Spirit Realty Capital, Inc.
Form 10-Q
November 06, 2015

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

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-36004

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
As of November 2, 2015, there were 441,394,341 shares of common stock, par value $0.01, of Spirit Realty Capital, Inc. outstanding.

SPIRIT REALTY CAPITAL, INC.
INDEX

GLOSSARY

Definitions:

1031 Exchange	Tax-deferred like-kind exchange of properties held for business or investment purposes, pursuant to Section 1031 of the Code
2013 Credit Facility	$400.0 million secured credit facility pursuant to the credit agreement between the Operating Partnership and certain lenders dated July 17, 2013
2015 Credit Facility	$600.0 million unsecured credit facility pursuant to the Credit Agreement
2019 Notes	$402.5 million convertible notes of the Corporation due in 2019
2021 Notes	$345.0 million convertible notes of the Corporation due in 2021
Additional Collateral Deposit	A cash reserve deposit or letter of credit in the amount of $8.0 million required pursuant to an amendment of a certain CMBS loan agreement
AFFO	Adjusted Funds From Operations
AOCL	Accumulated Other Comprehensive Loss
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
ATM Program	At the Market equity distribution program, pursuant to which the Corporation may offer and sell registered shares of common stock from time to time
CAM	Tenant Common Area Maintenance costs
CMBS	Commercial Mortgage Backed Securities
Code	Internal Revenue Code of 1986, as amended
Cole II	Cole Credit Property Trust II, Inc.
Cole II Merger	Acquisition on July 17, 2013 of Cole II by the Company, in which the Company merged with and into the Cole II legal entity
Collateral Pools	Pools of collateral assets that are pledged to the indenture trustee for the benefit of the noteholders and secure obligations of issuers under the Spirit Master Funding Program
Company	The Corporation and its consolidated subsidiaries
Convertible Notes	The 2019 Notes and 2021 Notes, together
Corporation	Spirit Realty Capital, Inc., a Maryland corporation
CPI	Consumer Price Index
Credit Agreement	2015 credit facility agreement between the Operating Partnership and certain lenders dated March 31, 2015, as amended on November 3, 2015
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
Excess Cash	Rent received in excess of debt service obligations
Exchange Act	Securities Exchange Act of 1934, as amended
Exchange Offer	Offer to exchange the outstanding principal balance of three series of existing net-lease mortgage notes for three series of newly issued Master Trust 2014 notes in May 2014
FASB	Financial Accounting Standards Board
FFO	Funds From Operations
GAAP	Generally Accepted Accounting Principles
Incentive Award Plan	Spirit Realty Capital, Inc. and Spirit Realty, L.P. 2012 Incentive Award Plan
IPO	Initial Public Offering
LIBOR	London Interbank Offered Rate
Line of Credit	$40.0 million secured revolving credit facility pursuant to the loan agreement between an indirect wholly-owned subsidiary of the Corporation and a certain lender dated March 27, 2013, as amended
Master Trust 2013	The net-lease mortgage securitization trust established in December 2013 under the Spirit Master Funding Program
Master Trust 2014	

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

Definitions:

Master Trust Exchange Costs	Legal, accounting and financial advisory services costs incurred in connection with the Exchange Offer
Master Trust Notes	The Master Trust 2013 and Master Trust 2014 notes, together
Master Trust Release	Proceeds from the sale of assets securing the Master Trust Notes held in restricted accounts until a qualifying substitution is made
Moody's	Moody's Investor Services
NAREIT	National Association of Real Estate Investment Trusts
Normalized Rental Revenue	Total rental revenue normalized to exclude rental revenues contributed by properties sold during a given period
Normalized Revenue	Total revenue normalized to exclude revenues contributed by properties sold during a given period
OP Holdings	Spirit General OP Holdings, LLC
Operating Partnership	Spirit Realty, L.P., a Delaware limited partnership
REIT	Real Estate Investment Trust
Revolving Credit Facilities	The 2013 Credit Facility, the 2015 Credit Facility and Line of Credit, together
S&P	Standard & Poor's Rating Services
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
Shopko	Specialty Retail Shops Holding Corp. and certain of its affiliates
Spirit Master Funding Program	The Company's asset-backed securitization program that comprises Master Trust 2013 and Master Trust 2014
Term Loan	$325.0 million senior unsecured term facility pursuant to the Term Loan Agreement
Term Loan Agreement	Term loan agreement between the Operating Partnership and certain lenders dated November 3, 2015
Total Debt	Principal debt outstanding before discounts or premiums
TSR	Total Shareholder Return
Walgreens	Walgreen Company

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

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

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Investments:		
Real estate investments:		
Land and improvements	$2,702,922	$2,614,630
Buildings and improvements	4,779,228	4,579,166
Total real estate investments	7,482,150	7,193,796
Less: accumulated depreciation	(826,280)	(752,210)
	6,655,870	6,441,586
Loans receivable, net	106,944	109,425
Intangible lease assets, net	543,620	590,073
Real estate assets under direct financing leases, net	44,353	56,564
Real estate assets held for sale, net	78,007	119,912
Net investments	7,428,794	7,317,560
Cash and cash equivalents	28,210	176,181
Deferred costs and other assets, net	143,808	185,507
Goodwill	291,421	291,421
Total assets	$7,892,233	$7,970,669
Liabilities and stockholders’ equity		
Liabilities:		
Revolving Credit Facilities	$75,000	$15,114
Mortgages and notes payable, net	3,242,922	3,629,998
Convertible Notes, net	687,062	678,190
Total debt, net	4,004,984	4,323,302
Intangible lease liabilities, net	200,601	205,968
Accounts payable, accrued expenses and other liabilities	131,426	123,298
Total liabilities	4,337,011	4,652,568
Commitments and contingencies (see Note 7)		
Stockholders’ equity:		
Common stock, $0.01 par value; 442,054,205 issued shares and 441,411,091 outstanding shares at September 30, 2015 and 411,824,039 issued shares and 411,350,440 outstanding shares at December 31, 2014	4,421	4,118
Capital in excess of par value	4,718,765	4,361,320
Accumulated deficit	(1,159,685)	(1,041,392)
Accumulated other comprehensive loss	(1,717)	(1,083)
Treasury stock, at cost	(6,562)	(4,862)
Total stockholders’ equity	3,555,222	3,318,101
Total liabilities and stockholders’ equity	$7,892,233	$7,970,669

See accompanying notes.

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

	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Revenues:				
Rentals	$159,183	$145,591	$473,308	$426,212
Interest income on loans receivable	1,764	1,805	5,216	5,463
Earned income from direct financing leases	725	837	2,299	2,521
Tenant reimbursement income	3,780	3,308	11,903	9,548
Other income and interest from real estate transactions	2,973	754	5,920	4,312
Total revenues	168,425	152,295	498,646	448,056
Expenses:				
General and administrative	12,265	11,995	36,837	33,496
Finance restructuring costs	—	(11)	—	13,022
Property costs	6,496	5,357	20,317	17,215
Real estate acquisition costs	576	865	2,122	2,372
Interest	54,673	53,535	168,754	163,926
Depreciation and amortization	64,493	62,069	195,460	184,586
Impairments	20,832	12,727	56,222	42,061
Total expenses	159,335	146,537	479,712	456,678
Income (loss) from continuing operations before other income (expense) and income tax expense	9,090	5,758	18,934	(8,622)
Other income (expense):				
Gain (loss) on debt extinguishment	342	212	2,489	(64,496)
Total other income (expense)	342	212	2,489	(64,496)
Income (loss) from continuing operations before income tax expense	9,432	5,970	21,423	(73,118)
Income tax expense	(184)	(242)	(707)	(586)
Income (loss) from continuing operations	9,248	5,728	20,716	(73,704)
Discontinued operations:				
(Loss) income from discontinued operations	(41)	288	90	3,621
Gain on disposition of assets	—	403	590	488
(Loss) income from discontinued operations	(41)	691	680	4,109
Income (loss) before gain on disposition of assets	9,207	6,419	21,396	(69,595)
Gain on disposition of assets	7,960	1,251	81,986	1,683
Net income (loss) attributable to common stockholders	$17,167	$7,670	$103,382	$(67,912)
Net income (loss) per share of common stock—basic:				
Continuing operations	$0.04	$0.02	$0.24	$(0.19)
Discontinued operations	—	—	—	0.01
Net income (loss) per share attributable to common stockholders—basic	$0.04	$0.02	$0.24	$(0.18)
Net income (loss) per share of common stock—diluted:				

Continuing operations	$0.04	$0.02	$0.24	$(0.19)
Discontinued operations	—	—	—	0.01
Net income (loss) per share attributable to common stockholders—diluted	$0.04	$0.02	$0.24	$(0.18)
Weighted average shares of common stock outstanding:				
Basic	440,205,348	396,807,656	429,387,707	382,525,614
Diluted	440,353,965	397,613,583	429,738,776	382,525,614
Dividends declared per common share issued	$0.17000	$0.16625	$0.51000	$0.49875

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income (loss) attributable to common stockholders	$17,167	$7,670	$103,382	$(67,912)
Other comprehensive income (loss):				
Change in net unrealized (losses) gains on cash flow hedges	(797)	237	(1,608)	(1,040)
Net cash flow hedge losses reclassified to operations	277	333	974	987
Total comprehensive income (loss)	$16,647	$8,240	$102,748	$(67,965)

See accompanying notes.

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

	Common Stock					Treasury Stock		
	Shares	Par Value	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Loss	Shares	Value	Total Stockholders' Equity
Balances, December 31, 2014	411,824,039	$ 4,118	$ 4,361,320	$ (1,041,392)	$ (1,083)	(473,599)	$ (4,862)	$ 3,318,101
Net income	—	—	—	103,382	—	—	—	103,382
Other comprehensive loss	—	—	—	—	(634)	—	—	(634)
Dividends declared on common stock	—	—	—	(221,216)	—	—	—	(221,216)
Repurchase of shares of common stock	—	—	—	—	—	(169,515)	(1,700)	(1,700)
Issuance of shares of common stock, net	29,610,100	296	346,915	—	—	—	—	347,211
Exercise of stock options	5,000	—	46	—	—	—	—	46
Stock-based compensation, net	615,066	7	10,484	(459)	—	—	—	10,032
Balances, September 30, 2015	442,054,205	$ 4,421	$ 4,718,765	$ (1,159,685)	$ (1,717)	(643,114)	$ (6,562)	$ 3,555,222

See accompanying notes.

