of their leases, certain tenants are obligated to pay directly the costs of their properties' insurance, real estate taxes and certain other expenses and these costs are not reflected in our Consolidated Financial Statements. To the extent any tenant responsible for these costs under its respective lease defaults on its lease or it is deemed probable that the tenant will fail to pay for such costs, we would record a liability for such obligation. We do not recognize recovery revenue related to leases where the tenant will pay expenses directly for real estate taxes, insurance, ground lease payments, and certain other expenses.

Results of Operations

Our results of operations are largely driven by our levels of occupancy as well as the rental rates we receive from tenants. From a rental rate standpoint, we have historically achieved overall rental increases in our tenant rollovers on a cash basis and GAAP basis.

The following discussion of our results of our same store net operating income ("NOI") should be read in conjunction with our Consolidated Financial Statements. For a detailed discussion of NOI, including the reasons management believes NOI is useful to investors, see "Non-GAAP Financial Measures" below. We consider our same store portfolio to consist of only those industrial buildings owned and operated at the beginning and at the end of both of the applicable periods presented. Same store results are considered to be useful to investors in evaluating our performance because they provide information relating to changes in property level operating performance without taking into account the effects of acquisitions or dispositions. However, because we have generally acquired 100% occupied properties and have grown the portfolio significantly every year since our initial public offering, our same store results do not represent a market portfolio with market occupancy. Because we have above market same store occupancy, our same store results may look unfavorable at times as we trend to market levels. We encourage the reader to not only look at our same store results, but also our total portfolio results, due to historic and future growth.

Comparison of the year ended December 31, 2016 to the year ended December 31, 2015

Our results of operations are affected by the acquisition and disposition activity during the 2016 and 2015 periods as described below. The following discussion of our same store portfolio excludes flex/office buildings, redevelopment buildings, and those classified as held for sale on the accompanying Consolidated Balance Sheets. On December 31, 2016 we owned 204 industrial buildings consisting of 40,957,663 square feet, which represents approximately 67.3% of our total portfolio, that are considered our same store portfolio in the analysis below. Same store occupancy decreased approximately 1.1% to 95.3% as of December 31, 2016 compared to 96.4% as of December 31, 2015.

The following table summarizes selected operating information for our same store portfolio and our total portfolio for the years ended December 31, 2016 and December 31, 2015 (dollars in thousands). This table includes a reconciliation from our same store portfolio to our total portfolio by also providing information for the years ended December 31, 2016 and December 31, 2015 with respect to the buildings acquired and disposed of after January 1, 2015 and our flex/office buildings, redevelopment buildings, and those classified as held for sale.

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	Same Store Portfolio				Acquisitions/Dispositions		Other [1]		Total Portfolio			
	Year ended December 31,		Change		Year ended December 31,		Year ended December 31,		Year ended December 31,		Change	
	2016	2015	$	%	2016	2015	2016	2015	2016	2015	$	%
Revenue												
Operating revenue												
Rental income	$148,670	$147,322	$1,348	0.9 %	$56,743	$29,746	$7,328	$9,395	$212,741	$186,463	$26,278	14.1
Tenant recoveries	24,317	23,317	1,000	4.3 %	10,282	5,754	2,508	2,595	37,107	31,666	5,441	17.2
Other income	102	84	18	21.4 %	71	25	222	395	395	504	(109)	(21.6
Total operating revenue	173,089	170,723	2,366	1.4 %	67,096	35,525	10,058	12,385	250,243	218,633	31,610	14.5
Expenses												
Property	30,036	30,280	(244)	(0.8)%	13,920	8,235	4,948	4,112	48,904	42,627	6,277	14.7
Net operating income [2]	$143,053	$140,443	$2,610	1.9 %	$53,176	$27,290	$5,110	$8,273	201,339	176,006	25,333	14.4
Other expenses												
General and administrative									33,395	28,750	4,645	16.2
Property acquisition costs									4,567	4,757	(190)	(4.0
Depreciation and amortization									125,444	110,421	15,023	13.6
Loss on impairments									16,845	29,272	(12,427)	(42.5
Other expenses									1,149	1,048	101	9.6
Total other expenses									181,400	174,248	7,152	4.1
Total expenses									230,304	216,875	13,429	6.2
Other income (expense)												
Interest income									10	9	1	11.1
Interest expense									(42,923)	(36,098)	(6,825)	18.9
Loss on extinguishment of debt									(3,261)	—	(3,261)	100.0
Gain on the sales of rental property, net									61,823	4,986	56,837	1,139.9
Total other income (expense)									15,649	(31,103)	46,752	150.3

Net income (loss)	$35,588	$(29,345)	$64,933	221.3

(1) Includes flex/office buildings, and redevelopment buildings, and buildings classified as held for sale, which are excluded from the same store portfolio. Also includes corporate sublease rental income and asset management fee income, which are separated for purposes of calculating NOI.

(2) Excluding corporate sublease rental income and asset management fee income, NOI for the total portfolio for the years ended December 31, 2016 and December 31, 2015 was $201.1 million and $175.4 million, respectively. Corporate sublease rental income and asset management fee income are included in rental income and other income, respectively, in the table above. For a detailed discussion of NOI, including the reasons management believes NOI is useful to investors, see “Non-GAAP Financial Measures” below.

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Net income (loss) for our total portfolio increased by $64.9 million or 221.3% to a net income position of $35.6 million for the year ended December 31, 2016, compared to a net loss position of $29.3 million for the year ended December 31, 2015. For a detailed reconciliation of our same store portfolio to net income (loss), see the table on the previous page.

Same Store Total Operating Revenue

Same store operating revenue consists primarily of (i) rental income consisting of base rent, termination income, straight-line rent and above and below market lease amortization from our properties, and (ii) tenant reimbursements for insurance, real estate taxes and certain other expenses (“tenant recoveries”).

For a detailed reconciliation of our same store portfolio to net income (loss), see the table on the previous page.

Same store rental income increased by $1.3 million or 0.9% to $148.7 million for the year ended December 31, 2016, compared to $147.3 million for the year ended December 31, 2015. Approximately $3.7 million of the increase was attributable to rental increases due to new leases and renewals of existing tenants. Same store rental income also increased approximately $0.4 million due to a net decrease in the amortization of net above market leases and approximately $0.1 million due to the recognition of a straight-line termination fee at our Golden, CO property, as discussed in Note 2 of the accompanying Notes to Consolidated Financial Statements. These increases were partially offset by an approximately $3.0 million decrease due to a reduction of base rent due to tenants downsizing their spaces and vacancies.

Same store tenant recoveries increased by $1.0 million or 4.3% to $24.3 million for the year ended December 31, 2016, compared to $23.3 million for the year ended December 31, 2015. This increase is primarily related to an increase of approximately $2.1 million related to increases of real estate taxes levied by the related taxing authority, occupancy in previously vacant buildings, as well as changes to lease terms where we began paying the real estate taxes and operating expenses on behalf of tenants that had previously paid its taxes and operating expenses directly to respective vendors. These increases were partially offset by a decrease of approximately $1.1 million related to decreases of real estate taxes levied by the related taxing authority and vacancies.

Same Store Operating Expenses

Same store operating expenses consist primarily of property operating expenses and real estate taxes and insurance.

For a detailed reconciliation of our same store portfolio to net income (loss), see the table on the previous page.

Total same store expenses decreased by $0.2 million or 0.8% to $30.0 million for the year ended December 31, 2016, compared to $30.3 million for the year ended December 31, 2015. This decrease is primarily related to a decrease of approximately $0.1 million in snow removal expenses attributable to a more mild winter in 2016 as compared to 2015, as well as a decrease of approximately $0.3 million in general repairs and maintenance expenses. These decreases were partially offset by an increase of approximately $0.2 million related to increases of real estate taxes levied by the related taxing authority and changes to lease terms where we began paying the real estate taxes on behalf of tenants that had previously paid its taxes directly to the taxing authority.

Acquisitions and Dispositions Net Operating Income

For a detailed reconciliation of our acquisitions and dispositions portfolio to net income (loss), see the table on the previous page.

Subsequent to January 1, 2015, we acquired 96 buildings consisting of approximately 19.0 million square feet, and sold 30 buildings consisting of approximately 5.0 million square feet. For the years ended December 31, 2016 and December 31, 2015, the buildings acquired after January 1, 2015 contributed approximately $46.4 million and $14.6 million to NOI, respectively. For the years ended December 31, 2016 and December 31, 2015, the buildings sold after January 1, 2015 contributed approximately $6.8 million and $12.7 million to NOI, respectively. Refer to Note 3 in the accompanying Notes to Consolidated Financial Statements for additional discussion regarding buildings acquired or sold.

Other Net Operating Income

Our other assets include our flex/office buildings, redevelopment buildings, and buildings classified as held for sale. It also includes corporate sublease rental income and asset management fee income, which are separated for purposes of calculating NOI for the total portfolio.

For a detailed reconciliation of our flex/office buildings, redevelopment buildings, and buildings classified as held for sale to net income (loss), see the table on the previous page.

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At December 31, 2016 we owned 15 flex/office buildings consisting of approximately 0.9 million square feet and one redevelopment building consisting of approximately 0.3 million square feet that are not included in our same store or acquisitions and dispositions portfolios. These building contributed approximately $4.9 million and $7.7 million to NOI for the years ended December 31, 2016 and December 31, 2015, respectively. Additionally, we earned $0, $0.2 million, $0.2 million, and $0.4 million in corporate sublease rental income and asset management fee income for the years ended December 31, 2016 and December 31, 2015, respectively.

Total Other Expenses

Total other expenses consist of general and administrative expense, property acquisition costs, depreciation and amortization, loss on impairments, and other expenses.

Total other expenses increased $7.2 million or 4.1% for the year ended December 31, 2016 to $181.4 million compared to $174.2 million for the year ended December 31, 2015. The increase was primarily related to an increase of $15.0 million in depreciation and amortization as a result of buildings acquired, net of buildings disposed, which increased the depreciable asset base. Approximately $4.6 million of the increase relates to an increase in general and administrative expenses, primarily related to compensation expense of approximately $3.1 million related to the severance costs of a former executive officer during the year ended December 31, 2016, as well as the 2016 equity grants for employees and independent directors. These increases are partially offset by a decrease of approximately $12.4 million in loss on impairments recorded due to the impairment of 12 buildings for the year ended December 31, 2016 compared to the impairment of 14 buildings for the year ended December 31, 2015.

Total Other Income (Expense)

Total other income (expense) consists of interest income, interest expense, loss on extinguishment of debt, and gain on the sales of rental property. Interest expense includes interest incurred during the period as well as adjustments related to amortization of financing fees and debt issuance costs and amortization of fair market value adjustments associated with the assumption of debt.

Total other income (expense) increased $46.8 million or 150.3% to a net other income of $15.6 million for the year ended December 31, 2016 compared to a net other expense of $31.1 million for the year ended December 31, 2015. This increase is primarily the result of an increase in the gain on the sales of rental property of approximately $56.8 million due to the sales of 24 buildings, whereas there were six buildings sold during the year ended December 31, 2015. This was partially offset by a loss on extinguishment of debt of approximately $3.3 million for the year ended December 31, 2016, whereas there was no loss on extinguishment of debt during the year ended December 31, 2015. This was also partially offset by an increase in interest expense of approximately $6.8 million related to the increase in total average debt outstanding for the year ended December 31, 2016 compared to the year ended December 31, 2015.

Comparison of year ended December 31, 2015 to the year ended December 31, 2014

Our results of operations are affected by the acquisition and disposition activity during the 2015 and 2014 periods as described below. The following discussion of our same store portfolio excludes flex/office buildings, redevelopment buildings, and those classified as held for sale on the accompanying Consolidated Balance Sheets. On December 31, 2015 we owned 179 industrial buildings consisting of 35,600,752 square feet, which represented approximately 65.1% of our total portfolio, that are considered our same store portfolio in the analysis below. Same store occupancy remained flat at 95.2% as of December 31, 2015 compared to 95.2% as of December 31, 2014.

The following table summarizes selected operating information for our same store portfolio and our total portfolio for the years ended December 31, 2015 and December 31, 2014 (dollars in thousands). This table includes a reconciliation from our same store portfolio to our total portfolio by also providing information for the years ended December 31, 2015 and December 31, 2014 with respect to the buildings acquired and disposed of after January 1, 2014 and our flex/office buildings.

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	Same Store Portfolio				Acquisitions/Dispositions		Other [1]		Total Portfolio			
	Year ended December 31,		Change		Year ended December 31,		Year ended December 31,		Year ended December 31,		Change	
	2015	2014	$	%	2015	2014	2015	2014	2015	2014	$	%
Revenue												
Operating revenue												
Rental income	$123,257	$122,439	$818	0.7 %	$54,048	$18,121	$9,158	$8,910	$186,463	$149,470	$36,993	24.7
Tenant recoveries	17,948	18,493	(545)	(2.9)%	11,133	2,919	2,585	2,195	31,666	23,607	8,059	34.1
Other income	92	104	(12)	(11.5)%	27	32	385	603	504	$739	(235)	(31.
Total operating revenue	141,297	141,036	261	0.2 %	65,208	21,072	12,128	11,708	218,633	173,816	44,817	25.8
Expenses												
Property	25,942	25,734	208	0.8 %	11,968	3,681	4,717	3,973	42,627	33,388	9,239	27.7
Net operating income [2]	$115,355	$115,302	$53	— %	$53,240	$17,391	$7,411	$7,735	$176,006	$140,428	$35,578	25.3
Other expenses (income)												
General and administrative									28,750	26,396	2,354	8.9
Property acquisition costs									4,757	4,390	367	8.4
Depreciation and amortization									110,421	87,703	22,718	25.9
Loss on impairments									29,272	2,840	26,432	930
Other expenses									1,048	803	245	30.5
Total other expenses									174,248	122,132	52,116	42.7
Total expenses									216,875	155,520	61,355	39.5
Other income (expense)												
Interest income									9	15	(6)	(40.
Interest expense									(36,098)	(25,109)	(10,989)	43.8
Loss on extinguishment of debt									—	(686)	686	(100
Gain on the sales of rental property, net									4,986	2,799	2,187	78.1
Total other income (expense)									(31,103)	(22,981)	(8,122)	35.3
Net loss									$(29,345)	$(4,685)	$(24,660)	526

(1) Includes flex/office buildings, redevelopment buildings, and buildings classified as held for sale, which are excluded from the same store portfolio. Also includes corporate sublease rental income and asset management fee income, which are separated for purposes of calculating NOI.

(2) Excluding corporate sublease rental income and asset management fee income, NOI for the total portfolio for the years ended December 31, 2015 and December 31, 2014 was $175.4 million and $139.8 million, respectively. Corporate sublease rental income and asset management fee income are included in rental income and other income, respectively, in the table above. For a detailed discussion of NOI, including the reasons management believes NOI is useful to investors, see “Non-GAAP Financial Measures” below.

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Net loss for our total portfolio increased by $24.7 million or 526.4% to net loss of $29.3 million for the year ended December 31, 2015, compared to a net loss of $4.7 million for the year ended December 31, 2014. For a detailed reconciliation of our same store portfolio to net loss, see the table on the previous page.

Same Store Total Operating Revenue

Same store operating revenue consists primarily of (i) rental income consisting of base rent, termination income, straight-line rent and above and below market lease amortization from our properties, and (ii) tenant reimbursements for insurance, real estate taxes and certain other expenses ("tenant recoveries").

For a detailed reconciliation of our same store portfolio to net loss, see the table on the previous page.

Same store rental income increased by $0.8 million or 0.7% to $123.3 million for the year ended December 31, 2015, compared to $122.4 million for the year ended December 31, 2014. Approximately $3.0 million of the increase was attributable to rental increases due to new leases, and renewals and expansions of existing tenants. These increases were partially offset by an approximately $1.9 million decrease due to a reduction of base rent due to tenants downsizing their spaces and vacancies. Same store rental income also decreased approximately $0.3 million related to an increase in amortization of net above market leases.

Same store tenant recoveries decreased by $0.5 million or 2.9% to $17.9 million for the year ended December 31, 2015, compared to $18.5 million for the year ended December 31, 2014. The decrease was primarily attributable to one building where during the year ended December 31, 2014, the tenant's lease terms changed and we began paying real estate taxes for the tenant who had previously been paying the expense to the taxing authority directly. The real estate taxes were payable in arrears, and as such the expense and related recovery recorded for the year ended December 31, 2014 include 24 months of real estate taxes, which attributes to approximately $0.6 million of the decrease in recoveries during the year ended December 31, 2015, in which 12 months of real estate tax recoveries are recorded. Approximately $0.3 million of the decrease is attributable to vacancies, where the tenants had previously been reimbursing us for the related expenses. Approximately $0.4 million of the decrease related to a property where the tenant reimbursed us for deferred repair and maintenance that was necessary upon vacating the space at lease expiration for the year ended December 31, 2014, which did not recur during the year ended December 31, 2015. These decreases were partially offset due to increases in occupancies resulting in an increase in recoveries of $0.4 million, as well as a $0.4 million increase in tenant recoveries related to increases of real estate taxes levied by the related taxing authority.

Same Store Operating Expenses

Same store operating expenses consist primarily of property operating expenses and real estate taxes and insurance.

For a detailed reconciliation of our same store portfolio to net loss, see the table on the previous page.

Total same store expenses increased by $0.2 million or 0.8% to $25.9 million for the year ended December 31, 2015, compared to $25.7 million for the year ended December 31, 2014. The increase is primarily due to an increase of approximately $0.7 million due to increased occupancy and increased utility usage and other repairs and maintenance costs at multiple properties, and $0.6 million due to an increase of real estate taxes levied by the related taxing authority. Same store expenses increased approximately $0.3 million in real estate taxes due to vacancies or to changes in lease terms where we began paying the real estate taxes on behalf of a tenant that previously paid its taxes directly. Same store expenses also increased by approximately $0.1 million for bad debt expense recognized for one of our tenants. These increases were partially offset by a decrease of $0.6 million that is primarily attributable to one building where during the year ended December 31, 2014, the tenant's lease terms changed and we began paying real

estate taxes for the tenant who had previously been paying the expense to taxing authority directly. The real estate taxes were payable in arrears, and as such the expense recorded by us for the year ended December 31, 2014 include 24 months of real estate taxes, as compared to the year ended December 31, 2015, in which 12 months of real estate taxes are recorded. As discussed in "Same Store Total Operating Revenue" above, we received reimbursement from the tenant for the full $0.6 million. Approximately $0.3 million of the decrease in tenant recoverable expenses related to changes in lease terms where tenants began paying expenses directly to third parties; therefore, the expenses and related recoveries are no longer recognized by us. Approximately $0.4 million of the decrease related to a property where we performed deferred repair and maintenance for a tenant that was necessary upon vacating the space at lease expiration for the year ended December 31, 2014, which did not recur during the year ended December 31, 2015. Same store expenses also decreased by $0.2 million due to real estate taxes that were reduced or abated by the taxing authority.

Acquisitions and Dispositions Net Operating Income

For a detailed reconciliation of our acquisitions and dispositions portfolio to net loss, see the table on the previous page.

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Subsequent to January 1, 2014, we acquired 92 buildings consisting of approximately 18.0 million square feet, and sold 10 buildings consisting of approximately 1.2 million square feet. For the year ended December 31, 2015 and December 31, 2014, the buildings acquired after January 1, 2014 contributed approximately $51.1 million and $12.7 million to NOI, respectively. For the year ended December 31, 2015 and December 31, 2014, the buildings sold after January 1, 2014 contributed approximately $2.1 million and $4.7 million to NOI, respectively. Refer to Note 3 in the accompanying Notes to Consolidated Financial Statements for additional discussion regarding buildings acquired or sold.

Other Net Operating Income

Our other assets include our flex/office buildings, redevelopment buildings, and buildings classified as held for sale. It also includes corporate sublease rental income and asset management fee income, which are separated for purposes of calculating NOI for the total portfolio.

For a detailed reconciliation of our flex/office buildings, redevelopment buildings, and buildings classified as held for sale to net loss, see the table on the previous page.

At December 31, 2015 we owned 20 flex/office buildings consisting of approximately 1.1 million square feet that are not included in our same store or acquisitions and dispositions portfolios. These buildings contributed approximately $6.8 million and $7.1 million to NOI for year ended December 31, 2015 and December 31, 2014, respectively. Additionally, we earned $0.2 million, $17,000, $0.4 million, and $0.6 million in corporate sublease rental income and asset management fee income for the year ended December 31, 2015 and December 31, 2014, respectively.

Total Other Expenses

Total other expenses consist of general and administrative expense, property acquisition costs, depreciation and amortization, and loss on impairments and other expenses.

Total other expenses increased $52.1 million or 42.7% for the year ended December 31, 2015 to $174.2 million compared to $122.1 million for the year ended December 31, 2014. The increase was primarily related to an increase of $22.7 million in depreciation and amortization as a result of the buildings acquired, net of buildings disposed, which increased the depreciable asset base. The increase was also attributable to an increase of $26.4 million in loss on impairments recorded due to the impairment of 14 buildings for the year ended December 31, 2015 compared to the impairment of one building for the year ended December 31, 2014 (as discussed in Note 3 in the accompanying Notes to Consolidated Financial Statements). Approximately $2.4 million of the increase relates to an increase in general and administrative expenses, primarily related to non-cash compensation expense related to the 2015 equity grants for employees and independent directors, and other costs attributable to an increased number of employees (54 employees at December 31, 2014 compared to 68 employees at December 31, 2015), primarily salaries and payroll taxes, of approximately $6.3 million. This increase is offset by $3.9 million of severance costs that occurred in 2014 that did not occur in 2015 related to two executives (as discussed in Note 7 in the accompanying Notes to Consolidated Financial Statements). Property acquisition costs also increased by approximately $0.4 million due to six more acquisitions for the year ended December 31, 2015 as compared to the year ended December 31, 2014, and other expenses increased by approximately $0.2 million due to increased state income taxes due to additional properties acquired during the year ended December 31, 2015.

Total Other Income (Expense)

Total other income (expense) consists of interest income, interest expense, loss on extinguishment of debt, and gain on the sales of rental property. Interest expense includes interest incurred during the period as well as adjustments related to amortization of financing fees and debt issuance costs and amortization of fair market value adjustments associated with the assumption of debt.

Total other expense increased $8.1 million or 35.3% to $31.1 million for the year ended December 31, 2015 compared to $23.0 million for the year ended December 31, 2014. The increase was primarily attributable to an $11.0 million increase in interest expense related to an overall increase in the weighted average interest rate and an increase in total average debt outstanding for the year ended December 31, 2015 compared to the year ended December 31, 2014. The increases were a result of the issuance of unsecured notes and unsecured term loans during 2015; refer to Note 4 in the accompanying Notes to Consolidated Financial Statements for details.

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Non-GAAP Financial Measures

In this report, we disclose and discuss funds from operations ("FFO") and NOI, which meet the definition of "non-GAAP financial measures" as set forth in Item 10(e) of Regulation S-K promulgated by the SEC. As a result, we are required to include in this report a statement of why management believes that presentation of these measures provides useful information to investors.

Funds From Operations

FFO should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of our performance, and we believe that to understand our performance further, FFO should be compared with our reported net income or net loss in accordance with GAAP, as presented in our consolidated financial statements included in this report.

We calculate FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts ("NAREIT"). FFO represents GAAP net income (loss), excluding gains (or losses) from sales of depreciable operating buildings, impairment write-downs of depreciable real estate, real estate related depreciation and amortization (excluding amortization of deferred financing costs and fair market value of debt adjustment) and after adjustments for unconsolidated partnerships and joint ventures.

Management uses FFO as a supplemental performance measure because it is a widely recognized measure of the performance of REITs. FFO may be used by investors as a basis to compare our operating performance with that of other REITs.

However, because FFO excludes depreciation and amortization and captures neither the changes in the value of our buildings that result from use or market conditions nor the level of capital expenditures and leasing commissions necessary to maintain the operating performance of our buildings, 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 REITs may not calculate FFO in accordance with the NAREIT definition as we do, and, accordingly, our FFO may not be comparable to such other REITs' FFO. FFO should not be used as a measure of our liquidity, and is not indicative of funds available for our cash needs, including our ability to pay dividends.

The following table sets forth a reconciliation of our FFO attributable to common stockholders and unit holders for the periods presented to net income (loss), the nearest GAAP equivalent.

	Year ended December 31,		
Reconciliation of Net Income (Loss) to FFO (in thousands)	2016	2015	2014
Net income (loss)	$35,588	$(29,345)	$(4,685)
Rental property depreciation and amortization	125,182	110,241	87,502
Loss on impairments	16,845	29,272	2,840
Gain on the sales of rental property, net	(61,823)	(4,986)	(2,799)
FFO	$115,792	$105,182	$82,858
Preferred stock dividends	(13,897)	(10,848)	(10,848)
Amount allocated to participating securities	(384)	(385)	(345)
FFO attributable to common stockholders and unit holders	$101,511	$93,949	$71,665

Net Operating Income

We consider NOI to be an appropriate supplemental performance measure to net income because we believe it helps investors and management understand the core operations of our buildings. NOI is defined as rental revenue,

including reimbursements, less property expenses and real estate taxes and insurance. NOI should not be viewed as an alternative measure of our financial performance since it excludes expenses which could materially impact our results of operations. Further, our NOI may not be comparable to that of other real estate companies, as they may use different methodologies for calculating NOI.

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The following table sets forth a reconciliation of our NOI for the periods presented to net income (loss), the nearest GAAP equivalent.

	Year ended December 31,		
Reconciliation of Net Income (Loss) to NOI (in thousands)	2016	2015	2014
Net income (loss)	$35,588	$(29,345)	$(4,685)
Asset management fee income	(210)	(379)	(598)
General and administrative	33,395	28,750	26,396
Property acquisition costs	4,567	4,757	4,390
Depreciation and amortization	125,444	110,421	87,703
Interest income	(10)	(9)	(15)
Interest expense	42,923	36,098	25,109
Loss on impairments	16,845	29,272	2,840
Loss on extinguishment of debt	3,261	—	686
Other expenses	1,149	1,048	803
Gain on the sales of rental property, net	(61,823)	(4,986)	(2,799)
Corporate sublease rental income	—	(187)	(17)
Net operating income	$201,129	$175,440	$139,813

Cash Flows

Comparison of the year ended December 31, 2016 to the year ended December 31, 2015

The following table summarizes our cash flows for the year ended December 31, 2016 compared to the year ended December 31, 2015.

	Year ended December 31,		Change	
Cash Flows (dollars in thousands)	2016	2015	$	%
Net cash provided by operating activities	$135,423	$121,707	$13,716	11.3 %
Net cash used in investing activities	$347,112	$372,038	$(24,926)	(6.7)%
Net cash provided by financing activities	$211,870	$238,464	$(26,594)	(11.2)%

Net cash provided by operating activities increased $13.7 million to $135.4 million for the year ended December 31, 2016, compared to $121.7 million for the year ended December 31, 2015. The increase was primarily attributable to incremental operating cash flows from property acquisitions completed after December 31, 2015, and operating performance at existing properties. These increases were partially offset by the loss of cash flows from property dispositions that occurred during the years ended December 31, 2016 and December 31, 2015, fluctuations in working capital due to timing of payments and rental receipts, and a higher cash interest paid due to an increase in our total average indebtedness outstanding.

Net cash used in investing activities decreased by $24.9 million to $347.1 million for the year ended December 31, 2016, compared to $372.0 million for the year ended December 31, 2015. The change was primarily related to the sale of 24 buildings during the year ended December 31, 2016 for net proceeds of approximately $152.1 million, compared to the year ended December 31, 2015 where we sold six buildings for net proceeds of approximately $22.2 million. This was partially offset by an increase in cash paid for the acquisition of 47 buildings during the year ended December 31, 2016 of approximately $467.3 million, compared to the acquisition of 49 buildings during the year ended December 31, 2015 of approximately $377.8 million. Additionally, we had a an increase in cash paid for additions of land and building improvements of approximately $14.2 million, primarily due to a tenant improvements project and the expansion of a building.

Net cash provided by financing activities decreased $26.6 million to $211.9 million for the year ended December 31, 2016, compared to $238.5 million for the year ended December 31, 2015. The change is primarily due to a decrease in cash inflow from our unsecured notes of $220.0 million from the issuance of unsecured notes on February 20, 2015

and December 15, 2015. The change is also attributable to an increase of repayment of mortgage notes of $49.9 million, an increase of $5.7 million in offering costs related to the issuance of the Series C Preferred Stock on March 17, 2016 and new at-the-market common stock offering programs on May 13, 2016 and November 8, 2016, the redemption of the 9.0% Series A Cumulative Redeemable Preferred Stock, par value $0.01 per share (the "Series A Preferred Stock") on November 2, 2016 of $69.0 million, and an increase in dividends and distributions paid of $11.5 million as a result of the increased number of shares and units outstanding as well as a $0.029163 increase in the dividend paid per share during the year ended December 31, 2016 compared to the year ended December 31, 2015. These decreases were offset by the issuance of the Series C Preferred Stock for proceeds of $75.0 million, an increase of net cash inflow of $47.0 million from our unsecured credit facility, and an increase in proceeds from sales of common stock of $207.8 million during the year ended December 31, 2016 compared to the year ended December 31, 2015.

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Comparison of the year ended December 31, 2015 to the year ended December 31, 2014
The following table summarizes our cash flows for the year ended December 31, 2015 compared to the year ended December 31, 2014.

	Year ended December 31,		Change	
Cash Flows (dollars in thousands)	2015	2014	$	%
Net cash provided by operating activities	$121,707	$96,676	$25,031	25.9 %
Net cash used in investing activities	$372,038	$421,713	$(49,675)	(11.8)%
Net cash provided by financing activities	$238,464	$342,225	$(103,761)	(30.3)%

Net cash provided by operating activities increased $25.0 million to $121.7 million for the year ended December 31, 2015, compared to $96.7 million for the year ended December 31, 2014. The increase was primarily attributable to incremental operating cash flows from property acquisitions completed after December 31, 2014, and operating performance at existing properties. These increases were partially offset by the loss of cash flows from property dispositions that occurred during the years ended December 31, 2015 and December 31, 2014, fluctuations in working capital due to timing of payments and rental receipts, and a higher cash interest paid due to an increase in the our total average indebtedness outstanding and an overall increase in our weighted average interest rate.

Net cash used in investing activities decreased by $49.7 million to $372.0 million for the year ended December 31, 2015, compared to $421.7 million for the year ended December 31, 2014. The change is primarily attributable to the acquisition of 49 buildings for a total cash consideration of $377.8 million during the year ended December 31, 2015 compared to the acquisition of 43 buildings for a total cash consideration of $420.8 million during the year ended December 31, 2014. The decreased cash consideration for the 2015 acquisitions is due to $26.3 million of the acquisition consideration being in the form of assumed mortgages notes, $22.9 million in the form of issuances of common units of limited partnership, and $0.3 million of contingent consideration.
Net cash provided by financing activities decreased $103.8 million to $238.5 million for the year ended December 31, 2015, compared to $342.2 million for the year ended December 31, 2014. This is primarily due to a decrease in net cash inflow from our unsecured credit facility of $125.5 million, a decrease in proceeds of sale of common stock of $241.8 million, and an increase in dividends and distributions paid of $21.3 million as a result of the increased number of shares and units outstanding as well as an $0.08 increase in the dividend paid per share during the year ended December 31, 2015 compared to the year ended December 31, 2014. Additionally, repayments of mortgage notes increased by $16.1 million primarily as a result of the immediate repayment of the mortgage notes that were assumed in connection with the acquisition of the Burlington, NJ and Laurens, SC properties. These decreases were offset by an increase of proceeds of $40.0 million from our unsecured notes as a result of the issuance of the $100 million 4.32% Series D 10-year unsecured notes and the $20 million 4.42% Series E 12-year unsecured notes on February 20, 2015 and the $100 million 3.98% Series F 7-year unsecured notes on December 15, 2015. Additionally, we had an increase of net cash inflow of $250.0 million from our unsecured term loans for the year ended December 31, 2015 compared to the year ended December 31, 2014.
Liquidity and Capital Resources
We believe that our liquidity needs will be satisfied through cash flows generated by operations, disposition proceeds, and financing activities. Operating cash flow is primarily rental income, expense recoveries from tenants, and other income from operations and is our principal source of funds that we use to pay operating expenses, debt service, recurring capital expenditures and the distributions required to maintain our REIT qualification. We look to the capital markets (common equity, preferred equity, and debt) to primarily fund our acquisition activity. We seek to increase cash flows from our properties by maintaining quality standards for our buildings that promote high occupancy rates and permit increases in rental rates while reducing tenant turnover and controlling operating expenses. We believe that our revenue, together with proceeds from building sales and debt and equity financings, will continue to provide funds for our short-term and medium-term liquidity needs.

