STAG Industrial, Inc.
Form 10-Q
May 03, 2016
Table of Contents

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2016

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 1-34907

STAG INDUSTRIAL, INC.
(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	27-3099608 (IRS Employer Identification No.)
One Federal Street, 23rd Floor Boston, Massachusetts (Address of principal executive offices)	02110 (Zip Code)

(617) 574-4777
(Registrant's telephone number, including area code)

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer’s classes of common and preferred stock as of the latest practicable date.

Class	Outstanding at April 29, 2016
Common Stock ($0.01 par value)	68,186,375
9.0 % Series A Cumulative Redeemable Preferred Stock ($0.01 par value)	2,760,000
6.625 % Series B Cumulative Redeemable Preferred Stock ($0.01 par value)	2,800,000
6.875 % Series C Cumulative Redeemable Preferred Stock ($0.01 par value)	3,000,000

Table of Contents

STAG INDUSTRIAL, INC.
Table of Contents

Table of Contents

Part I. Financial Information
Item 1. Financial Statements

STAG Industrial, Inc.
Consolidated Balance Sheets
(unaudited, in thousands, except share data)

	March 31, 2016	December 31, 2015
Assets		
Rental Property:		
Land	$229,288	$228,919
Buildings and improvements, net of accumulated depreciation of $160,820 and $150,395, respectively	1,328,602	1,332,298
Deferred leasing intangibles, net of accumulated amortization of $209,898 and $200,758, respectively	263,867	276,272
Total rental property, net	1,821,757	1,837,489
Cash and cash equivalents	15,469	12,011
Restricted cash	8,403	8,395
Tenant accounts receivable, net	22,425	21,478
Prepaid expenses and other assets	26,896	23,888
Interest rate swaps	—	1,867
Assets held for sale, net	2,996	—
Total assets	$1,897,946	$1,905,128
Liabilities and Equity		
Liabilities:		
Unsecured credit facility	$6,000	$56,000
Unsecured term loans	299,779	299,769
Unsecured notes	399,384	399,366
Mortgage notes	214,727	230,937
Accounts payable, accrued expenses and other liabilities	28,139	25,662
Interest rate swaps	13,732	3,766
Tenant prepaid rent and security deposits	13,318	14,628
Dividends and distributions payable	8,527	8,234
Deferred leasing intangibles, net of accumulated amortization of $8,514 and $8,536, respectively	10,830	11,387
Total liabilities	994,436	1,049,749
Commitments and contingencies (Note 10)		
Equity:		
Preferred stock, par value $0.01 per share, 15,000,000 shares authorized,		
Series A, 2,760,000 shares (liquidation preference of $25.00 per share) issued and outstanding at March 31, 2016 and December 31, 2015	69,000	69,000
Series B, 2,800,000 shares (liquidation preference of $25.00 per share) issued and outstanding at March 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 March 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, 68,182,802 and 68,077,333 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	682	681
Additional paid-in capital	1,016,764	1,017,394

Common stock dividends in excess of earnings	(349,881)	(334,623)
Accumulated other comprehensive loss	(13,567)	(2,350)
Total stockholders' equity	867,998	820,102
Noncontrolling interest	35,512	35,277
Total equity	903,510	855,379
Total liabilities and equity	$ 1,897,946	$ 1,905,128

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

Table of Contents

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

	Three months ended March 31,	
	2016	2015
Revenue		
Rental income	$51,349	$ 43,249
Tenant recoveries	9,442	7,587
Other income	81	153
Total revenue	60,872	50,989
Expenses		
Property	12,655	10,246
General and administrative	11,019	7,530
Property acquisition costs	552	318
Depreciation and amortization	30,280	26,129
Other expenses	260	186
Total expenses	54,766	44,409
Other income (expense)		
Interest income	3	3
Interest expense	(10,847)	(8,010)
Loss on extinguishment of debt	(1,134)	—
Gain on the sales of rental property	17,673	—
Total other income (expense)	5,695	(8,007)
Net income (loss) from continuing operations	$11,801	$ (1,427)
Net income (loss)	$11,801	$ (1,427)
Less: income (loss) attributable to noncontrolling interest after preferred stock dividends	455	(198)
Net income (loss) attributable to STAG Industrial, Inc.	$11,346	$ (1,229)
Less: preferred stock dividends	2,912	2,712
Less: amount allocated to participating securities	100	101
Net income (loss) attributable to common stockholders	$8,334	$ (4,042)
Weighted average common shares outstanding — basic	67,889,217	64,286,213
Weighted average common shares outstanding — diluted	67,964,559	64,286,213
Income (loss) per share — basic and diluted		
Income (loss) from continuing operations attributable to common stockholders - basic	$0.12	$ (0.06)
Income (loss) from continuing operations attributable to common stockholders - diluted	$0.12	$ (0.06)