8

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

	Nine Months Ended September 30,	
	2015	2014
Operating activities		
Net income (loss) attributable to common stockholders	$103,382	$(67,912)
Adjustments to reconcile net income (loss) attributable to common stockholders to net cash provided by operating activities:		
Depreciation and amortization	195,460	184,586
Impairments	56,256	42,061
Amortization of deferred financing costs	5,893	4,084
Derivative net settlements, amortization and other interest rate hedge losses	(95)	(83)
Amortization of debt discounts (premiums)	1,670	(821)
Stock-based compensation expense	10,757	8,503
(Gain) loss on debt extinguishment	(2,489)	64,496
Debt extinguishment costs	(3,760)	(59,069)
Gains on dispositions of real estate and other assets, net	(82,576)	(2,171)
Non-cash revenue	(15,947)	(12,877)
Other	165	274
Changes in operating assets and liabilities:		
Deferred costs and other assets, net	(4,935)	(3,111)
Accounts payable, accrued expenses and other liabilities	7,433	(3,248)
Net cash provided by operating activities	271,214	154,712
Investing activities		
Acquisitions of real estate	(703,106)	(569,806)
Capitalized real estate expenditures	(7,449)	(3,244)
Investments in loans receivable	(4,020)	—
Collections of principal on loans receivable and real estate assets under direct financing leases	4,450	4,641
Proceeds from dispositions of real estate and other assets	397,325	37,886
Transfers of net sales proceeds (to) from restricted accounts pursuant to 1031 Exchanges	(2,489)	20,784
Transfers of net sales proceeds from (to) Master Trust Release	40,126	(20,240)
Net cash used in investing activities	(275,163)	(529,979)
Financing activities		
Borrowings under Revolving Credit Facilities	535,000	515,535
Repayments under Revolving Credit Facilities	(475,181)	(425,219)
Borrowings under Convertible Notes	—	757,500
Repayments under mortgages and notes payable	(347,242)	(562,104)
Deferred financing costs	(3,782)	(20,011)
Proceeds from issuance of common stock, net of offering costs	347,211	287,454
Proceeds from exercise of stock options	46	183
Offering costs paid on equity component of Convertible Notes	—	(1,609)
Purchase of treasury stock	(1,700)	(2,920)
Dividends paid/distributions to equity owners	(216,231)	(189,510)
Transfers from (to) reserve/escrow deposits with lenders	17,857	(490)
Net cash (used in) provided by financing activities	(144,022)	358,809
Net decrease in cash and cash equivalents	(147,971)	(16,458)

Cash and cash equivalents, beginning of period	176,181	66,588
Cash and cash equivalents, end of period	$28,210	$50,130

See accompanying notes.

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements
September 30, 2015
(Unaudited)

Note 1. Organization

Company Organization and Operations

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

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

As of September 30, 2015, our undepreciated investment in real estate and loans totaled approximately $8.26 billion, representing investments in 2,634 properties, including properties securing mortgage loans made by the Company. Of this amount, 98.7% consisted of our $8.15 billion investment in real estate, representing ownership of 2,489 properties, and the remaining 1.3% consisted of $106.9 million in commercial mortgage and other loans receivable, primarily secured by the remaining 145 properties or other related assets.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting and Principles of Consolidation

The accompanying unaudited consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the SEC. In the opinion of management, the unaudited consolidated financial statements include the normal, recurring adjustments necessary for a fair statement of the information required to be set forth therein. The results for interim periods are not necessarily indicative of the results for the entire year. Certain information and note disclosures, normally included in financial statements prepared in accordance with GAAP, have been condensed or omitted from these statements pursuant to SEC rules and regulations and, accordingly, these financial statements should be read in conjunction with the Company’s audited consolidated financial statements as filed with the SEC in its Annual Report on Form 10-K for the year ended December 31, 2014.

The unaudited consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company has formed numerous special purpose entities to acquire and hold real estate encumbered by indebtedness (see Note 4). As a result, the majority of the Company’s consolidated assets are held in these wholly-owned special purpose entities. Each special purpose entity is a separate legal entity and is the sole owner of its assets and responsible for its liabilities. The assets of these special purpose entities are not available to pay, or otherwise satisfy obligations to, the creditors of any affiliate or owner of another entity unless the special purpose entities have expressly agreed and are permitted under their governing documents. At September 30, 2015 and December 31, 2014, net assets totaling $4.76 billion and $5.68 billion, respectively, were held, and net liabilities totaling $3.37 billion and $3.77 billion, respectively, were owed by these special purpose entities and are included in the accompanying consolidated balance sheets.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although management believes its estimates are reasonable, actual results could differ from those estimates.

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
September 30, 2015
(Unaudited)

Reclassifications

Certain reclassifications have been made to prior period balances to conform to the current period presentation. During the quarter ended March 31, 2015, the Company elected to early adopt ASU 2015-03 described below under "New Accounting Pronouncements." Under ASU 2015-03, capitalized deferred financing costs, previously recorded in deferred costs and other assets on the consolidated balance sheet, are presented as a direct deduction from the carrying amount of the debt liability to which these costs relate, and this presentation is retrospectively applied to prior periods. For capitalized deferred financing costs that have been incurred relating to the 2013 Credit Facility and 2015 Credit Facility, the Company continues to present these costs in deferred costs and other assets, net on the accompanying consolidated balance sheets as amounts can be drawn and repaid periodically, which is in accordance with ASU 2015-15. As of December 31, 2014, unamortized deferred financing costs of approximately $46.3 million were previously presented in deferred costs and other assets, net on the consolidated balance sheet and are now included as a reduction of debt (see Note 4).

Segment Reporting

The Company views its operations as one segment, which consists of net leasing operations. The Company has no other reportable segments.

Allowance for Doubtful Accounts

The Company provided for reserves for uncollectible amounts related to its rent and other tenant receivables totaling $9.6 million and $8.4 million at September 30, 2015 and December 31, 2014, respectively, against accounts receivable balances of $27.3 million and $20.5 million, respectively. Receivables are recorded within deferred costs and other assets, net in the accompanying consolidated balance sheets.

The Company established a reserve for losses of $10.5 million and $10.9 million at September 30, 2015 and December 31, 2014, respectively, against deferred rental revenue receivables of $62.2 million and $48.3 million, respectively. Deferred rental revenue receivables are recorded within deferred costs and other assets, net in the accompanying consolidated balance sheets.

Restricted Cash and Escrow Deposits

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

	September 30, 2015	December 31, 2014
Collateral deposits [1]	$14,249	$29,483
Tenant improvements, repairs, and leasing commissions [2]	9,360	13,427
Master Trust Release [3]	12,943	53,069
1031 Exchange proceeds, net	2,489	—
Loan impounds [4]	663	794
Other [5]	969	3,571
	$40,673	$100,344

[1] Funds held in reserve by lenders which can be applied by lenders to the repayment of debt (any funds remaining on deposit after the debt is paid in full are released to the borrower).

[2] Deposits held as additional collateral support by lenders to fund tenant improvements, repairs and leasing commissions incurred to secure a new tenant.

[3] Proceeds from the sale of assets pledged as collateral under the Spirit Master Funding Program, which are held on deposit until a qualifying substitution is made or the funds are applied as prepayment of principal.

(4) Funds held in lender controlled accounts generally used to meet future debt service or certain property operating expenses.

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
September 30, 2015
(Unaudited)

(5) Funds held in lender controlled accounts released after debt service requirements are met.

Income Taxes

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

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

New Accounting Pronouncements

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

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires that deferred financing costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts or premiums. The amendments in this ASU are effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company early adopted the provisions of ASU 2015-03 beginning with the period ended March 31, 2015, and has applied the provisions retrospectively.

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which defers the effective date of ASU 2014-09, Revenue from Contracts with Customers, for all entities by one year. With the deferral, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017 with early application permitted for annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the financial statement impact of this ASU.

Also in August 2015, the FASB issued ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which clarifies the treatment of debt issuance costs from line-of-credit arrangements after adoption of ASU 2015-03. ASU 2015-15 clarifies that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably 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 has applied the provisions of ASU 2015-15 to the capitalized deferred financing costs related to its 2013 Credit Facility and 2015 Credit Facility.

Note 3. Investments

Real Estate Investments

As of September 30, 2015, the Company's investment in real estate and loans totaled approximately $8.26 billion, representing investments in 2,634 properties, including 145 properties securing mortgage loans. The investment is comprised of land, buildings, lease intangible assets and lease intangible liabilities, as adjusted for any impairment, and the carrying amount of loans receivable, real estate assets held under direct financing leases and real estate assets held for sale. The portfolio is geographically dispersed throughout 49 states with only one state, Texas, with a real estate investment of 12.1%, accounting for more than 10.0% of the total dollar amount of the Company's real estate investment portfolio.

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
September 30, 2015
(Unaudited)

The properties that the Company owns are leased to tenants under long-term operating leases that typically include one or more renewal options. The leases are generally triple-net, which provides that the lessee is responsible for the payment of all property operating expenses, including property taxes, maintenance and repairs, and insurance costs. Therefore, the Company is generally not responsible for repairs or other capital expenditures related to its properties, unless the property is not subject to a triple-net lease agreement or becomes vacant. Generally, the Company's single-tenant leases contain contractual provisions increasing the rental revenue over the term of the lease at specified dates by: (1) a fixed amount or (2) increases in CPI over a specified period (typically subject to ceilings) or (b) a fixed percentage.