Our short-term liquidity requirements consist primarily of funds to pay for operating expenses and other expenditures directly associated with our buildings, including interest expense, interest rate swap payments, scheduled principal payments on outstanding indebtedness, funding of property acquisitions under contract, general and administrative expenses, and capital expenditures for tenant improvements and leasing commissions.

Our long-term liquidity needs, in addition to recurring short-term liquidity needs as discussed above, consist primarily of funds necessary to pay for acquisitions, non-recurring capital expenditures, and scheduled debt maturities. We intend to satisfy our long-term liquidity needs through cash flow from operations, the issuance of equity or debt securities, other borrowings, property

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dispositions, or, in connection with acquisitions of certain additional buildings, the issuance of common units in the Operating Partnership.

As of December 31, 2016, we had total immediate liquidity of approximately $430.7 million, comprised of $12.2 million of cash and cash equivalents and $418.5 million of immediate availability on our unsecured credit facility and unsecured term loans.
In addition, we require funds for future dividends to be paid to our common and preferred stockholders and common unit holders in our Operating Partnership. The table below sets forth the dividends attributable to our common stock that were declared or paid during the year ended December 31, 2016. These distributions on our common stock are voluntary (at the discretion of our board of directors), to the extent in excess of distribution requirements in order to maintain our REIT status for federal income tax purposes, and the excess portion may be reduced or stopped if needed to fund other liquidity requirements or for other reasons.

Month Ended 2016	Declaration Date	Record Date	Per Share	Payment Date
December 31	August 1, 2016	December 30, 2016	$0.115833	January 17, 2017
November 30	August 1, 2016	November 30, 2016	0.115833	December 15, 2016
October 31	August 1, 2016	October 31, 2016	0.115833	November 15, 2016
September 30	May 2, 2016	September 30, 2016	0.115833	October 17, 2016
August 31	May 2, 2016	August 31, 2016	0.115833	September 15, 2016
July 31	May 2, 2016	July 29, 2016	0.115833	August 15, 2016
June 30	February 22, 2016	June 30, 2016	0.115833	July 15, 2016
May 31	February 22, 2016	May 31, 2016	0.115833	June 15, 2016
April 30	February 22, 2016	April 29, 2016	0.115833	May 16, 2016
March 31	October 22, 2015	March 31, 2016	0.115833	April 15, 2016
February 29	October 22, 2015	February 29, 2016	0.115833	March 15, 2016
January 31	October 22, 2015	January 29, 2016	0.115833	February 16, 2016
Total			$1.389996	

On November 2, 2016, our board of directors declared the common stock dividend for the months ending January 31, 2017, February 28, 2017 and March 31, 2017 at a monthly rate of $0.116667 per share of common stock. On February 15, 2017, our board of directors declared the common stock dividend for the months ending April 30, 2017, May 31, 2017 and June 30, 2017 at a monthly rate of $0.116667 per share of common stock.

We paid quarterly cumulative dividends on the Series A Preferred Stock, Series B Preferred Stock, and the Series C Preferred Stock (collectively, the "Preferred Stock Issuances") at a rate equivalent to the fixed annual rate of $2.25, $1.65625, and $1.71875 per share, respectively. The table below sets forth the dividends on the Preferred Stock Issuances during the year ended December 31, 2016.

Quarter Ended 2016	Declaration Date	Series A Preferred Stock Per Share	Series B Preferred Stock Per Share	Series C Preferred Stock Per Share	Payment Date
December 31	November 2, 2016 (1)	$0.19375 (1)	$0.4140625	$0.4296875	December 30, 2016
September 30	August 1, 2016	0.56250	0.4140625	0.4296875	September 30, 2016
June 30	May 2, 2016	0.56250	0.4140625	0.4965300 (2)	June 30, 2016
March 31	February 22, 2016	0.56250	0.4140625	—	March 31, 2016
Total		$1.88125	$1.6562500	$1.3559050	

(1) On September 26, 2016 our board of directors approved the redemption of the Series A Preferred Stock. On November 2, 2016, we redeemed all of the Series A Preferred Stock, at a cash redemption price of $25.00 per share, plus accrued and unpaid dividends to but excluding the redemption date, without interest.

(2) Dividends on the Series C Preferred Stock were accrued and cumulative from and including the issuance date of March 17, 2016 to the first payment date on June 30, 2016.

On February 15, 2017, our board of directors declared the Series B Preferred Stock and the Series C Preferred Stock dividend for the quarter ending March 31, 2017 at a quarterly rate of $0.4140625 per share and $0.4296875 per share, respectively.

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Indebtedness Outstanding
The following table sets forth certain information with respect to the indebtedness outstanding as of December 31, 2016.

Loan	Principal outstanding as of December 31, 2016 (in thousands)	Interest Rate (1)		Current Maturity	Prepayment Terms (2)
Unsecured credit facility:					
Unsecured Credit Facility (3)	$ 28,000	L + 1.15%		Dec-18-2019	i
Total unsecured credit facility	28,000				
Unsecured term loans:					
Unsecured Term Loan C	150,000	L + 1.30%		Sep-29-2020	i
Unsecured Term Loan B	150,000	L + 1.30%		Mar-21-2021	i
Unsecured Term Loan A	150,000	L + 1.30%		Mar-31-2022	i
Total unsecured term loans	450,000				
Less: Total unamortized deferred financing fees and debt issuance costs	(3,392)				
Total carrying value unsecured term loans	446,608				
Unsecured notes:					
Series F Unsecured Notes	100,000	3.98	%	Jan-05-2023	ii
Series A Unsecured Notes	50,000	4.98	%	Oct-1-2024	ii
Series D Unsecured Notes	100,000	4.32	%	Feb-20-2025	ii
Series B Unsecured Notes	50,000	4.98	%	Jul-1-2026	ii
Series C Unsecured Notes	80,000	4.42	%	Dec-30-2026	ii
Series E Unsecured Notes	20,000	4.42	%	Feb-20-2027	ii
Total unsecured notes	400,000				
Less: Total unamortized deferred financing fees and debt issuance costs	(2,034)				
Total carrying value unsecured notes	397,966				
Mortgage notes (secured debt):					
Union Fidelity Life Insurance Co.	5,384	5.81	%	Apr-30-2017	iv
Webster Bank, National Association	2,853	3.66	%	May-29-2017	iii
Webster Bank, National Association	3,073	3.64	%	May-31-2017	iii
Wells Fargo, National Association	4,043	5.90	%	Aug-1-2017	v
Connecticut General Life Insurance Company -1 Facility	35,320	6.50	%	Feb-1-2018	vi
Connecticut General Life Insurance Company -2 Facility	36,892	5.75	%	Feb-1-2018	vi
Connecticut General Life Insurance Company -3 Facility	16,141	5.88	%	Feb-1-2018	vi

Wells Fargo, National Association CMBS Loan	56,608	4.31	%	Dec-1-2022	vii
Thrivent Financial for Lutherans	4,012	4.78	%	Dec-15-2023	iii
Total mortgage notes	164,326				
Total unamortized fair market value premiums	112				
Less: Total unamortized deferred financing fees and debt issuance costs	(873)				
Total carrying value mortgage notes	163,565				
Total / weighted average interest rate [(4)]	$ 1,036,139	3.75	%		

(1) Current interest rate as of December 31, 2016. At December 31, 2016 , the one-month LIBOR (“L”) was 0.77167%. The current interest rate is not adjusted to include the amortization of deferred financing fees incurred in obtaining debt or the unamortized fair market value premiums.

(2) Prepayment terms consist of (i) pre-payable with no penalty; (ii) pre-payable with penalty; (iii) pre-payable without penalty three months prior to the maturity date; (iv) pre-payable without penalty two months prior to the maturity date; (v) pre-payable without penalty three months prior to the maturity date; however, can be defeased; (vi) pre-payable without penalty six months prior to the maturity date; and (vii) pre-payable without penalty three months prior to the maturity date; however, can be defeased beginning January 1, 2016.

(3) The capacity of the unsecured credit facility is currently $450.0 million.

(4) The weighted average interest rate was calculated using the fixed interest rate swapped on the current notional amount of $450.0 million of debt, and is not adjusted to include the amortization of deferred financing fees or debt issuance costs incurred in obtaining debt or any unamortized fair market value premiums.

The aggregate undrawn nominal commitments on the unsecured credit facility as of December 31, 2016 was approximately $418.5 million, including issued letters of credit. Our actual borrowing capacity at any given point in time may be less and is restricted to a maximum amount based on the our debt covenant compliance.

The Connecticut General Life Insurance Company (“CIGNA”) 1 facility, CIGNA 2 facility and CIGNA 3 facility contain provisions that cross default the loans and cross collateralize the 17 properties held as collateral under each loan. In addition, each of the CIGNA 1 facility, CIGNA 2 facility and CIGNA 3 facility require a 62.5% loan to value (including all acquisition costs) and a debt service coverage ratio of 1.5x, each measured at acquisition, but not as continuing covenants.

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The Wells Fargo, National Association CMBS loan agreement is a commercial mortgage backed security that provides for a secured loan. There are 24 properties that are collateral for the CMBS loan. Wells Fargo, National Association had the right to securitize any portion or the entire CMBS loan in a single asset securitization or a pooled loan securitization, which it completed on December 19, 2012. The Operating Partnership guarantees the obligations under the CMBS loan.
The chart below details our debt capital structure as of December 31, 2016.

Debt Capital Structure	December 31, 2016	
Total principal outstanding (in thousands)	$1,042,326	
Weighted average duration (years)	5.6	
% Secured debt	15.8	%
% Debt maturing next 12 months	1.5	%
Net Debt to Real Estate Cost Basis [1]	41.0	%

(1) We define Net Debt as our amounts outstanding under our unsecured credit facility, unsecured term loans, unsecured notes, and mortgage notes, less cash and cash equivalents. We define Real Estate Cost Basis as the book value of rental property and deferred leasing intangibles, exclusive of the related accumulated depreciation and amortization.

We regularly pursue new financing opportunities to ensure an appropriate balance sheet position. As a result of these dedicated efforts, we are confident in our ability to meet future debt maturities and building acquisition funding needs. We believe that our current balance sheet is in an adequate position at the date of this filing, despite possible volatility in the credit markets.

Our interest rate exposure as it relates to interest expense payments on our floating rate debt is managed through our use of interest rate swaps, which fix the rate of our long term floating rate debt. For a detailed discussion on our use of interest rate swaps, see “Interest Rate Risk” below.

Unsecured Credit Facility, Unsecured Term Loans and Unsecured Notes
The unsecured credit facility provides for a facility fee payable by us to the lenders at a rate per annum of 0.2% to 0.35%, depending on our leverage levels, of the aggregate commitments (currently $450.0 million). The facility fee is due and payable quarterly.
Covenants: Our ability to borrow, maintain borrowings and avoid default under the unsecured credit facility, the unsecured term loans, and unsecured notes is subject to our ongoing compliance with a number of financial covenants, including:
- a maximum consolidated leverage ratio of not greater than 0.60:1.00;
- a maximum secured leverage ratio of not greater than 0.40:1.00;
- a maximum unencumbered leverage ratio of not greater than 0.60:1.00;
- a maximum secured recourse debt level of not greater than 0.075:1.00;
- a minimum fixed charge ratio of not less than 1.50:1.00;
- a minimum unsecured interest coverage ratio of not less than 1.75:1.00; and
- a minimum tangible net worth covenant test.

The respective note purchase agreements additionally contain a financial covenant that requires us to maintain a minimum interest coverage ratio of 1.50:1.00.
Pursuant to the terms of our unsecured debt agreements, we may not pay distributions that exceed the minimum amount required for us to qualify and maintain our status as a REIT if a default or event of default occurs and is continuing.
Our unsecured credit facility, unsecured term loans, unsecured notes, and mortgage notes are subject to ongoing compliance with a number of financial and other covenants. As of December 31, 2016, we were in compliance with the financial covenants in the credit agreement and loan agreements.

Events of Default: Our unsecured credit facility and unsecured term loans contain customary events of default, including but not limited to non-payment of principal, interest, fees or other amounts, defaults in the compliance with the covenants contained in the documents evidencing the unsecured credit facility and the unsecured term loans, cross-defaults to other material debt and bankruptcy or other insolvency events.

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Borrower and Guarantors: The Operating Partnership is the borrower under the unsecured credit facility, the unsecured term loans and is the issuer of the unsecured notes. STAG Industrial, Inc. and certain of its subsidiaries guarantee the obligations under our unsecured debt agreements.

Contractual Obligations

The following table reflects our contractual obligations as of December 31, 2016, specifically our obligations under long term debt agreements and ground lease agreements.

	Payments by Period				
Contractual Obligations (in thousands)(1)(2)	Total	2017	2018-2019	2020-2021	Thereafter
Principal payments(3)	$1,042,326	$18,737	$118,504	$304,109	$600,976
Interest payments—Fixed rate debt(4)	166,940	25,984	40,858	40,080	60,018
Interest payments —Variable rate debt(4)(5)	62,739	13,098	28,193	20,075	1,373
Property lease (4)	4,945	1,064	2,368	1,513	—
Ground leases (4)	8,203	363	748	756	6,336
Other(4)(6)	75	75	—	—	—
Total	$1,285,228	$59,321	$190,671	$366,533	$668,703

(1) From time to time in the normal course of our business, we enter into various contracts with third parties that may obligate us to make payments, such as maintenance agreements at our buildings. Such contracts, in the aggregate, do not represent material obligations, are typically short-term and cancellable within 90 days and are not included in the table above.

(2) The terms of the loan agreements for each of the CIGNA facilities also stipulate that general reserve escrows be funded monthly in an amount equal to eight basis points of the principal of the loans outstanding at the time. Additionally, the Wells Fargo, National Association CMBS loan calls for a monthly leasing escrow payment of approximately $0.1 million and the balance of the reserve is capped at $2.1 million. The cap was met at December 31, 2016 and the balance at December 31, 2016 was approximately $2.2 million. The funding of these reserves is not included in the table above.

(3) The total payments do not include unamortized deferred financing fees, debt issuance costs, or fair market value premiums associated with certain loans.

(4) This is not included in our Consolidated Balance Sheets included in this report.

(5) Amounts include interest rate payments on the $450.0 million current notional amount of our interest rate swaps, as discussed below.

(6) Amounts relate to a credit monitoring fee paid to the affiliates of Columbus Nova Real Estate Acquisition Group, Inc.

Equity

Preferred Stock

On March 17, 2016, we completed an underwritten public offering of 3,000,000 shares of the 6.875% Series C Preferred Stock, $0.01 par value per share, at a price to the public of $25.00 per share. On November 2, 2016, we redeemed all of the Series A Preferred Stock. The table below sets forth our outstanding preferred stock issuances as of December 31, 2016.

Preferred Stock Issuances	Issuance Date	Number of Shares	Price and Liquidation Value Per Share	Interest Rate
Series B Cumulative Redeemable Preferred Stock	April 16, 2013	2,800,000	$ 25.00	6.625%
Series C Cumulative Redeemable Preferred Stock	March 17, 2016	3,000,000	$ 25.00	6.875%

The Preferred Stock Issuances rank on parity with each other and rank senior to our common stock with respect to dividend rights and rights upon the liquidation, dissolution or winding up of the Company. The Preferred Stock Issuances have no stated maturity date and are not subject to mandatory redemption or any sinking fund. Generally, we are not permitted to redeem the Series B Preferred Stock and Series C Preferred Stock prior to April 16, 2018 and March 17, 2021, respectively, except in limited circumstances relating to our ability to qualify as a REIT and in certain other circumstances related to a change of control.

Common Stock

The following sets forth our ATM common stock offering program as of December 31, 2016. We may from time to time sell common stock through sales agents under the program.

ATM Stock Offering Program (in thousands)	Date	Maximum Aggregate Offering Price (in thousands)	Aggregate Common Stock Available as of December 31, 2016 (in thousands)
2016 $228 million ATM	November 8, 2016	$ 228,218	$ 117,331

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The table below sets forth the activity for the ATM common stock offering programs during the three months and year ended December 31, 2016 (in thousands, except share data).

	Three months ended December 31, 2016				
ATM Stock Offering Program	Shares Sold	Weighted Average Price Per Share	Gross Proceeds	Sales Agents' Fee	Net Proceeds
2016 $228 million ATM	4,763,838	$ 23.28	$110,887	$ 1,550	$109,337
2016 $200 million ATM[(1)]	3,124,700	$ 22.74	71,069	918	70,151
Total/weighted average	7,888,538	$ 23.07	$181,956	$ 2,468	$179,488

(1) This program ended before December 31, 2016.

	Year ended December 31, 2016				
ATM Stock Offering Program	Shares Sold	Weighted Average Price Per Share	Gross Proceeds	Sales Agents' Fee	Net Proceeds
2016 $228 million ATM	4,763,838	$ 23.28	$110,887	$ 1,550	$109,337
2016 $200 million ATM[(1)]	7,326,200	$ 23.45	171,782	2,429	169,353
Total/weighted average	12,090,038	$ 23.38	$282,669	$ 3,979	$278,690

(1) This program ended before December 31, 2016.

Noncontrolling Interest

We own our interests in all of our properties and conduct substantially all of our business through our Operating Partnership. We are the sole member of the sole general partner of the Operating Partnership. As of December 31, 2016, we owned approximately 95.7% of the common units of our Operating Partnership, and our current and former executive officers, directors, senior employees and their affiliates, and third parties who contributed properties to us in exchange for common units in our Operating Partnership, owned the remaining 4.3%.

Non-cash Compensation Expense

We recorded approximately $7.8 million in general and administrative expenses in the accompanying Consolidated Statements of Operations for the year ended December 31, 2016 for the amortization of our equity incentive plan, excluding severance costs and board of directors' compensation. The following table summarizes the expected amortization of our unrecognized compensation expense over the next five years related to all existing equity awards as of December 31, 2016.

Year	Future Amortization of Non-cash Compensation Expense (in thousands)
2017	$ 6,902
2018	$ 3,215
2019	$ 1,646
2020	$ 340
2021	$ 113

Interest Rate Risk

We use interest rate swaps to fix the rate of our variable rate debt. As of December 31, 2016, all of our outstanding variable rate debt, with the exception of our unsecured credit facility, was fixed with interest rate swaps.

We recognize all derivatives on the balance sheet at fair value. If the derivative is designated as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income (loss), which is a component of equity. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings. Derivatives that are not designated as hedges must be adjusted to fair value and the changes in fair value must be reflected as income or expense.

We have established criteria for suitable counterparties in relation to various specific types of risk. We only use counterparties that have a credit rating of no lower than investment grade at swap inception from Moody's Investor Services, Standard & Poor's, or Fitch Ratings or other nationally recognized rating agencies.

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The following table details our outstanding interest rate swaps as of December 31, 2016.

Interest Rate Derivative Counterparty	Trade Date	Effective Date	Notional Amount (in thousands)	Fair Value (in thousands)	Pay Fixed Interest Rate	Receive Variable Interest Rate	Maturity Date
PNC Bank, N.A.	Sep-14-2012	Oct-10-2012	$ 10,000	$ 6	0.7945 %	One-month L	Sep-10-2017
Bank of America, N.A.	Sep-14-2012	Oct-10-2012	$ 10,000	$ 6	0.7945 %	One-month L	Sep-10-2017
UBS AG	Sep-14-2012	Oct-10-2012	$ 10,000	$ 6	0.7945 %	One-month L	Sep-10-2017
Royal Bank of Canada	Sep-14-2012	Oct-10-2012	$ 10,000	$ 6	0.7945 %	One-month L	Sep-10-2017
RJ Capital Services, Inc.	Sep-14-2012	Oct-10-2012	$ 10,000	$ 5	0.7975 %	One-month L	Sep-10-2017
Bank of America, N.A.	Sep-20-2012	Oct-10-2012	$ 25,000	$ 21	0.7525 %	One-month L	Sep-10-2017
RJ Capital Services, Inc.	Sep-24-2012	Oct-10-2012	$ 25,000	$ 26	0.7270 %	One-month L	Sep-10-2017
Regions Bank	Mar-01-2013	Mar-01-2013	$ 25,000	$ 131	1.3300 %	One-month L	Feb-14-2020
Capital One, N.A.	Jun-13-2013	Jul-01-2013	$ 50,000	$ (274)	1.6810 %	One-month L	Feb-14-2020
Capital One, N.A.	Jun-13-2013	Aug-01-2013	$ 25,000	$ (154)	1.7030 %	One-month L	Feb-14-2020
Regions Bank	Sep-30-2013	Feb-03-2014	$ 25,000	$ (378)	1.9925 %	One-month L	Feb-14-2020
The Toronto-Dominion Bank	Oct-14-2015	Sep-29-2016	$ 25,000	$ 217	1.3830 %	One-month L	Sep-29-2020
PNC Bank, N.A.	Oct-14-2015	Sep-29-2016	$ 50,000	$ 421	1.3906 %	One-month L	Sep-29-2020
Regions Bank	Oct-14-2015	Sep-29-2016	$ 35,000	$ 292	1.3858 %	One-month L	Sep-29-2020
U.S. Bank, N.A.	Oct-14-2015	Sep-29-2016	$ 25,000	$ 207	1.3950 %	One-month L	Sep-29-2020
Capital One, N.A.	Oct-14-2015	Sep-29-2016	$ 15,000	$ 123	1.3950 %	One-month L	Sep-29-2020
Royal Bank of Canada	Jan-08-2015	Mar-20-2015	$ 25,000	$ (16)	1.7090 %	One-month L	Mar-21-2021
The Toronto-Dominion Bank	Jan-08-2015	Mar-20-2015	$ 25,000	$ (18)	1.7105 %	One-month L	Mar-21-2021
The Toronto-Dominion Bank	Jan-08-2015	Sep-10-2017	$ 100,000	$ (1,240)	2.2255 %	One-month L	Mar-21-2021
Wells Fargo, N.A.	Jan-08-2015	Mar-20-2015	$ 25,000	$ 4	1.8280 %	One-month L	Mar-31-2022
The Toronto-Dominion Bank	Jan-08-2015	Feb-14-2020	$ 25,000	$ (50)	2.4535 %	One-month L	Mar-31-2022
Regions Bank	Jan-08-2015	Feb-14-2020	$ 50,000	$ (133)	2.4750 %	One-month L	Mar-31-2022
Capital One, N.A.	Jan-08-2015	Feb-14-2020	$ 50,000	$ (175)	2.5300 %	One-month L	Mar-31-2022

The swaps outlined in the above table were all designated as cash flow hedges of interest rate risk, and all are valued as Level 2 financial instruments. As of December 31, 2016, the fair values of 13 of the 23 of our interest rate swaps were in an asset position of approximately $1.5 million and 10 interest rate swaps were in a liability position of approximately $2.5 million, excluding any adjustment for nonperformance risk related to these agreements.

As of December 31, 2016, we had $478.0 million of variable rate debt. As of December 31, 2016, all of our outstanding variable rate debt, with exception of our unsecured credit facility, was fixed with interest rate swaps. To the extent interest rates increase, interest costs on our floating rate debt not fixed with interest rate swaps will increase, which could adversely affect our cash flow and our ability to pay principal and interest on our debt and our ability to make distributions to our security holders. From time to time, we may enter into interest rate swap agreements and other interest rate hedging contracts, including swaps, caps and floors. In addition, an increase in interest rates could decrease the amounts third parties are willing to pay for our assets, thereby limiting our ability to change our portfolio promptly in response to changes in economic or other conditions.

Inflation

Our business could be impacted in multiple ways due to inflation. We believe, however, that we are well positioned to be able to manage our business in an inflationary environment. Specifically, our weighted average lease term is approximately 4.2 years and, on average, approximately 10-20% of our leases will roll annually over the next few years. We expect that this lease roll will allows us to capture inflationary increases in rent on a relatively efficient basis. In addition, we have long term liabilities averaging approximately 5.6 years when excluding our unsecured credit facility. Our variable rate debt has been fully swapped to fixed rates through maturity with the exception of the unsecured credit facility. Therefore, as rents rise and increase our operating cash flow, this positive impact will flow more directly to the bottom line without the offset of higher in place debt costs. Lastly, while inflation will likely lead to increases in the operating costs of our portfolio, such as real estate taxes, utility expenses, and other operating expenses, the majority of our leases are either triple net leases or otherwise provide for tenant reimbursement for costs related to these expenses. Therefore, the increased costs in an inflationary environment would generally be passed through to our tenant.

Off-balance Sheet Arrangements

As of December 31, 2016, we had no material off-balance sheet arrangements. See the table under “Liquidity and Capital Resources—Contractual Obligations” above for information regarding certain off-balance sheet arrangements.

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Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. The primary market risk we are exposed to is interest rate risk. We have used derivative financial instruments to manage, or hedge, interest rate risks related to our borrowings, primarily through interest rate swaps.

As of December 31, 2016, we had $478.0 million of outstanding variable rate debt, all of which, with the exception of $28.0 million of our unsecured credit facility, was fixed with interest rate swaps. To the extent we undertake additional variable rate indebtedness, if interest rates increase, then so will the interest costs on our unhedged variable rate debt, which could adversely affect our cash flow and our ability to pay principal and interest on our debt and our ability to make distributions to our security holders. Further, rising interest rates could limit our ability to refinance existing debt when it matures or significantly increase our future interest expense. From time to time, we enter into interest rate swap agreements and other interest rate hedging contracts, including swaps, caps and floors. While these agreements are intended to lessen the impact of rising interest rates on us, they also expose us to the risk that the other parties to the agreements will not perform, we could incur significant costs associated with the settlement of the agreements, the agreements will be unenforceable and the underlying transactions will fail to qualify as highly-effective cash flow hedges under GAAP. In addition, an increase in interest rates could decrease the amounts third parties are willing to pay for our assets, thereby limiting our ability to change our portfolio promptly in response to changes in economic or other conditions. If interest rates increased by 100 basis points and assuming we had an outstanding balance of $28.0 million on the unsecured credit facility (the portion outstanding at December 31, 2016 not fixed by interest rate swaps) for the year ended December 31, 2016, our interest expense would have increased by approximately $0.3 million for the year ended December 31, 2016.

As of December 31, 2016, approximately $564.3 million of our consolidated borrowings bore interest at fixed rates (excluding $450.0 million of swapped interest rates), as shown in the future principal debt payment table below (dollars in thousands):

Debt	2017	2018	2019	2020	2021	Thereafter	Total	Fair Value
Fixed rate	$18,737	$88,578	$1,926	$2,006	$2,103	$450,976	$564,326	$565,190
Average interest rate on fixed rate debt	5.03 %	6.04 %	4.34 %	4.34 %	4.34 %	4.42 %	4.69 %	—
Variable rate[(1)]	—	—	28,000	150,000	150,000	150,000	478,000	478,000
Total debt	$18,737	$88,578	$29,926	$152,006	$152,103	$600,976	$1,042,326	$1,043,190

(1) Variable interest rate debt includes the $450.0 million variable rate debt that has been swapped to a fixed rate.

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Item 8. Financial Statements and Supplementary Data

The required response under this Item is submitted in a separate section of this report. See Index to Consolidated Financial Statements on page F-1.

In connection with the preparation of our consolidated financial statements for the year ended December 31, 2016, we identified an error in the estimated useful life of a building acquired in the fourth quarter of 2014. As a result of the error, depreciation expense had been overstated and thereby rental property, net and equity were understated. We concluded that the amounts were not material to any of our previously issued consolidated financial statements. Accordingly, we revised these balances in the Consolidated Financial Statements submitted in a separate section of this report as of and for the years ended December 31, 2015 and December 31, 2014. Other periods that have been revised, including the three and nine months ended September 30, 2016, three and six months ended June 30, 2016 and the three months ended March 31, 2016 will appear in future filings and are included below (unaudited, in thousands, except for per share data). Additionally, the tables below reflect our selected quarterly information for the three months ended December 31, 2015, September 30, 2015, June 30, 2015, and March 31, 2015, and the effects of this revision on those periods (unaudited, in thousands, except for per share data). Selected quarterly information for the three months ended December 31, 2016 is also presented (unaudited, in thousands, except for per share data).

Selected Interim Financial Information	Three months ended December 31, 2016
Total revenue	$ 66,534
Net income	$ 33,067
Net income attributable to common stockholders	$ 28,608
Net income per share attributable to common stockholders — basic and diluted	$ 0.38

Effect of Revision As of and For the Three and Nine Months Ended September 30, 2016	As Previously Reported	Adjustment	As Revised
Consolidated Balance Sheet, September 30, 2016			
Total equity	$933,942	$ 4,071	$938,013
Consolidated Statement of Operations, Three Months Ended September 30, 2016			
Total revenue	$62,595	$ —	$62,595
Depreciation and amortization	$32,020	$ (531)	$31,489
Total expenses	$53,138	$ (531)	$52,607
Net income (loss)	$(401)	$ 531	$130
Net income (loss) attributable to STAG Industrial, Inc.	$(185)	$ 505	$320
Net loss attributable to common stockholders	$(4,281)	$ 505	$(3,776)
Net loss per share attributable to common stockholders — basic and diluted	$(0.06)	$ 0.01	$(0.05)
Consolidated Statement of Operations, Nine Months Ended September 30, 2016			
Total revenue	$183,709	$ —	$183,709
Depreciation and amortization	$93,318	$ (1,593)	$91,725
Total expenses	$170,564	$ (1,593)	$168,971
Net income	$928	$ 1,593	$2,521
Net income attributable to STAG Industrial, Inc.	$1,433	$ 1,512	$2,945
Net loss attributable to common stockholders	$(9,770)	$ 1,512	$(8,258)
Net loss per share attributable to common stockholders — basic and diluted	$(0.14)	$ 0.02	$(0.12)

Consolidated Statement of Comprehensive Income (Loss), Three Months Ended September 30, 2016			
Comprehensive income	$2,462	$ 531	$2,993
Consolidated Statement of Comprehensive Income (Loss), Nine Months Ended September 30, 2016			
Comprehensive loss	$(13,100)	$ 1,593	$(11,507)

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Effect of Revision As of and For the Three and Six Months Ended June 30, 2016	As Previously Reported	Adjustment	As Revised
Consolidated Balance Sheet, June 30, 2016			
Total equity	$860,398	$3,540	$863,938
Consolidated Statement of Operations, Three Months Ended June 30, 2016			
Total revenue	$60,242	$—	$60,242
Depreciation and amortization	$31,018	$(531)	$30,487
Total expenses	$62,660	$(531)	$62,129
Net loss	$(10,472)	$531	$(9,941)
Net loss attributable to STAG Industrial, Inc.	$(9,727)	$504	$(9,223)
Net loss attributable to common stockholders	$(13,823)	$504	$(13,319)
Net loss per share attributable to common stockholders — basic and diluted	$(0.20)	$—	$(0.20)
Consolidated Statement of Operations, Six Months Ended June 30, 2016			
Total revenue	$121,114	$—	$121,114
Depreciation and amortization	$61,298	$(1,062)	$60,236
Total expenses	$117,426	$(1,062)	$116,364
Net income	$1,329	$1,062	$2,391
Net income attributable to STAG Industrial, Inc.	$1,616	$1,007	$2,623
Net loss attributable to common stockholders	$(5,492)	$1,007	$(4,485)
Net loss per share attributable to common stockholders — basic and diluted	$(0.08)	$0.01	$(0.07)
Consolidated Statement of Comprehensive Income (Loss), Three Months Ended June 30, 2016			
Comprehensive loss	$(15,540)	$531	$(15,009)
Consolidated Statement of Comprehensive Income (Loss), Six Months Ended June 30, 2016			
Comprehensive loss	$(15,562)	$1,062	$(14,500)

Effect of Revision As of and For the Three Months Ended March 31, 2016	As Previously Reported	Adjustment	As Revised
Consolidated Balance Sheet, March 31, 2016			
Total equity	$903,510	$3,009	$906,519
Consolidated Statement of Operations, Three Months Ended March 31, 2016			
Total revenue	$60,872	$—	$60,872
Depreciation and amortization	$30,280	$(531)	$29,749
Total expenses	$54,766	$(531)	$54,235
Net income	$11,801	$531	$12,332
Net income attributable to STAG Industrial, Inc.	$11,346	$504	$11,850
Net income attributable to common stockholders	$8,334	$504	$8,838
Net income per share attributable to common stockholders — basic and diluted	$0.12	$0.01	$0.13
Consolidated Statement of Comprehensive Income (Loss), Three Months Ended March 31, 2016			

Comprehensive income (loss)	$(22)	$ 531	$509

Effect of Revision For the Three Months Ended December 31, 2015	As Previously Reported	Adjustment	As Revised
Total revenue	$58,887	$ —	$58,887
Net loss	$(20,134)	$ 531	$(19,603)
Net loss attributable to common stockholders	$(21,827)	$ 505	$(21,322)
Net loss per share attributable to common stockholders — basic and diluted	$(0.32)	$ 0.01	$(0.31)

Effect of Revision For the Three Months Ended September 30, 2015	As Previously Reported	Adjustment	As Revised
Total revenue	$55,921	$ —	$55,921
Net loss	$(4,680)	$ 531	$(4,149)
Net loss attributable to common stockholders	$(7,128)	$ 505	$(6,623)
Net loss per share attributable to common stockholders — basic and diluted	$(0.11)	$ 0.01	$(0.10)

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Effect of Revision For the Three Months Ended June 30, 2015	As Previously Reported	Adjustment	As Revised
Total revenue	$ 52,836	$ —	$ 52,836
Net loss	$ (5,228)	$ 531	$ (4,697)
Net loss attributable to common stockholders	$ (7,638)	$ 505	$ (7,133)
Net loss per share attributable to common stockholders — basic and diluted	$ (0.12)	$ 0.01	$ (0.11)

Effect of Revision For the Three Months Ended March 31, 2015	As Previously Reported	Adjustment	As Revised
Total revenue	$ 50,989	$ —	$ 50,989
Net loss	$ (1,427)	$ 531	$ (896)
Net loss attributable to common stockholders	$ (4,042)	$ 506	$ (3,536)
Net loss per share attributable to common stockholders — basic and diluted	$ (0.06)	$ —	$ (0.06)

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by SEC Rule 13a-15(b), we have evaluated, under the supervision of and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, as of December 31, 2016. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures for the periods covered by this report were effective to provide reasonable assurance that information required to be disclosed by our Company in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control—Integrated Framework (2013), our management concluded that our internal control over financial reporting was effective as of December 31, 2016.