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

Table of Contents

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

	Three months ended March 31,	
	2016	2015
Net income (loss)	$11,801	$(1,427)
Other comprehensive loss:		
Loss on interest rate swaps	(11,823)	(4,005)
Other comprehensive loss	(11,823)	(4,005)
Comprehensive loss	(22)	(5,432)
Net (income) loss attributable to noncontrolling interest after preferred stock dividends	(455)	198
Other comprehensive loss attributable to noncontrolling interest	606	192
Comprehensive income (loss) attributable to STAG Industrial, Inc.	$129	$(5,042)

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

Table of Contents

STAG Industrial, Inc.
Consolidated Statements of Equity
(unaudited, 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 Loss	Total Stockholders' Equity	Noncontrolling Interest - Unit holders in Operating Partnership	Total Equity
Three Months Ended March 31, 2016									
Balance, December 31, 2015	$139,000	68,077,333	$681	$1,017,394	$(334,623)	$(2,350)	$820,102	$35,277	$855,379
Proceeds from sale of series C preferred stock	75,000	—	—	—	—	—	75,000	—	75,000
Offering costs	—	—	—	(2,590)	—	—	(2,590)	—	(2,590)
Issuance of restricted stock, net	—	100,737	1	(1)	—	—	—	—	—
Issuance of common stock	—	4,732	—	—	—	—	—	—	—
Dividends and distributions, net	(2,912)	—	—	—	(23,692)	—	(26,604)	(1,284)	(27,888)
Non-cash compensation	—	—	—	841	—	—	841	2,790	3,631
Rebalancing of noncontrolling interest	—	—	—	1,120	—	—	1,120	(1,120)	—
Other comprehensive loss	—	—	—	—	—	(11,217)	(11,217)	(606)	(11,823)
Net income	2,912	—	—	—	8,434	—	11,346	455	11,801
Balance, March 31, 2016	$214,000	68,182,802	$682	$1,016,764	$(349,881)	$(13,567)	$867,998	$35,512	$903,510
Three Months Ended March 31, 2015									
Balance, December 31, 2014	$139,000	64,434,852	$644	$928,242	$(203,241)	$(489)	$864,156	$27,368	$891,524
Proceeds from sale of common stock	—	417,115	4	10,129	—	—	10,133	—	10,133
Offering costs	—	—	—	(202)	—	—	(202)	—	(202)
	—	92,119	1	(1)	—	—	—	—	—

Issuance of restricted stock, net									
Issuance of common stock	—	3,298	—	—	—	—	—	—	—
Dividends and distributions, net	(2,712)	—	—	—	(21,824)	—	(24,536)	(1,120)	(25,656)
Non-cash compensation	—	—	—	710	—	—	710	1,137	1,847
Redemption of common units for cash	—	—	—	—	—	—	—	(64)	(64)
Issuance of units	—	—	—	—	—	—	—	21,902	21,902
Rebalancing of noncontrolling interest	—	—	—	10,589	—	—	10,589	(10,589)	—
Other comprehensive loss	—	—	—	—	—	(3,813)	(3,813)	(192)	(4,005)
Net loss	2,712	—	—	—	(3,941)	—	(1,229)	(198)	(1,427)
Balance, March 31, 2015	$139,000	64,947,384	$649	$949,467	$(229,006)	$(4,302)	$855,808	$38,244	$894,052