During the nine months ended September 30, 2015, the Company had the following real estate and loan activity, net of accumulated depreciation and amortization:

	Number of Properties			Dollar Amount of Investments, Net		
	Owned [4]	Financed	Total	Owned	Financed	Total
				(In Thousands)		
Gross balance, December 31, 2014	2,364	145	2,509	$7,934,938	$109,425	$8,044,363
Acquisitions/improvements [1] [3]	198	—	198	710,555	4,020	714,575
Dispositions of real estate [2] [3]	(72)	—	(72)	(433,412)	—	(433,412)
Principal payments and payoffs	—	—	—	—	(4,308)	(4,308)
Impairments	—	—	—	(55,765)	(338)	(56,103)
Write-off of gross lease intangibles	—	—	—	(6,655)	—	(6,655)
Loan premium amortization and other	(1)	—	(1)	(142)	(1,855)	(1,997)
Gross balance, September 30, 2015	2,489	145	2,634	$8,149,519	$106,944	$8,256,463
Accumulated depreciation and amortization				(1,029,332)	—	(1,029,332)
Other non-real estate assets held for sale				1,062	—	1,062
Net balance, September 30, 2015				$7,121,249	$106,944	$7,228,193

(1) Includes investments of $6.7 million in revenue producing capitalized expenditures, as well as $0.7 million of non-revenue producing capitalized maintenance expenditures. Capitalized maintenance expenditures are not included in the Company's investment in real estate disclosed elsewhere.
(2) The total accumulated depreciation and amortization associated with these dispositions of real estate was $86.2 million.
(3) During the nine months ended September 30, 2015, pursuant to 1031 Exchanges, the Company sold 26 properties for $235.4 million and used $233.0 million of this amount to partially fund 97 property acquisitions.
(4) At both September 30, 2015 and December 31, 2014, 37 of the Company's properties were vacant and in the Company’s possession; of these vacant properties, 14 and 8, respectively, were held for sale.

Scheduled minimum future contractual rent to be received under the remaining non-cancelable term of the operating leases at September 30, 2015 (in thousands):

Remainder of 2015	$148,183
2016	578,651
2017	563,507
2018	548,796
2019	531,047
Thereafter	4,432,365

Total future minimum rentals	$6,802,549

Because lease renewal periods are exercisable at the option of the lessee, the preceding table presents future minimum lease payments due during the initial lease term only. In addition, the future minimum rentals do not include any

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
September 30, 2015
(Unaudited)

contingent rentals based on a percentage of the lessees' gross sales or lease escalations based on future changes in the CPI or other stipulated reference rate.

Certain of the Company's leases contain purchase options. Most of these options are at or above fair market value at the time the option is exercisable, and none of these purchase options represent bargain purchase options.

Loans Receivable

The following table details loans receivable, net of premium and allowance for loan losses (in thousands):

	September 30, 2015	December 31, 2014
Mortgage loans - principal	$92,374	$96,594
Mortgage loans - premium, net	10,598	12,452
Mortgages loans, net	102,972	109,046
Other note receivables - principal	4,310	379
Allowance for loan losses	(338)	—
Other note receivables, net	3,972	379
Total loans receivable, net	$106,944	$109,425

The mortgage loans are secured by single-tenant commercial properties and generally have fixed interest rates over the term of the loans. There are two other notes receivable, one $4.0 million note is secured by tenant assets and stock and the other is unsecured.

Allowance for Loan Losses

At September 30, 2015, there was an allowance for loan losses on an unsecured note receivable of $0.3 million compared to no allowance for loan losses at December 31, 2014. At September 30, 2015, one note receivable was on non-accrual status and no mortgage loans were on non-accrual status compared to no mortgage loans or note receivables on non-accrual status at December 31, 2014.

Lease Intangibles, Net

The following table details lease intangible assets and liabilities, net of accumulated amortization (in thousands):

	September 30, 2015	December 31, 2014
In-place leases	$656,217	$676,665
Above-market leases	98,806	100,568
Less: accumulated amortization	(211,403)	(187,160)
Intangible lease assets, net	$543,620	$590,073
Below-market leases	$242,336	$237,593
Less: accumulated amortization	(41,735)	(31,625)
Intangible lease liabilities, net	$200,601	$205,968

The amounts amortized as a net increase to rental revenue for capitalized above- and below-market leases were $4.3 million and $4.6 million for the nine months ended September 30, 2015 and 2014, respectively, and $1.5 million and $1.6 million for the three months ended September 30, 2015 and 2014, respectively. The value of in-place leases amortized and included in depreciation and amortization expense was $37.8 million and $40.0 million for the nine months ended September 30, 2015 and 2014, respectively, and $12.4 million and $13.1 million for the three months ended September 30, 2015 and 2014, respectively.

Real Estate Assets Under Direct Financing Leases

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
September 30, 2015
(Unaudited)

The components of real estate investments held under direct financing leases were as follows (in thousands):

	September 30, 2015	December 31, 2014
Minimum lease payments receivable	$13,456	$15,897
Estimated residual value of leased assets	43,789	55,858
Unearned income	(12,892)	(15,191)
Real estate assets under direct financing leases, net	$44,353	$56,564

Real Estate Assets Held for Sale

The following table shows the activity in real estate assets held for sale, for continuing and discontinued operations, for the nine months ended September 30, 2015:

	Number of Properties			Carrying Value		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
				(In Thousands)		
Balance, December 31, 2014	19	5	24	$110,918	$8,994	$119,912
Transfers from real estate investments	43	—	43	162,869	(34)	162,835
Sales	(35)	(2)	(37)	(200,265)	(4,475)	(204,740)
Balance, September 30, 2015	27	3	30	$73,522	$4,485	$78,007

Properties included in discontinued operations as of September 30, 2015 are collateral assets under the 2014 Master Trust securitization. The following table is a reconciliation of the major classes of assets and liabilities from discontinued operations included in real estate assets held for sale on the accompanying consolidated balance sheets (in thousands):

	September 30, 2015	December 31, 2014
Assets		
Land and improvements	$2,922	$5,351
Buildings and improvements	2,916	5,798
Total real estate investments	5,838	11,149
Less: accumulated depreciation	(1,202)	(2,167)
Intangible lease assets, net	297	460
Total assets	$4,933	$9,442
Liabilities		
Intangible lease liabilities, net	$448	$448
Total liabilities	$448	$448
Net assets	$4,485	$8,994

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
September 30, 2015
(Unaudited)

Impairments
The following table summarizes total impairment losses recognized in continuing and discontinued operations on the accompanying consolidated statements of operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Real estate and intangible asset impairment	$19,724	$10,783	$54,497	$37,030
Write-off of lease intangibles due to lease terminations, net	713	1,910	1,268	4,509
Loans receivable impairment	338	—	338	—
Total impairments from real estate investment net assets	20,775	12,693	56,103	41,539
Other impairment	57	34	153	522
Total impairment loss in continuing and discontinued operations	$20,832	$12,727	$56,256	$42,061

Note 4. Debt
The Company's debt is summarized below:

	Weighted Average Effective Interest Rates (1)		Weighted Average Stated Rates (2)		Weighted Average Term (3)	September 30, 2015	December 31, 2014
					(in Years)	(In Thousands)	
Revolving Credit Facilities	NM		1.74	%	3.5	$75,000	$15,181
Master Trust Notes	5.44	%	5.03	%	7.5	1,696,766	1,710,380
CMBS - fixed-rate	5.40	%	5.89	%	2.7	1,512,777	1,836,181
CMBS - variable-rate (4)	3.14	%	3.56	%	2.9	68,305	110,685
Convertible Notes	4.88	%	3.28	%	4.5	747,500	747,500
Unsecured fixed rate promissory note (5)	—		—		0.0	—	1,293
Total debt	5.32	%	4.95	%	5.0	4,100,348	4,421,220
Debt discount, net						(54,181)	(51,586)
Deferred financing costs, net (6)						(41,183)	(46,332)
Total debt, net						$4,004,984	$4,323,302

(1) The effective interest rates include amortization of debt discount/premium, amortization of deferred financing costs and non-utilization fees, where applicable, calculated for the three months ended September 30, 2015 and based on the average principal balance outstanding during the period. The average outstanding principal balance of the Revolving Credit Facilities was not significant during the three months ended September 30, 2015, resulting in an effective interest rate that was not meaningful.
(2) Represents the weighted average stated interest rate based on the outstanding principal balance as of September 30, 2015.
(3) Represents the weighted average time to maturity based on the outstanding principal balance as of September 30, 2015.
(4) Variable-rate notes are predominantly hedged with interest rate swaps (see Note 5).

(5) During the three months ended September 30, 2015, the Company repaid the outstanding balance of the unsecured fixed rate promissory note prior to maturity and recognized a loss on debt extinguishment of $0.1 million.
(6) The Company early adopted ASU 2015-03 requiring deferred financing costs to be presented as a direct deduction from the carrying amount of the related indebtedness. The Company records deferred financing costs for its 2013 Credit Facility and 2015 Credit Facility in deferred costs and other assets, net on its consolidated balance sheets, which is in accordance with ASU 2015-15.

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
September 30, 2015
(Unaudited)

Revolving Credit Facilities
2015 Credit Facility
On March 31, 2015, the Operating Partnership entered into the Credit Agreement that established a new $600.0 million unsecured credit facility and terminated its secured $400.0 million 2013 Credit Facility. The 2015 Credit Facility matures on March 31, 2019 (extendable at the Operating Partnership's option to March 31, 2020, subject to satisfaction of certain requirements). The 2015 Credit Facility includes an accordion feature to increase the committed facility size up to $1.0 billion, subject to satisfying certain requirements and obtaining additional lender commitments. The 2015 Credit Facility includes a $50.0 million sublimit for swingline loans and up to $60.0 million available for issuances of letters of credit. Swingline loans and letters of credit reduce availability under the 2015 Credit Facility on a dollar-for-dollar basis.
During the quarter ended September 30, 2015, the 2015 Credit Facility bore interest at LIBOR plus 1.55% based on the Company's leverage and incurred non-utilization fees of 0.25% per annum. If the Corporation obtains an investment grade rating of its senior unsecured long-term indebtedness of at least BBB- or Baa3 from S&P or Moody's, respectively, the Operating Partnership may make an irrevocable election to change the grid pricing from leverage based to credit rating based pricing. Upon such an event, the 2015 Credit Facility will bear interest at a rate equal to LIBOR plus 0.875% to 1.55% per annum and requires a facility fee in an amount equal to the aggregate revolving credit commitments (whether or not utilized) multiplied by a rate equal to 0.125% to 0.30% per annum, depending on the credit rating for the Corporation.
The Operating Partnership may voluntarily prepay the 2015 Credit Facility, in whole or in part, at any time, without premium or penalty, but subject to applicable LIBOR breakage fees, if any. Payment of the 2015 Credit Facility is unconditionally guaranteed by the Corporation and certain of its existing and future subsidiaries that are not currently securing or anticipated to secure other indebtedness. The 2015 Credit Facility is full recourse to the Operating Partnership and the aforementioned guarantors.