The effectiveness of our internal control over financial reporting as of December 31, 2016 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which appears on page F-2 of this Annual Report on Form 10 K.

Changes in Internal Controls

There was no change to our internal control over financial reporting during the fourth quarter ended December 31, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III.

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 will be included in the Proxy Statement to be filed relating to our 2017 Annual Meeting of Stockholders and is incorporated herein by reference.

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Item 11. Executive Compensation

The information required by Item 11 will be included in the Proxy Statement to be filed relating to our 2017 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 will be included in the Proxy Statement to be filed relating to our 2017 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 will be included in the Proxy Statement to be filed relating to our 2017 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by Item 14 will be included in the Proxy Statement to be filed relating to our 2017 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV.

Item 15. Exhibits and Financial Statement Schedules

1. Consolidated Financial Statements

The financial statements listed in the accompanying Index to Consolidated Financial Statements on page F-1 are filed as a part of this report.

2. Financial Statement Schedules

The financial statement schedules required by this Item are filed with this report and listed in the accompanying Index to Consolidated Financial Statements on page F-1. All other financial statement schedules are not applicable.

3. Exhibits

The following exhibits are filed as part of this report:

Exhibit Number	Description of Document
3.1	Articles of Amendment and Restatement of STAG Industrial, Inc. (including all articles of amendment and articles supplementary) (1)
3.2	Amended and Restated Bylaws of STAG Industrial, Inc. (2)
4.1	Form of Common Stock Certificate of STAG Industrial, Inc. (3)
4.2	Form of Certificate for the 6.625% Series B Cumulative Redeemable Preferred Stock of STAG Industrial, Inc. (4)
4.3	Form of Certificate for the 6.875% Series C Cumulative Redeemable Preferred Stock of STAG Industrial, Inc. (5)
10.1	Amended and Restated Agreement of Limited Partnership of STAG Industrial Operating Partnership, L.P. (6)
10.2	First Amendment to the Amended and Restated Agreement of Limited Partnership of STAG Industrial Operating Partnership, L.P. (7)
10.3	Second Amendment to the Amended and Restated Agreement of Limited Partnership of STAG Industrial Operating Partnership, L.P. (8)
10.4	Third Amendment to the Amended and Restated Agreement of Limited Partnership of STAG Industrial Operating Partnership, L.P. (9)
10.5	2011 Equity Incentive Plan (10)*
10.6	Amendment to the 2011 Equity Incentive Plan, dated as of May 6, 2013 (11)*
10.7	Second Amendment to the 2011 Equity Incentive Plan, dated as of February 20, 2015 (12)*
10.8	2015 Outperformance Program (13)*
10.9	Form of LTIP Unit Agreement (10)*

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Exhibit Number	Description of Document
10.10	Form of Performance Award Agreement (1)*
10.11	Amended and Restated Executive Employment Agreement with Benjamin S. Butcher, dated May 4, 2015 (14)*
10.12	Executive Employment Agreement with William R. Crooker, dated February 25, 2016 (11)*
10.13	Executive Employment Agreement with Stephen C. Mecke, dated April 20, 2011 (6)*
10.14	Executive Employment Agreement with Jeffrey M. Sullivan, dated October 27, 2014 (6)*
10.15	Executive Employment Agreement with David G. King, dated April 20, 2011 (6)*
10.16	Executive Employment Agreement with Peter S. Fearey, dated February 25, 2016 (1)*
10.17	Form of Indemnification Agreement between STAG Industrial, Inc. and its directors and officers (17)*
10.18	Registration Rights Agreement, dated April 20, 2011, by and among STAG Industrial, Inc., STAG Industrial Operating Partnership, L.P. and the persons named therein (6)
10.19	Services Agreement between STAG Industrial Management, LLC and STAG Manager II, LLC, as amended (18)
10.20	Credit Agreement, dated as of December 18, 2014, among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc., Wells Fargo Bank, National Association, and the other lenders party thereto (19)
10.21	First Amendment to Credit Agreement, dated as of September 29, 2015, among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc., Wells Fargo Bank, National Association, and the other lenders party thereto (20)
10.22	Second Amended and Restated Term Loan Agreement, dated as of December 20, 2016, by and among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc., Wells Fargo Bank, National Association, and the other lenders party thereto (21)
10.23	Amended and Restated Term Loan Agreement, dated as of December 20, 2016, by and among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc., Wells Fargo Bank, National Association, and the other lenders party thereto (21)
10.24	Term Loan Agreement, dated as of September 29, 2015, by and among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc., Wells Fargo Bank, National Association, and the other lenders party thereto (20)
10.25	Note Purchase Agreement, dated as of April 16, 2014, by and among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc. and the purchasers named therein (22)
10.26	First Amendment to Note Purchase Agreement, dated as of December 18, 2014, among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc. and the noteholders named therein (19)
10.27	Second Amendment to Note Purchase Agreement, dated as of December 1, 2015, among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc. and the noteholders named therein (23)
10.28	Note Purchase Agreement, dated as of December 18, 2014, among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc. and the purchasers named therein (19)
10.29	First Amendment to Note Purchase Agreement, dated as of December 1, 2015, among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc. and the noteholders named therein (23)
10.30	Note Purchase Agreement, dated as of December 1, 2015, among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc. and the purchasers named therein (23)
12.1	Computation of ratios of earnings to fixed charges and earnings to fixed charges and preferred stock dividends
21.1	Subsidiaries of STAG Industrial, Inc.
23.1	Consent of PricewaterhouseCoopers LLP
24.1	Power of Attorney (included on signature page)
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from STAG Industrial, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of

Comprehensive Income (Loss), (vi) the Consolidated Statements of Equity, (v) the Consolidated Statements of Cash Flows, and (vi) related notes to these consolidated financial statements.

* Represents management contract or compensatory plan or arrangement.

(1) Incorporated by reference to STAG Industrial, Inc.'s Quarterly Report on Form 10-Q filed with the SEC on May 3, 2016.

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(2) Incorporated by reference to STAG Industrial, Inc.'s Registration Statement on Form S-11/A (File No. 333-168368) filed with the SEC on April 8, 2011.
(3) Incorporated by reference to STAG Industrial, Inc.'s Registration Statement on Form S-11/A (File No. 333-168368) filed with the SEC on September 24, 2010.
(4) Incorporated by reference to STAG Industrial, Inc.'s Registration Statement on Form 8-A filed with the SEC on April 11, 2013.
(5) Incorporated by reference to STAG Industrial, Inc.'s Registration Statement on Form 8-A filed with the SEC on March 10, 2016.
(6) Incorporated by reference to STAG Industrial, Inc.'s Current Report on Form 8-K filed with the SEC on April 21, 2011.
(7) Incorporated by reference to STAG Industrial, Inc.'s Current Report on Form 8-K filed with the SEC on November 2, 2011.
(8) Incorporated by reference to STAG Industrial, Inc.'s Current Report on Form 8-K filed with the SEC on April 16, 2013.
(9) Incorporated by reference to STAG Industrial, Inc.'s Current Report on Form 8-K filed with the SEC on March 18, 2016.
(10) Incorporated by reference to STAG Industrial, Inc.'s Registration Statement on Form S-11/A (File No. 333-168368) filed with the SEC on April 5, 2011.
(11) Incorporated by reference to STAG Industrial, Inc.'s Current Report on Form 8-K filed with the SEC on May 6, 2013.
(12) Incorporated by reference to STAG Industrial, Inc.'s Annual Report on Form 10-K filed with the SEC on February 23, 2015.
(13) Incorporated by reference to STAG Industrial, Inc.'s Current Report on Form 8-K filed with the SEC on January 15, 2015.
(14) Incorporated by reference to STAG Industrial, Inc.'s Quarterly Report on Form 10-Q filed with the SEC on July 23, 2015.
(15) Incorporated by reference to STAG Industrial, Inc.'s Current Report on Form 8-K filed with the SEC on May 16, 2014.
(16) Incorporated by reference to STAG Industrial, Inc.'s Quarterly Report on Form 10-Q filed with the SEC on October 31, 2014.
(17) Incorporated by reference to STAG Industrial, Inc.'s Registration Statement on Form S-11/A (File No. 333-168368) filed with the SEC on February 16, 2011.
(18) Incorporated by reference to STAG Industrial, Inc.'s Annual Report on Form 10-K filed with the SEC on February 26, 2014.
(19) Incorporated by reference to STAG Industrial, Inc.'s Current Report on Form 8-K filed with the SEC on December 19, 2014.
(20) Incorporated by reference to STAG Industrial, Inc.'s Current Report on Form 8-K filed with the SEC on October 1, 2015.
(21) Incorporated by reference to STAG Industrial, Inc.'s Current Report on Form 8-K filed with the SEC on December 27, 2016.
(22) Incorporated by reference to STAG Industrial, Inc.'s Current Report on Form 8-K filed with the SEC on April 22, 2014.
(23) Incorporated by reference to STAG Industrial, Inc.'s Current Report on Form 8-K filed with the SEC on December 4, 2015.

Item 16. Form 10-K Summary

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STAG INDUSTRIAL, INC.

Dated: February 16, 2017

By: /s/ Benjamin S. Butcher
Benjamin S. Butcher
Chairman, Chief Executive Officer and President

KNOW ALL MEN BY THESE PRESENTS, that we, the undersigned officers and directors of STAG Industrial, Inc., hereby severally constitute Benjamin S. Butcher and William R. Crooker, and each of them singly, our true and lawful attorneys with full power to them, and each of them singly, to sign for us and in our names in the capacities indicated below, the Form 10-K filed herewith and any and all amendments to said Form 10-K, and generally to do all such things in our names and in our capacities as officers and directors to enable STAG Industrial, Inc. to comply with the provisions of the Securities Exchange Act of 1934, as amended, and all requirements of the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorneys, or any of them, to said Form 10-K and any and all amendments thereto.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and dates indicated.

Date	Signature	Title
February 16, 2017	/s/ Benjamin S. Butcher Benjamin S. Butcher	Chairman, Chief Executive Officer (principal executive officer) and President
February 16, 2017	/s/ Virgis W. Colbert Virgis W. Colbert	Director
February 16, 2017	/s/ Jeffrey D. Furber Jeffrey D. Furber	Director
February 16, 2017	/s/ Larry T. Guillemette Larry T. Guillemette	Director
February 16, 2017	/s/ Francis X. Jacoby III Francis X. Jacoby III	Director
February 16, 2017	/s/ Christopher P. Marr Christopher P. Marr	Director
February 16, 2017	/s/ Hans S. Weger Hans S. Weger	Director

February 16, 2017	/s/ William R. Crooker William R. Crooker	Chief Financial Officer, Executive Vice President and Treasurer (principal financial and accounting officer)

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Consolidated Statements of Comprehensive Income (Loss) for the Years ended December 31, 2016, December 31, 2015 and December 31, 2014	F-5
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of STAG Industrial, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income (loss), equity and cash flows present fairly, in all material respects, the financial position of STAG Industrial, Inc. and its subsidiaries at December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Boston, Massachusetts
February 16, 2017

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Part I. Financial Information
Item 1. Financial Statements
STAG Industrial, Inc.
Consolidated Balance Sheets
(in thousands, except share data)

	December 31, 2016	December 31, 2015
Assets		
Rental Property:		
Land	$ 272,162	$ 228,919
Buildings and improvements, net of accumulated depreciation of $187,413 and $147,917, respectively	1,550,141	1,334,776
Deferred leasing intangibles, net of accumulated amortization of $237,456 and $200,758, respectively	294,533	276,272
Total rental property, net	2,116,836	1,839,967
Cash and cash equivalents	12,192	12,011
Restricted cash	9,613	8,395
Tenant accounts receivable, net	25,223	21,478
Prepaid expenses and other assets	20,821	18,064
Interest rate swaps	1,471	1,867
Total assets	$ 2,186,156	$ 1,901,782
Liabilities and Equity		
Liabilities:		
Unsecured credit facility	$ 28,000	$ 56,000
Unsecured term loans, net	446,608	296,618
Unsecured notes, net	397,966	397,720
Mortgage notes, net	163,565	229,910
Accounts payable, accrued expenses and other liabilities	35,389	25,662
Interest rate swaps	2,438	3,766
Tenant prepaid rent and security deposits	15,195	14,628
Dividends and distributions payable	9,728	8,234
Deferred leasing intangibles, net of accumulated amortization of $10,450 and $8,536, respectively	20,341	11,387
Total liabilities	1,119,230	1,043,925
Commitments and contingencies (Note 11)		
Equity:		
Preferred stock, par value $0.01 per share, 15,000,000 shares authorized,		
Series A, no shares issued and outstanding at December 31, 2016 and 2,760,000 shares (liquidation preference of $25.00 per share) issued and outstanding at December 31, 2015	—	69,000
Series B, 2,800,000 shares (liquidation preference of $25.00 per share) issued and outstanding at December 31, 2016 and December 31, 2015	70,000	70,000
Series C, 3,000,000 shares (liquidation preference of $25.00 per share) issued and outstanding at December 31, 2016 and no shares issued and outstanding at December 31, 2015	75,000	—
Common stock, par value $0.01 per share, 150,000,000 shares authorized, 80,352,304 and 68,077,333 shares issued and outstanding at December 31, 2016 and December 31, 2015, respectively	804	681
Additional paid-in capital	1,293,706	1,017,397
Common stock dividends in excess of earnings	(410,978)	(332,271)

Accumulated other comprehensive loss	(1,496)	(2,350)
Total stockholders’ equity	1,027,036	822,457
Noncontrolling interest	39,890	35,400
Total equity	1,066,926	857,857
Total liabilities and equity	$ 2,186,156	$ 1,901,782

The accompanying notes are an integral part of these financial statements.

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STAG Industrial, Inc.
Consolidated Statements of Operations
(in thousands, except share data)

	Year ended December 31,		
	2016	2015	2014
Revenue			
Rental income	$212,741	$186,463	$149,470
Tenant recoveries	37,107	31,666	23,607
Other income	395	504	739
Total revenue	250,243	218,633	173,816
Expenses			
Property	48,904	42,627	33,388
General and administrative	33,395	28,750	26,396
Property acquisition costs	4,567	4,757	4,390
Depreciation and amortization	125,444	110,421	87,703
Loss on impairments	16,845	29,272	2,840
Other expenses	1,149	1,048	803
Total expenses	230,304	216,875	155,520
Other income (expense)			
Interest income	10	9	15
Interest expense	(42,923)	(36,098)	(25,109)
Loss on extinguishment of debt	(3,261)	—	(686)
Gain on the sales of rental property, net	61,823	4,986	2,799
Total other income (expense)	15,649	(31,103)	(22,981)
Net income (loss)	$35,588	$(29,345)	$(4,685)
Less: income (loss) attributable to noncontrolling interest after preferred stock dividends	1,069	(1,962)	(992)
Net income (loss) attributable to STAG Industrial, Inc.	$34,519	$(27,383)	$(3,693)
Less: preferred stock dividends	13,897	10,848	10,848
Less: amount allocated to participating securities	384	385	345
Net income (loss) attributable to common stockholders	$20,238	$(38,616)	$(14,886)
Weighted average common shares outstanding — basic	70,637,185	66,307,972	54,086,345
Weighted average common shares outstanding — diluted	70,852,548	66,307,972	54,086,345
Net income (loss) per share — basic and diluted			
Net income (loss) per share attributable to common stockholders — basic	$0.29	$(0.58)	$(0.28)
Net income (loss) per share attributable to common stockholders — diluted	$0.29	$(0.58)	$(0.28)

The accompanying notes are an integral part of these financial statements.

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STAG Industrial, Inc.
Consolidated Statements of Comprehensive Income (Loss)
(in thousands)

	Year ended December 31,		
	2016	2015	2014
Net income (loss)	$35,588	$(29,345)	$(4,685)
Other comprehensive income (loss):			
Income (loss) on interest rate swaps	898	(1,956)	(4,197)
Other comprehensive income (loss)	898	(1,956)	(4,197)
Comprehensive income (loss)	36,486	(31,301)	(8,882)
Net (income) loss attributable to noncontrolling interest after preferred stock dividends	(1,069)	1,962	992
Other comprehensive (income) loss attributable to noncontrolling interest	(44)	95	268
Comprehensive income (loss) attributable to STAG Industrial, Inc.	$35,373	$(29,244)	$(7,622)

The accompanying notes are an integral part of these financial statements.

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STAG Industrial, Inc.
Consolidated Statements of Equity
(in thousands, except share data)

	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Common Stock Dividends in excess of Earnings	Accumulated Other Comprehensive income (loss)	Total Stockholders' Equity	Noncontrolling Interest - Unit holders in Operating Partnership	Total Equity
Balance, December 31, 2013	$139,000	44,764,377	$447	$577,039	$(116,877)	$3,440	$603,049	$71,515	$674,564
Proceeds from sales of common stock	—	14,406,376	144	316,548	—	—	316,692	—	316,692
Offering costs	—	—	—	(8,899)	—	—	(8,899)	—	(8,899)
Issuance of restricted stock, net	—	101,412	1	(1)	—	—	—	—	—
Issuance of common stock	—	13,446	—	—	—	—	—	—	—
Issuance of equity pursuant to outperformance program	—	43,657	1	(1,491)	—	—	(1,490)	1,015	(475)
Dividends and distributions, net	(10,848)	—	—	—	(71,491)	—	(82,339)	(4,361)	(86,700)
Non-cash compensation	—	—	—	1,924	—	—	1,924	5,355	7,279
Redemption of common units to common stock	—	5,105,584	51	54,681	—	—	54,732	(54,732)	—
Redemption of common units for cash	—	—	—	—	—	—	—	(1,701)	(1,701)
Rebalancing of noncontrolling interest	—	—	—	(11,550)	—	—	(11,550)	11,550	—
Other comprehensive loss	—	—	—	—	—	(3,929)	(3,929)	(268)	(4,197)
Net loss	10,848	—	—	—	(14,541)	—	(3,693)	(992)	(4,685)
Balance, December 31, 2014	$139,000	64,434,852	$644	$928,251	$(202,909)	$(489)	$864,497	$27,381	$891,878

Proceeds from sales of common stock	—	3,456,403	35	74,857	—	—	74,892	—	74,892
Offering costs	—	—	—	(1,229)	—	—	(1,229)	—	(1,229)
Issuance of restricted stock, net	—	79,384	1	(1)	—	—	—	—	—
Issuance of common stock	—	15,870	—	—	—	—	—	—	—
Dividends and distributions, net	(10,848)	—	—	—	(91,131)	—	(101,979)	(4,772)	(106,751)
Non-cash compensation	—	—	—	2,805	—	—	2,805	4,774	7,579
Redemption of common units to common stock	—	90,824	1	1,002	—	—	1,003	(1,003)	—
Redemption of common units for cash	—	—	—	—	—	—	—	(64)	(64)
Issuance of units	—	—	—	—	—	—	—	22,853	22,853
Rebalancing of noncontrolling interest	—	—	—	11,712	—	—	11,712	(11,712)	—
Other comprehensive loss	—	—	—	—	—	(1,861)	(1,861)	(95)	(1,956)
Net loss	10,848	—	—	—	(38,231)	—	(27,383)	(1,962)	(29,345)
Balance, December 31, 2015	$139,000	68,077,333	$681	$1,017,397	$(332,271)	$(2,350)	$822,457	$35,400	$857,857
Proceeds from sales of common stock	—	12,090,038	121	282,548	—	—	282,669	—	282,669
Issuance of series C preferred stock	75,000	—	—	—	—	—	75,000	—	75,000
Offering costs	—	—	—	(6,928)	—	—	(6,928)	—	(6,928)
Issuance of restricted stock, net	—	99,968	1	(1)	—	—	—	—	—
Issuance of common stock	—	16,473	—	—	—	—	—	—	—
Dividends and distributions, net	(13,897)	—	—	—	(99,329)	—	(113,226)	(5,707)	(118,933)
Non-cash compensation	—	—	—	3,691	—	—	3,691	6,084	9,775
	(69,000)	—	—	—	—	—	(69,000)	—	(69,000)

Redemption of series A preferred stock									
Redemption of common units to common stock	—	68,492	1	616	—	—	617	(617)	—
Rebalancing of noncontrolling interest	—	—	—	(3,617)	—	—	(3,617)	3,617	—
Other comprehensive income	—	—	—	—	—	854	854	44	898
Net income	13,897	—	—	—	20,622	—	34,519	1,069	35,588
Balance, December 31, 2016	$145,000	80,352,304	$804	$1,293,706	$(410,978)	$(1,496)	$1,027,036	$39,890	$1,066,926

The accompanying notes are an integral part of these financial statements.

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STAG Industrial, Inc.
Consolidated Statements of Cash Flows
(in thousands)

	Year ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net income (loss)	$35,588	$(29,345)	$(4,685)
Adjustment to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	125,444	110,421	87,703
Loss on impairments	16,845	29,272	2,840
Non-cash portion of interest expense	1,632	1,262	1,337
Intangible amortization in rental income, net	6,213	8,526	6,253
Straight-line rent adjustments, net	(1,817)	(3,134)	(3,347)
Dividends on forfeited equity compensation	3	25	128
Loss on extinguishment of debt	3,261	—	686
Gain on the sales of rental property, net	(61,823)	(4,986)	(2,799)
Non-cash compensation expense	9,729	7,578	7,314
Change in assets and liabilities:			
Tenant accounts receivable, net	(1,435)	(1,334)	435
Restricted cash	(365)	(40)	(127)
Prepaid expenses and other assets	(4,580)	(3,155)	(2,588)
Accounts payable, accrued expenses and other liabilities	6,161	3,469	1,018
Tenant prepaid rent and security deposits	567	3,148	2,508
Total adjustments	99,835	151,052	101,361
Net cash provided by operating activities	135,423	121,707	96,676
Cash flows from investing activities:			
Acquisitions of land and buildings and improvements	(377,559)	(291,949)	(333,983)
Additions of land and building and improvements	(30,485)	(16,329)	(11,891)
Acquisitions of other assets	(158)	(565)	—
Proceeds from sales of rental property, net	152,079	22,163	12,980
Restricted cash	(853)	(1,449)	27
Acquisition deposits, net	(560)	1,420	(2,020)
Acquisitions of deferred leasing intangibles	(89,576)	(85,329)	(86,826)
Net cash used in investing activities	(347,112)	(372,038)	(421,713)
Cash flows from financing activities:			
Proceeds from sale of series C preferred stock	75,000	—	—
Redemption of series A preferred stock	(69,000)	—	—
Redemption of common units for cash	—	(64)	(1,701)
Proceeds from unsecured credit facility	513,000	300,750	426,500
Repayment of unsecured credit facility	(541,000)	(375,750)	(376,000)
Proceeds from unsecured term loans	150,000	150,000	200,000
Repayment of unsecured term loans	—	—	(300,000)
Proceeds from unsecured notes	—	220,000	180,000
Repayment of mortgage notes	(70,444)	(20,571)	(4,463)
Settlement of forward swap contracts	—	—	(358)
Payment of loan fees and costs	(715)	(3,672)	(4,431)
Payment of loan prepayment fees and costs	(3,278)	—	—
Dividends and distributions	(117,441)	(105,892)	(84,640)
Proceeds from sales of common stock	282,669	74,892	316,692

Offering costs	(6,921)	(1,229)	(8,899)
Withholding taxes for settlement of outperformance program	—	—	(475)
Net cash provided by financing activities	211,870	238,464	342,225
Increase (decrease) in cash and cash equivalents	181	(11,867)	17,188
Cash and cash equivalents—beginning of period	12,011	23,878	6,690
Cash and cash equivalents—end of period	$12,192	$12,011	$23,878
Supplemental disclosure:			
Cash paid for interest, net of capitalized interest	$39,367	$32,440	$22,675
Supplemental schedule of non-cash investing and financing activities			
Issuance of units for acquisitions of land and building and improvements and deferred lease intangibles	$—	$22,853	$—
Contingent consideration for acquisition of land and building and improvements	$—	$(216)	$—
Contingent consideration for acquisition of deferred leasing intangibles	$—	$(84)	$—
Contingent consideration liability acquired	$—	$300	$—
Additions to building and other capital improvements	$(1,175)	$(565)	$—
Transfer of other assets to building and other capital improvements	$—	$565	$—
Acquisitions of land and buildings and improvements	$(3,572)	$(38,339)	$(3,743)
Acquisitions of deferred leasing intangibles	$(1,008)	$(11,199)	$(593)
Partial disposal of building due to involuntary conversion of building	$779	$—	$—
Investing other receivables due to involuntary conversion of building	$(779)	$—	$—
Change in additions of land, building, and improvements included in accounts payable, accrued expenses, and other liabilities	$(1,455)	$(182)	$(1,716)
Additions to building and other capital improvements from non-cash compensation	$(18)	$—	$—
Assumption of mortgage notes	$4,037	$26,267	$4,198
Fair market value adjustment to mortgage notes acquired	$75	$418	$138
Change in loan fees, costs, and offering costs included in accounts payable, accrued expenses, and other liabilities	$26	$24	$(84)
Dividends and distributions declared but not paid	$9,728	$8,234	$7,355

The accompanying notes are an integral part of these financial statements.

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STAG Industrial, Inc.
Notes to Consolidated Financial Statements
1. Organization and Description of Business

STAG Industrial, Inc. (the “Company”) is an industrial real estate operating company focused on the acquisition and operation of single-tenant, industrial properties throughout the United States. The Company was formed as a Maryland corporation and has elected to be treated and intends to continue to qualify as a real estate investment trust (“REIT”) under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the “Code”). The Company is structured as an umbrella partnership REIT, commonly called an UPREIT, and owns substantially all of its assets and conducts substantially all of its business through its operating partnership, STAG Industrial Operating Partnership, L.P., a Delaware limited partnership (the “Operating Partnership”). As of December 31, 2016 and December 31, 2015, the Company owned a 95.7% and 95.1%, respectively, common equity interest in the Operating Partnership. The Company, through its wholly owned subsidiary, is the sole general partner of the Operating Partnership. As used herein, the “Company” refers to STAG Industrial, Inc. and its consolidated subsidiaries and partnerships, including the Operating Partnership, except where context otherwise requires.

As of December 31, 2016, the Company owned 314 buildings in 37 states with approximately 60.9 million rentable square feet (square feet unaudited herein and throughout Notes), consisting of 243 warehouse/distribution buildings, 54 light manufacturing buildings, 16 flex/office buildings, and one building in redevelopment. The Company’s buildings were approximately 94.7% leased to 275 tenants as of December 31, 2016.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Company’s consolidated financial statements include the accounts of the Company, the Operating Partnership and their subsidiaries. Interests in the Operating Partnership not owned by the Company are referred to as “Noncontrolling Common Units.” These Noncontrolling Common Units are held by other limited partners in the form of common units ("Other Common Units") and long term incentive plan units (“LTIP units”) issued pursuant to the STAG Industrial, Inc. 2011 Equity Incentive Plan, as amended (the “2011 Plan”). All significant intercompany balances and transactions have been eliminated in the consolidation of entities. The financial statements of the Company are presented on a consolidated basis for all periods presented.

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STAG Industrial, Inc.
Notes to Consolidated Financial Statements (Continued)

Revision of Previously Reported Consolidated Financial Statements

In connection with the preparation of the Company's consolidated financial statements for the year ended December 31, 2016, the Company identified an error in the estimated useful life of a building acquired in the fourth quarter of 2014. As a result of the error, depreciation expense had been overstated and thereby rental property, net and equity were understated. The Company concluded that the amounts were not material to any of its previously issued consolidated financial statements. Accordingly, the Company revised these balances in the accompanying consolidated financial statements as of and for the years ended December 31, 2015 and December 31, 2014 as outlined below. These adjustments do not impact the Company’s cash balances for any of the reporting periods. The effects of this revision to the consolidated financial statements are as follows (in thousands, except for per share data).

Effect of Revision As of and For the Year Ended December 31, 2015	As Previously Reported	Adjustment	As Revised
Consolidated Balance Sheet, December 31, 2015			
Building and improvements, net of accumulated depreciation	$1,332,298	$ 2,478	$1,334,776
Total assets[(1)]	$1,899,304	$ 2,478	$1,901,782
Total equity	$855,379	$ 2,478	$857,857
Consolidated Statement of Operations, Year Ended December 31, 2015			
Depreciation and amortization	$112,545	$ (2,124)	$110,421
Total expenses	$218,999	$ (2,124)	$216,875
Net loss	$(31,469)	$ 2,124	$(29,345)
Net loss attributable to STAG Industrial, Inc.	$(29,403)	$ 2,020	$(27,383)
Net loss attributable to common stockholders	$(40,636)	$ 2,020	$(38,616)
Loss per share attributable to common stockholders — basic and diluted	$(0.61)	$ 0.03	$(0.58)
Consolidated Statement of Comprehensive Income (Loss), Year Ended December 31, 2015			
Comprehensive loss	$(33,425)	$ 2,124	$(31,301)

(1) The as previously reported balance for total assets has been retrospectively adjusted to include the effect of the change in accounting principle for the adoption of ASU 2015-03, as discussed in "New Accounting Pronouncements" below.