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

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

	Three months ended March 31, 2016	2015
Cash flows from operating activities:		
Net income (loss)	$11,801	$(1,427)
Adjustment to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	30,280	26,129
Non-cash portion of interest expense	379	299
Intangible amortization in rental income, net	1,666	2,065
Straight-line rent adjustments, net	(424)	(1,293)
Dividends on forfeited equity compensation	2	—
Loss on extinguishment of debt	4	—
Gain on sales of rental property	(17,673)	—
Non-cash compensation expense	3,605	1,847
Change in assets and liabilities:		
Tenant accounts receivable, net	(461)	(468)
Restricted cash	(46)	(162)
Prepaid expenses and other assets	(4,280)	(3,096)
Accounts payable, accrued expenses and other liabilities	519	(2,242)
Tenant prepaid rent and security deposits	(1,285)	164
Total adjustments	12,286	23,243
Net cash provided by operating activities	24,087	21,816
Cash flows from investing activities:		
Acquisitions of land and buildings and improvements	(21,256)	(48,621)
Additions of land and building and improvements	(3,668)	(2,644)
Proceeds from sales of rental property, net	31,890	—
Restricted cash	38	(165)
Acquisition deposits, net	167	(480)
Acquisitions of deferred leasing intangibles	(6,571)	(14,795)
Net cash provided by (used in) investing activities	600	(66,705)
Cash flows from financing activities:		
Proceeds from sale of series C preferred stock	75,000	—
Redemption of common units for cash	—	(64)
Proceeds from unsecured credit facility	54,000	62,000
Repayment of unsecured credit facility	(104,000)	(120,000)
Proceeds from unsecured notes	—	120,000
Repayment of mortgage notes	(16,128)	(12,942)
Payment of loan fees and costs	(57)	(930)
Dividends and distributions	(27,597)	(25,314)
Proceeds from sales of common stock	—	10,133
Offering costs	(2,447)	(184)
Net cash provided by (used in) financing activities	(21,229)	32,699
Increase (decrease) in cash and cash equivalents	3,458	(12,190)
Cash and cash equivalents—beginning of period	12,011	23,878
Cash and cash equivalents—end of period	$15,469	$11,688
Supplemental disclosure:		

Cash paid for interest, net of capitalized interest	$8,721	$6,990
Supplemental schedule of non-cash investing and financing activities		
Issuance of units for acquisitions of land and building and improvements and deferred leasing intangibles	$—	$21,902
Acquisitions of land and buildings and improvements	$(39)	$(25,936)
Acquisitions of deferred leasing intangibles	$(16)	$(7,731)
Change in additions of land and building and improvements included in accounts payable, accrued expenses, and other liabilities	$(1,761)	$1,747
Additions to building and improvements from non-cash compensation expense	$(9)	$—
Assumption of mortgage note	$—	$11,765
Change in loan fees and costs and offering costs included in accounts payable, accrued expenses, and other liabilities	$(80)	$(22)
Dividends and distributions declared but not paid	$8,527	$7,696

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

Table of Contents

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

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 March 31, 2016 and December 31, 2015, the Company owned a 94.8% 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 March 31, 2016, the Company owned 292 buildings in 38 states with approximately 54.3 million rentable square feet, consisting of 224 warehouse/distribution buildings, 47 light manufacturing buildings and 21 flex/office buildings. The Company’s buildings were approximately 94.8% leased to 260 tenants as of March 31, 2016.

2. Summary of Significant Accounting Policies

Interim Financial Information

The accompanying interim financial statements have been presented in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and with the instructions to Form 10-Q and Regulation S-X for interim financial information. Accordingly, these statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, the accompanying interim financial statements include all adjustments, consisting of normal recurring items, necessary for their fair presentation in conformity with GAAP. Interim results are not necessarily indicative of results for a full year. The year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Company’s consolidated financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

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.

Reclassifications and New Accounting Pronouncements

Certain prior year amounts have been reclassified to conform to the current year presentation.

In March of 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (“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 flow. 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). 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

Table of Contents

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. Topic 842 supersedes the previous leases standard, Topic 840, Leases. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. 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.

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 $0.2 million, unsecured notes by approximately $0.6 million, and mortgage notes by approximately $0.2 million and a corresponding reduction of prepaid expenses and other assets by approximately $1.1 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 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 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 adoption of ASU 2014-15 is not expected to materially impact the Company’s 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. Revenue from a lease contract with a tenant is not within the scope of this revenue standard. In adopting ASU 2014-09, companies may use either a full retrospective or a modified retrospective approach. 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.

Table of Contents

Rental Property

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 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.

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 March 31, 2016 and December 31, 2015, the Company had an allowance for doubtful accounts of approximately $0.1 million and $0.1 million, respectively.

The Company accrues rental income earned, but not yet receivable, in accordance with GAAP. As of March 31, 2016 and December 31, 2015, the Company had accrued rental income of approximately $16.6 million and $16.1 million, respectively. The Company maintains an allowance for estimated losses that may result from those revenues. As of March 31, 2016 and December 31, 2015, the Company had an allowance on accrued rental income of $0 and $0, respectively.