As a result of entering into the 2015 Credit Facility, the Company incurred origination costs of $3.7 million. These deferred financing costs are being amortized to interest expense over the remaining initial term of the 2015 Credit Facility. As of September 30, 2015, the unamortized deferred financing costs relating to the 2015 Credit Facility were $3.2 million and recorded in deferred costs and other assets, net on the accompanying consolidated balance sheets.

As of September 30, 2015, $75.0 million of borrowings were outstanding, $18.0 million of letters of credit were issued and $507.0 million of borrowing capacity was available under the 2015 Credit Facility. The Operating Partnership's ability to borrow under the 2015 Credit Facility is subject to ongoing compliance with a number of customary financial covenants and other customary affirmative and negative covenants. As of September 30, 2015, the Corporation and the Operating Partnership were in compliance with these financial covenants.
2013 Credit Facility
On March 31, 2015, the secured 2013 Credit Facility was terminated and its outstanding borrowings were repaid with proceeds from the 2015 Credit Facility. Properties securing this facility became unencumbered upon its termination. The 2013 Credit Facility's borrowing margin was LIBOR plus 2.50% based on the Company's leverage, with an unused fee of 0.35%. Upon terminating the 2013 Credit Facility, the Company recognized debt extinguishment costs of $2.0 million, resulting from the write-off of unamortized deferred financing costs.
Line of Credit
A special purpose entity indirectly owned by the Corporation has access to a $40.0 million secured revolving line of credit. The initial term of the Line of Credit expires in March 2016, and each advance under the Line of Credit has a 24-month term. As of September 30, 2015, the Line of Credit was undrawn and had $40.0 million of borrowing capacity available. The ability to borrow under the Line of Credit is subject to the Operating Partnership and special

purpose entity's ongoing compliance with a number of customary financial covenants. As of September 30, 2015, the Operating Partnership and, if applicable, the special purpose entity were in compliance with these financial covenants.

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
September 30, 2015
(Unaudited)

Master Trust Notes

The Company has access to an asset-backed securitization platform, the Spirit Master Funding Program, to raise capital through the issuance of non-recourse net-lease mortgage notes collateralized by commercial real estate, net-leases and mortgage loans. The Spirit Master Funding Program consists of two separate securitization trusts, Master Trust 2013 and Master Trust 2014, each of which have one or multiple bankruptcy-remote, special purpose entities as issuers or co-issuers of the notes. Each issuer is an indirect wholly-owned special purpose entity subsidiary of the Corporation.
The Master Trust Notes are summarized below:

	Effective Interest Rates [1]		Stated Rates [2]		Remaining Term	September 30, 2015		December 31, 2014	
					(in Years)	(in Thousands)			
Series 2014-1 Class A1	6.0	%	5.1	%	4.7	$67,701		$75,489	
Series 2014-1 Class A2	6.0	%	5.4	%	4.8	253,300		253,300	
Series 2014-2	6.1	%	5.8	%	5.5	230,490		232,867	
Series 2014-3	6.0	%	5.7	%	6.5	312,385		312,705	
Series 2014-4 Class A1	3.9	%	3.5	%	4.3	150,000		150,000	
Series 2014-4 Class A2	4.8	%	4.6	%	14.3	360,000		360,000	
Total Master Trust 2014 notes	5.5	%	5.1	%	7.7	1,373,876		1,384,361	
Series 2013-1 Class A	4.6	%	3.9	%	3.2	125,000		125,000	
Series 2013-2 Class A	5.6	%	5.3	%	8.2	197,890		201,019	
Total Master Trust 2013 notes	5.3	%	4.7	%	6.3	322,890		326,019	
Total Master Trust Notes						1,696,766		1,710,380	
Debt discount, net						(23,919	)	(26,903	)
Deferred financing costs, net						(20,080	)	(22,113	)
Total Master Trust Notes, net						$1,652,767		$1,661,364	

[1] The effective interest rates include amortization of debt discount and amortization of deferred financing costs calculated for the three months ended September 30, 2015 based on the average principal balance outstanding during the period.
[2] Represents the individual series stated interest rate as of September 30, 2015 and the weighted average stated rate of the total Master Trust Notes, based on the collective series outstanding principal balances as of September 30, 2015.

As of September 30, 2015, the Master Trust 2014 notes were secured by 955 owned and financed properties issued by five indirect wholly-owned subsidiaries of the Corporation. The notes issued under Master Trust 2014 are cross-collateralized by the assets of all issuers within this trust. As of September 30, 2015, the Master Trust 2013 notes were secured by 316 owned and financed properties issued by a single indirect wholly-owned subsidiary of the Corporation.

CMBS

As of September 30, 2015, indirect wholly-owned special purpose entity subsidiaries of the Corporation were borrowers under 149 fixed and 9 variable-rate non-recourse loans, excluding the defaulted loans, which have been securitized into CMBS and are secured by the borrowers' respective leased properties and related assets. The stated interest rates as of September 30, 2015 for these fixed-rate notes, excluding the defaulted loans, ranged from 3.90% to 8.39%. The stated interest rates as of September 30, 2015 for the variable-rate notes ranged from 3.20% to 3.60%. As of September 30, 2015, these fixed and variable-rate loans were secured by 468 and 86 properties, respectively. The Company entered into interest rate swaps that effectively fixed the interest rates at approximately 5.2% on a significant portion of the variable-rate debt (see Note 5). As of September 30, 2015 and December 31, 2014, the unamortized

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
September 30, 2015
(Unaudited)

deferred financing costs relating to certain of the CMBS loans were $5.6 million and $6.4 million, respectively. The deferred financing costs are being amortized to expense over the term of the respective loans.

As of September 30, 2015, certain borrowers were in default under the loan agreements relating to four separate CMBS fixed-rate loans where the ten properties securing the respective loans are no longer generating sufficient revenue to pay the scheduled debt service. The default interest rate on these loans was between 9.67% and 10.88%. Each defaulted borrower is a bankruptcy remote special purpose entity and the sole owner of the collateral securing the loan obligations. As of September 30, 2015, the aggregate principal balance under the defaulted CMBS loans was $80.1 million, which includes $6.9 million of interest added to principal. In addition, approximately $12.2 million of lender controlled reserves, within restricted cash, are being held in connection with these loans that may be applied to reduce amounts owed. During the nine months ended September 30, 2015, defaulted loan balances aggregating $25.4 million, which included $0.4 million of capitalized interest, were retired upon the disposition of 5 properties and the application of $3.6 million of lender reserves securing these defaulted loans. One of the properties disposed was surrendered to the lender pursuant to a consensual foreclosure and release of the debt. The remaining four properties were sold by the Company to third parties pursuant to an amendment to the loan agreement, which provided for a specified reduction in principal balance associated with the sale of those individual properties.

Convertible Notes

In May 2014, the Corporation issued $402.5 million aggregate principal amount of 2.875% convertible notes due in 2019 and $345.0 million aggregate principal amount of 3.75% convertible notes due in 2021. Interest on the Convertible Notes is payable semiannually in arrears on May 15 and November 15 of each year. The 2019 Notes will mature on May 15, 2019 and the 2021 Notes will mature on May 15, 2021.

The Convertible Notes are convertible only during certain periods and, subject to certain circumstances, into cash, shares of the Corporation's common stock, or a combination thereof. The initial conversion rate applicable to each series is 76.3636 per $1,000 principal note (equivalent to an initial conversion price of $13.10 per share of common stock, representing a 22.5% premium above the public offering price of the common stock offered concurrently at the time the Convertible Notes were issued). Earlier conversion may be triggered if shares of the Corporation's common stock trades higher than the established thresholds, if the Convertible Notes trade below established thresholds, or certain corporate events occur.

In connection with the issuance of the Convertible Notes, the Company recorded a discount of $56.7 million, which represents the estimated value of the embedded conversion feature for each of the Convertible Notes. The discount is being amortized to interest expense using the effective interest method over the term of each of the 2019 Notes and 2021 Notes. As of September 30, 2015 and December 31, 2014, the unamortized discount was $45.0 million and $51.5 million, respectively. The discount is shown net against the aggregate outstanding principal balance of the Convertible Notes on the accompanying consolidated balance sheets. The equity component of the conversion feature is recorded in capital in excess of par value in the accompanying consolidated balance sheet, net of financing transaction costs.

In connection with the offering, the Company also incurred $19.6 million in deferred financing costs. This amount has been allocated on a pro-rata basis to each of the Convertible Notes and is being amortized to interest expense over the term of each of the 2019 Notes and 2021 Notes. As of September 30, 2015 and December 31, 2014, the unamortized deferred financing costs relating to the Convertible Notes were $15.5 million and $17.8 million, respectively.

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
September 30, 2015
(Unaudited)

Debt Extinguishment

During the nine months ended September 30, 2015, the Company extinguished a total of $378.6 million aggregate principal amount of senior mortgage indebtedness with a weighted average contractual interest rate of 5.64% and terminated the 2013 Credit Facility. As a result of these transactions, the Company recognized a net gain on debt extinguishment of approximately $2.5 million. The gain was primarily attributable to the write-off of net debt premiums and the reduction of $17.5 million of debt using net sales proceeds of $14.0 million from the sale of four properties securing a portion of a defaulted CMBS note, partially offset by defeasance costs.

Net proceeds raised from the concurrent registered offerings of Convertible Notes and common stock in May 2014 were partially used to retire the senior mortgage notes payable encumbering the Shopko properties with an aggregate principal balance of $488.7 million, redeem $18.0 million of net-lease mortgage notes that were not tendered in connection with the Exchange Offer and repay all amounts then drawn against the 2013 Credit Facility. During the nine months ended September 30, 2014, the Company extinguished a total of $532.8 million aggregate principal amount of senior mortgage indebtedness with a weighted average contractual interest rate of 6.53%. As a result of these transactions, the Company recognized a loss on debt extinguishment during the nine months ended September 30, 2014 of approximately $64.5 million primarily from costs incurred related to the defeasance of the Shopko indebtedness.