Effect of Revision As of and For the Year Ended December 31, 2014	As Previously Reported	Adjustment	As Revised
Consolidated Balance Sheet, December 31, 2014			
Total assets[(1)]	$1,623,448	$ 354	$1,623,802
Total equity	$891,524	$ 354	$891,878
Consolidated Statement of Operations, Year Ended December 31, 2014			
Depreciation and amortization	$88,057	$ (354)	$87,703
Total expenses	$155,874	$ (354)	$155,520
Net loss	$(5,039)	$ 354	$(4,685)
Net loss attributable to STAG Industrial, Inc.	$(4,025)	$ 332	$(3,693)
Net loss attributable to common stockholders	$(15,218)	$ 332	$(14,886)
Loss per share attributable to common stockholders — basic and diluted	$(0.28)	$ —	$(0.28)

Consolidated Statement of Comprehensive Income (Loss), Year Ended December 31, 2014			
Comprehensive loss	$(9,236)	$ 354	$(8,882)

(1) The as previously reported balance for total assets has been retrospectively adjusted to include the effect of the change in accounting principle for the adoption of ASU 2015-03, as discussed in "New Accounting Pronouncements" below.

New Accounting Pronouncements

In January of 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (“ASU”) 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The new standard removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. This standard is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted for interim or goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of ASU 2017-04 is not expected to materially impact the Company’s consolidated financial statements.

In January of 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The new standard provides a screen to determine when a set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired or disposed of is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This standard is effective for annual periods beginning after December 15, 2017 and interim periods within those periods, with early adoption permitted, and should be applied prospectively on or after the effective date. Upon the adoption of ASU 2017-01, it is expected that the majority of the Company's acquisitions will be accounted for as asset acquisitions, whereas under the current guidance the majority of the Company's acquisitions have been accounted for as business combinations. The most significant difference between the two accounting models that will impact the Company's consolidated financial statements is that in an asset acquisition, property acquisition costs are generally a component of the consideration transferred to acquire a group of assets and are capitalized as a component of the cost of the assets, whereas in a business combination, property acquisition costs are expensed and not included as part of the consideration transferred. The Company plans to adopt this standard effective January 1, 2018.

In November of 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The new standard requires that the statement of cash flows explain the changes during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This standard is effective for fiscal years beginning after December 15, 2017 and interim periods within those years, with early adoption permitted, and should be applied using a retrospective transition method to each period presented. Upon the adoption of ASU 2016-18, the Company will reconcile both cash and cash equivalents and restricted cash in the accompanying Statements of Cash Flows, whereas under the current guidance the Company explains the changes during the period for cash and cash equivalents only.

In August of 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which provides clarified guidance on the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. This standard is effective for fiscal years beginning after December 15, 2017, and interim periods within those years, with early adoption permitted. The Company has elected to early adopt this standard effective July 1, 2016, and the effects of this standard were applied retrospectively to all prior periods presented. The effect of the change in accounting principle was an increase in net cash provided by operating activities of approximately $2.0 million for the six months ended June 30, 2016 and a corresponding increase in net cash used in financing activities for the six months ended June 30, 2016 related to the payment of loan prepayment fees and costs.

In March of 2016, the FASB issued ASU 2016-09, Stock Compensation (Topic 718), which addresses certain aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, forfeitures, and classification on the statement of cash flows. This standard is effective for fiscal years beginning after December 15, 2016, and interim periods within those years, with early adoption permitted. The Company has elected to early adopt this standard effective January 1, 2016. As a result, the Company's policy is to recognize forfeitures in the period which they occur, whereas the former guidance required the Company to estimate expected forfeitures. The adoption of this standard did not have a material effect on the consolidated financial statements.

In February of 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). Topic 842 supersedes the previous leases standard, Topic 840, Leases. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the

lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASU 2016-02 is expected to impact the Company’s consolidated financial statements as the Company has certain operating and land lease arrangements for which it is the lessee, which will result in the recording of a right of use asset and the related lease liability. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The new standard must be adopted using a modified retrospective transition and will require application of the new guidance at the beginning of the earliest comparative period. The Company is currently in the process of evaluating the impact the adoption of ASU 2016-02 will have on the Company’s financial position or results of operations, and expects to adopt the standard effective January 1, 2019.

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In January of 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10). The amendments in ASU 2016-01 address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The standard primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. ASU 2016-01 is effective for the annual periods beginning after December 31, 2017 and for annual periods and interim periods within those years. Early adoption is permitted for all financial statements of fiscal years and interim periods that have not yet been issued. The adoption of ASU 2016-01 is not expected to materially impact the Company's consolidated financial statements.

In April of 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs (Subtopic 835-30). ASU 2015-03 requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability. In August of 2015, the FASB issued ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (Subtopic 835-30), which clarified that debt issuance costs related to line-of-credit arrangements may be presented as an asset and amortized over the term of the line-of-credit arrangement regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The Company adopted this standard effective January 1, 2016. As a result, debt issuance costs related to the debt liabilities that are not line-of-credit arrangements are included as a direct deduction from the related debt liability and those related to line-of-credit arrangements continue to be included as an asset within prepaid expenses and other assets on the accompanying Consolidated Balance Sheets. The effects of this standard were applied retrospectively to all prior periods presented. The effect of the change in accounting principle was the reduction of unsecured term loans by approximately $3.4 million, unsecured notes by approximately $2.3 million, and mortgage notes by approximately $1.3 million and a corresponding reduction of prepaid expenses and other assets by approximately $6.9 million as of December 31, 2015.

In February of 2015, the FASB issued ASU 2015-02, Amendments to Consolidation Analysis (Topic 810), which amends the current consolidation model. On January 1, 2016, the Company adopted this standard, modifying the analysis it must perform to determine whether it should consolidate certain types of legal entities. The guidance does not amend the existing disclosure requirements for variable interest entities or voting interest model entities. The guidance, however, modified the requirements to qualify under the voting interest model. Under the revised guidance, the Operating Partnership will be a variable interest entity of the Company. As the Operating Partnership is already consolidated in the financial statements of the Company, the identification of this entity as a variable interest entity had no impact on the consolidated financial statements of the Company. There were no other legal entities qualifying under the scope of the revised guidance that were consolidated as a result of the adoption. In addition, there were no voting interest entities under prior existing guidance determined to be variable interest entities under the revised guidance.

In August of 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern, and to provide certain disclosures when it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. ASU 2014-15 is effective for the annual period ending December 31, 2016 and for annual periods and interim periods thereafter with early adoption permitted. The Company adopted this standard effective for the annual period ended December 31, 2016 and this standard did not have a material effect on the consolidated financial statements.

In May of 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. While lease contracts with customers, which constitute a vast majority of the Company's revenues, are a specific scope exception, certain of the Company's revenue streams may be impacted by the new guidance. Once the new guidance setting forth principles for the recognition, measurement, presentation and disclosure of leases (ASU 2016-02, as discussed above) goes into effect, the new revenue standard may apply to executory costs and other components of revenue due under leases that are deemed to be non-lease components (such as common area maintenance and provision of utilities), even when the revenue for such activities is not separately stipulated in the lease. In that case, revenue from these items previously recognized on a straight-line basis under current lease guidance would be recognized under the new revenue guidance as the related services are delivered. As a result, while the total revenue recognized over time would not differ under the new guidance, the recognition pattern would be different. The Company is in the process of evaluating the significance of the difference in the recognition pattern that would result from this change. In adopting ASU 2014-09, companies may use either a full retrospective or a modified retrospective approach. The Company has not decided which method of adoption it will use. Additionally, this guidance requires improved disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for

the first interim period within annual reporting periods beginning after December 15, 2017. Early adoption is permitted for the first interim period within annual reporting periods beginning after December 15, 2016. The Company is currently in the process of evaluating the impact the adoption of ASU 2014-09 will have on the Company's financial position or results of operations, and expects that it will adopt the standard effective January 1, 2018.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Rental Property and Deferred Leasing Intangibles

Rental property is carried at cost less accumulated depreciation and amortization. Expenditures for maintenance and repairs are expensed as incurred. Significant renovations and betterments that extend the economic useful lives of assets are capitalized.

The Company capitalizes costs directly and indirectly related to the development, pre-development, redevelopment, or improvement of rental property. Real estate taxes, compensation costs of development personnel, insurance, interest, and other directly related costs during construction periods are capitalized as incurred and depreciated commencing with the date the property is substantially completed. Such costs begin to be capitalized to the development projects from the point the Company is undergoing the necessary activities to get the development project ready for its intended use and cease when the development projects are substantially completed and held available for occupancy. Interest is capitalized based on actual capital expenditures from the period when development or redevelopment commences until the asset is ready for its intended use, at the weighted average borrowing rate of the Company's unsecured indebtedness during the period.

For properties classified as held for sale, the Company ceases depreciating and amortizing the rental property and values the rental property at the lower of depreciated and amortized cost or fair value, less costs to dispose. The Company presents those properties classified as held for sale with any qualifying assets and liabilities associated with those properties as held for sale in the accompanying Consolidated Balance Sheets.

The Company allocates the purchase price of business combinations of properties based upon the fair value of the assets and liabilities acquired, which generally consist of land, buildings, tenant improvements, mortgage debt assumed, and deferred leasing intangibles, which includes in-place leases, above market and below market leases, and tenant relationships. The portion of the purchase price that is allocated to above and below market leases is valued based on the present value of the difference between prevailing market rates and the in-place rates measured over a period equal to the remaining term of the lease term plus the term of any bargain renewal options. The above and below market lease values are amortized into rental income over the remaining term plus the terms of bargain renewal options or assumed exercise of early termination options of the respective leases. The purchase price is further allocated to in-place lease values and tenant relationships based on the Company's evaluation of the specific characteristics of each tenant's lease and its overall relationship with the respective tenant. The value of in-place lease intangibles and tenant relationships, which are included as components of deferred leasing intangibles, are amortized over the remaining lease term (and expected renewal periods of the respective lease for tenant relationships or

assumed exercise of early termination options for in-place lease intangibles) as increases or decreases to depreciation and amortization expense. If a tenant terminates its lease, the unamortized portion of above and below market leases is accelerated into rental income and the in-place lease value and tenant relationships are accelerated into depreciation or amortization expense over the shortened lease term.

The purchase price allocated to deferred leasing intangible assets are included in rental property on the accompanying Consolidated Balance Sheets and the purchase price allocated to deferred leasing intangible liabilities are included in deferred leasing intangibles on the accompanying Consolidated Balance Sheets under the liabilities section.

In determining the fair value of the debt assumed, the Company discounts the spread between the future contractual interest payments and hypothetical future interest payments on mortgage debt based on a current market rate. The associated fair market value debt adjustment is amortized through interest expense over the life of the debt on a basis which approximates the effective interest method.

Using information available at the time of acquisition, the Company allocates the total consideration to tangible assets and liabilities and identified intangible assets and liabilities. The Company may adjust the preliminary purchase price allocations after obtaining more information about asset valuations and liabilities assumed.

The Company evaluates the carrying value of all tangible and intangible rental property assets held for use for possible impairment when an event or change in circumstance has occurred that indicates their carrying value may not be recoverable. The evaluation includes estimating and reviewing anticipated future undiscounted cash flows to be derived from the asset and the ultimate sale of the asset. If such cash flows are less than the asset's carrying value, an impairment charge is recognized to the extent by which the asset's carrying value exceeds the estimated fair value. Estimating future cash flows is highly subjective and such estimates could differ from actual results.

Depreciation and amortization expense is computed using the straight-line method based on the following lives.

Building	40 Years
Building and land improvements	Up to 20 years
Tenant improvements	Shorter of useful life or terms of related lease
Above and below market leases and other deferred leasing intangibles	Terms of the related lease plus terms of bargain renewal options or assumed exercise of early termination options
Tenant relationships	Terms of the related lease plus estimated renewal period
Assumed debt fair value premium/discount	Terms of the related loan

Fully depreciated or amortized assets or liabilities and the associated accumulated depreciation or amortization are written-off. The Company wrote-off tenant improvements, deferred leasing intangible assets, and deferred leasing intangible liabilities of $2.6 million, $17.9 million, $0, respectively, for the year ended December 31, 2016 and $1.2 million, $10.3 million, $0.8 million, respectively, for the year ended December 31, 2015.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid short-term investments with original maturities of three months or less. The Company maintains cash and cash equivalents in United States banking institutions that may exceed amounts insured by the Federal Deposit Insurance Corporation. While the Company monitors the cash balances in its operating accounts, these cash balances could be impacted if the underlying financial institutions fail or are subject to other adverse conditions in the financial markets. To date, the Company has experienced no loss or lack of access to cash in its operating accounts, and mitigates this risk by using nationally recognized banking institutions.

Restricted Cash

Restricted cash may include tenant security deposits and cash held in escrow for real estate taxes and capital improvements as required in various mortgage loan agreements. Restricted cash also may include amounts held by the Company's transfer agent for preferred stock dividends that are distributed subsequent to period end.

Tenant Accounts Receivable, net

Tenant accounts receivable, net on the accompanying Consolidated Balance Sheets includes both tenant accounts receivable, net and accrued rental income, net. The Company provides an allowance for doubtful accounts against the portion of tenant accounts receivable that is estimated to be uncollectible. As of December 31, 2016 and December 31,

2015, the Company had an allowance for doubtful accounts of approximately $0.2 million and $0.1 million, respectively.

The Company accrues rental income earned, but not yet receivable, in accordance with GAAP. As of December 31, 2016 and December 31, 2015, the Company had accrued rental income of approximately $18.4 million and $16.1 million, respectively. The Company maintains an allowance for estimated losses that may result from those revenues. As of December 31, 2016 and December 31, 2015, the Company had an allowance on accrued rental income of $0 and $0, respectively.

As of December 31, 2016 and December 31, 2015, the Company had approximately $9.0 million and $6.1 million, respectively, of total lease security deposits available in the form of existing letters of credit, which are not reflected on the accompanying Consolidated Balance Sheets. As of December 31, 2016 and December 31, 2015, the Company had approximately $5.4 million and $4.1 million, respectively, of lease security deposits available in cash, which are included in cash and cash equivalents on the

accompanying Consolidated Balance Sheets, and approximately $0.4 million and $0.4 million, respectively, of lease security deposits available in cash, which are included in restricted cash on the accompanying Consolidated Balance Sheets. These funds may be used to settle tenant accounts receivables in the event of a default under the related lease. As of December 31, 2016 and December 31, 2015, the Company's total liability associated with these lease security deposits was approximately $5.8 million and $4.5 million, respectively, which is included in tenant prepaid rent and security deposits on the accompanying Consolidated Balance Sheets.

Deferred Costs

Deferred financing fees and debt issuance costs include costs incurred in obtaining debt that are capitalized and are presented as a direct deduction from the carry amount of the associated debt liability that is not a line-of-credit arrangement on the accompanying Consolidated Balance Sheets. Deferred financing fees and debt issuance costs related to line-of-credit arrangements are presented as an asset in prepaid expenses and other assets on the accompanying Consolidated Balance Sheets. The deferred financing fees and debt issuance costs are amortized through interest expense over the life of the respective loans on a basis which approximates the effective interest method. Any unamortized amounts upon early repayment of debt are written off in the period of repayment as a loss on extinguishment of debt. Fully amortized deferred financing fees and debt issuance costs are removed from the books upon maturity of the underlying debt.

Leasing commissions include commissions, compensation costs of leasing personnel, and other direct and incremental costs incurred to obtain new tenant leases as well as to renew existing tenant leases, and are presented in prepaid expenses and other assets on the accompanying Consolidated Balance Sheets. Leasing commission are capitalized and amortized over the terms of the related leases (and bargain renewal terms or assumed exercise of early termination options) using the straight-line method. If a lease terminates prior to the expiration of its initial term, any unamortized costs related to the lease are accelerated into amortization expense. Changes in leasing commissions are presented in the cash flows from operating activities section of the accompanying Consolidated Statements of Cash Flows.

Goodwill

The excess of the cost of an acquired business over the net of the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed is recorded as goodwill. Goodwill of the Company of $4.9 million represents amounts allocated to the assembled workforce from the acquired management company, and is presented in prepaid expenses and other assets on the accompanying Consolidated Balance Sheets. The Company’s goodwill has an indeterminate life and is not amortized, but is tested for impairment on an annual basis at December 31, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company takes a qualitative approach to consider whether an impairment of goodwill exists prior to quantitatively determining the fair value of the reporting unit in step one of the impairment test. The Company has recorded no impairments to goodwill through December 31, 2016.

Use of Derivative Financial Instruments

The Company records all derivatives on the accompanying Consolidated Balance Sheets at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting, and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular

risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

In accordance with fair value measurement guidance, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting arrangements on a net basis by counterparty portfolio. Credit risk is the risk of failure of the counterparty to perform under the terms of the contract. The Company minimizes the credit risk in the interest rate swaps by entering into transactions with various high-quality counterparties. The Company's exposure to credit risk at any point is generally limited to amounts recorded as assets on the accompanying Consolidated Balance Sheets.

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STAG Industrial, Inc.
Notes to Consolidated Financial Statements (Continued)

Fair Value of Financial Instruments

Financial instruments include cash and cash equivalents, restricted cash, tenant accounts receivable, interest rate swaps, accounts payable, accrued expenses, unsecured credit facility, unsecured term loans, unsecured notes and mortgage notes. The fair values of the cash and cash equivalents, restricted cash, tenant accounts receivable, accounts payable and accrued expenses approximate their carrying or contract values because of the short term maturity of these instruments. See Note 4 for the fair values of the Company’s debt. See Note 5 for the fair values of the Company’s interest rate swaps.

The Company adopted fair value measurement provisions for its financial instruments recorded at fair value. The guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Offering Costs

Underwriting commissions and direct offering costs have been reflected as a reduction of additional paid-in capital. Indirect costs associated with equity offerings are expensed as incurred and included in general and administrative expenses on the accompanying Consolidated Statements of Operations.

Dividends

Earnings and profits, which determine the taxability of dividends to stockholders, will differ from income reported for financial reporting purposes due to the differences for federal income tax purposes in the treatment of gains on the sale of real property, revenue and expense recognition, and in the estimated useful lives and basis used to compute depreciation. In addition, the Company's distributions include a return of capital. To the extent that the Company makes distributions in excess of its current and accumulated earnings and profits, such distributions would generally be considered a return of capital for federal income tax purposes to the extent of the holder’s adjusted tax basis in its shares. A return of capital is not taxable, but it has the effect of reducing the holder’s adjusted tax basis in its investment.

The Company paid approximately $5.2 million ($1.88125 per share), $6.2 million ($2.25 per share) and $6.2 million ($2.25 per share) of the 9.0% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock") dividends for the years ended December 31, 2016, December 31, 2015, and December 31, 2014, respectively, that were treated as ordinary income for tax purposes.

The Company paid approximately $4.6 million ($1.65625 per share), $4.6 million ($1.65625 per share) and $4.6 million ($1.65625 per share) of the 6.625% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock") dividends for the years ended December 31, 2016 and December 31, 2015, and December 31, 2014, respectively, that were treated as ordinary income for tax purposes.

The Company paid approximately $4.1 million ($1.355905 per share) of the 6.875% Series C Cumulative Redeemable Preferred Stock ("Series C Preferred Stock") dividends for the year ended December 31, 2016 that were treated as

ordinary income for tax purposes

The tax treatment of common dividends per share for federal income tax purposes is as follows.

	Year ended December 31,					
	2016		2015		2014	
	Per Share	%	Per Share	%	Per Share	%
Ordinary income	$0.944038	68.0 %	$0.777244	57.2 %	$0.843245	65.9 %
Return of capital	0.445125	32.0 %	0.582756	42.8 %	0.436755	34.1 %
Total [(1)]	$1.389163	100.0%	$1.36000	100.0%	$1.280000	100.0%

(1) The December 2014 monthly common stock dividend of $0.11 per share was included in the stockholder’s 2015 tax year. The December 2015 monthly common stock dividend of $0.115 per share was included in the stockholder’s 2016 tax year. The December 2016 monthly common stock dividend of $0.115833 per share will be included in the stockholder’s 2017 tax year.

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STAG Industrial, Inc.
Notes to Consolidated Financial Statements (Continued)

Revenue Recognition

All current leases are classified as operating leases and rental income is recognized on a straight-line basis over the term of the lease (and expected bargain renewal terms or assumed exercise of early termination options) when collectability is reasonably assured. Differences between rental income earned and amounts due under the lease are charged or credited, as applicable, to accrued rental income. Additional rents from expense reimbursements for insurance, real estate taxes and certain other expenses are recognized in the period in which the related expenses are incurred.

The Company earns revenue from asset management fees, which are included on the accompanying Consolidated Statements of Operations in other income. The Company recognizes revenue from asset management fees when the related fees are earned and are realized or realizable.

Tenant Recoveries

By the terms of their leases, certain tenants are obligated to pay directly the costs of their properties' insurance, real estate taxes, ground lease payments, and certain other expenses, and these costs are not reflected on the Company's consolidated financial statements. The Company does not recognize recovery revenue related to leases where the tenant has assumed the cost for real estate taxes, insurance, ground lease payments and certain other expenses. To the extent any tenant is responsible for these costs under its respective lease defaults on its lease or it is deemed probable that the tenant will fail to pay for such costs, the Company will record a liability for such obligation. The Company estimates that real estate taxes, which are the responsibility of these certain tenants, were approximately $10.9 million for the year ended December 31, 2016, $10.2 million for the year ended December 31, 2015, and $10.2 million for the year ended December 31, 2014. These amounts would have been the maximum real estate tax expense of the Company, excluding any penalties or interest, had the tenants not met their contractual obligations for these periods.

Termination Income

Early lease termination fees are recorded in rental income on a straight-line basis from the notification date of such termination to the then remaining (not the original) lease term, if any, or upon collection if collection is not reasonably assured.

On December 21, 2016, the tenant at the Golden, CO property exercised its early lease termination option per the terms of the lease agreement. The option provided that the tenant's lease terminate effective December 31, 2017 and required the tenant to pay a termination fee of approximately $0.9 million. The termination fee is being recognized on a straight-line basis from December 21, 2016 through the relinquishment of the space on December 31, 2017. The termination fee income of approximately $0.1 million is included in rental income on the accompanying Consolidated Statements of Operations for the year ended December 31, 2016.

On October 20, 2015, the tenant at the Dayton, OH property exercised its early lease termination option per the terms of the lease agreement. The option provided that the tenant's lease terminate effective October 31, 2016 and required the tenant to pay a termination fee of approximately $0.2 million. The termination fee was being recognized on a straight-line basis from October 20, 2015 through the relinquishment of the space on October 31, 2016. On August 29, 2016, the Company sold the Dayton, OH property to an unaffiliated third party and recognized the remaining unamortized termination fee. The termination fee income of approximately $0.2 million and $0.1 million is included in rental income on the accompanying Consolidated Statements of Operations for the years ended December 31, 2016

and December 31, 2015, respectively.

On October 19, 2015, the Company entered into a lease termination agreement with the tenant located at the Southfield, MI building. The agreement provided that the tenant's lease terminated effective October 19, 2015 and required the tenant to pay a termination fee of approximately $0.9 million. The full termination fee is included in rental income on the accompanying Consolidated Statements of Operations for the year ended December 31, 2015.

On December 17, 2014, the Company entered into the first amendment to the lease with the tenant located at the Belfast, ME buildings. The terms of the amendment renewed 90,051 square feet of the premise and early terminated the remaining 228,928 square feet effective November 30, 2015. The tenant was required to pay a termination fee for the returned premise on or before October 31, 2015 in the amount of approximately $2.1 million, and the Company received the termination fee payment in full on September 23, 2015. This termination fee along with the reimbursement of certain miscellaneous costs per the lease amendment was being recorded on a straight-line basis from December 17, 2014 through the relinquishment of the space on November 30, 2015. On May 18, 2015, the Company entered into a second lease amendment with the tenant. The terms of the second lease amendment accelerated the termination of 35,295 square feet of the previously terminated square feet to April 30, 2015. The

Company recognized the termination fee associated with the 35,295 square feet through the shortened lease life of April 30, 2015. The Company recognized the remaining termination fee over the shortened lease life of the remaining 193,633 square feet through November 30, 2015. The termination fee of approximately $2.0 million and $0.1 million are included in rental income on the accompanying Consolidated Statements of Operations for the years ended December 31, 2015 and December 31, 2014, respectively.

On October 29, 2014, the Company entered into a lease termination agreement with the tenant located at the Tavares, FL building. The agreement provided that the tenant's lease terminated effective December 30, 2014 and required the tenant to pay a termination fee of approximately $2.4 million including reimbursement of costs related to the sale of the property, which is included in rental income on the accompanying Consolidated Statements of Operations for the year ended December 31, 2014.

Gain on the Sales of Rental Property, net

The timing of the recognition of gain on the sales of rental property, net is measured against various criteria related to the terms of the transaction and continuing involvement in the form of management or financial assistance associated with the properties. If the sales criteria for the full accrual method are not met, the Company defers some or all of the gain recognition and accounts for the continued operations of the property by applying the finance, leasing, profit sharing, deposit, installment or cost recovery methods, as appropriate, until the sales criteria are met.

Incentive and Equity-Based Employee Compensation Plans

The Company grants equity-based compensation awards to its employees and directors in the form of restricted shares of common stock, LTIP units, outperformance programs, and performance units. See Notes 6, 7 and 8 for further discussion of restricted shares of common stock, LTIP units, and the outperformance programs and performance units, respectively. The Company measures equity-based compensation expense based on the fair value of the awards on the grant date and recognizes the expense ratably over the vesting period, and forfeitures are recognized in the period in which they occur.

Taxes

Federal Income Taxes

The Company elected to be taxed as a REIT under the Code commencing with its taxable year ended December 31, 2011 and intends to continue to qualify as a REIT. The Company is generally not subject to corporate level income tax on the earnings distributed currently to its stockholders that it derives from its REIT qualifying activities. As a REIT, the Company is required to distribute at least 90% of its REIT taxable income to its stockholders 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.

The Company will not be required to make distributions with respect to income derived from the activities conducted through subsidiaries that the Company elects to treat as taxable REIT subsidiaries ("TRS") for federal income tax purposes, nor will it have to comply with income, assets, or ownership restrictions inside of the TRS. Certain activities that the Company undertakes must or should be conducted by a TRS, such as performing non-customary services for its tenants and holding assets that it cannot hold directly. A TRS is subject to federal and state income taxes. On June 24, 2016, the Operating Partnership, through its wholly owned subsidiary, transferred a vacant land parcel located in

Burlington, NJ to the Company's TRS. On August 25, 2015, the Company's TRS acquired two vacant land parcels in connection with the Libertyville, IL acquisition. The Company's TRS recognized a net loss of approximately $0.1 million and $25,000, for the years ended December 31, 2016 and December 31, 2015, respectively, which has been included on the accompanying Consolidated Statements of Operations. The TRS did not have any activity during the year ended December 31, 2014.

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The following table reconciles net income (loss) to taxable income for the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

Reconciliation of Net Income (Loss) to Taxable Income (in thousands)	Year ended December 31, 2016	2015	2014
Net income (loss)	$35,588	$(29,345)	$(4,685)
Book/tax differences from depreciation and amortization	66,763	60,959	49,672
Above/below market lease amortization	6,213	8,526	6,253
Loss on impairments	16,845	29,272	2,840
Book/tax difference on termination income	678	(1,815)	1,994
Book/tax difference on property acquisition costs	4,498	4,400	4,279
Loss on extinguishment of debt	(17)	—	686
Book/tax difference on accrued bonus payment	1,170	(337)	941
Book/tax difference on bad debt expense	83	2	104
Book/tax difference on non-cash compensation	7,188	4,662	4,706
Book/tax difference on gain on the sales of rental property, net	(53,580)	(10,653)	(4,695)
Straight-line rent adjustments, net	(2,495)	(3,405)	(3,255)
Book/tax difference on non-cash portion of interest expense	1,631	1,266	979
Book/tax difference on prepaid rent of Sec. 467 leases	(274)	1,887	—
Other book/tax differences, net	284	180	78
Loss attributable to noncontrolling interest	(4,069)	(3,011)	(3,414)
Taxable income subject to distribution requirement[1]	$80,506	$62,588	$56,483

(1) The Company distributed in excess of 100% of its taxable income to its stockholders during the years ended December 31, 2016, December 31, 2015 and December 31, 2014, respectively.

State and Local Income, Excise, and Franchise Tax

The Company and certain of its subsidiaries are subject to certain state and local income, excise and franchise taxes. Taxes in the amount of $1.0 million, $0.9 million and $0.6 million have been recorded in other expenses on the accompanying Consolidated Statements of Operations for the years ended December 31, 2016, December 31, 2015 and December 31, 2014, respectively.

Uncertain Tax Positions

Tax benefits of uncertain tax positions are recognized only if it is more likely than not that the tax position will be sustained based solely on its technical merits, with the taxing authority having full knowledge of all relevant information. The measurement of a tax benefit for an uncertain tax position that meets the “more likely than not” threshold is based on a cumulative probability model under which the largest amount of tax benefit recognized is the amount with a greater than 50% likelihood of being realized upon ultimate settlement with the taxing authority having full knowledge of all the relevant information. As of December 31, 2016, December 31, 2015 and December 31, 2014, there were no liabilities for uncertain tax positions.

Earnings Per Share

The Company uses the two-class method of computing earnings per common share, which is an earnings allocation formula that determines earnings per share for common stock and any participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. Under the two-class method,

basic earnings per common share are computed by dividing the sum of distributed earnings to common stockholders and undistributed earnings allocated to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur from shares issuable in connection with awards under incentive and equity-based compensation plans.

Segment Reporting

The Company manages its operations on an aggregated, single segment basis for purposes of assessing performance and making operating decisions and, accordingly, has only one reporting and operating segment.

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STAG Industrial, Inc.
Notes to Consolidated Financial Statements (Continued)

Concentrations of Credit Risk

Concentrations of credit risk relevant to the Company may arise when a number of financing arrangements, including revolving credit facilities or derivatives, are entered into with the same lenders or counterparties, and have similar economic features that would cause their inability to meet contractual obligations. The Company mitigates the concentration of credit risk as it relates to financing arrangements by entering into loan syndications with multiple, reputable financial institutions and diversifying its debt counterparties. The Company also reduces exposure by diversifying its derivatives across multiple counterparties who meet established credit and capital guidelines.

Concentration of credit risk may also arise when the Company enters into leases with multiple tenants concentrated in the same industry, or into a significant lease or multiple leases with a single tenant, or tenants are located in the same geographic region, or have similar economic features that would cause their inability to meet contractual obligations, including those to the Company, to be similarly affected. The Company regularly monitors its tenant base to assess potential concentrations of credit risk through financial statement review, tenant management calls, and press releases. Management believes the current credit risk portfolio is reasonably well diversified and does not contain any unusual concentration of credit risk.

3. Rental Property

The following table summarizes the components of rental property, net as of December 31, 2016 and December 31, 2015.