As of March 31, 2016 and December 31, 2015, the Company had approximately $6.1 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 March 31, 2016 and December 31, 2015, the Company had approximately $4.2 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 March 31, 2016 and December 31, 2015, the Company's total liability associated with these lease security deposits was approximately $4.6 million and $4.5 million, respectively, and is included in tenant prepaid rent and security deposits on the accompanying Consolidated Balance Sheets.

Related Parties

As of March 31, 2016 and December 31, 2015, the Company had approximately $0.1 million and $0.1 million, respectively, of amounts due from related parties, which are included in prepaid expenses and other assets on the accompanying Consolidated Balance Sheets.

Revenue Recognition

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 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 $2.6 million and $2.5 million for the three months ended March 31, 2016 and March 31, 2015, respectively. These amounts would have been the maximum expense of the Company had the tenants not met their contractual obligations for these periods.

Termination Income

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 is being recognized on a straight-line basis from October 20,

Table of Contents

2015 through the relinquishment of the space on October 31, 2016 and approximately $54,000 is included in rental income on the accompanying Consolidated Statements of Operations for the three months ended March 31, 2016.

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. The Company's TRS recognized a net loss of $11,000 and $0, during the three months ended March 31, 2016 and March 31, 2015, respectively, which has been included on the accompanying Consolidated Statements of Operations.

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 $0.2 million and $0.2 million have been recorded in other expenses on the accompanying Consolidated Statements of Operations for the three months ended March 31, 2016 and March 31, 2015, 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 March 31, 2016 and December 31, 2015, there were no liabilities for uncertain tax positions.

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.

Table of Contents

3. Real Estate

The following table summarizes the components of rental property as of March 31, 2016 and December 31, 2015.

Rental property (in thousands)	March 31, 2016	December 31, 2015
Land	$229,288	$ 228,919
Buildings, net of accumulated depreciation of $110,783 and $104,297, respectively	1,227,133	1,232,360
Tenant improvements, net of accumulated depreciation of $27,262 and $26,283, respectively	21,902	23,586
Building and land improvements, net of accumulated depreciation of $22,775 and $19,815, respectively	74,635	74,694
Construction in progress	4,932	1,658
Deferred leasing intangibles, net of accumulated amortization of $209,898 and $200,758, respectively	263,867	276,272
Total rental property, net	$1,821,757	$ 1,837,489

Acquisitions

The following tables summarize the acquisitions of the Company during the three months ended March 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

The following table summarizes the allocation of the consideration paid at the date of acquisition during the three months ended March 31, 2016 for the acquired assets and liabilities in connection with the acquisitions identified in the table above.

Acquired assets and liabilities	Purchase price (in thousands)	Weighted average amortization period (years) of intangibles at acquisition
Land	$ 3,236	N/A
Buildings	15,879	N/A
Tenant improvements	138	N/A
Building and land improvements	2,042	N/A
Deferred leasing intangibles - In-place leases	3,990	4.5
Deferred leasing intangibles - Tenant relationships	2,541	7.4
Deferred leasing intangibles - Above market leases	245	3.9
Deferred leasing intangibles - Below market leases	(189)	5.2
Total purchase price	$ 27,882	

The table below sets forth the results of operations for the properties acquired during the three months ended March 31, 2016, included in the Company’s Consolidated Statements of Operations from the date of acquisition.

Results of operations (in thousands)	Three months ended March 31, 2016
Revenue	$ 127
Property acquisition costs	$ 521
Net income	$ 576

Table of Contents

The following tables set forth pro forma information for the three months ended March 31, 2016 and March 31, 2015, respectively. 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)	Three months ended March 31, 2016	
Total revenue	$61,309	
Net income	$12,954	(2)
Net income attributable to common stockholders	$9,428	

Pro Forma (in thousands) (3)	Three months ended March 31, 2015	
Total revenue	$53,112	
Net loss	$2,300	(2)
Net loss attributable to common stockholders	$4,873	

(1) The unaudited pro forma information for the three months ended March 31, 2016 is presented as if the properties acquired during the three months ended March 31, 2016 had occurred at January 1, 2015, the beginning of the reporting period prior to acquisition.

(2) The net income for the three months ended March 31, 2016 excludes approximately $0.5 million of property acquisition costs related to the acquisition of buildings that closed during the three months ended March 31, 2016, and the net loss for the three months ended March 31, 2015 was adjusted to include these acquisition costs. Net loss for the three months ended March 31, 2015 excludes approximately $0.2 million of property acquisition costs related to the acquisition of buildings that closed during the three months ended March 31, 2015.