Debt Maturities

As of September 30, 2015, scheduled debt maturities of the Company’s Revolving Credit Facilities, mortgages and notes payable and Convertible Notes, including balloon payments, are as follows (in thousands):

	Scheduled Principal	Balloon Payment	Total
Remainder of 2015 [(1)]	$7,212	$80,127	$87,339
2016	28,012	273,059	301,071
2017	27,782	773,309	801,091
2018	42,115	244,537	286,652
2019	44,325	527,000	571,325
Thereafter	288,888	1,763,982	2,052,870
Total	$438,334	$3,662,014	$4,100,348

[(1)] The balloon payment balance in 2015 includes $80.1 million, including $6.9 million of capitalized interest, for the acceleration of principal payable following an event of default under four separate non-recourse CMBS loans with stated maturities in 2015 and 2017 of $25.3 million and $54.8 million, respectively.

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
September 30, 2015
(Unaudited)

Interest Expense

The following table is a summary of the components of interest expense related to the Company's borrowings (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest expense – Revolving Credit Facilities[1]	$608	$538	$1,997	$2,358
Interest expense – mortgages and notes payable	45,460	44,858	140,731	149,231
Interest expense – Convertible Notes	6,127	6,098	18,382	8,970
Interest expense – other	—	—	—	6
Non-cash interest expense:				
Amortization of deferred financing costs	1,920	1,787	5,893	4,084
Amortization of net losses related to interest rate swaps	27	32	81	98
Amortization of debt (premium)/discount, net	531	222	1,670	(821)
Total interest expense	$54,673	$53,535	$168,754	$163,926

[1] Includes interest expense associated with non-utilization fees of approximately $0.4 million for both the three months ended September 30, 2015 and 2014 and approximately $1.2 million and $0.9 million for the nine months ended September 30, 2015 and 2014, respectively.

Note 5. Derivative and Hedging Activities

The Company uses interest rate derivative contracts to manage its exposure to changes in interest rates on its variable rate debt. These derivatives are considered cash flow hedges and are recorded on a gross basis at fair value. Assessments of hedge effectiveness are performed quarterly using regression analysis and the measurement of hedge ineffectiveness is based on the hypothetical derivative method. The effective portion of changes in fair value are recorded in AOCL and subsequently reclassified to earnings when the hedged transactions affect earnings. The ineffective portion is recorded immediately in earnings in general and administrative expenses.

The Company is exposed to credit risk in the event of non-performance by its derivative counterparties. The Company evaluates counterparty credit risk through monitoring the creditworthiness of counterparties, which includes review of debt ratings and financial performance. To mitigate its credit risk, the Company enters into agreements with counterparties it considers credit-worthy, such as large financial institutions with favorable credit ratings. As of September 30, 2015 and December 31, 2014, there were no termination events or events of default related to the interest rate swaps.

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
September 30, 2015
(Unaudited)

The following table summarizes the notional amount and fair value of the Company's derivative instruments (dollars in thousands):

Derivatives Designated as Hedging Instruments	Balance Sheet Location	Notional Amount	Fixed Interest Rate	Effective Date	Maturity Date	Fair Value of Liability September 30, 2015	Fair Value of Liability December 31, 2014
Interest Rate Swap [1]	Accounts payable, accrued expenses and other liabilities	$10,741	4.62 %	06/28/12	07/06/17	$—	$(46)
Interest Rate Swap	Accounts payable, accrued expenses and other liabilities	$6,547	5.75 %	07/17/13	03/01/16	(68)	(180)
Interest Rate Swap [1]	Accounts payable, accrued expenses and other liabilities	$32,400	3.15 %	07/17/13	09/05/15	—	(93)
Interest Rate Swaps[2]	Accounts payable, accrued expenses and other liabilities	$61,758	5.14 %	01/02/14	12/13/18	(1,594)	(803)
						$(1,662)	$(1,122)

[1] During June 2015, the Company terminated certain interest rate swap agreements upon the repayment of two CMBS variable-rate loans. The Company paid $0.1 million to terminate these swaps and recognized a loss of $0.1 million, which is included in general and administrative expenses.
[2] Represents a tranche of eight individual interest rate swap agreements with notional amounts ranging from $7.6 million to $7.9 million. The swap agreements contain the same payment terms, stated interest rate, effective date, and maturity date.

The following tables provide information about the amounts recorded in AOCL, as well as the loss recorded in operations, when reclassified out of AOCL or recognized in earnings immediately, for the three and nine months ended September 30, 2015 and 2014, respectively (in thousands):

	Amount of Gain or (Loss) Recognized in AOCL on Derivative (Effective Portion)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives in Cash Flow Hedging Relationships	2015	2014	2015	2014
Interest rate swaps	$(797)	$237	$(1,608)	$(1,040)

	Amount of Loss Reclassified from AOCL into Operations (Effective Portion)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014

Location of Loss Reclassified from AOCL into Operations				
Interest expense	$(277)	$(333)	$(898)	$(987)

	Amount of Gain or (Loss) Recognized in Operations on Derivative (Ineffective Portion) [(1)]			
	Three Months Ended September 30,		Nine Months Ended September 30,	
Location of Gain or (Loss) Recognized in Operations on Derivatives	2015	2014	2015	2014
General and administrative expense	$—	$5	$(78)	$2

(1) Nine months ended September 30, 2015 includes a loss of $76 thousand that was reclassified from accumulated other comprehensive loss in the balance sheet resulting from hedged transactions that were no longer probable of occurring as the swaps were terminated prior to their respective maturity dates.

Approximately $0.9 million of the remaining balance in AOCL is estimated to be reclassified as an increase to interest expense during the next twelve months. The Company does not enter into derivative contracts for speculative or trading purposes.

22

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
September 30, 2015
(Unaudited)

Note 6. Stockholders’ Equity

Issuance of Common Stock

On April 14, 2015, the Company completed an underwritten public offering of 23.0 million shares of its common stock, at $11.85 per share, including 3.0 million shares sold pursuant to the underwriter’s option to purchase additional shares. Gross proceeds raised were approximately $272.6 million; net proceeds were approximately $268.8 million after deducting the underwriting discounts and offering costs paid by the Company. The net proceeds from the common stock offering were used to repay the outstanding balances under the 2015 Credit Facility and Line of Credit. The remaining net proceeds were retained to fund potential future acquisitions and for general corporate purposes (including additional repayments of borrowings outstanding from time to time under the Revolving Credit Facilities).

ATM Program

During the nine months ended September 30, 2015, the Corporation sold 6.6 million shares of its common stock under its ATM Program, at a weighted average share price of $12.07, for aggregate gross proceeds of $79.8 million and aggregate net proceeds of $78.5 million after payment of commissions and other issuance costs of $1.3 million. The net proceeds were used to fund acquisitions, repay borrowings under the Revolving Credit Facilities and for general corporate purposes. During the three months ended September 30, 2015, no shares were sold under our ATM program. As of September 30, 2015, $103.6 million in gross proceeds capacity remained available under the ATM Program.

Treasury Shares

During the nine months ended September 30, 2015, portions of awards of restricted common stock granted to certain of the Company's officers and other employees vested. The vesting of these shares, granted pursuant to the Incentive Award Plan, resulted in federal and state income tax liabilities for the recipients. As permitted by the terms of the Incentive Award Plan and the award grants, certain executive officers and employees elected to surrender 0.2 million shares of common stock, valued at $1.7 million, solely to pay the associated minimum statutory tax withholdings. The surrendered shares are held as treasury stock and included in stockholders' equity.

Dividends Declared

For the nine months ended September 30, 2015, the Corporation's Board of Directors declared the following dividends:

Declaration Date	Dividend Per Share	Record Date	Total Amount [(1)]	Payment Date
			(in thousands)	
March 16, 2015	$0.17000	March 31, 2015	$71,123	April 15, 2015
June 15, 2015	$0.17000	June 30, 2015	$75,054	July 15, 2015
September 15, 2015	$0.17000	September 30, 2015	$75,039	October 15, 2015

(1) Net of estimated forfeitures of approximately $1,000 and $9,000 during the three and nine months ended September 30, 2015, respectively, for dividends declared on employee restricted stock awards that are reported in general and administrative on the accompanying consolidated statements of operations.

The dividend declared on September 15, 2015 was paid on October 15, 2015 and is included in accounts payable, accrued expenses and other liabilities as of September 30, 2015.

Note 7. Commitments and Contingencies

The Company is periodically subject to claims or litigation in the ordinary course of business, including claims generated from business conducted by tenants on real estate owned by the Company. In these instances, the Company is typically indemnified by the tenant against any losses that might be suffered, and the Company and/or the tenant are typically insured against such claims.

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements
September 30, 2015
(Unaudited)

On September 8, 2015, Haggen Holdings, LLC and a number of its affiliates, including Haggen Operations Holdings, LLC, filed petitions for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware. Haggen Operations Holdings, LLC leases 20 properties on a triple net basis from a subsidiary of the Company under a master lease with current monthly rents of $1.4 million and an initial lease expiration date of February 28, 2035. Haggen Holdings, LLC is the guarantor of the tenant's obligations under that master lease. As of September 30, 2015, the debtors had not determined whether to assume or reject the unexpired master lease in the bankruptcy proceeding. While the Company cannot predict the final outcome of the bankruptcy proceedings, it does not currently believe the debtor's rejection of the master lease or the court's refusal to uphold its terms would result in a material impact on the Company's financial position or results of operations in future periods.
As of September 30, 2015, there were no outstanding claims against the Company that are expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.
As of September 30, 2015, the Company had commitments totaling $186.7 million, of which $180.6 million relates to future acquisitions with the remainder to fund improvements on properties the Company currently owns. Commitments related to acquisitions contain standard cancellation clauses contingent on the results of due diligence. All commitments are expected to be funded during fiscal year 2015. In addition, the Company is contingently liable for $5.7 million of debt owed by one of its tenants and is indemnified by that tenant for any payments the Company may be required to make on such debt.
The Company estimates future costs for known environmental remediation requirements when it is probable that the Company has incurred a liability and the related costs can be reasonably estimated. The Company considers various factors when estimating its environmental liabilities, and adjustments are made when additional information becomes available that affects the estimated costs to study or remediate any environmental issues. When only a wide range of estimated amounts can be reasonably established and no other amount within the range is better than another, the low end of the range is recorded in the consolidated financial statements.