Rental Property, net (in thousands)	December 31, 2016	December 31, 2015
Land	$ 272,162	$ 228,919
Buildings, net of accumulated depreciation of $125,971 and $101,819, respectively	1,408,406	1,234,838
Tenant improvements, net of accumulated depreciation of $28,388 and $26,283, respectively	24,974	23,586
Building and land improvements, net of accumulated depreciation of $33,054 and $19,815, respectively	107,463	74,694
Construction in progress	9,298	1,658
Deferred leasing intangibles, net of accumulated amortization of $237,456 and $200,758, respectively	294,533	276,272
Total rental property, net	$ 2,116,836	$ 1,839,967

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STAG Industrial, Inc.
Notes to Consolidated Financial Statements (Continued)

Acquisitions

The following tables summarize the acquisitions of the Company during the years ended December 31, 2016 and December 31, 2015.
Year ended December 31, 2016

Location of Property	Square Feet	Buildings	Purchase Price (in thousands)
Biddeford, ME	265,126	2	$ 12,452
Fairfield, OH	206,448	1	5,330
Mascot, TN	130,560	1	4,500
Erlanger, KY	108,620	1	5,600
Three months ended March 31, 2016	710,754	5	27,882
West Chicago, IL	249,470	1	8,663
Visalia, CA	635,281	1	27,921
Norcross, GA	152,036	1	5,508
Reading, PA	248,000	1	9,594
Charlotte, NC	104,852	1	6,517
Three months ended June 30, 2016	1,389,639	5	58,203
Columbia, SC	185,600	1	7,300
Graniteville, SC	450,000	1	15,675
Fountain Inn, SC	168,087	1	7,025
Langhorne, PA	217,000	2	11,250
Warren, MI	268,000	1	18,700
New Castle, DE	485,987	1	27,500
Westborough, MA	121,700	1	7,885
Cedar Hill, TX	420,000	1	19,100
Forest Park, GA	799,200	2	24,915
Rock Hill, SC	315,520	1	9,850
Gardiner, ME	265,000	1	16,800
Three months ended September 30, 2016	3,696,094	13	166,000
Langhorne, PA	172,647	1	9,500
Grove City, OH	175,512	1	5,400
Olathe, KS	496,373	1	23,194
Houston, TX	223,599	1	13,444
Itasca, IL	202,000	1	20,641
Kenosha, WI	175,052	1	5,975
Oklahoma City, OK	80,400	1	3,400
San Antonio, TX	247,861	1	12,050
Wood Dale, IL	137,607	1	8,565
Hartland, WI	121,050	1	7,400
Earth City, MO	116,783	1	5,450
Spartanburg, SC	572,038	1	20,762
West Columbia, SC	119,852	1	5,725
West Chicago, IL	305,874	5	10,400
DeForest, WI	254,431	1	7,800
Montgomery, AL	332,000	1	8,750

West Chester, OH	269,868	1	11,150
West Columbia, SC	176,400	1	11,850
Brooklyn Park, MN	200,720	1	20,532
East Windsor, CT	126,111	1	7,725
Three months ended December 31, 2016	4,506,178	24	219,713
Year ended December 31, 2016	10,302,665	47	$ 471,798

Year ended December 31, 2015

Location of Property	Square Feet	Buildings	Purchase Price (in thousands)
Burlington, NJ	503,490	1	$ 34,883
Greenville, SC	157,500	1	4,800
North Haven, CT	824,727	3	57,400
Three months ended March 31, 2015	1,485,717	5	97,083
Plymouth, MI	125,214	1	6,000
Oakwood Village, OH	75,000	1	4,398
Stoughton, MA	250,213	2	10,675
Oklahoma City, OK	223,340	1	12,135
Clinton, TN	166,000	1	5,000
Knoxville, TN	108,400	1	4,750
Fairborn, OH	258,680	1	9,100
El Paso, TX	126,456	1	9,700
Phoenix, AZ	102,747	1	9,500
Charlotte, NC	123,333	1	7,500
Machesney Park, IL	80,000	1	5,050
Three months ended June 30, 2015	1,639,383	12	83,808
Macedonia, OH	201,519	1	12,192
Novi, MI	125,060	1	8,716
Grand Junction, CO	82,800	1	5,254
Tulsa, OK	175,000	1	13,000
Chattanooga, TN	646,200	3	21,160
Libertyville, IL	287,102	2	11,121
Greer, SC	290,000	4	9,025
Piedmont, SC	400,000	3	12,000
Belvidere, IL	100,000	1	5,938
Conyers, GA	201,403	1	9,880
Three months ended September 30, 2015	2,509,084	18	108,286
Durham, NC	80,600	1	4,200
Charlotte, NC	124,680	1	5,423
Shreveport, LA	420,259	1	11,000
Dayton, OH	205,761	1	8,803
West Allis, WI	241,977	4	9,900
Loudon, TN	104,000	1	5,375
Garland, TX	164,914	1	7,600
Laurens, SC	125,000	1	5,535
Lancaster, PA	240,529	1	9,350
Grand Rapids, MI	301,317	1	9,400
Burlington, NJ	1,048,631	1	61,500
Three months ended December 31, 2015	3,057,668	14	138,086
Year ended December 31, 2015	8,691,852	49	$ 427,263

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The following table summarizes the allocation of the consideration paid at the date of acquisition during the years ended December 31, 2016 and December 31, 2015, respectively, for the acquired assets and liabilities in connection with the acquisitions identified in the tables above.

	Year ended December 31, 2016		Year ended December 31, 2015	
Acquired Assets and Liabilities	Purchase price (in thousands)	Weighted average amortization period (years) of intangibles at acquisition	Purchase price (in thousands)	Weighted average amortization period (years) of intangibles at acquisition
Land	$59,630	N/A	$45,117	N/A
Buildings	283,758	N/A	256,970	N/A
Tenant improvements	8,670	N/A	7,705	N/A
Building and land improvements	29,073	N/A	20,712	N/A
Deferred leasing intangibles - In-place leases	62,533	8.2	58,109	5.6
Deferred leasing intangibles - Tenant relationships	30,446	10.4	31,390	8.0
Deferred leasing intangibles - Above market leases	10,576	9.2	11,135	7.3
Deferred leasing intangibles - Below market leases	(12,971)	8.5	(4,022)	5.2
Above market assumed debt adjustment	(75)	7.2	(418)	1.4
Other assets	158	N/A	565	N/A
Total purchase price	471,798		427,263	
Less: Mortgage notes assumed	(4,037)		(26,267)	
Less: Contingent consideration	—		(300)[1]	
Net assets acquired	$467,761		$400,696	

(1) In connection with the acquisition of the property located in West Allis, WI, the Company withheld $0.3 million that was otherwise due and payable to the seller. Under the terms of the purchase and sale agreement, the Company will pay the full amount to the seller by December 4, 2020, subject to the performance of the tenant under the in-place lease agreement.

On September 29, 2016, the Company assumed a mortgage note of approximately $4.0 million in connection with the acquisition of the property located in Rock Hill, SC. On September 29, 2015, the Company assumed a mortgage note of approximately $5.7 million in connection with the acquisition of the property located in Conyers, GA. On June 25, 2015, the Company assumed a mortgage note of approximately $4.9 million in connection with the acquisition of the property located in Charlotte, NC. For a discussion of the method used to determine the fair value of the mortgage notes, see Note 4.

On January 22, 2015, the Company acquired a property located in Burlington, NJ for approximately $34.9 million. As consideration for the property acquired, the Company (i) granted 812,676 Other Common Units with a fair value of approximately $21.9 million, (ii) paid approximately $1.2 million in cash, (iii) and assumed an approximately $11.8 million mortgage note. The mortgage note was paid in full immediately subsequent to the acquisition. On December 11, 2015, the Company acquired a property located in Laurens, SC for approximately $5.5 million. As consideration for the property acquired, the Company (i) granted 51,607 Other Common Units with a fair value of approximately $1.0 million, (ii) paid approximately $0.6 million in cash, (iii) and assumed an approximately $3.9 million mortgage note. The mortgage note was paid in full immediately subsequent to the acquisition. For a discussion of the method used to determine the fair value of the Other Common Units issued, see Note 7.

The table below sets forth the results of operations for the years ended December 31, 2016 and December 31, 2015 for the properties acquired during the years ended December 31, 2016 and December 31, 2015, respectively, included in the Company's Consolidated Statements of Operations from the date of acquisition.

Results of Operations (in thousands)	Year ended December 31, 2016	Year ended December 31, 2015
Revenue	$ 13,105	$ 17,879
Property acquisition costs	$ 4,386	$ 4,382
Net loss	$ 3,560	$ 3,052

The following tables set forth pro forma information for the years ended December 31, 2016 and December 31, 2015. The below pro forma information does not purport to represent what the actual results of operations of the Company would have been had the acquisitions outlined above occurred on the first day of the applicable reporting period, nor do they purport to predict the results of operations of future periods. The pro forma information has not been adjusted for property sales.

Pro Forma (in thousands) (1)	Year ended December 31, 2016	
Total revenue	$ 277,811	
Net income	$ 46,139	(2)
Net income attributable to common stockholders	$ 30,269	

Pro Forma (in thousands) (3)	Year ended December 31, 2015	
Total revenue	$ 282,235	
Net loss	$ 42,617	(2)
Net loss attributable to common stockholders	$ 53,850	

(1) The unaudited pro forma information for the year ended December 31, 2016 is presented as if the properties acquired during the year ended December 31, 2016 had occurred at January 1, 2015, the beginning of the reporting period prior to acquisition.

(2) The net loss for the year ended December 31, 2016 excludes approximately $4.4 million of property acquisition costs related to the acquisition of buildings that closed during the year ended December 31, 2016, and the net loss for the year ended December 31, 2015 was adjusted to include these acquisition costs. Net loss for the year ended December 31, 2015 excludes approximately $4.4 million of property acquisition costs related to the acquisition of buildings that closed during the year ended December 31, 2015.

(3) The unaudited pro forma information for the year ended December 31, 2015 is presented as if the properties acquired during the year ended December 31, 2016 and the properties acquired during the year ended December 31, 2015 had occurred at January 1, 2015 and January 1, 2014, respectively, the beginning of the reporting period prior to acquisition.

Dispositions

During the year ended December 31, 2016, the Company sold 24 buildings comprised of approximately 4.2 million square feet with a net book value of approximately $90.3 million to third parties. These buildings contributed approximately $11.2 million to revenue (exclusive of termination income and acceleration of straight line rent) and approximately $1.3 million to net income (exclusive of termination income, acceleration of straight line rent, loss on impairments, loss on extinguishment of debt, and gain on the sales of rental property, net) for the year ended December 31, 2016. Net proceeds from the sales of rental property were approximately $152.1 million and the Company recognized a gain on the sales of rental property, net of approximately $61.8 million for the year ended December 31, 2016. All of the dispositions were accounted for under the full accrual method.

During the year ended December 31, 2015, the Company sold six buildings comprised of approximately 0.8 million square feet with a net book value of approximately $17.2 million to third parties. These buildings contributed approximately $2.0 million to revenue (exclusive of termination income and acceleration of straight line rent and above market rent) and approximately $0.8 million to net income (exclusive of loss on impairments, gain on the sales of rental property, net, termination income, and acceleration of straight line rent and lease intangibles) for the year

ended December 31, 2015. Net proceeds from the sales of rental property were approximately $22.2 million and the Company recognized a gain on the sales of rental property, net of approximately $5.0 million for the year ended December 31, 2015. All of the dispositions were accounted for under the full accrual method.

During the year ended December 31, 2014, the Company sold four buildings comprised of approximately 0.4 million square feet with a net book value of approximately $10.2 million to third parties. These buildings contributed approximately $1.2 million to revenue (exclusive of termination income and acceleration of straight line rent and above market rent) and approximately $0.2 million to net income (exclusive of gain on the sales of rental property, net, loss on impairments, termination income and acceleration of straight line rent and above market rent) for the year ended December 31, 2014. Net proceeds from the sales of rental property were approximately $13.0 million and the Company recognized a gain on the sales of rental property, net of approximately $2.8 million for the year ended December 31, 2014. All of the dispositions were accounted for under the full accrual method.

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Loss on Impairments

The Company regularly reviews its portfolio and identifies properties for potential disposition. The Company reviews its current properties for disposition to realize value created in the portfolio and enhance the quality of the portfolio by disposing of underperforming assets. As a result of this regular review, several properties were tested for impairment due to the change in the Company's estimated hold period of those properties.

The following table summarizes the Company's loss on impairments for assets held and used during the year ended December 31, 2016.

Property Location	Buildings	Event or Change in Circumstance Leading to Impairment Evaluation[1]		Valuation technique utilized to estimate fair value		Fair Value[2] (in thousands)	Loss on Impairments
Fairfield, VA	1	Change in estimated hold period	(3)	Executed purchase and sale agreement			
Jackson, MS	1	Change in estimated hold period	(3)	Executed purchase and sale agreement			
Jackson, MS	1	Change in estimated hold period	(3)	Executed purchase and sale agreement			
Mishawaka, IN	1	Market leasing conditions	(3)	Discounted cash flows	(4)		
Newark, DE	1	Market leasing conditions		Discounted cash flows	(4)		
Seville, OH	2	Market leasing conditions		Discounted cash flows	(4)		
Sparks, MD	2	Change in estimated hold period		Discounted cash flows	(4)		
Three months ended June 30, 2016						$10,598	$ 11,231
Boardman, OH	1	Change in estimated hold period		Discounted cash flows	(5)		
Holland, MI	1	Change in estimated hold period	(3)	Discounted cash flows	(5)		
Pensacola, FL	1	Change in estimated hold period	(3)	Discounted cash flows	(5)		
Three months ended December 31, 2016						$4,360	$ 5,614
Year ended December 31, 2016						$14,958	$ 16,845

(1) The Company tested the asset group for impairment utilizing a probability weighted recovery analysis of certain scenarios, and it was determined that the carrying value of the property and intangibles were not recoverable from the estimated future undiscounted cash flows.
(2) The estimated fair value of the property is based on Level 3 inputs and is a non-recurring fair value measurement.
(3) This property was sold during the year ended December 31, 2016.
(4) Level 3 inputs used to determine fair value for the properties impaired for the three months ended June 30, 2016: discount rates ranged from 8.5% to 13.0% and exit capitalization rates ranged from 8.5% to 12.0%.
(5) Level 3 inputs used to determine fair value for the properties impaired for the three months ended December 31, 2016: discount rate of 12.0% and exit capitalization rates ranging from 10.0% to 12.0%.

The following table summarizes the Company's loss on impairments for assets held and used during the year ended December 31, 2015.

Property Location	Buildings	Event or Change in Circumstance Leading to Impairment Evaluation[1]		Valuation technique utilized to estimate fair value		Fair Value[2]	Loss on Impairments
						(in thousands)	
Hazelwood, MO	1	Change in estimated hold period	(3)	Executed purchase and sale agreement			
Three months ended June 30, 2015						$4,400	$ 2,645
Canton, OH	1	Change in estimated hold period	(4)	Discounted cash flows	(5)		
Jefferson, NC	1	Change in estimated hold period	(3)	Market transactions for comparable properties			
Milwaukee, WI	1	Change in estimated hold period	(3)	Market transactions for comparable properties			
Three months ended September 30, 2015						6,515	5,733
Canton, OH	1	Change in estimated hold period	(6)	Market transactions for comparable properties	(7)		
Cincinnati, OH	1	Change in estimated hold period		Discounted cash flows	(8)		
Dayton, OH	1	Change in estimated hold period	(6)	Discounted cash flows	(8)		
Gloversville, NY	1	Change in estimated hold period	(6)	Discounted cash flows	(8)		
Jackson, MS	1	Change in estimated hold period	(6)	Discounted cash flows	(8)		
Jackson, MS	1	Change in estimated hold period	(6)	Discounted cash flows	(8)		
Rapid City, SD	1	Change in estimated hold period		Discounted cash flows	(8)		
Sergeant Bluff, IA	1	Change in estimated hold period		Discounted cash flows	(8)		
Sparks, MD	2	Change in estimated hold period		Discounted cash flows	(8)		
Three months ended December 31, 2015						22,238	20,894
Year ended December 31, 2015						$33,153	$ 29,272

(1) The Company tested the asset group for impairment utilizing a probability weighted recovery analysis of certain scenarios, and it was determined that the carrying value of the property and intangibles were not recoverable from the estimated future undiscounted cash flows.
(2) The estimated fair value of the property is based on Level 3 inputs and is a non-recurring fair value measurement.
(3) This property was sold during the year ended December 31, 2015.
(4) The letter of intent for the property included various contingencies, and was terminated subsequent to September 30, 2015.
(5) Level 3 inputs used to determine fair value: discount rate of 9.0% and exit capitalization rate of 12.0%
(6) This property was sold during the year ended December 31, 2016.
(7) The future cash flows of the existing building were not estimated to generate a net positive cash flow. Accordingly, the property was valued at its highest and best use as a vacant/developable land parcel. Market transactions for comparable properties were utilized to estimate a land value. Estimated fair market value of the property represents the land value, less estimated expense of demolition of the building, plus estimated salvage value.
(8) Level 3 inputs used to determine fair value for the properties impaired for the three months ended December 31, 2015: discount rates ranged from 8.5% to 16.0% and exit capitalization rates ranged from 8.0% to 14.0%.

On October 29, 2014, the Company entered into a lease termination agreement with the tenant located at the Tavares, FL property. The agreement provided that the tenant's lease termination was contingent upon the sale of the property and required the tenant to pay a termination fee of approximately $2.4 million, including reimbursement of costs related to the sale of the property. The tenant's termination, which was effective December 30, 2014, triggered the Company to test the property for impairment. The Company tested the asset group for impairment utilizing a probability weighted recovery analysis of certain scenarios, and it was determined that the carrying value of the property and intangibles were not recoverable from the estimated future undiscounted cash flows. Accordingly, the property was written down to its estimated fair value of approximately $2.5 million based on pricing obtained from third party market participants and the Company recorded an impairment loss of approximately $2.8 million. This loss was recorded in loss on impairments on the accompanying Consolidated Statements of Operations for the three months ended December 31, 2014. The fair value of the property is based on Level 3 inputs and this is a non-recurring fair value measurement.

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Involuntary Conversion

On September 1, 2016 the Company had an involuntary conversion event, and the Company recorded an estimated loss on involuntary conversion of approximately $2.8 million for the year ended December 31, 2016. The Company's insurance policy provides coverage for these losses, and accordingly the loss on involuntary conversion was fully offset by the expected insurance proceeds. As of December 31, 2016, the remaining proceeds receivable from the insurance company are estimated to be approximately $1.4 million, which are included in prepaid expenses and other assets on the accompanying Consolidated Balance Sheets.

Deferred Leasing Intangibles

The following table summarizes the deferred leasing intangibles on the accompanying Consolidated Balance Sheets as of December 31, 2016 and December 31, 2015.

	December 31, 2016			December 31, 2015		
Deferred Leasing Intangibles (in thousands)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Above market leases	$70,668	$ (32,868)	$37,800	$69,815	$ (31,554)	$38,261
Other intangible lease assets	461,321	(204,588)	256,733	407,215	(169,204)	238,011
Total deferred leasing intangible assets	$531,989	$ (237,456)	$294,533	$477,030	$ (200,758)	$276,272
Below market leases	$30,791	$ (10,450)	$20,341	$19,923	$ (8,536)	$11,387
Total deferred leasing intangible liabilities	$30,791	$ (10,450)	$20,341	$19,923	$ (8,536)	$11,387

The following table sets forth the amortization expense and the net decrease to rental income for the amortization of deferred leasing intangibles during the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

	Year ended December 31,		
Deferred Leasing Intangibles Amortization (in thousands)	2016	2015	2014
Net decrease to rental income related to above and below market lease amortization	$ 6,213	$ 8,526	$ 6,254
Amortization expense related to other intangible lease assets	$ 66,291	$ 60,834	$ 50,319

The following table sets forth the amortization of deferred leasing intangibles over the next five years as of December 31, 2016.

Year	Amortization Expense Related to Other	Net Decrease to Rental Income Related to

	Intangible Lease Assets (in thousands)	Above and Below Market Lease Amortization (in thousands)
2017	$ 63,474	$ 4,514
2018	$ 50,375	$ 3,383
2019	$ 38,258	$ 2,813
2020	$ 29,681	$ 2,402
2021	$ 20,915	$ 1,288

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4. Debt

The following table sets forth a summary of the Company's outstanding indebtedness, including borrowings under the Company's unsecured credit facility, unsecured term loans, unsecured notes and mortgage notes as of December 31, 2016 and December 31, 2015.

Loan	Principal outstanding as of December 31, 2016 (in thousands)	Principal outstanding as of December 31, 2015 (in thousands)	Interest Rate [1]	Current Maturity	Prepayment Terms [2]
Unsecured credit facility:					
Unsecured Credit Facility [3]	$ 28,000	$ 56,000	L + 1.15%	Dec-18-2019	i
Total unsecured credit facility	28,000	56,000			
Unsecured term loans:					
Unsecured Term Loan C	150,000	—	L + 1.30%	Sep-29-2020	i
Unsecured Term Loan B	150,000	150,000	L + 1.30%	Mar-21-2021	i
Unsecured Term Loan A	150,000	150,000	L + 1.30%	Mar-31-2022	i
Total unsecured term loans	450,000	300,000			
Less: Total unamortized deferred financing fees and debt issuance costs	(3,392)	(3,382)			
Total carrying value unsecured term loans	446,608	296,618			
Unsecured notes:					
Series F Unsecured Notes	100,000	100,000	3.98 %	Jan-05-2023	ii
Series A Unsecured Notes	50,000	50,000	4.98 %	Oct-1-2024	ii
Series D Unsecured Notes	100,000	100,000	4.32 %	Feb-20-2025	ii
Series B Unsecured Notes	50,000	50,000	4.98 %	Jul-1-2026	ii
Series C Unsecured Notes	80,000	80,000	4.42 %	Dec-30-2026	ii
Series E Unsecured Notes	20,000	20,000	4.42 %	Feb-20-2027	ii
Total unsecured notes	400,000	400,000			
Less: Total unamortized deferred financing fees and debt issuance costs	(2,034)	(2,280)			
Total carrying value unsecured notes	397,966	397,720			
Mortgage notes (secured debt):					
Sun Life Assurance Company of Canada (U.S.)	—	3,229	6.05 %	Jun-1-2016	iii
Webster Bank, National Association	—	5,513	4.22 %	Aug-4-2016	iii
National Life Insurance Company	—	4,775	5.75 %	Aug-10-2016	iii

Union Fidelity Life Insurance Co.	5,384	5,754	5.81	%	Apr-30-2017	iv
Principal Life Insurance Company	—	5,676	5.73	%	May-05-2017	iii
Webster Bank, National Association	2,853	2,945	3.66	%	May-29-2017	iii
Webster Bank, National Association	3,073	3,172	3.64	%	May-31-2017	iii
Wells Fargo, National Association	4,043	4,115	5.90	%	Aug-1-2017	v
Connecticut General Life Insurance Company -1 Facility	35,320	57,171	6.50	%	Feb-1-2018	vi
Connecticut General Life Insurance Company -2 Facility	36,892	58,085	5.75	%	Feb-1-2018	vi
Connecticut General Life Insurance Company -3 Facility	16,141	16,401	5.88	%	Feb-1-2018	vi
Wells Fargo, National Association CMBS Loan	56,608	63,897	4.31	%	Dec-1-2022	vii
Thrivent Financial for Lutherans	4,012	—	4.78	%	Dec-15-2023	iii
Total mortgage notes	164,326	230,733				
Total unamortized fair market value premiums	112	447				
Less: Total unamortized deferred financing fees and debt issuance costs	(873)	(1,270)				
Total carrying value mortgage notes	163,565	229,910				
Total / weighted average interest rate (4)	$ 1,036,139	$ 980,248	3.75	%		

(1) Current interest rate as of December 31, 2016. At December 31, 2016 and December 31, 2015, the one-month LIBOR ("L") was 0.77167% and 0.42950%, respectively. The current interest rate is not adjusted to include the amortization of deferred financing fees or debt issuance costs incurred in obtaining debt or any unamortized fair market value premiums.

(2) Prepayment terms consist of (i) pre-payable with no penalty; (ii) pre-payable with penalty; (iii) pre-payable without penalty three months prior to the maturity date; (iv) pre-payable without penalty two months prior to the maturity date; (v) pre-payable without penalty three months prior to the maturity date; however, can be defeased; (vi) pre-payable without penalty six months prior to the maturity date; and (vii) pre-payable without penalty three months prior to the maturity date; however, can be defeased beginning January 1, 2016.

(3) The capacity of the unsecured credit facility is currently $450.0 million.

(4) The weighted average interest rate was calculated using the fixed interest rate swapped on the current notional amount of $450.0 million of debt, and is not adjusted to include the amortization of deferred financing fees or debt issuance costs incurred in obtaining debt or any unamortized fair market value premiums.

The aggregate undrawn nominal commitments on the unsecured credit facility as of December 31, 2016 was approximately $418.5 million, including issued letters of credit. The Company's actual borrowing capacity at any given point in time may be less and is

restricted to a maximum amount based on the Company's debt covenant compliance. Total accrued interest for the Company's indebtedness was approximately $5.7 million and $3.8 million as of December 31, 2016 and December 31, 2015, respectively, and is included in accounts payable, accrued expenses and other liabilities on the accompanying Consolidated Balance Sheets.

Deferred financing fees and debt issuance costs, net of accumulated amortization included in prepaid expenses and other assets on the accompanying Consolidated Balance Sheets were approximately $2.3 million and $3.0 million as of December 31, 2016 and December 31, 2015, respectively. Deferred financing fees and debt issuance costs, net of accumulated amortization included as a direct deduction from the related debt liability on the accompanying Consolidated Balance Sheets were approximately $6.3 million and $6.9 million as of December 31, 2016 and December 31, 2015, respectively. For the years ended December 31, 2016, December 31, 2015, and December 31, 2014, amortization of deferred financing fees and debt issuance costs included in interest expense in the accompanying Consolidated Statements of Operations was approximately $1.9 million, $1.5 million and $1.3 million, respectively. Also included in interest expense is approximately $1.0 million, $0.7 million, and $0.1 million of facility fees related to the Company's unsecured credit facility for the years ended December 31, 2016, December 31, 2015, and December 31, 2014, respectively.

2016 Debt Activity

On December 29, 2016, the Company drew the unsecured term loan with Wells Fargo, National Association and other lenders ("Unsecured Term Loan C") in the amount of $150.0 million. The Company incurred approximately $0.3 million and $26,000 in unused fees related to the Unsecured Term Loan C for the years ended December 31, 2016 and December 31, 2015, respectively.

On December 20, 2016, the Company amended and restated the unsecured term loans with Wells Fargo, National Association and other lenders ("Unsecured Term Loan A" and "Unsecured Term Loan B"). The transaction reduced the spread over the applicable rate, which is based on the Company's consolidated leverage ratio, as defined in the loan agreement, with no changes to maturity dates or other material terms of the loan. The spread over the LIBOR for the Unsecured Term Loan A was reduced from 1.65% to 1.30%, and the spread over the LIBOR for the Unsecured Term Loan B was reduced from 1.70% to 1.30%, assuming the most recently reported consolidated leverage ratios.

On December 8, 2016, the mortgage note held with Connecticut General Life Insurance Company (Facility 2) was partially paid in the amount of approximately $3.6 million in connection with the sale of the Georgetown, KY property, which had served as partial collateral for the mortgage note. The prepayment fees and associated unamortized deferred financing fees and debt issuance costs of approximately $0.1 million were written off to loss on extinguishment of debt in the accompanying Consolidated Statements of Operations during the year ended December 31, 2016.

On November 14, 2016, the mortgage note held with Connecticut General Life Insurance Company (Facility 2) was partially paid in the amount of approximately $6.2 million in connection with the sale of the Conyers, GA property, which had served as partial collateral for the mortgage note. The prepayment fees and associated unamortized deferred financing fees and debt issuance costs of approximately $0.2 million were written off to loss on extinguishment of debt in the accompanying Consolidated Statements of Operations during the year ended December 31, 2016.

On November 14, 2016, the mortgage note held with Connecticut General Life Insurance Company (Facility 1) was partially paid in the amount of approximately $21.0 million in connection with the sale of the Charlotte, NC property,

which had served as partial collateral for the mortgage note. The prepayment fees and associated unamortized deferred financing fees and debt issuance costs of approximately $0.9 million were written off to loss on extinguishment of debt in the accompanying Consolidated Statements of Operations during the year ended December 31, 2016.

On November 14, 2016, the mortgage note held with Principal Life Insurance Company, for which the property located in Conyers, GA served as collateral for the mortgage note, was paid in full. The prepayment fees and associated unamortized deferred financing fees and debt issuance costs of approximately $0.1 million were written off to loss on extinguishment of debt in the accompanying Consolidated Statements of Operations during the year ended December 31, 2016.

On September 29, 2016, the Company assumed a mortgage note held with Thrivent Financial for Lutherans of approximately $4.0 million in connection with the acquisition of the property located in Rock Hill, SC, which serves as collateral for the debt. The debt matures on December 15, 2023 and bears interest at 4.78% per annum. The assumed debt was recorded at fair value and a fair value premium of approximately $0.1 million was recorded. The fair value of debt was determined by discounting the future

cash flows using the then current rate of approximately 4.45% at which loans would be made to borrowers with similar credit ratings for loans with similar remaining maturities, similar terms, and similar loan-to-value ratios. The fair value of the debt is based on Level 3 inputs and is a nonrecurring fair value measurement.

On June 22, 2016, the mortgage note held with Wells Fargo, National Association (CMBS loan) was partially defeased in the amount of approximately $1.5 million in connection with the sale of the Gloversville, NY property, which had served as partial collateral for the mortgage note. The associated defeasance fees and unamortized deferred financing fees and debt issuance costs of approximately $0.3 million were written off to loss on extinguishment of debt in the accompanying Consolidated Statement of Operations for the year ended December 31, 2016.

On May 18, 2016, the mortgage note held with National Life Insurance Company, for which the property located in Charlotte, NC served as collateral, was paid in full.

On May 5, 2016, the mortgage note held with Webster Bank, National Association, for which the property located in Norton, MA served as collateral, was paid in full.

On April 26, 2016, the mortgage note held with Wells Fargo, National Association (CMBS loan) was partially defeased in the
amount of approximately $1.7 million in connection with the sale of the Parsons, KS property, which had served as partial collateral for the mortgage note. The associated defeasance fees and unamortized deferred financing fees and debt issuance costs of approximately $0.2 million were written off to loss on extinguishment of debt in the accompanying Consolidated Statement of Operations for the year ended December 31, 2016.

On April 26, 2016, the mortgage note held with Wells Fargo, National Association (CMBS loan) was partially defeased in the
amount of approximately $1.8 million in connection with the sale of the Kansas City, KS property, which had served as partial collateral for the mortgage note. The associated defeasance fees and unamortized deferred financing fees and debt issuance costs of approximately $0.3 million were written off to loss on extinguishment of debt in the accompanying Consolidated Statement of Operations for the year ended December 31, 2016.

On March 17, 2016, the mortgage note held with Connecticut General Life Insurance Company (Facility 2) was partially paid in the amount of approximately $10.5 million in connection with the sale of the Gresham, OR property, which had served as partial collateral for the mortgage note. The prepayment fees and associated unamortized deferred financing fees and debt issuance costs of approximately $0.9 million were written off to loss on extinguishment of debt in the accompanying Consolidated Statement of Operations during the year ended December 31, 2016.

On March 3, 2016, the mortgage note held with Wells Fargo, National Association (CMBS loan) was partially defeased in the amount of approximately $1.2 million in connection with the sale of the Wichita, KS property, which had served as partial collateral for the mortgage note. The associated defeasance fees and unamortized deferred financing fees and debt issuance costs of approximately $0.2 million were written off to loss on extinguishment of debt in the accompanying Consolidated Statement of Operations during the year ended December 31, 2016.

On March 1, 2016 the mortgage note held with Sun Life Assurance Company of Canada (U.S.), for which the property located in Gahanna, OH served as collateral, was paid in full.

2015 Debt Activity

On January 22, 2015, the Company assumed a mortgage note of approximately $11.8 million in connection with the acquisition of the Burlington, NJ property. The mortgage note was paid in full immediately subsequent to the acquisition.

On February 20, 2015, the Company issued $100 million of its 4.32% Series D 10-year unsecured notes ("Series D Unsecured Notes") and $20 million of its 4.42% Series E 12-year unsecured notes ("Series E Unsecured Notes").