(3) The unaudited pro forma information for the three months ended March 31, 2015 is presented as if the properties acquired during the three months ended March 31, 2016 and the properties acquired during the three months ended March 31, 2015 had occurred at January 1, 2015 and January 1, 2014, respectively, the beginning of the reporting period prior to acquisition.

Table of Contents

Dispositions

The following table summarizes the dispositions of the Company during the three months ended March 31, 2016 (in thousands, except for square feet and building count). All of the dispositions were accounted for under the full accrual method.

Location of property	Square Feet	Buildings	Carrying Value	Sales Price	Net Proceeds	Gain on Sale
Wichita, KS (1)	44,760	1				
Gresham, OR (2)	420,690	1				
Canton, OH (3)	398,000	1				
Orangeburg, SC (4)	319,000	1				
Three months ended March 31, 2016	1,182,450	4	$ 14,217	$ 32,800	$ 31,890	$ 17,673

(1) The building contributed approximately $0 and $0 to total revenue and approximately $34,000 (exclusive of the gain on sale of rental property and loss on extinguishment of debt) and $26,000 of net loss to the net income (loss) of the Company during the three months ended March 31, 2016 and March 31, 2015, respectively.

(2) The building contributed approximately $0.3 million and $0.4 million to total revenue and approximately ($8,000) (exclusive of the gain on sale of rental property and loss on extinguishment of debt) and $39,000 to net income (loss) of the Company during the three months ended March 31, 2016 and March 31, 2015, respectively.

(3) The building contributed approximately $0.3 million and $0.5 million to total revenue and approximately $0.1 million (exclusive of the gain on the sale of rental property) and ($17,000) to net income (loss) of the Company during the three months ended March 31, 2016 and March 31, 2015, respectively.

(4) The building contributed approximately $0.2 million and $0.3 million to total revenue and approximately $0.2 million (exclusive of the gain on sale of rental property) and $0.1 million to net income (loss) of the Company during the three months ended March 31, 2016 and March 31, 2015, respectively.

As of March 31, 2016, the related land, building and improvements, net, and deferred leasing intangibles, net, for two properties located in Kansas City, KS and Parsons, KS were classified as assets held for sale on the accompanying Consolidated Balance Sheets. In April 2016, the Company completed the sale of these properties.

Deferred Leasing Intangibles

The following table summarizes the deferred leasing intangibles on the accompanying Consolidated Balance Sheets as of March 31, 2016 and December 31, 2015.

	March 31, 2016			December 31, 2015		
Deferred Leasing Intangibles (in thousands)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Above market leases	$ 68,850	$ (32,879)	$ 35,971	$ 69,815	$ (31,554)	$ 38,261
Other intangible lease assets	404,915	(177,019)	227,896	407,215	(169,204)	238,011
Total deferred leasing intangible assets	$ 473,765	$ (209,898)	$ 263,867	$ 477,030	$ (200,758)	$ 276,272
Below market leases	$ 19,344	$ (8,514)	$ 10,830	$ 19,923	$ (8,536)	$ 11,387
Total deferred leasing intangible liabilities	$ 19,344	$ (8,514)	$ 10,830	$ 19,923	$ (8,536)	$ 11,387

The following table sets forth the amortization expense and the net decrease to rental revenue for the amortization of deferred leasing intangibles during the three months ended March 31, 2016 and March 31, 2015.

	Three months ended March 31,	
Deferred Leasing Intangibles Amortization (in thousands)	2016	2015
	$ 1,666	$ 2,064

Net decrease to rental revenue related to above and below market lease amortization				
Amortization expense related to other intangible lease assets	$	15,913	$	14,275

The following table sets forth the amortization of deferred leasing intangibles over the next five years as of March 31, 2016.

Year	Amortization Expense Related to Other Intangible Lease Assets (in thousands)	Net Decrease to Rental Revenue Related to Above and Below Market Lease Amortization (in thousands)
Remainder of 2016	$ 44,659	$ 4,695
2017	$ 50,687	$ 4,796
2018	$ 40,003	$ 3,557
2019	$ 29,529	$ 3,242
2020	$ 22,463	$ 3,078

Table of Contents

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 March 31, 2016 and December 31, 2015.

Loan	Principal outstanding as of March 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)	$ 6,000	$ 56,000	L + 1.20%	Dec-18-2019	i
Total unsecured credit facility	6,000	56,000			
Unsecured term loans:					