Note 8. Fair Value Measurements
Recurring Fair Value Measurements
The Company's assets and liabilities that are required to be measured at fair value in the accompanying consolidated financial statements are summarized below. The following table sets forth the Company's financial liabilities that were accounted for at fair value on a recurring basis (in thousands):

		Fair Value Hierarchy Level		
	Fair Value	Level 1	Level 2	Level 3
September 30, 2015				
Derivatives:				
Interest rate swaps financial liabilities	$(1,662)	$—	$(1,662)	$—
December 31, 2014				
Derivatives:				
Interest rate swaps financial liabilities	$(1,122)	$—	$(1,122)	$—

The interest rate swaps are measured using a market approach, using prices obtained from a nationally recognized pricing service and pricing models with market observable inputs such as interest rates and volatilities. These measurements are classified as Level 2 of the fair value hierarchy.

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
September 30, 2015
(Unaudited)

Nonrecurring Fair Value Measurements

Fair value measurement of an asset on a nonrecurring basis occurs when events or changes in circumstances related to an asset indicate that the carrying amount of the asset is no longer recoverable. The following table sets forth the Company's assets that were accounted for at fair value on a nonrecurring basis (in thousands):

			Fair Value Hierarchy Level			Impairment
Description	Fair Value	Dispositions	Level 1	Level 2	Level 3	Charges [1]
September 30, 2015						
Long-lived assets held and used	$37,589	$(3,207)	$—	$—	$40,796	$(41,294)
Lease intangible assets	4,294	—	—	—	4,294	(3,730)
Other assets	—	—	—	—	—	(338)
Long-lived assets held for sale	18,583	(30,954)	—	—	49,537	(10,894)
						$(56,256)
December 31, 2014						
Long-lived assets held and used	$37,278	$—	$—	$—	$37,278	$(20,679)
Lease intangible assets	10,013	—	—	—	10,013	4,317
Long-lived assets held for sale	65,958	(26,721)	—	—	92,679	(20,074)
						$(36,436)

[1] Impairment charges are presented for the nine months ended September 30, 2015 and for the year ended December 31, 2014.

The fair values of impaired real estate and intangible assets were determined by using the following information, depending on availability, in order of preference: signed purchase and sale agreements or letters of intent; recently quoted bid or ask prices, or market prices for comparable properties; estimates of cash flow, which consider, among other things, contractual and forecasted rental revenues, leasing assumptions, and expenses based upon market conditions; and expectations for the use of the real estate. Based on these inputs, the Company determined that its valuation of the impaired real estate and intangible assets falls within Level 3 of the fair value hierarchy.

Estimated Fair Value of Financial Instruments

Financial assets and liabilities for which the carrying values approximate their fair values include cash and cash equivalents, restricted cash and escrow deposits, and accounts receivable and payable. Generally, these assets and liabilities are short-term in duration and are recorded at cost, which approximates fair value, on the accompanying consolidated balance sheets.

In addition to the disclosures for assets and liabilities required to be measured at fair value at the balance sheet date, companies are required to disclose the estimated fair values of all financial instruments, even if they are not carried at their fair values. The fair values of financial instruments are estimates based upon market conditions and perceived risks at September 30, 2015 and December 31, 2014. These estimates require management's judgment and may not be indicative of the future fair values of the assets and liabilities.

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
September 30, 2015
(Unaudited)

The estimated fair values of the loans receivable, Revolving Credit Facilities, Convertible Notes and the fixed-rate mortgages and notes payable have been derived based on market quotes for comparable instruments or discounted cash flow analyses using estimates of the amount and timing of future cash flows, market rates and credit spreads. The loans receivable, Revolving Credit Facilities, Convertible Notes and mortgages and notes payable were measured using a market approach from nationally recognized financial institutions with market observable inputs such as interest rates and credit analytics. These measurements are classified as Level 2 of the fair value hierarchy. The following table discloses fair value information for these financial instruments (in thousands):

	September 30, 2015		December 31, 2014	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Loans receivable, net	$106,944	$112,999	$109,425	$115,747
Revolving Credit Facilities, net (1)	75,000	79,067	15,114	15,254
Mortgages and notes payable, net (2)	3,242,922	3,435,150	3,629,998	3,899,950
Convertible Notes, net (2)	687,062	690,975	678,190	729,231

(1) As of September 30, 2015, only amounts under the 2015 Credit Facility were outstanding. As of December 31, 2014, only amounts under the Line of Credit were outstanding and net of unamortized deferred financing costs.
(2) The carrying value of the debt instruments are net of unamortized deferred financing costs and certain debt discounts/premiums.

Note 9. Significant Credit and Revenue Concentration

As of September 30, 2015 and December 31, 2014, the Company’s real estate investments are leased to 435 and 454 tenants, respectively, which operate within retail, office and industrial property types across various industries throughout the United States. Shopko operates in the general merchandise industry and is the Company’s largest tenant as a percentage of Normalized Revenue. Total rental revenues from properties leased to Shopko for the three months ended September 30, 2015 and 2014, contributed 9.9% and 14.3% of the Company's Normalized Revenue from continuing operations, respectively. No other tenant contributed 5% or more of the Company’s Normalized Revenue during any of the periods presented. As of September 30, 2015 and December 31, 2014, the Company's net investment in Shopko properties represents approximately 7.7% and 10.7%, respectively, of the Company’s total assets and the Company's real estate investment in Shopko represents approximately 9.9% and 13.1%, respectively, of the Company's total real estate investment portfolio.

Note 10. Discontinued Operations

Properties that were reported as held for sale as of December 31, 2013, will be presented in discontinued operations until the properties are disposed of. As a result, net gains or losses from the disposition of these properties, as well as the current and prior period operations, will continue to be reclassified to discontinued operations. The following sets forth the results of discontinued operations (dollars in thousands):

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
September 30, 2015
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
Rent	$56	$300	$391	$917
Non-cash rent	—	27	—	—
Other	1	3	17	2,953
Total revenues	57	330	408	3,870
Expenses:				
General and administrative	1	1	3	13
Property costs	97	41	281	236
Impairments	—	—	34	—
Total expenses	98	42	318	249
Income from discontinued operations	(41)	288	90	3,621
Gain on disposition of assets	—	403	590	488
Total discontinued operations	$(41)	$691	$680	$4,109
Number of properties disposed of during period	—	1	2	6

Note 11. Supplemental Cash Flow Information
The following table presents the supplemental cash flow disclosures (in thousands):

	Nine Months Ended September 30,	
	2015	2014
Supplemental Disclosures of Non-Cash Investing and Financing Activities:		
Reduction of debt through sale of certain real estate properties	$30,555	$5,001
Reduction of debt in exchange for collateral assets	7,904	—
Net real estate and other collateral assets surrendered to lender	7,384	—
Accrued interest capitalized to principal [1]	4,686	997
Accrued performance share dividend rights	459	420

[1] Accrued and overdue interest on certain CMBS notes that have been intentionally placed in default.

Note 12. Incentive Award Plan
As of September 30, 2015, 1.9 million shares remained available for award under the Incentive Award Plan.
Restricted Shares of Common Stock
During the nine months ended September 30, 2015, the Company granted 0.5 million restricted shares under the Incentive Award Plan to certain officers and employees. The Company recorded $5.6 million in deferred compensation associated with these grants, which will be recognized in expense over the service period of the awards. As of September 30, 2015, there were approximately 0.8 million unvested restricted shares outstanding.

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
September 30, 2015
(Unaudited)

Performance Share Awards
During the nine months ended September 30, 2015, the Compensation Committee of the Board of Directors approved an initial target grant of 279,199 performance shares to certain executive officers of the Company. The performance period of this grant runs from January 1, 2015 through December 31, 2017. Pursuant to the performance share award agreement, each participant is eligible to vest in and receive shares of the Corporation's common stock based on the initial target number of shares granted multiplied by a percentage range between 0% and 250%. The percentage range is based on the attainment of TSR of the Corporation compared to certain specified peer groups of companies during the performance period. In addition, final shares issued under each performance share award entitle its holder to a cash payment equal to the aggregate dividends that were declared during the performance period as if the shares had been issued and outstanding on each dividend record date. Based on the grant date fair value, the Corporation expects to recognize $4.1 million in compensation expense on a straight-line basis over the requisite service period associated with this market-based grant.
As of September 30, 2015, under each separate annual performance share award, the Corporation's TSR compared to the specified peer groups during the performance periods would have resulted in the release of 0.7 million shares, in the aggregate. In addition, approximately $1.1 million in dividend rights have been accrued. The projected shares to be released are not considered issued under the Incentive Award Plan until the performance period has ended and the actual number of shares to be released is determined. The performance shares and dividend rights are subject to forfeiture in the event of a non-qualifying termination of a participant prior to the performance period end date.
Stock-based Compensation Expense
For the three months ended September 30, 2015 and 2014, the Company recognized $3.5 million and $3.0 million, respectively, in stock-based compensation expense, which is included in general and administrative expenses in the accompanying consolidated statements of operations. For the nine months ended September 30, 2015 and 2014, the Company recognized $10.8 million and $8.5 million, respectively, in stock-based compensation expense.
As of September 30, 2015, the remaining unamortized stock-based compensation expense, including amounts relating to the performance share awards, totaled $11.4 million, which is recognized as the greater of the amount amortized on a straight-line basis over the service period of each applicable award or the amount vested over the vesting periods.

SPIRIT REALTY CAPITAL, INC.
Notes to Consolidated Financial Statements - (continued)
September 30, 2015
(Unaudited)

Note 13. Income (Loss) Per Share

Income (loss) per share has been computed using the two-class method. Income (loss) per common share under the two-class method is computed by dividing the sum of distributed earnings to common stockholders and undistributed earnings allocated to common stockholders by the weighted average number of shares of common stock outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both shares of common stock and participating securities based on the weighted average shares outstanding during the period. Classification of the Company's unvested restricted stock, which contain rights to receive nonforfeitable dividends, are deemed participating securities under the two-class method. Under the two-class method, earnings attributable to unvested restricted shares are deducted from income (loss) from continuing operations in the computation of net income (loss) attributable to common stockholders. The table below is a reconciliation of the numerator and denominator used in the computation of basic and diluted income (loss) per share (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Basic and diluted income (loss):				
Income (loss) from continuing operations	$ 9,248			

	Three Months Ended				Six Months Ended			
	July 2,		July 4,		July 2,		July 4,	
(Millions of dollars)	2016		2015		2016		2015	
Foreign currency translation adjustment	$	10	$	(9)	$	(16)	$	(15)
Unrealized gain on investments		—		—		—		1
Unrecognized pension cost (1)		1		1		2		2
Other comprehensive income (loss), net of tax	$	11	$	(8)	$	(14)	$	(12)

(1) This primarily represents the amortization of actuarial losses that were included in net periodic pension cost and was recorded in operating income. See Note 6 to the Condensed Consolidated Financial Statements for further discussion.