On June 25, 2015, the Company assumed a mortgage note with National Life Insurance Company of approximately $4.9 million in connection with the acquisition of the property located in Charlotte, NC, which serves as collateral for the debt. The debt matures on August 10, 2016 and bears interest at 5.75% per annum. The assumed debt was recorded at fair value and a fair value premium of approximately $0.1 million was recorded. The fair value of debt was determined by discounting the future cash flows using the then current rate of approximately 3.05% at which loans would be made to borrowers with similar credit ratings for loans with

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similar remaining maturities, similar terms, and similar loan-to-value ratios. The fair value of the debt is based on Level 3 inputs and is a non-recurring fair value measurement.

On September 29, 2015, the Company assumed a mortgage note with Principal Life Insurance Company of approximately $5.7 million in connection with the acquisition of the property located in Conyers, GA, which serves as collateral for the debt. The debt matures on May 5, 2017 and bears interest at 5.73% per annum. The assumed debt was recorded at fair value and a fair value premium of approximately $0.3 million was recorded. The fair value of debt was determined by discounting the future cash flows using the then current rate of approximately 2.64% at which loans would be made to borrowers with similar credit ratings for loans with similar remaining maturities, similar terms, and similar loan-to-value ratios. The fair value of the debt is based on Level 3 inputs and is a non-recurring fair value measurement.

On September 29, 2015, the Company entered into an amendment to the current unsecured credit facility with Wells Fargo, N.A. ("Unsecured Credit Facility") to increase the capacity thereunder to $450.0 million. Additionally, the accordion feature that allows the Company to request an increase in the aggregate commitments (subject to satisfaction of conditions and lender consent) was increased, such that if the accordion were exercised in full, total capacity would be $800.0 million. The material terms of the agreement, including the financial covenants, were unchanged. The Company incurred approximately $1.0 million in deferred financing fees, which are amortized over the remaining term of the Unsecured Credit Facility.

On September 29, 2015, the Company closed the $150.0 million Unsecured Term Loan C with the following terms.

Applicable Terms	Unsecured Term Loan C
Maturity Date:	Sep-29-2020
Eurodollar Rate[(1)]:	L + 130.0 bps - 190.0 bps
Base Rate[(1)]:	Base rate + 30.0 bps - 90.0 bps
Unused Fees[(2)]:	17.5 bps
Annual Fee:	$50,000

(1) The spread over the applicable rate is currently based on the Company's consolidated leverage ratio, as defined in the loan agreement.

(2) The unused fees began to accrue on November 29, 2015 and were due and payable monthly until all commitments were drawn.

The Unsecured Term Loan C has an accordion feature that allows the Company to increase its borrowing capacity to $250.0 million, subject to the satisfaction of certain conditions and lender consents. The Company incurred $1.0 million in deferred financing fees associated with the closing of the Unsecured Term Loan C, which are amortized over its five year term. The agreement includes a delayed draw feature that allowed the Company to draw up to six advances of at least $25.0 million each. As noted above, the Company drew the full $150.0 million of the Unsecured Term Loan C on December 29, 2016. The Company and certain wholly owned subsidiaries of the Operating Partnership are guarantors of the Unsecured Term Loan C. The agreement also contains financial covenants substantially similar to the financial covenants in the Unsecured Credit Facility.

On December 1, 2015, the Company entered into a Note Purchase Agreement (“NPA”) for a $100.0 million private placement by the Operating Partnership of $100.0 million senior unsecured notes (“Series F Unsecured Notes”). Pursuant to the NPA, borrowings under the Series F Unsecured Notes bear interest at a fixed rate of 3.98%. The Series F Unsecured Notes were issued on December 15, 2015. Upon all the funds being drawn, the Company paid a placement fee equal to 0.50% of the principal amount of the securities purchased by investors. The Company and

certain wholly owned subsidiaries of the Operating Partnership are guarantors of the Series F Unsecured Note and the obligations under the Series F Unsecured Notes rank pari passu to the Company's unsecured senior indebtedness, which includes the Wells Fargo Unsecured Credit Facility and unsecured term loans. The Company incurred approximately $0.6 million in deferred financing fees associated with the Series F Unsecured Notes, which are amortized over the seven year term.

On December 1, 2015, the Company amended the terms of the NPAs entered into on April 16, 2014 and December 18, 2014. The second amendment to the April 16, 2014 NPA and the first amendment to the December 18, 2014 NPA amended certain provisions to conform them to the provisions in the NPA entered into on December 1, 2015.

On December 11, 2015, the Company assumed a mortgage note of approximately $3.9 million in connection with the acquisition of the Laurens, SC property. The mortgage note was paid in full immediately subsequent to the acquisition.

On December 16, 2015, the Company drew the Unsecured Term Loan B in the amount of $150.0 million.

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Financial Covenant Considerations

The Company’s ability to borrow under the unsecured credit facility, unsecured term loans, and unsecured notes are subject to its ongoing compliance with a number of customary financial covenants, including:

- a maximum consolidated leverage ratio of not greater than 0.60:1.00;
- a maximum secured leverage ratio of not greater than 0.40:1.00;
- a maximum unencumbered leverage ratio of not greater than 0.60:1.00;
- a maximum secured recourse debt level of not greater than 0.075:1.00;
- a minimum fixed charge ratio of not less than 1.50:1.00;
- a minimum unsecured interest coverage ratio of not less than 1.75:1.00; and
- a minimum tangible net worth covenant test.

The unsecured notes are also subject to a minimum interest coverage ratio of not less than 1.50:1.00. The Company was in compliance with all such applicable restrictions and financial covenants as of December 31, 2016 and December 31, 2015. In the event of a default under the unsecured credit facility or the unsecured term loans, the Company’s dividend distributions are limited to the minimum amount necessary for the Company to maintain its status as a REIT.

Each of the Company’s mortgage notes has specific properties and assignments of rents and leases that are collateral for these loans. These debt facilities contain certain financial and other covenants. The Company was in compliance with all such applicable restrictions and financial covenants as of December 31, 2016 and December 31, 2015. The real estate net book value of the properties that are collateral for the Company’s mortgage notes was approximately $229.9 million and $268.8 million at December 31, 2016 and December 31, 2015, respectively, and is limited to senior, property-level secured debt financing arrangements. The 17 properties held as collateral for the facilities with Connecticut General Life Insurance Company are cross-defaulted and cross-collateralized among the respective facilities.

Fair Value of Debt

The fair value of the Company’s debt is determined by discounting the future cash flows using the current rates at which loans would be made to borrowers with similar credit ratings for loans with similar remaining maturities, similar terms, and similar loan-to-value ratios. The discount rates ranged from approximately 1.92% to 4.85% and 1.58% to 4.82% at December 31, 2016 and December 31, 2015, respectively, and were applied to each individual debt instrument. The applicable fair value guidance establishes a three tier value hierarchy, which prioritizes the inputs used in measuring fair value. The fair value of the Company’s debt is based on Level 3 inputs. The following table presents the aggregate principal outstanding of the Company’s debt and the corresponding estimate of fair value as of December 31, 2016 and December 31, 2015 (in thousands).

	December 31, 2016		December 31, 2015	
	Principal Outstanding	Fair Value	Principal Outstanding	Fair Value
Unsecured credit facility	$28,000	$28,000	$56,000	$56,000
Unsecured term loans	450,000	450,000	300,000	303,457
Unsecured notes	400,000	399,091	400,000	392,054
Mortgage notes	164,326	166,099	230,733	237,327
Total principal amount	1,042,326	$1,043,190	986,733	$988,838
Add: Total unamortized fair market value premiums	112		447	
Less: Total unamortized deferred financing fees and debt issuance costs	(6,299)		(6,932)	
Total carrying value	$1,036,139		$980,248	

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Future Principal Payments of Debt

The following table reflects the Company's aggregate future principal payments of the Company's debt at December 31, 2016.

Year	Future Principal Payments of Debt (in thousands)
2017	$ 18,737
2018	88,578
2019	29,926
2020	152,006
2021	152,103
Thereafter	600,976
Total aggregate principal payments	1,042,326
Total unamortized fair market value premiums	112
Less: Total unamortized deferred financing fees and debt issuance costs	(6,299)
Total carrying value	$ 1,036,139

5. Use of Derivative Financial Instruments

Risk Management Objective of Using Derivatives

The Company's use of derivative instruments is limited to the utilization of interest rate swaps to manage interest rate risk exposure on existing and future liabilities and not for speculative purposes. The principal objective of such arrangements is to minimize the risks and related costs associated with the Company's operating and financial structure.

The following table details the Company's outstanding interest rate swaps as of December 31, 2016.

Interest Rate Derivative Counterparty	Trade Date	Effective Date	Notional Amount (in thousands)	Fair Value (in thousands)	Pay Fixed Interest Rate	Receive Variable Interest Rate	Maturity Date
PNC Bank, N.A.	Sep-14-2012	Oct-10-2012	$ 10,000	$ 6	0.7945 %	One-month L	Sep-10-2017
Bank of America, N.A.	Sep-14-2012	Oct-10-2012	$ 10,000	$ 6	0.7945 %	One-month L	Sep-10-2017
UBS AG	Sep-14-2012	Oct-10-2012	$ 10,000	$ 6	0.7945 %	One-month L	Sep-10-2017
Royal Bank of Canada	Sep-14-2012	Oct-10-2012	$ 10,000	$ 6	0.7945 %	One-month L	Sep-10-2017
RJ Capital Services, Inc.	Sep-14-2012	Oct-10-2012	$ 10,000	$ 5	0.7975 %	One-month L	Sep-10-2017
Bank of America, N.A.	Sep-20-2012	Oct-10-2012	$ 25,000	$ 21	0.7525 %	One-month L	Sep-10-2017
RJ Capital Services, Inc.	Sep-24-2012	Oct-10-2012	$ 25,000	$ 26	0.7270 %	One-month L	Sep-10-2017
Regions Bank	Mar-01-2013	Mar-01-2013	$ 25,000	$ 131	1.3300 %	One-month L	Feb-14-2020
Capital One, N.A.	Jun-13-2013	Jul-01-2013	$ 50,000	$ (274)	1.6810 %	One-month L	Feb-14-2020
Capital One, N.A.	Jun-13-2013	Aug-01-2013	$ 25,000	$ (154)	1.7030 %	One-month L	Feb-14-2020
Regions Bank	Sep-30-2013	Feb-03-2014	$ 25,000	$ (378)	1.9925 %	One-month L	Feb-14-2020
The Toronto-Dominion Bank	Oct-14-2015	Sep-29-2016	$ 25,000	$ 217	1.3830 %	One-month L	Sep-29-2020

PNC Bank, N.A.	Oct-14-2015	Sep-29-2016	$ 50,000	$ 421	1.3906 %	One-month L	Sep-29-2020
Regions Bank	Oct-14-2015	Sep-29-2016	$ 35,000	$ 292	1.3858 %	One-month L	Sep-29-2020
U.S. Bank, N.A.	Oct-14-2015	Sep-29-2016	$ 25,000	$ 207	1.3950 %	One-month L	Sep-29-2020
Capital One, N.A.	Oct-14-2015	Sep-29-2016	$ 15,000	$ 123	1.3950 %	One-month L	Sep-29-2020
Royal Bank of Canada	Jan-08-2015	Mar-20-2015	$ 25,000	$ (16)	1.7090 %	One-month L	Mar-21-2021
The Toronto-Dominion Bank	Jan-08-2015	Mar-20-2015	$ 25,000	$ (18)	1.7105 %	One-month L	Mar-21-2021
The Toronto-Dominion Bank	Jan-08-2015	Sep-10-2017	$ 100,000	$ (1,240)	2.2255 %	One-month L	Mar-21-2021
Wells Fargo, N.A.	Jan-08-2015	Mar-20-2015	$ 25,000	$ 4	1.8280 %	One-month L	Mar-31-2022
The Toronto-Dominion Bank	Jan-08-2015	Feb-14-2020	$ 25,000	$ (50)	2.4535 %	One-month L	Mar-31-2022
Regions Bank	Jan-08-2015	Feb-14-2020	$ 50,000	$ (133)	2.4750 %	One-month L	Mar-31-2022
Capital One, N.A.	Jan-08-2015	Feb-14-2020	$ 50,000	$ (175)	2.5300 %	One-month L	Mar-31-2022

On October 24, 2014, the Company entered into two forward starting interest rate swap agreements for a total notional amount of $170.0 million to hedge the risk of changes in the interest-related cash flows associated with the potential issuance of long-term debt. The forward starting swaps were designated as cash flow hedges of interest rate risk and were terminated on November 21, 2014. The Company paid a termination payment of approximately $0.4 million to the two counterparties. The forward starting

interest rate swaps effectively removed the exposure to the variability in future cash flows of the Series D Unsecured Notes, and the $80 million series C 12-year unsecured notes ("Series C Unsecured Notes") and Series E Unsecured Notes at 2.452% and 2.615%, respectively. The settlement value of approximately $0.4 million was recorded in accumulated other comprehensive loss in the Consolidated Balance Sheets and will be amortized through interest expense over the life of the respective unsecured notes. The Series C Unsecured Notes were issued on December 30, 2014 and the Series D Unsecured Notes and the Series E Unsecured Notes were issued on February 20, 2015 (refer to Note 4 for further details).

The fair value of the interest rate swaps outstanding as of December 31, 2016 and December 31, 2015 was as follows.

Balance Sheet Line Item (in thousands)	Notional Amount December 31, 2016	Fair Value December 31, 2016	Notional Amount December 31, 2015	Fair Value December 31, 2015
Interest rate swaps-Asset	$ 300,000	$ 1,471	$ 275,000	$ 1,867
Interest rate swaps-Liability	$ 375,000	$ (2,438)	$ 400,000	$ (3,766)

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate swaps are to add stability to interest expense and to manage its exposure to interest rate movements. The Company uses interest rate swaps to fix the rate of its long term variable rate debt. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and qualified as cash flow hedges is recorded in accumulated other comprehensive loss and will be reclassified to interest expense in the period that the hedged forecasted transaction affects earnings on the Company's variable rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings into interest expense. For the year ended December 31, 2016, the Company recorded a gain of $0.1 million of hedge ineffectiveness in interest expense due to short-term, partial mismatches in notional amounts. For the years ended December 31, 2015 and December 31, 2014, the Company did not record any hedge ineffectiveness related to the hedged derivatives.

The Company estimates that approximately $2.4 million will be reclassified from accumulated other comprehensive loss as an increase to interest expense over the next 12 months.

The table below details the location in the financial statements of the gain or loss recognized on interest rate swaps designated as cash flow hedges for the years ended December 31, 2016, December 31, 2015, and December 31, 2014, (in thousands).

	Year ended December 31,		
	2016	2015	2014
Amount of loss recognized in accumulated other comprehensive loss on interest rate swaps (effective portion)	$2,244	$5,387	$6,705
Amount of loss reclassified from accumulated other comprehensive loss into income (loss) as interest expense (effective portion)	$3,142	$3,431	$2,508
	$66	$—	$—

Amount of gain recognized in interest expense (ineffective portion and amount excluded from effectiveness testing)

Credit-risk-related Contingent Features

The Company has agreements with each of its derivative counterparties that contain a provision where the Company could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company's default on the indebtedness.

As of December 31, 2016, the fair values of 13 of the 23 of the Company’s interest rate swaps were in an asset position of approximately $1.5 million and 10 interest rate swaps were in a liability position of approximately $2.5 million, excluding any adjustment for nonperformance risk related to these agreements. The adjustment for nonperformance risk included in the fair value of the Company’s net asset position and net liability position was approximately $13,000 and $0.1 million, respectively, as of December 31, 2016. Accrued interest expense for the Company's interest rate swaps was approximately $40,000 as of December 31, 2016 and is included in accounts payable, accrued expenses and other liabilities on the accompanying Consolidated Balance Sheets. As of December 31, 2016, the Company has not posted any collateral related to these agreements. If the Company

had breached any of its provisions at December 31, 2016, it could have been required to settle its obligations under the agreement of the interest rate swaps in a liability position plus accrued interest for approximately $2.6 million.

Fair Value of Interest Rate Swaps

The Company's valuation of the interest rate swaps is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs including interest rate curves. The fair values of interest rate swaps are determined by using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2016 and December 31, 2015, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The following sets forth the Company's financial instruments that are accounted for at fair value on a recurring basis as of December 31, 2016 and December 31, 2015.

		Fair Value Measurements as of December 31, 2016 Using		
Balance Sheet Line Item (in thousands)	Fair Value December 31, 2016	Level 1	Level 2	Level 3
Interest rate swaps-Asset	$ 1,471	$ —	$ 1,471	$ —
Interest rate swaps-Liability	$ (2,438)	$ —	$ (2,438)	$ —

		Fair Value Measurements as of December 31, 2015 Using		
Balance Sheet Line Item (in thousands)	Fair Value December 31, 2015	Level 1	Level 2	Level 3
Interest rate swaps-Asset	$ 1,867	$ —	$ 1,867	$ —

Interest rate swaps-Liability	$ (3,766)	$ —	$ (3,766)	$ —

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6. Equity

Preferred Stock

Pursuant to its charter, the Company is authorized to issue 15,000,000 shares of preferred stock, par value $0.01 per share.
On March 17, 2016, the Company completed an underwritten public offering of 3,000,000 shares of the Series C Preferred Stock, $0.01 par value per share, at a price to the public of $25.00 per share. On November 2, 2016, the Company redeemed all of the Series A Preferred Stock. The table below sets forth the Company’s outstanding preferred stock issuances as of December 31, 2016.

Preferred Stock Issuances	Issuance Date	Number of Shares	Price and Liquidation Value Per Share	Interest Rate
Series B Cumulative Redeemable Preferred Stock	April 16, 2013	2,800,000	$ 25.00	6.625%
Series C Cumulative Redeemable Preferred Stock	March 17, 2016	3,000,000	$ 25.00	6.875%

Dividends on the Series A Preferred Stock, Series B Preferred Stock, and Series C Preferred Stock (collectively, the "Preferred Stock Issuances") are payable quarterly in arrears on or about the last day of March, June, September, and December of each year. The Preferred Stock Issuances rank on parity with each other and rank senior to the Company’s common stock with respect to dividend rights and rights upon the liquidation, dissolution or winding up of the Company. The Preferred Stock Issuances have no stated maturity date and are not subject to mandatory redemption or any sinking fund. Generally, the Company is not permitted to redeem the Series B Preferred Stock or the Series C Preferred Stock prior to April 16, 2018 and March 17, 2021, respectively, except in limited circumstances relating to the Company’s ability to qualify as a REIT and in certain other circumstances related to a change of control.

The tables below set forth the dividends attributable to the Preferred Stock Issuances during the years ended December 31, 2016 and December 31, 2015.

Quarter Ended 2016	Declaration Date	Series A Preferred Stock Per Share	Series B Preferred Stock Per Share	Series C Preferred Stock Per Share	Payment Date
December 31	November 2, 2016 (1)	$0.19375 (1)	$0.4140625	$0.4296875	December 30, 2016
September 30	August 1, 2016	0.56250	0.4140625	0.4296875	September 30, 2016
June 30	May 2, 2016	0.56250	0.4140625	0.4965300 (2)	June 30, 2016
March 31	February 22, 2016	0.56250	0.4140625	—	March 31, 2016
Total		$1.88125	$1.6562500	$1.3559050	

(1) On September 26, 2016 the board of directors approved the redemption of the Series A Preferred Stock. On November 2, 2016 the Company redeemed all of the Series A Preferred Stock, at a cash redemption price of $25.00 per share, plus accrued and unpaid dividends to but excluding the redemption date, without interest.

(2) Dividends for the Series C Preferred Stock were accrued and cumulative from and including March 17, 2016 to the first payment date on June 30, 2016.

Quarter Ended 2015	Declaration Date	Series A Preferred Stock Per Share	Series B Preferred Stock Per Share	Payment Date

December 31	October 22, 2015	$ 0.5625	$0.4140625	December 31, 2015
September 30	July 21, 2015	0.5625	0.4140625	September 30, 2015
June 30	May 4, 2015	0.5625	0.4140625	June 30, 2015
March 31	February 20, 2015	0.5625	0.4140625	March 31, 2015
Total		$ 2.2500	$1.6562500	

On February 15, 2017, the Company’s board of directors declared the Series B Preferred Stock and the Series C Preferred Stock dividend for the quarter ending March 31, 2017 at a quarterly rate of $0.4140625 per share and $0.4296875 per share, respectively.

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Common Stock

The following sets forth the Company’s at-the market ("ATM") common stock offering programs as of December 31, 2016.

ATM Stock Offering Program (in thousands)	Date	Maximum Aggregate Offering Price (in thousands)	Aggregate Common Stock Available as of December 31, 2016 (in thousands)
2016 $228 million ATM	November 8, 2016	$ 228,218	$ 117,331

The tables below set forth the activity for the ATM common stock offering programs during the years ended December 31, 2016 and December 31, 2015 (in thousands, except share data).

	Year ended December 31, 2016				
ATM Stock Offering Program	Shares Sold	Weighted Average Price Per Share	Gross Proceeds	Sales Agents’ Fee	Net Proceeds
2016 $228 million ATM	4,763,838	$ 23.28	$ 110,887	$ 1,550	$ 109,337
2016 $200 million ATM[(1)]	7,326,200	$ 23.45	171,782	2,429	169,353
Total/weighted average	12,090,038	$ 23.38	$ 282,669	$ 3,979	$ 278,690

(1) This program ended before December 31, 2016.

	Year ended December 31, 2015				
ATM Stock Offering Program	Shares Sold	Weighted Average Price Per Share	Gross Proceeds	Sales Agents’ Fee	Net Proceeds
2014 $200 million ATM[(1)]	2,661,403	$ 21.63	$ 57,571	$ 864	$ 56,707
2014 $150 million ATM[(1)]	795,000	$ 21.79	17,321	260	17,061
Total/weighted average	3,456,403	$ 21.67	$ 74,892	$ 1,124	$ 73,768

(1) This program ended before December 31, 2016.

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Dividends

The tables below set forth the dividends attributable to the common stock that were declared or paid during the years ended December 31, 2016 and December 31, 2015, respectively.

Month Ended 2016	Declaration Date	Record Date	Per Share	Payment Date
December 31	August 1, 2016	December 30, 2016	$0.115833	January 17, 2017
November 30	August 1, 2016	November 30, 2016	0.115833	December 15, 2016
October 31	August 1, 2016	October 31, 2016	0.115833	November 15, 2016
September 30	May 2, 2016	September 30, 2016	0.115833	October 17, 2016
August 31	May 2, 2016	August 31, 2016	0.115833	September 15, 2016
July 31	May 2, 2016	July 29, 2016	0.115833	August 15, 2016
June 30	February 22, 2016	June 30, 2016	0.115833	July 15, 2016
May 31	February 22, 2016	May 31, 2016	0.115833	June 15, 2016
April 30	February 22, 2016	April 29, 2016	0.115833	May 16, 2016
March 31	October 22, 2015	March 31, 2016	0.115833	April 15, 2016
February 29	October 22, 2015	February 29, 2016	0.115833	March 15, 2016
January 31	October 22, 2015	January 29, 2016	0.115833	February 16, 2016
Total			$1.389996	

Month Ended 2015	Declaration Date	Record Date	Per Share	Payment Date
December 31	July 21, 2015	December 31, 2015	$ 0.1150	January 15, 2016
November 30	July 21, 2015	November 30, 2015	0.1150	December 15, 2015
October 31	July 21, 2015	October 30, 2015	0.1150	November 16, 2015
September 30	May 4, 2015	September 30, 2015	0.1150	October 15, 2015
August 31	May 4, 2015	August 31, 2015	0.1150	September 15, 2015
July 31	May 4, 2015	July 31, 2015	0.1150	August 17, 2015
June 30	February 20, 2015	June 30, 2015	0.1125	July 15, 2015
May 31	February 20, 2015	May 29, 2015	0.1125	June 15, 2015
April 30	February 20, 2015	April 30, 2015	0.1125	May 15, 2015
March 31	October 30, 2014	March 31, 2015	0.1125	April 15, 2015
February 28	October 30, 2014	February 27, 2015	0.1125	March 16, 2015
January 31	October 30, 2014	January 31, 2015	0.1125	February 17, 2015
Total			$ 1.3650	

On November 2, 2016, the Company’s board of directors declared the common stock dividend for the months ending January 31, 2017, February 28, 2017 and March 31, 2017 at a monthly rate of $0.116667 per share of common stock. On February 15, 2017, the Company’s board of directors declared the common stock dividend for the months ending April 30, 2017, May 31, 2017 and June 30, 2017 at a monthly rate of $0.116667 per share of common stock.

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Restricted Stock-Based Compensation

Pursuant to the 2011 Plan, the Company grants restricted shares of common stock to certain employees of the Company. The restricted shares of common stock are subject to time-based vesting. Restricted shares of common stock granted on January 8, 2016, subject to the recipient's continued employment, will vest in four equal installments on January 1 of each year beginning in 2017. Refer to Note 14 for details on restricted shares of common stock granted on January 6, 2017. Holders of restricted shares of common stock have voting rights and rights to receive dividends. Restricted shares of common stock may not be sold, assigned, transferred, pledged or otherwise disposed of and are subject to a risk of forfeiture prior to the expiration of the applicable vesting period. The following table summarizes activity related to the Company's unvested restricted shares of common stock for the years ended December 31, 2016 and December 31, 2015.

Unvested Restricted Shares of Common Stock	Shares
Balance at December 31, 2014	263,916
Granted	94,290 (1)
Vested	(72,185)
Forfeited	(14,906)
Balance at December 31, 2015	271,115
Granted	101,289 (2)
Vested	(98,746)
Forfeited	(1,321)
Balance at December 31, 2016	272,337

(1) The grant date fair value per share was $26.17.
(2) The grant date fair value per share was $17.98.

The unrecognized compensation expense associated with the Company's restricted shares of common stock at December 31, 2016 was approximately $3.3 million and is expected to be recognized over a weighted average period of approximately 2.1 years.
The following table summarizes the fair value at vesting date for the restricted shares of common stock vested during the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

	Year ended December 31,		
	2016	2015	2014
Vested restricted shares of common stock	98,746	72,185	51,885
Fair value of vested restricted shares of common stock (in thousands)	$1,813	$1,751	$1,123

7. Noncontrolling Interest

The Company is structured as an UPREIT, and owns substantially all of its assets and conducts substantially all of its business through its Operating Partnership. The Company's consolidated financial statements include the accounts of the Company, the Operating Partnership and their subsidiaries. The table below summarizes the activity for noncontrolling interest in the Company for the years ended December 31, 2016 and December 31, 2015.

	LTIP Units	Other Common Units	Total Noncontrolling Common Units	Noncontrolling Interest

Balance at December 31, 2014	1,307,036	1,124,813	2,431,849	3.6	%
Granted/Issued	323,069	864,283	1,187,352	N/A	
Forfeitures	—	—	—	N/A	
Conversions from LTIP units to Other Common Units	(20,000)	20,000	—	N/A	
Redemptions from Other Common Units to common stock	—	(90,824)	(90,824)	N/A	
Redemption of Other Common Units for cash	—	(2,400)	(2,400)	N/A	
Balance at December 31, 2015	1,610,105	1,915,872	3,525,977	4.9	%
Granted/Issued	176,396	—	176,396	N/A	
Forfeitures	—	—	—	N/A	
Conversions from LTIP units to Other Common Units	(209,985)	209,985	—	N/A	
Redemptions from Other Common Units to common stock	—	(68,492)	(68,492)	N/A	
Balance at December 31, 2016	1,576,516	2,057,365	3,633,881	4.3	%

The Company adjusts the carrying value of noncontrolling interest to reflect its share of the book value of the Operating Partnership when there has been a change in the Company’s ownership of the Operating Partnership. Such adjustments are recorded to additional paid-in capital as a rebalancing of noncontrolling interest on the accompanying Consolidated Statements of Equity.

LTIP Units

LTIP units are granted to certain executive officers and senior employees of the Company as part of their compensation, and to independent directors for their service. LTIP units are valued by reference to the value of the Company’s common stock and are subject to such conditions and restrictions as the compensation committee of the board of directors may determine, including continued employment or service. LTIP units granted on January 6, 2016 to independent directors, subject to the recipient’s continued service, will vest on January 1, 2017. LTIP units granted on January 8, 2016 to certain senior executive officers and senior employees, subject to the recipient’s continued employment, will vest quarterly over four years, with the first vesting date being March 31, 2016. LTIP units granted on February 22, 2016 to certain senior executive officers, subject to the recipient’s continued employment, will vest quarterly over four years, with the first vesting date being March 31, 2016. Refer to Note 14 for details on the LTIP units granted on January 6, 2017.Vested LTIP units can be converted to Other Common Units on a one-for-one basis once a material equity transaction has occurred that results in the accretion of the member’s capital account to the economic equivalent of an Other Common Unit. All LTIP units, whether vested or not, will receive the same monthly per unit distributions as Other Common Units, which equal per share dividends on common stock.

On January 25, 2016, the Company and Geoffrey G. Jervis, the Company’s Chief Financial Officer, Executive Vice President and Treasurer, agreed that Mr. Jervis’s employment with the Company would terminate effective February 25, 2016. Pursuant to the terms and conditions of the executive employment agreement and LTIP unit agreements between the Company and Mr. Jervis, and the Company’s 2015 Outperformance Program ("OPP"), Mr. Jervis received a lump sum cash payment, the continuation of certain insurance benefits, immediate vesting of outstanding LTIP units, and eligibility to receive a pro-rated award payment under the OPP. Accordingly, the Company accelerated the expense recognition of Mr. Jervis's unvested LTIP units in the amount of approximately $1.6 million, which is included in general and administrative expenses for the year ended December 31, 2016 on the accompanying Consolidated Statements of Operations. Additionally, the unrecognized compensation expense associated with Mr. Jervis's participation in the OPP after February 25, 2016 will not be recognized. The Company also incurred approximately $1.5 million related to the lump sum cash payment and continuation of certain insurance benefits, which is included in general and administrative expenses during the year ended December 31, 2016 on the accompanying Consolidated Statements of Operations.

On May 4, 2015, the Company and the Operating Partnership and Benjamin S. Butcher, the Company’s Chief Executive Officer, President and Chairman of the Board, entered into an amended and restated employment agreement. The amended and restated agreement is for an initial term of three years. The agreement automatically extends for successive one year terms unless, not fewer than 60 days before the term’s end, either party provides a notice of non-renewal to the other party. In connection with the amended and restated agreement, the compensation committee of the board of directors granted Mr. Butcher a retention award of 100,000 LTIP units that vest one-half on the third anniversary of the grant and one-sixth on the fourth, fifth and sixth anniversaries.

On September 8, 2014, the Company executed an employment agreement, effective October 27, 2014, with Jeffrey M. Sullivan to serve as the Company’s Executive Vice President, General Counsel, and Secretary for a term of three years commencing on January 1, 2015. During the period October 27, 2014 to December 31, 2014, Mr. Sullivan acted as a special legal advisor to the Company. On October 27, 2014, pursuant to the 2011 Plan, the Company awarded an initial LTIP unit grant equal in value to approximately $0.1 million, which equated to 4,006 LTIP units that will vest over five years in equal installments on a quarterly basis beginning on December 31, 2014. Additionally on October 27, 2014, pursuant to the 2011 Plan, Mr. Sullivan was granted LTIP units equal in value to $0.6 million, which equated to 26,596 LTIP units, which will vest at the end of the initial term of the employment agreement on December

31, 2017.
On September 8, 2014, Kathryn Arnone, Executive Vice President, General Counsel and Secretary of the Company, informed the board of directors of her decision to resign from the Company effective December 31, 2014. On December 15, 2014, Ms. Arnone informed the board of directors that she was resigning immediately. In connection with her resignation, and pursuant to the terms of the LTIP unit agreements (which terms provide for acceleration of vesting in the case of employment termination due to illness), her outstanding unvested LTIP units vested immediately upon her resignation. The Company accelerated the expense recognition of Ms. Arnone's unvested LTIP units in the amount of approximately $0.9 million, which is included in general and administrative expenses for the year ended December 31, 2014 on the accompanying Consolidated Statements of Operations.