The components of accumulated other comprehensive loss, net of related taxes, are as follows:

(Millions of dollars)	July 2, 2016	December 31, 2015
Cumulative foreign currency translation adjustment	$ (244)	$ (228)
Unrealized gain on investments	1	1
Unrecognized pension cost	(49)	(51)
Total accumulated other comprehensive loss	$ (292)	$ (278)

The foreign currency translation adjustment primarily represents the effect of the Argentine peso currency exchange fluctuation on the net assets of the Sugar segment. During the first half of 2016, Seaboard recognized $18 million of other comprehensive loss, net of related taxes, related to the devaluation of the Argentine peso. At July 2, 2016, the Sugar segment had $98 million in net assets denominated in Argentine pesos and $12 million in net assets denominated in U.S. dollars. Management anticipates that the Argentine peso could continue to weaken against the U.S. dollar and that Seaboard could incur additional foreign currency translation adjustment losses in other comprehensive loss during the remainder of 2016.

At July 2, 2016 and July 4, 2015, income taxes for the cumulative foreign currency translation adjustment was recorded using a 35% effective tax rate except for $86 million and $67 million, respectively, related to certain subsidiaries for which no tax benefit was recorded. At July 2, 2016 and July 4, 2015, income taxes for all other components of accumulated other comprehensive loss were recorded using a 39% effective rate except for unrecognized pension cost of $18 million and $19 million, respectively, related to employees at certain subsidiaries for which no tax benefit was recorded.

Note 9 – Segment Information

Seaboard has six reportable segments: Pork, Commodity Trading and Milling (“CT&M”), Marine, Sugar, Power and Turkey, each offering a specific product or service. Below are segment updates from year-end or that impact prior period financial statements.

On February 7, 2016, Seaboard’s Pork segment acquired hog inventory, a feed mill, truck washes and certain hog farms in the Central U.S. from Christensen Farms & Feedlots, Inc. and Christensen Farms Midwest, LLC for total cash consideration of $148 million. Seaboard had previously agreed to provide a portion of the hogs to be processed at the new pork processing facility being developed through STF LLC, as discussed in Note 7 to the Condensed Consolidated Financial Statements. With this purchase, Seaboard will increase its sow herd to meet the majority of such supply commitment for single shift processing at the new plant. Seaboard anticipates buying additional hog inventory and related assets during 2016 to fulfill the remaining amount of such hog supply commitment.

The purchase was recorded at fair value in Seaboard’s Pork segment and the allocation of the purchase price was as follows:

(Millions of dollars)

Inventories	$	33
Property, plant and equipment		111
Intangible assets		1
Goodwill		3
Total consideration transferred	$	148

Intangible assets include customer relationships that have a weighted-average useful life of 1.6 years. Goodwill represents the farms’ established processes, workforce and close proximity to the Sioux City, Iowa, processing plant.

Operating results have been included in Seaboard’s Condensed Consolidated Financial Statements from the date of acquisition. Net sales of $34 million and $54 million and an immaterial amount of net income were recognized during the three and six months ended July 2, 2016, respectively. Acquisition costs were less than $1 million.

14

The following unaudited pro forma information presents the combined consolidated financial results for Seaboard as if the acquisition had been completed at the beginning of January 1, 2015.

	Three months ended		Six months ended	
(Millions of dollars except per share amounts)	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Net sales	$ 1,357	$ 1,469	$ 2,692	$ 2,958
Net earnings	$ 80	$ 36	$ 135	$ 68
Earnings per common share	$ 68.34	$ 30.46	$ 114.25	$ 57.71

The CT&M segment has a 50% noncontrolling interest in a bakery located in the Democratic Republic of Congo (“DRC”), which began operations in 2012. As a result of continuing equipment problems, other production challenges and unfavorable local market conditions causing operating losses and challenges in gaining market share, Seaboard recorded a write-down of $11 million in loss from affiliate in the fourth quarter of 2014, which represented the remaining equity investment in this business. There was no tax benefit from this transaction. As part of its original investment, Seaboard has an interest bearing long-term note receivable from this affiliate. During the second quarter of 2016, Seaboard reached an agreement with the other owner to restructure this note receivable by extending the maturity 18 months to June 2022 and changing the bi-annual payments to monthly payments of varying amounts beginning in the fourth quarter of 2016. In addition to the debt restructuring, certain events occurred during the second quarter, including the bakery’s failure to meet cash flow forecasts due to significant equipment updates that did not accomplish the intended improvement in quality and consistency of the bread, that caused new bakery management to reevaluate the business plan and the production and profitability forecast. The new forecasts and the restructuring of the debt resulted in Seaboard recording a reserve of $11 million in bad debt expense within selling, general and administrative expenses in the Condensed Consolidated Statements of Comprehensive Income. There was no tax benefit from this transaction. As of July 2, 2016, the recorded balance of this note was $24 million, all classified as long-term. If the future long-term cash flows of this bakery do not improve and updated forecasted cash flow projections are not met, more of the recorded value of the note receivable from affiliate could be deemed uncollectible in the future, which could result in a material charge to earnings. Including this business, as of July 2, 2016, Seaboard had a total of $50 million of investments in, advances to and notes receivable from all of its affiliates in the DRC, which represent the single largest foreign country risk exposure of Seaboard’s equity method investments. One of the other affiliates in the DRC, to which Seaboard sells wheat, is the only supplier of flour to this bakery.

The CT&M segment also has a 50% noncontrolling interest in a flour production business in Brazil. Since September 2013, Seaboard has contributed a total of $63 million in investments and advances, and provided a $13 million long-term loan to this business. Half of the interest on this long-term note receivable from affiliate is payable currently in cash and the other half accrues as pay-in-kind interest. This note receivable matures in September 2020 but can be repaid with Seaboard having the option to convert the note receivable to equity and the other equity holders having the option to match such conversion with a purchase of new shares to avoid dilution. During the three and six months ended July 2, 2016, Seaboard’s advances totaled $13 million and $14 million, respectively. Related to these advances, Seaboard recorded losses from affiliate of $11 million and $12 million, respectively, and currency translation adjustment losses included in other comprehensive income (loss) of $2 million and $2 million, respectively, as this entity’s functional currency is the Brazilian real. Based on discussions with the business’s other 50% shareholder and the executive management of the business, the extent of the losses and revised financial forecast of the business economy, the halting of the construction plans for a new plant and the amount of existing third-party debt, Seaboard previously reserved a total of $22 million related to its advances and long-term note receivable. Third-party debt was $19 million and $16 million as of July 2, 2016 and December 31, 2015, respectively. In total, Seaboard's investment in the business, advances and long-term note receivable are zero as of July 2, 2016. Seaboard is in discussions with the other shareholder to revise the Shareholders Agreement, and, if finalized, Seaboard would obtain control of the business and the entity would become consolidated. However, there is no certainty that Seaboard will successfully be able to obtain control. Seaboard also had a gross trade receivable due from affiliate related to this business resulting from sales of grain and supplies of $21 million and $17 million as of July 2, 2016 and December 31, 2015, respectively, which Seaboard recorded a reserve of $9 million during 2015 based on an analysis of collectability and working capital.

During the first quarter of 2016, the CT&M segment provided a $12 million loan to a Peruvian affiliate. Interest is payable monthly, and the principal is due on August 31, 2017, with no prepayment penalty. The balance of this long-term note receivable was $6 million as of July 2, 2016.

During the first quarter of 2016, Seaboard invested $7 million of cash and converted its $8 million note receivable to equity for a 36% noncontrolling interest in a holding company that owns a controlling interest in two Haitian start-up projects consisting of a marine terminal operation and a free trade zone development, which includes a planned power plant. The investment is accounted for in the Marine segment using the equity method and reported on a three-month lag. Seaboard’s first proportionate share of income (loss) from affiliates was recognized in the second quarter of 2016.

During the second quarter of 2015, the Power segment invested an additional $10 million in a business operating a 300 megawatt electricity generating facility in the Dominican Republic and changed its method of accounting from a cost method investment to an equity method investment. This change in accounting required Seaboard to present its prior period financial results to reflect the equity method of accounting from the date of the initial investment. Seaboard's portion of the investee’s loss for the three months ended April 4, 2015 was not material.

The Turkey segment, accounted for using the equity method, represents Seaboard’s investment in Butterball, LLC (“Butterball”). As of July 2, 2016 and December 31, 2015, Butterball had total assets of $1,146 million and $1,087 million, respectively. Butterball’s summarized income statement information is as follows:

	Three Months Ended		Six Months Ended	
(Millions of dollars)	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Net sales	$ 391	$ 390	$ 776	$ 788
Operating income	$ 44	$ 51	$ 89	$ 94
Net income	$ 34	$ 44	$ 72	$ 76

In connection with its initial investment in Butterball in December 2010, Seaboard provided Butterball with a $100 million unsecured subordinated loan with a seven-year maturity and interest of 15% per annum, comprised of 5% payable in cash semi-annually, plus 10% pay-in-kind interest, compounded semi-annually, which accumulates and is paid at maturity. Also in connection with providing the subordinated loan, Seaboard received detachable warrants, which upon exercise for a nominal price, would enable Seaboard to acquire an additional 5% equity interest in Butterball. In January 2016, the interest on the subordinated loan was modified to 10% per annum, payable only in cash semi-annually and the warrants were also modified, whereby Seaboard can exercise these warrants at any time after December 31, 2018 or prior to December 31, 2025 after which time the warrants expire.

The following tables set forth specific financial information about each segment as reviewed by Seaboard’s management. Operating income for segment reporting is prepared on the same basis as that used for consolidated operating income. Operating income, along with income or losses from affiliates for the CT&M and Turkey segments, is used as the measure of evaluating segment performance because management does not consider interest, other investment income and income tax expense on a segment basis.