On May 12, 2014, the Company executed an employment agreement with Geoffrey G. Jervis to serve as the Company's Chief Financial Officer, Executive Vice President and Treasurer for a term of three years. On July 1, 2014, pursuant to the 2011 Plan, the Company awarded an initial LTIP unit grant equal in value to approximately $0.3 million, which equated to 14,850 LTIP units that will vest over five years in equal installments on a quarterly basis beginning on September 30, 2014. Additionally on July 1,

2014, pursuant to the 2011 Plan, Mr. Jervis was granted LTIP units equal in value to $1.2 million, which equated to 52,106 LTIP units, which will vest at the end of a three years term, running concurrently with the initial term of the employment agreement, which ends on June 30, 2017. Subsequent to December 31, 2015, the Company and Mr. Jervis agreed that Mr. Jervis's employment with the Company would terminate effective February 25, 2016; as discussed above.

On February 7, 2014, Gregory W. Sullivan, the Company's former Chief Financial Officer, Executive Vice President and Treasurer, notified the Company of his intention not to renew his contract at its expiration on April 20, 2014 and he tendered his resignation from his position on April 21, 2014. On April 21, 2014, Mr. Sullivan and the Company executed a consulting agreement, which had an effective date of April 29, 2014, pursuant to which Mr. Sullivan would act as a senior financial advisor to the Company for one year. The consulting agreement modified the vesting terms of Mr. Sullivan's LTIP units previously granted to him as well as the vesting provisions of his share of the Company's 2011 Outperformance Program ("2011 OPP") (refer to Note 12 for further details on the 2011 OPP) that was measured on September 19, 2014. At the time of Mr. Sullivan's contract expiration, he had 82,804 unvested LTIP units and a 14% allocation of the 2011 OPP. The modification to the terms of Mr. Sullivan's LTIP units and his share of the previously unrecognized compensation expense associated with the 2011 OPP were considered a Type III modification, with non-substantive services, in accordance with GAAP. Accordingly, his unvested LTIP units and his share of the previously unrecognized compensation expense associated with 2011 OPP were valued on the effective date of the consulting agreement for approximately $2.0 million and $0.2 million, respectively, and these amounts were expensed upon the effective date of the consulting agreement and included in general and administrative expenses during the year ended December 31, 2014 on the accompanying Consolidated Statements of Operations. The Company expensed dividends in the amount of approximately $0.1 million previously paid to Mr. Sullivan on the unvested LTIP units and this amount is also included in general and administrative expenses during the year ended December 31, 2014 on the accompanying Consolidated Statements of Operations. Additionally the Company incurred approximately $0.7 million of general and administrative expenses during the year ended December 31, 2014 related to his salary, bonus and other benefits that will be received over the term of the consulting agreement.

The LTIP units issued under the 2011 Plan were valued using the Monte Carlo lattice binomial option-pricing model at the grant date. The fair value of the LTIP units are based on Level 3 inputs and are non-recurring fair value measurements. The table below sets forth the assumptions used in valuing such LTIP units for the years ended December 31, 2016 and December 31, 2015.

LTIP Units	Assumptions							
Grant date	February 22, 2016	January 8, 2016	January 6, 2016	May 4, 2015	January 12, 2015	October 27, 2014	July 1, 2014	January 2, 2014
Expected term (years)	10	10	10	10	10	10	10	10
Expected volatility	22.0 %	22.0 %	22.0 %	20.0 %	20.0 %	20 %	40 %	40 %
Expected dividend yield	6.0 %	6.0 %	6.0 %	6.0 %	6.0 %	6.0 %	6.0 %	6.0 %
Risk-free interest rate	1.01 %	1.28 %	1.36 %	0.66 %	0.62 %	0.48 %	0.79 %	0.79 %
Fair value of LTIP units at issuance (in thousands)	$277	$2,254	$390	$2,038	$5,450	$690	$1,542	$4,329
LTIP units at issuance	18,386	135,546	22,464	100,000	223,069	30,602	66,956	224,424
Fair value unit price per LTIP unit at issuance	$15.07	$16.63	$17.36	$20.38	$24.43	$22.56	$23.03	$19.29

The following table summarizes activity related to the Company's unvested LTIP units for the years ended December 31, 2016 and December 31, 2015.

Unvested LTIP Units	LTIP Units
Balance at December 31, 2014	448,887
Granted	323,069
Vested	(237,046)
Forfeited	—
Balance at December 31, 2015	534,910
Granted	176,396
Vested	(307,883)
Forfeited	—
Balance at December 31, 2016	403,423

The unrecognized compensation expense associated with the Company's LTIP units at December 31, 2016 was approximately $6.6 million and is expected to be recognized over a weighted average period of approximately 2.5 years.

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STAG Industrial, Inc.
Notes to Consolidated Financial Statements (Continued)

The following table summarizes the fair value at vesting date for the LTIP units vested during years ended December 31, 2016, December 31, 2015, and December 31, 2014.

	Year ended December 31,		
	2016	2015	2014
Vested LTIP units	307,883	237,046	639,445
Fair value of vested LTIP units (in thousands)	$ 6,393	$ 4,853	$ 14,063

Other Common Units

Other Common Units and shares of the Company's common stock have essentially the same economic characteristics in that Other Common Units directly, and shares of the Company's common stock indirectly, through the Company's interest in the Operating Partnership, share equally in the total net income or loss distributions of the Operating Partnership. Subject to certain restrictions, investors who own Other Common Units have the right to cause the Operating Partnership to redeem any or all of their Other Common Units for cash equal to the then-current value of one share of the Company's common stock, or, at the Company's election, shares of common stock on a one-for-one basis. The value of a share of common stock is calculated as the average common stock closing price on the NYSE for the 10 trading days immediately preceding the redemption notice date. Each Other Common Unit will receive the same monthly distribution as a share of common stock.

As partial consideration for a property acquired on January 22, 2015, the Company granted 812,676 Other Common Units with a fair value of approximately $21.9 million based on the Company's NYSE closing stock price on January 22, 2015. As partial consideration for another property acquired on December 11, 2015, the Company granted 51,607 Other Common Units with a fair value of approximately $1.0 million based on the Company's NYSE closing stock price on December 11, 2015. The number of Other Common Units granted was calculated based on the trailing 10-day average common stock closing price ending on the business day that immediately preceded the grant date. The fair value of the shares of the Other Common Units granted was calculated based on the closing stock price per the NYSE on the grant date multiplied by the number of Other Common Units granted. The issuance of the Other Common Units was effected in reliance upon an exemption from registration provided by Section 4(2) under the Securities Act of 1933, as amended. The Company relied on the exemption based on representations given by the holders of the Other Common Units.

8. Equity Incentive Plan

On April 1, 2011, the Company adopted, and the Company's stockholders approved, the 2011 Plan. The 2011 Plan provides for the issuance of equity-based awards, including stock options, stock appreciation rights, restricted stock, restricted stock units, unrestricted stock awards and other awards based on shares of the Company's common stock, such as LTIP units in the Operating Partnership, that may be made by the Company directly to the executive officers, directors, employees and other individuals providing bona fide services to or for the Company.

Subject to certain adjustments identified within the 2011 Plan, the aggregate number of shares of the Company's common stock that may be awarded under the 2011 Plan is 3,642,461 shares. Under the 2011 Plan, each LTIP unit awarded will be equivalent to an award of one share of common stock reserved under the 2011 Plan, thereby reducing the number of shares of common stock available for other equity awards on a one-for-one basis.

The 2011 Plan may be terminated, amended, modified or suspended at any time by the board of directors, subject to stockholder approval as required by law or stock exchange rules. The 2011 Plan expires on March 31, 2021.

On September 20, 2011, the compensation committee of the Company’s board of directors approved the 2011 OPP under the 2011 Plan to provide key employees of the Company or its affiliates with incentives to contribute to the growth and financial success of the Company. On September 19, 2014, the Company’s three year measurement period pursuant to the 2011 OPP concluded. It was determined that the Company’s total stockholder return exceeded the threshold percentage and return hurdle and the maximum pool amount of $10.0 million was awarded to the participants. The compensation committee of the Company’s board of directors approved the issuance of 397,590 vested LTIP units and 43,657 vested shares of common stock to participants of the 2011 OPP.

On March 8, 2016, the Company granted performance units, approved by the compensation committee of the board of directors, under the 2011 Plan to provide certain key employees of the Company with incentives designed to align those key employees' interests more closely with those of the stockholders.

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The ultimate value of the performance units depends on the Company’s total stockholder return ("TSR") over a three-year period commencing January 1, 2016 and ending on December 31, 2018 (the "measuring period"). At the end of the measuring period, the performance units convert into shares of common stock, or, at the Company's election and with the award recipient's consent, LTIP units or other securities, at a rate depending on the Company’s TSR over the measuring period as compared to three different benchmarks and on the absolute amount of the Company’s TSR. A recipient of performance units may receive as few as zero shares or as many as 250% of the number of target units, plus deemed dividends. The target amount of the performance units is nominally allocated as: (i) 25% to the Company’s TSR compared to the TSR of an industry peer group; (ii) 25% to the Company’s TSR compared to the TSR of a size-based peer group; and (iii) 50% to the Company’s TSR compared to the TSR of the companies in the MSCI US REIT index.

No dividends are paid to the recipient during the measuring period. At the end of the measuring period, if the Company’s TSR is such that the recipient earns shares of common stock or, at the Company's election and with the award recipient's consent, LTIP units or other securities (“Award Shares”), the recipient will receive additional Award Shares relating to dividends deemed to have been paid and reinvested on the Award Shares. The Company, in the discretion of the compensation committee of the board of directors, may pay the cash value of the deemed dividends instead of issuing additional Award Shares. The number of Award Shares is determined at the end of the measuring period, and one-half of the Award Shares and all dividend shares vest immediately. The other one-half of the Award Shares will be restricted (subject to forfeiture) and vest one year after the end of the measuring period.

The fair value of the performance units at the date of grant was approximately $2.6 million, as determined by a lattice-binomial option-pricing model based on a Monte Carlo simulation using a weighted average volatility factor of 23.0%, a weighted average risk-free interest rate of 1.0849%, and a weighted average expected dividend yield of 6.0%. The performance unit equity compensation expense is recognized into earnings ratably from the grant date over the respective vesting periods. Refer to Note 14 for details on performance units granted on January 6, 2017.

On January 12, 2015, the compensation committee of the board of directors of the Company approved the 2015 Outperformance Program (the “2015 OPP”) under the 2011 Plan, to provide certain key employees of the Company or its affiliates with incentives to contribute to the growth and financial success of the Company and its affiliates.

Recipients of awards under the 2015 OPP will share in an outperformance pool if the Company’s total stockholder return, including both share appreciation and dividends, exceeds an absolute hurdle over a three year measurement period from January 1, 2015 to January 1, 2018 (the “measurement period”), based on a beginning value of $24.49 per share of the Company’s common stock, as well as a relative hurdle based on the MSCI US REIT Index. Provided the Company’s increase in cumulative absolute total stockholder return over the measurement period equals or exceeds 25% (the “threshold percentage”), the outperformance pool consists of 10% of the excess total stockholder return above an absolute total stockholder return hurdle. The hurdle is equal to the total return of the MSCI US REIT Index plus five percentage points over the measurement period.

The aggregate reward for all recipients collectively is capped at the lesser of (i) 0.24% of the product of the total number of shares of common stock and Noncontrolling Common Units outstanding on January 1, 2018 and the average common stock price of the Company for the 20 trading days ending immediately prior to January 1, 2018, and (ii) $15.4 million.

Each participant’s award under the 2015 OPP is designated as a specified percentage of the aggregate outperformance pool. If the threshold percentage and return hurdle were achieved at the end of the measurement period, the

outperformance pool will be calculated and then allocated to the award recipients. The 2015 OPP provides that awards will be paid in the form of fully vested shares of the Company’s common stock, or, at the Company's election and with the award recipient’s consent, other securities or cash.

The 2015 OPP awards were valued at approximately $1.6 million utilizing a Monte Carlo simulation to estimate the probability of the conditions being satisfied. The Monte Carlo simulation used a statistical formula underlying the Black-Scholes and binomial formulas and such simulation was run approximately 500,000 times. For each simulation, the payoff is calculated at the settlement date, which is then discounted to the award date at a risk-free interest rate. The average of the values over all simulations is the expected value of the award on the award date. Assumptions used in the valuations included (i) factors associated with the underlying performance of the Company’s stock price and total stockholder return over the term of the awards including total stock return volatility and risk-free interest and (ii) factors associated with the relative performance of the Company’s stock price and total stockholder return when compared to the MSCI US REIT Index. The valuation was performed in a risk-neutral framework, so no assumption was made with respect to an equity risk premium. The fair value of the 2015 OPP awards was estimated on the date of grant using the following assumptions in the Monte Carlo valuation: expected price volatility for the Company and the MSCI

US REIT Index of 20% and 13.6%, respectively, and a risk free rate of 0.9814%. The expense associated with the value of the 2015 OPP awards will be amortized ratably over the measurement period.

The unrecognized compensation expense associated with the 2015 OPP and the performance units at December 31, 2016 was approximately $0.5 million and $1.9 million, respectively, and is expected to be recognized over a weighted average period of approximately 1.0 year and 2.4 years, respectively.

Equity Non-cash Compensation Expense

The following table summarizes the amount recorded in general and administrative expenses in the accompanying Consolidated Statement of Operations for the amortization of restricted shares of common stock, LTIP units, the 2015 OPP, the 2011 OPP, performance units, and the Company's board of directors' compensation.

	Year ended December 31,		
Non-cash compensation expense (in thousands)	2016	2015	2014
Restricted stock	$2,157	$1,932	$1,164
LTIP units	6,089 (1)	4,774	5,353 (2)
Outperformance programs	465	523	456 (3)
Performance units	672	—	—
Board of directors compensation (4)	346	349	341
Total non-cash compensation expense	$9,729	$7,578	$7,314

(1) Inclusive of approximately $1.6 million of non-cash compensation expense during the year ended December 31, 2016 associated with the severance cost of an executive officer as discussed Note 7.

(2) Inclusive of approximately $2.0 million of non-cash compensation during the year ended December 31, 2014 associated with the accounting for a consulting agreement with a former executive officer discussed in Note 7. Inclusive of approximately $0.9 million of non-cash compensation during the year ended December 31, 2014 associated with the accounting for a former executive officer's acceleration of LTIP units discussed in Note 7.

(3) Inclusive of approximately $0.2 million of non-cash compensation during the year ended December 31, 2014 associated with the accounting for a consulting agreement with a former executive officer discussed in Note 7.

(4) All of the Company's independent directors elected to receive shares of common stock in lieu of cash for their service during the years ended December 31, 2016, December 31, 2015, and December 31, 2014. The number of shares of common stock granted is calculated based on the trailing 10 days average common stock price ending on the third business day preceding the grant date.

At December 31, 2016 and December 31, 2015, the number of shares available for issuance under the 2011 Plan were 1,156,578 and 1,449,415, respectively. The number of shares available for issuance under the 2011 Plan do not include an allocation for the performance units or the 2015 OPP as the awards were not determinable as of December 31, 2016 or December 31, 2015.

9. Earnings Per Share

The Company uses the two-class method of computing earnings per common share, which is an earnings allocation formula that determines earnings per share for common stock and any participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. Unvested restricted stock awards are considered participating securities as these stock-based awards contain non-forfeitable rights to dividends, unless and until a forfeiture occurs, and these awards must be included in the computation of earnings per share pursuant to

the two-class method. During the years ended December 31, 2016, December 31, 2015 and December 31, 2014, there were 276,367; 280,839; and 268,894, respectively, unvested shares of restricted stock on a weighted average basis that were considered participating securities. During the year ended December 31, 2016, there were 92,251 and 123,112 of unvested shares of restricted stock and performance units, respectively, on a weighted average basis that were dilutive. There were no dilutive shares during the years ended December 31, 2015 and December 31, 2014. During the years ended December 31, 2015 and December 31, 2014, there were 70,149 and 110,048 shares of unvested restricted common stock on a weighted average basis, respectively, that could potentially dilute basic EPS in the future that were not included in the computation of diluted EPS because to do so would have been antidilutive for those periods.

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STAG Industrial, Inc.
Notes to Consolidated Financial Statements (Continued)

The following table sets forth the computation of basic and diluted earnings per common share for the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

	Year ended December 31,		
Earnings Per Share (in thousands, except share data)	2016	2015	2014
Numerator			
Net income (loss)	$35,588	$(29,345)	$(4,685)
Less: preferred stock dividends	13,897	10,848	10,848
Less: amount allocated to participating securities	384	385	345
Less: income (loss) attributable to noncontrolling interest after preferred stock dividends	1,069	(1,962)	(992)
Net income (loss) attributable to common stockholders	$20,238	$(38,616)	$(14,886)
Denominator			
Weighted average common shares outstanding — basic	70,637,185	66,307,972	54,086,345
Weighted average common shares outstanding — diluted	70,852,548	66,307,972	54,086,345
Net income (loss) per share — basic and diluted			
Net income (loss) per share attributable to common stockholders — basic	$0.29	$(0.58)	$(0.28)
Net income (loss) per share attributable to common stockholders — diluted	$0.29	$(0.58)	$(0.28)

10. Future Minimum Rents

The Company's properties are leased to tenants under triple net, modified, and gross leases. Minimum contractual lease payments receivable, excluding tenant reimbursement of expenses, under non-cancelable operating leases in effect as of December 31, 2016 are approximately as follows.

Year	Future Minimum Rents (in thousands)
2017	$ 223,309
2018	$ 187,615
2019	$ 149,273
2020	$ 120,461
2021	$ 87,797
Thereafter	$ 301,177

11. Commitments and Contingencies

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance subject to deductible requirements. Management believes that the ultimate settlement of these actions will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

On April 18, 2012, the Company entered into an agreement with affiliates of Columbus Nova Real Estate Acquisition Group, Inc. ("Columbus Nova") to source sale leaseback transactions for potential acquisitions by the Company. The agreement called for various fees to be paid to Columbus Nova for its services including acquisition fees, credit monitoring fees, and a one-time incentive fee if certain performance thresholds are met. As of December 31, 2016 and December 31, 2015, respectively, the fair value of the incentive fee was zero. The fair value was calculated using the

following key Level 3 inputs: discount rate of 8.0% to 12.0% and 9.5% as of December 31, 2016 and December 31, 2015, respectively, and exit capitalization rate of 7.0% to 12.0% and 9.8% as of December 31, 2016 and December 31, 2015, respectively.

The Company has letters of credit of approximately $3.5 million related to development projects and its corporate office lease as of December 31, 2016.

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STAG Industrial, Inc.
Notes to Consolidated Financial Statements (Continued)

Ground and Operating Lease Agreements

Future minimum rental payments under the terms of the fixed non-cancelable ground leases and operating leases, including any bargain renewal terms, under which the Company is the lessee as of December 31, 2016 are as follows.

Year	Future Minimum Rental Payments (1) (in thousands)
2017	$ 1,427
2018	$ 1,539
2019	$ 1,577
2020	$ 1,588
2021	$ 681
Thereafter	$ 6,336

(1) Future minimum rental payments do not include estimates of CPI rent changes required by certain lease agreements. Therefore, actual minimum rental payments may differ than those presented.

12. Employee Benefit Plans

Effective April 20, 2011, the Company adopted a 401(k) Defined Contribution Savings Plan (the “Plan”) for its employees. Under the Plan, as amended, employees, as defined, are eligible to participate in the Plan after they have completed three months of service. The Company provides a discretionary match of 50% of the employee’s contributions annually up to 6.0% of the employee’s annual compensation, subject to a cap imposed by federal tax law. The Company’s aggregate matching contribution for the years ended December 31, 2016, December 31, 2015 and December 31, 2014 was approximately $0.4 million, $0.2 million and $0.2 million, respectively. The Company’s contribution is subject to a three year vesting schedule, such that employees who have been with the Company for three years are fully vested in past and future contributions.

13. Related-Party Transactions

The Company’s initial public offering (“IPO”) on April 20, 2011, represented the roll-up of the substantial majority of the assets of several private, externally-advised real estate funds investing in single-tenant industrial real estate in the United States, including the fund identified below as Fund III. The roll-up included the affiliated management companies that advised the funds and excluded the assets of another affiliated real estate fund that also invested in industrial real estate; including the fund identified below as Fund II. In connection with the IPO, a wholly owned subsidiary of the Company, STAG Industrial Management, LLC (the “Manager”), entered into service agreements with the funds that participated in the IPO and remained in existence and the fund that did not participate in the IPO.

The Manager is performing certain asset management services for STAG Investments II, LLC (“Fund II”), a private, fully-invested fund that is an affiliate of the Company and owned seven buildings with approximately 2.2 million rentable square feet as of December 31, 2016. The Manager is paid an annual asset management fee based on the equity investment in the Fund II assets, which is 1.25% of the equity investment. In June 2013, Fund II and the Company amended the service agreement to exclude disposition services from the asset management services to be

performed by the Company and results in a concomitant reduction in the asset management fee. The Company recognized asset management fee income of approximately $0.2 million, $0.4 million and $0.6 million for the years ended December 31, 2016, December 31, 2015 and December 31, 2014, respectively, which is included in other income on the accompanying Consolidated Statements of Operations. As of December 31, 2016 and December 31, 2015, the Company had a receivable in the amount of approximately $48,000 and $0.1 million, respectively, related to the asset management fee income included within prepaid expenses and other assets on the accompanying Consolidated Balance Sheets.

The Company's "predecessor" for accounting purposes is STAG Predecessor Group, which is not a legal entity, but a collection of real estate entities that were owned by STAG Investments III, LLC ("Fund III") prior to the Company's IPO. At the time of the formation transactions in connection with the IPO, three vacant properties owned by Fund III were not contributed to the Company (the "Option Properties"). The Manager had entered into a services agreement with Fund III pursuant to which it would manage the Option Properties for an annual fee of $30,000 per property, and would provide the limited administrative services (including preparation of reports for the Fund III lender and investors, bookkeeping, tax and accounting services) that Fund III will require, for an annual fee of $20,000. As the last remaining Option Property was sold in 2013, the Manager only received the annual fee of $20,000 until Fund III's liquidation. Fund III ceased operations and was liquidated on December 31, 2014 and, as a result, the Manager no longer receives an annual fee.

14. Subsequent Events

GAAP requires an entity to disclose certain events that occur after the balance sheet date but before financial statements are issued or are available to be issued (“subsequent events”). There are two types of subsequent events. The first type consists of events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements (“recognized subsequent events”). No significant recognized subsequent events were noted.

The second type consists of events that provide evidence about conditions that did not exist at the date of the balance sheet but arose subsequent to that date (“non-recognized subsequent events”). The following non-recognized subsequent events are noted.

On January 6, 2017, the Company granted 75,001 restricted shares of common stock to certain employees of the Company pursuant to the 2011 Plan. The restricted shares of common stock granted will vest in four equal installments on January 1 of each year beginning in 2018. The fair value of the restricted shares of common stock at the date of grant was $24.41 per share.

On January 6, 2017, the Company granted 16,836 LTIP units to non-employee, independent directors, and 109,403 LTIP units to certain executive officers and senior employees pursuant to the 2011 Plan. The LTIP units granted to non-employee, independent directors will vest on January 1, 2018. The LTIP units granted to certain executive officers and senior employees will vest quarterly over four years, with the first vesting date being March 31, 2017. The fair value of the LTIP units at the date of grant was approximately $2.9 million, as determined by a lattice-binomial option-pricing model based on a Monte Carlo simulation using an expected term of ten years, a weighted average volatility factor of 23.0%, a weighted average expected dividend yield of 6.0%, and a weighted average risk-free interest rate of 1.61%. The fair value of the LTIP units are based on Level 3 inputs and are non-recurring fair value measurements.

On January 6, 2017, the Company granted performance units to certain executive officers and senior employees pursuant to the 2011 Plan. The terms of the January 6, 2017 performance units grant is substantially the same as the March 8, 2016 performance units grant as discussed in Note 8, except that the measuring period commences on January 1, 2017 and ends on December 31, 2019. The fair value of the performance units at the date of grant was approximately $2.9 million, as determined by a lattice-binomial option-pricing model based on a Monte Carlo simulation using a weighted average volatility factor of 23.0%, a weighted average expected dividend yield of 6.0%, and a weighted average risk-free interest rate of 1.61%. The fair value of the performance units are based on Level 3 inputs and are non-recurring fair value measurements.

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STAG Industrial, Inc.
Schedule II—Valuation and Qualifying Accounts
December 31, 2016
(in thousands)
Allowance for Doubtful Receivables and Accrued Rent Reserves

	STAG Industrial, Inc.			
	Beginning of Period	Costs and Expenses	Amounts Written Off	Balance at End of Period
December 31, 2016	$106	$ 125	$ (43)	$ 188
December 31, 2015	$104	$ 190	$ (188)	$ 106
December 31, 2014	$19	$ 104	$ (19)	$ 104

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STAG Industrial, Inc.
Schedule III—Real Estate and Accumulated Depreciation
December 31, 2016
(in thousands)

City/State	Encumbrances (1)	Initial Cost to STAG Industrial, Inc.		Costs Capitalized Subsequent to Acquisition and Valuation Provision	Gross Amounts at Which Carried at December 31, 2016			Accumulated Depreciation (3)	Acq Date
		Building & Improvements (2)	Land		Building & Improvements	Land	Total		
Albion, IN	$ —	93	67	$ —	$93	$67	$160	$ (24)	2006
Albion, IN	—	932	103	—	932	$103	$1,035	(246)	2006
Albion, IN	—	1,107	55	—	1,107	$55	$1,162	(292)	2006
Albion, IN	—	970	332	—	970	$332	$1,302	(256)	2006
Albion, IN	—	1,397	52	—	1,397	$52	$1,449	(368)	2006
Albion, IN	—	1,528	126	—	1,528	$126	$1,654	(403)	2006
Kendallville, IN	—	1,510	142	—	1,510	$142	$1,652	(398)	2006
Albion, IN	—	710	187	—	710	$187	$897	(187)	2006
Alexandria, MN	—	5,855	960	151	6,006	$960	$6,966	(900)	2011
Allentown, PA	—	7,336	1,962	783	8,119	$1,962	$10,081	(865)	2014
Appleton, WI	—	3,765	495	360	4,125	$495	$4,620	(1,030)	2007
Arlington, TX	—	2,374	413	304	2,678	$413	$3,091	(589)	2007
Arlington, TX	—	6,151	1,246	—	6,151	$1,246	$7,397	(837)	2012
Avon, CT	—	2,750	336	—	2,750	$336	$3,086	(369)	2012
Belfast, ME	—	10,331	1,883	487	10,818	$1,883	$12,701	(1,641)	2011
Belvidere, IL	—	4,176	442	—	4,176	$442	$4,618	(224)	2015
Belvidere, IL	—	3,956	733	—	3,956	$733	$4,689	(428)	2013
Belvidere, IL	—	3,436	1,310	—	3,436	$1,310	$4,746	(514)	2013
Belvidere, IL	—	3,517	538	114	3,631	$538	$4,169	(325)	2013
Belvidere, IL	—	6,899	670	—	6,899	$670	$7,569	(690)	2013
Belvidere, IL	—	4,321	668	—	4,321	$668	$4,989	(493)	2013
Belvidere, IL	—	3,730	866	—	3,730	$866	$4,596	(450)	2013
Belvidere, IL	—	2,808	586	22	2,830	$586	$3,416	(375)	2013
Belvidere, IL	—	8,340	1,542	552	8,892	$1,542	$10,434	(1,043)	2013
Belvidere, IL	—	71	216	—	71	$216	$287	(71)	2013
Biddeford, ME	—	8,164	1,369	3,916	12,080	$1,369	$13,449	(179)	2016
Boardman, OH	—	3,473	282	773	4,246	$282	$4,528	(1,033)	2007
Boardman, OH	—	841	49	149	990	$49	$1,039	(531)	2007
Brooklyn Park, MN	—	11,988	1,926	—	11,988	$1,926	$13,914	(33)	2016
Buena Vista, VA	—	2,500	534	635	3,135	$534	$3,669	(417)	2012
Buffalo, NY	—	2,924	146	—	2,924	$146	$3,070	(373)	2012
Burlington, NJ	—	42,652	5,135	55	42,707	$5,135	$47,842	(1,980)	2015
Burlington, NJ	—	19,577	4,030	1,231	20,808	$4,030	$24,838	(1,268)	2015
Calhoun, GA	—	2,764	388	—	2,764	$388	$3,152	(216)	2014

Camarillo, CA	—	10,785	7,242	237	11,022	$7,242	$18,264	(943)	2014
Camarillo, CA	—	19,857	7,989	25	19,882	$7,989	$27,871	(1,589)	2014
Catoosa, OK	—	3,937	—	—	3,937	$—	$3,937	(450)	2013
Cedar Hill, TX	—	11,971	4,066	—	11,971	$4,066	$16,037	(222)	2016
Charlotte, NC	(10,291)	9,461	3,535	1,197	10,658	$3,535	$14,193	(2,199)	2011
Charlotte, NC	—	2,443	805	4	2,447	$805	$3,252	(244)	2014
Charlotte, NC	—	3,554	386	19	3,573	$386	$3,959	(341)	2014
Charlotte, NC	—	3,961	515	—	3,961	$515	$4,476	(157)	2015
Charlotte, NC	—	4,445	678	—	4,445	$678	$5,123	(112)	2016
Chattanooga, TN	—	2,321	187	—	2,321	$187	$2,508	(155)	2015
Chattanooga, TN	—	4,730	380	13	4,743	$380	$5,123	(316)	2015
Chattanooga, TN	—	8,459	424	—	8,459	$424	$8,883	(645)	2015
Cheektowaga, NY	—	2,757	216	793	3,550	$216	$3,766	(599)	2011
Chesterfield, MI	—	1,169	207	62	1,231	$207	$1,438	(390)	2007
Chesterfield, MI	—	798	150	89	887	$150	$1,037	(206)	2007
Chesterfield, MI	—	802	151	224	1,026	$151	$1,177	(261)	2007
Chesterfield, MI	—	5,304	942	1,952	7,256	$942	$8,198	(1,821)	2007
Chester, VA	—	3,402	775	—	3,402	$775	$4,177	(448)	2014
Chicopee, MA	—	5,867	504	—	5,867	$504	$6,371	(825)	2012

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City/State	Encumbrances [1]	Initial Cost to STAG Industrial, Inc.		Costs Capitalized Subsequent to Acquisition and Valuation Provision	Gross Amounts at Which Carried at December 31, 2016			Accumulated Depreciation [3]	Acq Date
		Building & Improvements [2]	Land		Land	Building & Improvements	Total		
Chippewa Falls, WI	—	2,303	133	—	$133	2,303	$2,436	(347)	2011
Chippewa Falls, WI	—	544	44	—	44	544	588	(80)	2011
Cincinnati, OH	—	3,637	238	1,412	238	5,049	5,287	(1,785)	2007
Cleveland, TN	(2,464)	3,161	554	84	554	3,245	3,799	(543)	2011
Clinton, TN	—	3,302	403	—	403	3,302	3,705	(307)	2015
Columbus, OH	—	3,123	489	167	489	3,290	3,779	(433)	2014
Columbia, SC	—	5,171	783	—	783	5,171	5,954	(122)	2016
West Columbia, SC	—	6,988	715	401	715	7,389	8,104	(792)	2013
Dallas, GA	—	1,712	475	—	475	1,712	2,187	(252)	2012
LaGrange, GA	—	3,175	240	331	240	3,506	3,746	(619)	2011
Danville, KY	—	11,814	965	3,644	965	15,458	16,423	(2,273)	2011
Daytona Beach, FL	—	875	1,237	1,704	1,237	2,579	3,816	(630)	2007
Dayton, OH	—	5,896	331	375	331	6,271	6,602	(319)	2015
DeForest, WI	—	5,402	1,131	—	1,131	5,402	6,533	(20)	2016
DeKalb, IL	—	4,568	489	—	489	4,568	5,057	(530)	2013
De Pere, WI	—	6,144	525	—	525	6,144	6,669	(861)	2012
Duncan, SC	—	11,258	1,002	726	1,002	11,984	12,986	(1,635)	2012
Duncan, SC	—	6,739	709	71	709	6,810	7,519	(833)	2012
Durham, SC	—	2,700	753	31	753	2,731	3,484	(161)	2015
Earth City, MO	—	2,806	1,123	—	1,123	2,806	3,929	(25)	2016
Edgefield, SC	—	938	220	750	220	1,688	1,908	(255)	2012
Elizabethtown, PA	—	5,363	1,000	—	1,000	5,363	6,363	(414)	2014
Elkhart, IN	—	210	25	143	25	353	378	(58)	2007
Elkhart, IN	—	3,567	422	452	422	4,019	4,441	(931)	2007
El Paso, TX	—	9,099	1,248	—	1,248	9,099	10,347	(733)	2014
El Paso, TX	—	7,905	1,124	—	1,124	7,905	9,029	(767)	2014
El Paso, TX	—	14,159	1,854	91	1,854	14,250	16,104	(1,205)	2014
El Paso, TX	—	9,897	1,581	—	1,581	9,897	11,478	(767)	2014
El Paso, TX	—	5,893	1,136	—	1,136	5,893	7,029	(340)	2015
El Paso, TX	—	3,096	—	1,006	—	4,102	4,102	(567)	2012
Erlanger, KY	—	3,826	635	6	635	3,832	4,467	(132)	2016
East Troy, WI	—	4,962	304	—	304	4,962	5,266	(382)	2014
East Windsor, CT	—	5,711	400	—	400	5,711	6,111	(22)	2016
East Windsor, CT	(3,073)	4,713	348	528	348	5,241	5,589	(1,088)	2012
Fairborn, OH	—	5,650	867	—	867	5,650	6,517	(477)	2015

Fairfield, OH	—	2,842	948	—	2,842	948	3,790	(142)	2016
Farmington, NY	—	5,342	410	20	5,362	410	5,772	(1,312)	2007
Forest Park, GA	—	9,527	1,733	35	9,562	1,733	11,295	(142)	2016
Forest Park, GA	—	8,189	1,715	—	8,189	1,715	9,904	(106)	2016
Fort Wayne, IN	—	3,142	112	—	3,142	112	3,254	(245)	2014
Franklin, IN	—	12,042	2,479	13	12,055	2,479	14,534	(1,940)	2012
Fort Worth, TX	(1,889)	2,965	389	709	3,674	389	4,063	(563)	2011
Gahanna, OH	—	4,191	1,265	1,258	5,449	1,265	6,714	(1,055)	2011
Gardiner, ME	—	8,983	948	—	8,983	948	9,931	(141)	2016
Garland, TX	—	5,425	1,344	294	5,719	1,344	7,063	(644)	2014
Garland, TX	—	6,058	1,542	536	6,594	1,542	8,136	(296)	2015
Germantown, WI	—	6,035	1,186	—	6,035	1,186	7,221	(660)	2014
Gloversville, NY	(736)	1,299	117	—	1,299	117	1,416	(169)	2012
Gloversville, NY	(1,189)	2,613	151	—	2,613	151	2,764	(359)	2012
Gloversville, NY	(849)	1,514	154	13	1,527	154	1,681	(220)	2012
Golden, CO	—	6,164	742	67	6,231	742	6,973	(669)	2013
Goshen, IN	(5,224)	6,509	1,442	415	6,924	1,442	8,366	(1,186)	2011
Grand Junction, CO	—	4,002	314	—	4,002	314	4,316	(196)	2015
Grand Rapids, MI	—	7,532	169	5	7,537	169	7,706	(383)	2015
Graniteville, SC	—	8,389	1,629	—	8,389	1,629	10,018	(228)	2016
Greenwood, SC	(1,529)	1,848	166	—	1,848	166	2,014	(236)	2012
Greenwood, SC	(1,302)	1,232	169	4	1,236	169	1,405	(198)	2012
Greenville, SC	—	3,379	309	—	3,379	309	3,688	(220)	2015
Greer, SC	—	1,434	129	144	1,578	129	1,707	(78)	2015

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		Initial Cost to STAG Industrial, Inc.			Gross Amounts at Which Carried at December 31, 2016				
City/State	Encumbrances (1)	Building & Improvements (2)	Land	Costs Capitalized Subsequent to Acquisition and Valuation Provision	Building & Improvements	Land	Total	Accumulated Depreciation (3)	Acq Date
Greer, SC	—	1,748	128	39	1,787	128	1,915	(95)	2015
Greer, SC	—	471	153	10	481	153	634	(31)	2015
Greer, SC	—	3,016	306	99	3,115	306	3,421	(180)	2015
Fountain Inn, SC	—	4,438	719	—	4,438	719	5,157	(152)	2016
Grove City, OH	—	3,974	730	—	3,974	730	4,704	(60)	2016
Gurnee, IL	—	11,380	1,716	19	11,399	1,716	13,115	(845)	2014
Gurnee, IL	—	4,902	1,337	468	5,370	1,337	6,707	(935)	2012
Hampstead, MD	—	34,969	780	—	34,969	780	35,749	(3,588)	2013
Harrisonburg, VA	—	11,179	1,455	144	11,323	1,455	12,778	(1,285)	2012
Hartland, WI	—	4,634	1,526	—	4,634	1,526	6,160	(36)	2016
Harvard, IL	—	2,980	1,157	—	2,980	1,157	4,137	(637)	2013
Hazelwood, MO	(5,384)	5,815	1,382	1,207	7,022	1,382	8,404	(1,292)	2011
Hebron, KY	—	4,601	370	—	4,601	370	4,971	(446)	2014
Holland, MI	(3,159)	3,475	279	60	3,535	279	3,814	(580)	2012
Holland, MI	—	2,176	224	229	2,405	224	2,629	(925)	2007
Houston, TX	—	7,790	2,255	9	7,799	2,255	10,054	(886)	2013
Houston, TX	—	4,906	1,428	17	4,923	1,428	6,351	(594)	2014
Houston, TX	—	5,019	565	750	5,769	565	6,334	(671)	2014
Houston, TX	—	8,448	2,546	—	8,448	2,546	10,994	(53)	2016
Huntersville, NC	—	3,123	1,061	39	3,162	1,061	4,223	(390)	2012
Idaho Falls, ID	—	2,735	356	—	2,735	356	3,091	(380)	2013
Independence, VA	(1,421)	2,212	226	83	2,295	226	2,521	(415)	2012
Itasca, IL	—	12,216	2,428	—	12,216	2,428	14,644	(95)	2016
Jackson, TN	—	2,374	230	213	2,587	230	2,817	(374)	2012
Janesville, WI	—	17,477	828	245	17,722	828	18,550	(2,115)	2013
Jefferson City, TN	—	8,494	1,350	—	8,494	1,350	9,844	(1,365)	2014
Johnstown, NY	(736)	1,304	178	—	1,304	178	1,482	(184)	2012
Johnstown, NY	(1,076)	1,592	216	—	1,592	216	1,808	(185)	2012
Johnstown, NY	(878)	978	151	—	978	151	1,129	(171)	2012
Johnstown, NY	(1,642)	1,467	140	—	1,467	140	1,607	(208)	2012
Kansas City, MO	—	5,539	703	92	5,631	703	6,334	(584)	2012
Kenosha, WI	—	3,991	797	—	3,991	797	4,788	(36)	2016
Kentwood, MI	—	2,478	407	—	2,478	407	2,885	(309)	2013
Knoxville, TN	—	3,201	447	—	3,201	447	3,648	(263)	2015
Lafayette, IN	(1,217)	2,205	295	36	2,241	295	2,536	(267)	2012
Lafayette, IN	(2,067)	3,554	410	38	3,592	410	4,002	(540)	2012
Lafayette, IN	(4,246)	8,135	906	252	8,387	906	9,293	(1,182)	2012
Lancaster, PA	—	5,480	1,520	—	5,480	1,520	7,000	(527)	2015

Langhorne, PA	—	3,868	1,370	—	3,868	1,370	5,238	(86	2016
Langhorne, PA	—	3,105	1,308	—	3,105	1,308	4,413	(84	2016
Langhorne, PA	—	6,372	1,884	—	6,372	1,884	8,256	(61	2016
Lansing, MI	(7,263	8,164	501	—	8,164	501	8,665	(1,353	2011
Lansing, MI	—	4,077	580	—	4,077	580	4,657	(564	2012
Lansing, MI	(5,662	7,162	429	—	7,162	429	7,591	(936	2012
Lansing, MI	—	5,209	907	—	5,209	907	6,116	(619	2013
Laurens, SC	—	4,254	151	—	4,254	151	4,405	(181	2015
Lenexa, KS	—	7,610	2,368	—	7,610	2,368	9,978	(938	2014
Lewiston, ME	—	5,515	173	1,318	6,833	173	7,006	(1,769	2007
Lexington, NC	—	3,968	232	633	4,601	232	4,833	(717	2011
Libertyville, IL	—	6,455	421	80	6,535	421	6,956	(377	2015
Libertyville, IL	—	770	143	9	779	143	922	(155	2015
Londonderry, NH	—	6,683	730	—	6,683	730	7,413	(767	2013
Longmont, CO	—	9,647	1,529	350	9,997	1,529	11,526	(859	2014
Loudon, TN	—	3,751	170	—	3,751	170	3,921	(181	2015
Louisville, KY	(3,354	3,875	386	520	4,395	386	4,781	(866	2011
Louisville, KY	(5,351	6,182	616	632	6,814	616	7,430	(1,336	2011
Macedonia, OH	—	8,195	1,690	10	8,205	1,690	9,895	(487	2015
Machesney Park, IL	—	3,742	300	—	3,742	300	4,042	(261	2015
Madison, TN	(5,688	6,159	1,655	1,681	7,840	1,655	9,495	(1,488	2011

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		Initial Cost to STAG Industrial, Inc.			Gross Amounts at Which Carried at December 31, 2016				
City/State	Encumbrances (1)	Building & Improvements (2)	Land	Costs Capitalized Subsequent to Acquisition and Valuation Provision	Building & Improvements	Land	Total	Accumulated Depreciation (3)	Acq Date
Malden, MA	—	2,817	366	—	2,817	366	3,183	(691	2007
Malden, MA	—	3,961	507	—	3,961	507	4,468	(972	2007
Marion, IA	—	2,257	691	49	2,306	691	2,997	(338	2013
Marion, IN	(2,887	2,934	243	563	3,497	243	3,740	(391	2012
Marshall, MI	—	1,051	199	—	1,051	199	1,250	(181	2013
Mascot, TN	—	3,228	284	—	3,228	284	3,512	(178	2016
Mascot, TN	—	3,452	385	65	3,517	385	3,902	(525	2013
Salem, OH	—	7,674	858	252	7,926	858	8,784	(1,761	2006
Mason, OH	—	4,730	673	—	4,730	673	5,403	(476	2014
Mayville, WI	—	4,118	547	330	4,448	547	4,995	(1,142	2007
Mebane, NC	—	4,570	481	457	5,027	481	5,508	(596	2012
Mebane, NC	—	4,148	443	—	4,148	443	4,591	(548	2012
Mebane, NC	—	4,999	358	—	4,999	358	5,357	(577	2013
Mechanicsburg, PA	—	5,172	1,482	635	5,807	1,482	7,289	(648	2014
Mechanicsburg, PA	—	7,144	1,800	—	7,144	1,800	8,944	(654	2014
New Kingston, PA	—	8,687	2,041	—	8,687	2,041	10,728	(786	2014
Mechanicsburg, PA	—	8,008	1,452	—	8,008	1,452	9,460	(719	2014
Milwaukee, WI	—	4,090	456	46	4,136	456	4,592	(978	2007
Montgomery, AL	—	7,523	418	—	7,523	418	7,941	(25	2016
Montgomery, IL	—	12,485	2,190	1,755	14,240	2,190	16,430	(1,573	2012
Mooresville, NC	(5,888	7,411	701	216	7,627	701	8,328	(1,312	2011
Mountain Home, NC	—	2,472	523	—	2,472	523	2,995	(230	2014
Murfreesboro, TN	—	2,863	722	—	2,863	722	3,585	(338	2014
Nashua, NH	—	8,682	1,431	—	8,682	1,431	10,113	(942	2014
Nashville, TN	—	3,601	547	—	3,601	547	4,148	(391	2013
Newark, DE	—	1,478	197	392	1,870	197	2,067	(480	2007
Newark, DE	—	1,891	232	194	2,085	232	2,317	(612	2007
New Berlin, WI	—	6,500	1,068	141	6,641	1,068	7,709	(886	2013
New Castle, DE	—	17,767	2,616	—	17,767	2,616	20,383	(338	2016
New Hope, MN	—	1,970	1,919	—	1,970	1,919	3,889	(345	2013
Lopatcong, NJ	—	9,154	1,554	193	9,347	1,554	10,901	(476	2011
Piscataway, NJ	—	5,655	640	620	6,275	640	6,915	(1,480	2011
Newton, NC	—	3,814	732	86	3,900	732	4,632	(573	2011
North Haven, CT	—	39,911	4,086	1,384	41,295	4,086	45,381	(3,132	2015
North Jackson, OH	—	4,427	1,528	—	4,427	1,528	5,955	(469	2013
North Jackson, OH	(7,435	5,795	486	170	5,965	486	6,451	(734	2011
Norcorss, GA	—	2,586	1,589	—	2,586	1,589	4,175	(132	2016
Norton, MA	—	6,740	2,839	—	6,740	2,839	9,579	(1,192	2011

Novi, MI	(2,774)	3,879	252	—	3,879	252	4,131	(659)	2012
Novi, MI	—	6,035	626	—	6,035	626	6,661	(310)	2015
Oakwood Village, OH	—	3,091	343	—	3,091	343	3,434	(254)	2015
Ocala, FL	—	13,296	731	952	14,248	731	14,979	(1,409)	2013
O'Fallon, MO	(2,634)	2,676	1,242	266	2,942	1,242	4,184	(500)	2011
O'Hara, PA	(15,909)	18,875	1,435	4,999	23,874	1,435	25,309	(3,036)	2012
Oklahoma City, OK	—	2,211	746	—	2,211	746	2,957	(23)	2016
Oklahoma City, OK	—	9,199	1,614	1,354	10,553	1,614	12,167	(488)	2015
Olathe, KS	—	20,763	2,431	—	20,763	2,431	23,194	(195)	2016
Orlando, FL	—	4,839	1,339	—	4,839	1,339	6,178	(588)	2013
Orlando, FL	—	1,996	721	—	1,996	721	2,717	(292)	2012
Pensacola, FL	—	2,989	145	111	3,100	145	3,245	(1,215)	2007
Phenix City, AL	(1,585)	1,493	276	140	1,633	276	1,909	(249)	2012
Phoenix, AZ	—	5,770	1,653	—	5,770	1,653	7,423	(340)	2015
Piedmont, SC	—	4,152	231	—	4,152	231	4,383	(216)	2015
Piedmont, SC	—	2,127	158	—	2,127	158	2,285	(115)	2015
Piedmont, SC	—	2,302	204	—	2,302	204	2,506	(195)	2015
Pineville, NC	—	1,380	392	—	1,380	392	1,772	(227)	2012
Plymouth, MI	—	4,670	365	—	4,670	365	5,035	(339)	2015
Pocatello, ID	—	3,472	399	135	3,607	399	4,006	(1,064)	2007
Portage, IN	—	5,416	—	—	5,416	—	5,416	(613)	2012

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City/State	Encumbrances (1)	Initial Cost to STAG Industrial, Inc.		Costs Capitalized Subsequent to Acquisition and Valuation Provision	Gross Amounts at Which Carried at December 31, 2016			Accumulated Depreciation (3)	Acq Date
		Building & Improvements (2)	Land		Building & Improvements	Land	Total		
Portland, TN	—	8,353	1,662	66	8,419	1,662	10,081	(1,387	2012
Portland, ME	(2,853	3,727	891	—	3,727	891	4,618	(507	2012
Rapid City, SD	—	10,662	2,071	836	11,498	2,071	13,569	(3,477	2007
Reading, PA	—	5,401	1,708	67	5,468	1,708	7,176	(176	2016
Muhlenberg TWP, PA	—	14,064	843	132	14,196	843	15,039	(1,982	2012
Reno, NV	—	3,461	1,372	—	3,461	1,372	4,833	(357	2014
Rock Hill, SC	(4,012	6,297	1,411	—	6,297	1,411	7,708	(114	2016
Rogers, MN	(10,014	11,787	1,671	238	12,025	1,671	13,696	(2,925	2011
Rogers, AR	—	8,280	1,072	99	8,379	1,072	9,451	(1,391	2011
Rural Hall, NC	—	5,664	439	147	5,811	439	6,250	(1,103	2011
Salem, OR	(2,741	3,150	599	640	3,790	599	4,389	(603	2011
Salem, OR	(1,231	1,452	266	433	1,885	266	2,151	(340	2011
San Antonio, TX	—	10,395	1,568	—	10,395	1,568	11,963	(61	2016
Sauk Village, IL	—	5,405	877	64	5,469	877	6,346	(621	2013
Savage, MN	—	3,996	3,194	493	4,489	3,194	7,683	(662	2014
Savannah, GA	—	13,219	439	—	13,219	439	13,658	(1,193	2014
Sergeant Bluff, IA	—	6,188	247	273	6,461	247	6,708	(3,667	2007
Seville, OH	—	4,536	766	171	4,707	766	5,473	(949	2011
Shannon, GA	—	12,969	393	—	12,969	393	13,362	(1,150	2013
South Holland, IL	—	3,900	714	—	3,900	714	4,614	(652	2013
Shreveport, LA	—	6,265	1,804	136	6,401	1,804	8,205	(460	2015
Simpsonville, SC	—	2,960	957	117	3,077	957	4,034	(442	2012
Simpsonville, SC	—	3,418	470	127	3,545	470	4,015	(462	2012
Smithfield, NC	—	4,694	613	12	4,706	613	5,319	(706	2011
Smyrna, GA	—	3,286	264	—	3,286	264	3,550	(485	2012
South Bend, IN	—	4,834	411	—	4,834	411	5,245	(666	2012
Sparks, MD	—	1,945	358	65	2,010	358	2,368	(751	2007
Spartanburg, SC	—	15,100	1,867	—	15,100	1,867	16,967	(122	2016
Spartanburg, SC	—	3,694	342	—	3,694	342	4,036	(370	2014
Spartanburg, SC	—	5,797	493	294	6,091	493	6,584	(728	2012
Springfield, OH	—	6,432	574	—	6,432	574	7,006	(745	2013
Statham, GA	—	6,130	588	200	6,330	588	6,918	(747	2012
Sterling Heights, MI	(1,529	4,197	513	415	4,612	513	5,125	(548	2012
Stoughton, MA	—	2,613	2,256	824	3,437	2,256	5,693	(606	2015
Stoughton, MA	—	1,216	538	—	1,216	538	1,754	(174	2015
Streetsboro, OH	(5,493	5,481	2,161	214	5,695	2,161	7,856	(1,340	2011
Strongsville, OH	—	5,853	491	23	5,876	491	6,367	(573	2014

Sun Prairie, WI	—	5,809	2,360	2,377	8,186	2,360	10,546	(1,176	2011
Toledo, OH	—	6,831	213	—	6,831	213	7,044	(976	2012
Burlington, NJ	—	—	3,267	167	167	3,267	3,434	—	2015
Libertyville, IL	—	—	369	2	2	369	371	—	2015
Libertyville, IL	—	—	397	2	2	397	399	—	2015
Tulsa, OK	—	8,242	966	—	8,242	966	9,208	(405	2015
Twinsburg, OH	—	8,027	590	—	8,027	590	8,617	(1,590	2007
Visalia, CA	—	21,839	4,346	—	21,839	4,346	26,185	(646	2016
Vonore, TN	(7,707	8,243	2,355	85	8,328	2,355	10,683	(1,571	2011
Waco, TX	—	1,394	—	274	1,668	—	1,668	(244	2011
West Allis, WI	—	1,905	462	—	1,905	462	2,367	(97	2015
West Allis, WI	—	1,860	444	—	1,860	444	2,304	(91	2015
West Allis, WI	—	929	252	—	929	252	1,181	(48	2015
West Allis, WI	—	1,039	251	—	1,039	251	1,290	(51	2015
Walker, MI	(3,685	4,872	855	118	4,990	855	5,845	(949	2011
Ware Shoals, SC	(251	197	133	—	197	133	330	(29	2012
Warren, MI	—	14,473	1,290	—	14,473	1,290	15,763	(234	2016
West Chester, OH	—	8,868	936	—	8,868	936	9,804	(27	2016
West Chicago, IL	—	2,036	768	—	2,036	768	2,804	(8	2016
West Chicago, IL	—	674	382	—	674	382	1,056	(6	2016
West Chicago, IL	—	768	450	—	768	450	1,218	(5	2016
West Chicago, IL	—	895	369	—	895	369	1,264	(6	2016

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City/State	Encumbrances (1)	Initial Cost to STAG Industrial, Inc. Building & Improvements (2)	Land	Costs Capitalized Subsequent to Acquisition and Valuation Provision	Gross Amounts at Which Carried at December 31, 2016 Building & Improvements	Land	Total	Accumulated Depreciation (3)	Acq Date
West Chicago, IL	—	904	216	—	904	216	1,120	(4)	2016
West Chicago, IL	—	6,247	915	59	6,306	915	7,221	(225)	2016
West Columbia, SC	—	9,570	488	—	9,570	488	10,058	(29)	2016
West Columbia, SC	—	4,646	551	—	4,646	551	5,197	(33)	2016
Westborough, MA	—	5,808	661	—	5,808	661	6,469	(68)	2016
Hamilton, OH	—	8,585	1,046	—	8,585	1,046	9,631	(1,290)	2014
Wichita, KS	(1,529)	1,815	88	11	1,826	88	1,914	(214)	2012
Wichita, KS	(1,671)	1,839	107	57	1,896	107	2,003	(257)	2012
Wichita, KS	(764)	833	76	131	964	76	1,040	(109)	2012
Williamsport, PA	—	9,059	688	—	9,059	688	9,747	(1,150)	2013
Winston-Salem, NC	—	11,054	610	16	11,070	610	11,680	(949)	2014
Wood Dale, IL	—	5,042	1,226	—	5,042	1,226	6,268	(30)	2016
Woodstock, IL	—	3,796	496	—	3,796	496	4,292	(520)	2012
Yorkville, WI	(4,044)	4,915	416	—	4,915	416	5,331	(339)	2014
Bardstown, KY	—	2,398	379	—	2,398	379	2,777	(617)	2007
Total	$(164,326)	$1,673,800	$272,162	$63,754	$1,737,554	$272,162	$2,009,716	$(187,413)	

(1) Balance excludes the unamortized balance of fair market value premiums of approximately $0.1 million and unamortized deferred financing fees and debt issuance costs of approximately $6.3 million.

(2) The initial costs of building and improvements is the acquisition costs less asset impairment write-downs and disposals of building and tenant improvements.

(3) Depreciation expense is computed using the straight-line method based on the following lives:

Building	40 Years
Building and land improvements	Up to 20 years
Tenant improvements	Shorter of useful life or terms of related lease

As of December 31, 2016, the aggregate cost for federal income tax purposes of investments in real estate was approximately $2.6 billion.

	Year ended December 31, 2016	2015	2014
Real Estate:			
Balance at beginning of period	$1,711,612	$1,415,965	$1,079,046

Additions during period			
Other acquisitions	381,131	330,504	337,726
Improvements, etc.	33,133	16,851	13,608
Other additions	—	—	—
Deductions during period			
Cost of real estate sold	(97,342)	(21,443)	(10,539)
Write-off of tenant improvements	(2,585)	(1,205)	(1,036)
Asset impairments and involuntary conversion	(16,233)	(29,060)	(2,840)
Balance at the end of the period	$2,009,716	$1,711,612	$1,415,965
Accumulated Depreciation:			
Balance at beginning of period	$147,917	$105,435	$71,653
Additions during period			
Depreciation and amortization expense	57,391	48,186	36,356
Other additions	—	—	—
Deductions during period			
Disposals	(17,895)	(5,704)	(2,574)
Balance at the end of the period	$187,413	$147,917	$105,435

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EXHIBIT INDEX

Exhibit Number	Description of Document
3.1	Articles of Amendment and Restatement of STAG Industrial, Inc. (including all articles of amendment and articles supplementary) (1)
3.2	Amended and Restated Bylaws of STAG Industrial, Inc. (2)
4.1	Form of Common Stock Certificate of STAG Industrial, Inc. (3)
4.2	Form of Certificate for the 6.625% Series B Cumulative Redeemable Preferred Stock of STAG Industrial, Inc. (4)
4.3	Form of Certificate for the 6.875% Series C Cumulative Redeemable Preferred Stock of STAG Industrial, Inc. (5)
10.1	Amended and Restated Agreement of Limited Partnership of STAG Industrial Operating Partnership, L.P. (6)
10.2	First Amendment to the Amended and Restated Agreement of Limited Partnership of STAG Industrial Operating Partnership, L.P. (7)
10.3	Second Amendment to the Amended and Restated Agreement of Limited Partnership of STAG Industrial Operating Partnership, L.P. (8)
10.4	Third Amendment to the Amended and Restated Agreement of Limited Partnership of STAG Industrial Operating Partnership, L.P. (9)
10.5	2011 Equity Incentive Plan (10)*
10.6	Amendment to the 2011 Equity Incentive Plan, dated as of May 6, 2013 (11)*
10.7	Second Amendment to the 2011 Equity Incentive Plan, dated as of February 20, 2015 (12)*
10.8	2015 Outperformance Program (13)*
10.9	Form of LTIP Unit Agreement (10)*
10.10	Form of Performance Award Agreement (1)*
10.11	Amended and Restated Executive Employment Agreement with Benjamin S. Butcher, dated May 4, 2015 (14)*
10.12	Executive Employment Agreement with William R. Crooker, dated February 25, 2016 (11)*
10.13	Executive Employment Agreement with Stephen C. Mecke, dated April 20, 2011 (6)*
10.14	Executive Employment Agreement with Jeffrey M. Sullivan, dated October 27, 2014 (6)*
10.15	Executive Employment Agreement with David G. King, dated April 20, 2011 (6)*
10.16	Executive Employment Agreement with Peter S. Fearey, dated February 25, 2016 (1)*
10.17	Form of Indemnification Agreement between STAG Industrial, Inc. and its directors and officers (17)*
10.18	Registration Rights Agreement, dated April 20, 2011, by and among STAG Industrial, Inc., STAG Industrial Operating Partnership, L.P. and the persons named therein (6)
10.19	Services Agreement between STAG Industrial Management, LLC and STAG Manager II, LLC, as amended (18)
10.20	Credit Agreement, dated as of December 18, 2014, among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc., Wells Fargo Bank, National Association, and the other lenders party thereto (19)
10.21	First Amendment to Credit Agreement, dated as of September 29, 2015, among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc., Wells Fargo Bank, National Association, and the other lenders party thereto (20)
10.22	Second Amended and Restated Term Loan Agreement, dated as of December 20, 2016, by and among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc., Wells Fargo Bank, National Association, and the other lenders party thereto (21)
10.23	Amended and Restated Term Loan Agreement, dated as of December 20, 2016, by and among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc., Wells Fargo Bank, National Association, and the other lenders party thereto (21)
10.24	Term Loan Agreement, dated as of September 29, 2015, by and among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc., Wells Fargo Bank, National Association, and the other lenders party thereto (20)
10.25	Note Purchase Agreement, dated as of April 16, 2014, by and among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc. and the purchasers named therein (22)

10.26	First Amendment to Note Purchase Agreement, dated as of December 18, 2014, among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc. and the noteholders named therein (19)

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Exhibit Number	Description of Document
10.27	Second Amendment to Note Purchase Agreement, dated as of December 1, 2015, among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc. and the noteholders named therein (23)
10.28	Note Purchase Agreement, dated as of December 18, 2014, among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc. and the purchasers named therein (19)
10.29	First Amendment to Note Purchase Agreement, dated as of December 1, 2015, among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc. and the noteholders named therein (23)
10.30	Note Purchase Agreement, dated as of December 1, 2015, among STAG Industrial Operating Partnership, L.P., STAG Industrial, Inc. and the purchasers named therein (23)
12.10	Computation of ratios of earnings to fixed charges and earnings to fixed charges and preferred stock dividends
21.10	Subsidiaries of STAG Industrial, Inc.
23.10	Consent of PricewaterhouseCoopers LLP
24.10	Power of Attorney (included on signature page)
31.10	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.0	The following materials from STAG Industrial, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income (Loss), (vi) the Consolidated Statements of Equity, (v) the Consolidated Statements of Cash Flows, and (vi) related notes to these consolidated financial statements.

* Represents management contract or compensatory plan or arrangement.

(1) Incorporated by reference to STAG Industrial, Inc.'s Quarterly Report on Form 10-Q filed with the SEC on May 3, 2016.

(2) Incorporated by reference to STAG Industrial, Inc.'s Registration Statement on Form S-11/A (File No. 333-168368) filed with the SEC on April 8, 2011.

(3) Incorporated by reference to STAG Industrial, Inc.'s Registration Statement on Form S-11/A (File No. 333-168368) filed with the SEC on September 24, 2010.

(4) Incorporated by reference to STAG Industrial, Inc.'s Registration Statement on Form 8-A filed with the SEC on April 11, 2013.

(5) Incorporated by reference to STAG Industrial, Inc.'s Registration Statement on Form 8-A filed with the SEC on March 10, 2016.

(6) Incorporated by reference to STAG Industrial, Inc.'s Current Report on Form 8-K filed with the SEC on April 21, 2011.

(7) Incorporated by reference to STAG Industrial, Inc.'s Current Report on Form 8-K filed with the SEC on November 2, 2011.

(8) Incorporated by reference to STAG Industrial, Inc.'s Current Report on Form 8-K filed with the SEC on April 16, 2013.

(9) Incorporated by reference to STAG Industrial, Inc.'s Current Report on Form 8-K filed with the SEC on March 18, 2016.

(10) Incorporated by reference to STAG Industrial, Inc.'s Registration Statement on Form S-11/A (File No. 333-168368) filed with the SEC on April 5, 2011.

(11) Incorporated by reference to STAG Industrial, Inc.'s Current Report on Form 8-K filed with the SEC on May 6, 2013.

(12) Incorporated by reference to STAG Industrial, Inc.'s Annual Report on Form 10-K filed with the SEC on February 23, 2015.

(13) Incorporated by reference to STAG Industrial, Inc.'s Current Report on Form 8-K filed with the SEC on January 15, 2015.

(14) Incorporated by reference to STAG Industrial, Inc.'s Quarterly Report on Form 10-Q filed with the SEC on July 23, 2015.

(15) Incorporated by reference to STAG Industrial, Inc.'s Current Report on Form 8-K filed with the SEC on May 16, 2014.

(16) Incorporated by reference to STAG Industrial, Inc.'s Quarterly Report on Form 10-Q filed with the SEC on October 31, 2014.

(17) Incorporated by reference to STAG Industrial, Inc.'s Registration Statement on Form S-11/A (File No. 333-168368) filed with the SEC on February 16, 2011.

(18) Incorporated by reference to STAG Industrial, Inc.'s Annual Report on Form 10-K filed with the SEC on February 26, 2014.

(19) Incorporated by reference to STAG Industrial, Inc.'s Current Report on Form 8-K filed with the SEC on December 19, 2014.

(20) Incorporated by reference to STAG Industrial, Inc.'s Current Report on Form 8-K filed with the SEC on October 1, 2015.

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(21) Incorporated by reference to STAG Industrial, Inc.'s Current Report on Form 8-K filed with the SEC on December 27, 2016.

(22) Incorporated by reference to STAG Industrial, Inc.'s Current Report on Form 8-K filed with the SEC on April 22, 2014.

(23) Incorporated by reference to STAG Industrial, Inc.'s Current Report on Form 8-K filed with the SEC on December 4, 2015.