Sales to External Customers:	Three Months Ended		Six Months Ended	
	July 2,	July 4,	July 2,	July 4,

(Millions of dollars)	2016	2015	2016	2015
Pork	$ 359	$ 331	$ 687	$ 652
Commodity Trading and Milling	707	779	1,416	1,599
Marine	232	242	459	479
Sugar	36	45	69	90
Power	19	28	36	53
All Other	4	3	9	7
Segment/Consolidated Totals	$ 1,357	$ 1,428	$ 2,676	$ 2,880

Operating Income (Loss):	Three Months Ended		Six Months Ended	
(Millions of dollars)	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Pork	$ 50	$ 19	$ 79	$ 35
Commodity Trading and Milling	19	8	28	12
Marine	7	5	10	12
Sugar	2	1	2	5
Power	2	4	2	7
All Other	1	—	1	—
Segment Totals	81	37	122	71
Corporate	(5)	(5)	(10)	(11)
Consolidated Totals	$ 76	$ 32	$ 112	$ 60

Income (Loss) from Affiliates:	Three Months Ended		Six Months Ended	
(Millions of dollars)	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Pork	$ 4	$ 4	$ 7	$ 6
Commodity Trading and Milling	(11)	(16)	(15)	(25)
Marine	—	—	1	1
Sugar	—	—	1	—
Power	—	1	1	1
Turkey	18	23	38	40
Segment/Consolidated Totals	$ 11	$ 12	$ 33	$ 23

Total Assets:	July 2,	December 31,
(Millions of dollars)	2016	2015
Pork	$ 1,026	$ 858
Commodity Trading and Milling	903	988
Marine	313	296
Sugar	176	202
Power	199	271

Turkey	483	448
All Other	6	6
Segment Totals	3,106	3,069
Corporate	1,321	1,362
Consolidated Totals	$ 4,427	$ 4,431

Investments in and Advances to Affiliates: (Millions of dollars)	July 2, 2016	December 31, 2015
Pork	$ 146	$ 115
Commodity Trading and Milling	207	218
Marine	35	19
Sugar	3	3
Power	35	34
Turkey	316	282
Segment/Consolidated Totals	$ 742	$ 671

Administrative services provided by the corporate office are allocated to the individual segments and represent corporate services rendered to and costs incurred for each specific segment, with no allocation to individual segments for general corporate management oversight costs. Corporate assets include short-term investments, other current assets related to deferred compensation plans, fixed assets, deferred tax amounts and other miscellaneous items. Corporate operating losses represent certain operating costs not specifically allocated to individual segments and include costs related to Seaboard's deferred compensation plans, which are offset by the effect of the mark-to-market adjustments on these investments recorded in other investment income (loss), net.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

LIQUIDITY AND CAPITAL RESOURCES

Summary of Sources and Uses of Cash

Cash and short-term investments as of July 2, 2016 decreased $10 million to $1,294 million from December 31, 2015. The decrease was primarily the result of the sale of short-term investments used for the $148 million acquisition of hog inventory and related assets discussed in Note 9 to the Condensed Consolidated Financial Statements and cash used for capital expenditures of $96 million, partially offset by net cash from operating activities of $246 million. Cash from operating activities decreased $18 million for the six months ended July 2, 2016 compared to the same period in 2015, primarily as a result of changes in working capital, partially offset by higher net earnings.

Capital Expenditures, Acquisitions and Other Investing Activities

During the six months ended July 2, 2016, Seaboard Corporation and its subsidiaries ("Seaboard") invested $96 million in property, plant and equipment, of which $31 million was in the Pork segment, $33 million in the Commodity Trading and Milling segment, $12 million in the Marine segment and $19 million in the Sugar segment. The Pork segment expenditures were primarily for improvements to existing facilities and related equipment, additional hog finishing barns and another biodiesel plant. In June 2016, the Pork segment purchased a biodiesel plant in St. Joseph, Missouri, for $6 million that it plans to operate similarly to its existing biodiesel plant in Guymon, Oklahoma. Seaboard expects to invest up to an additional $6 million in the facility and place it in production during 2016. Of the Commodity Trading and Milling segment expenditures, $29 million was for the construction of two dry bulk vessels, of which both were delivered and then sold and leased back by Seaboard, at book value of $44 million each during the first quarter of 2016. The Marine segment expenditures were primarily for purchases of cargo carrying and handling equipment. The Sugar segment expenditures were primarily for milling capacity increase and fermentation and distillery equipment upgrades. All other capital expenditures were primarily of a normal recurring nature and primarily included replacements of machinery and equipment, and general facility modernizations and upgrades.

For the remainder of 2016, management has budgeted capital expenditures totaling $118 million. The Pork segment plans to spend $39 million primarily for improvements to its existing facilities and related equipment and additional hog finishing barns. The Commodity Trading and Milling segment plans to spend $26 million primarily for a new wheat mill in Zambia and other improvements to existing facilities and related equipment. The Marine segment has budgeted $33 million primarily for additional cargo carrying and handling equipment. The Sugar segment plans to spend $19 million primarily for increasing distillery and milling capacity. The balance of $1 million is planned to be spent in all other businesses primarily for normal upgrades to existing operations. Management anticipates paying for these capital expenditures from a combination of available cash, the use of available short-term investments and Seaboard's available borrowing capacity.

During the first half of 2016, Seaboard contributed $19 million to its 50% joint venture, Seaboard Triumph Foods, LLC ("STF LLC"), constructing a pork processing facility in Sioux City, Iowa. As the joint venture obtained third-party financing in March 2016, the original subscription agreement was amended to modify the total contribution amount and timing of payments. See the Contractual Obligations section below for more information. In addition to capital contributions, Seaboard also agreed to provide a portion of the hogs to be processed at the facility. In February 2016, the Pork segment acquired hog inventory and related assets in the Central United States for a purchase price of $148 million. These assets are expected to increase Seaboard's hog production capacity to meet the majority of such hog supply commitment for single shift processing at the new plant. See Note 9 to the Condensed Consolidated Financial Statements for further discussion of this acquisition. Seaboard anticipates buying additional hog inventory and related assets during 2016 to fulfill the remaining amount of such hog supply commitment.

During the first quarter of 2016, Seaboard invested $7 million of cash and converted its $8 million note receivable to equity for a 36% noncontrolling interest in a holding company that owns a controlling interest in two Haitian start-up projects consisting of a marine terminal operation and a free trade zone development, which includes a planned power plant. The investment is accounted for in the Marine segment using the equity method and reported on a three-month lag. Seaboard's first proportionate share of income (loss) from affiliates was recognized in the second quarter of 2016.

Financing Activities and Debt

As of July 2, 2016, Seaboard had short-term uncommitted lines of credit totaling $379 million. Borrowings under the uncommitted lines of credit totaled $104 million, with all such borrowings related to foreign subsidiaries. Seaboard's borrowing capacity under its uncommitted lines was further reduced by letters of credit totaling $4 million.

On December 4, 2015, Seaboard's subsidiary, Seaboard Foods LLC, obtained a $500 million unsecured term loan with a maturity date of December 4, 2022. Also in 2015, Seaboard's Argentine subsidiary obtained long-term debt financing of $23 million, comprised of five loans denominated in Argentine pesos. All of the debt is guaranteed by Seaboard, except for $3 million secured by property, plant and equipment. See Note 7 to the Condensed Consolidated Financial Statements for current balances and for a summary of Seaboard's contingent obligations, including guarantees issued to support certain activities of non-consolidated affiliates or third parties who provide services for Seaboard.

As of July 2, 2016, Seaboard had cash and short-term investments of $1,294 million and additional total net working capital of $539 million. Accordingly, management believes Seaboard's combination of internally generated cash, liquidity, capital resources and borrowing capabilities will be adequate for its existing operations and any currently known potential plans for expansion of existing operations or business segments for 2016. Management intends to continue seeking opportunities for expansion in the industries in which Seaboard operates, utilizing existing liquidity, available borrowing capacity and other financing alternatives.

As of July 2, 2016, $353 million of the $1,294 million of cash and short-term investments were held by Seaboard's foreign subsidiaries, and Seaboard could be required to accrue and pay taxes to repatriate these funds if needed for Seaboard's operations in the United States ("U.S."). However, Seaboard's intent is to permanently reinvest these funds outside the U.S., and current plans do not demonstrate a need to repatriate them to fund Seaboard's U.S. operations.

Contractual Obligations

In the first quarter of 2016, STF LLC obtained third-party financing, and as a result the original subscription agreement was amended to modify Seaboard's total contribution amount and timing of payments. Seaboard's total contribution was reduced from $207 million to $150 million, with $33 million due during the remainder of 2016 and $73 million due in 2017. Construction of the pork processing facility is expected to be completed by mid-2017.

RESULTS OF OPERATIONS

Net sales for the three and six month periods of 2016 decreased $71 million and $204 million, respectively, over the same periods in 2015. The decreases were primarily the result of lower sales prices and the mix of products sold in the Commodity Trading and Milling segment, lower cargo rates in the Marine segment, lower prices of sugar and alcohol sold in the Sugar segment, and lower spot market rates in the Power segment, partially offset by higher sales of market hogs and higher prices in the Pork segment.

Operating income increased $44 million and $52 million for the three and six month periods of 2016, respectively, compared to the same periods in 2015. The increases primarily reflected lower feed costs in the Pork segment and higher margins on commodity trades to third parties and affiliates in the Commodity Trading and Milling segment. The increases were partially offset by lower spot market rates in the Power segment.

Pork Segment

(Millions of dollars)	Three Months Ended July 2, 2016	Three Months Ended July 4, 2015	Six Months Ended July 2, 2016	Six Months Ended July 4, 2015
Net sales	$ 359	$ 331	$ 687	$ 652
Operating income	$ 50	$ 19	$ 79	$ 35
Income from affiliates	$ 4	$ 4	$ 7	$ 6

Net sales for the Pork segment increased $28 million and $35 million for the three and six month periods of 2016, respectively, compared to the same periods in 2015. The increases were primarily the result of an increase in sales of market hogs related to the February 2016 acquisition as discussed in Note 9 to the Condensed Consolidated Financial Statements and higher prices for pork products sold, partially offset by lower volume of pork products sold.

Operating income for the Pork segment increased $31 million and $44 million for the three and six month periods of 2016, respectively, compared to the same periods in 2015. The increases were primarily the result of lower feed costs for hogs internally grown and higher prices for pork products sold. Management is unable to predict future market prices for pork products, the cost of feed or cost of third-party hogs. However, management anticipates positive operating income for this segment for the remainder of 2016.

Commodity Trading and Milling Segment

(Millions of dollars)	Three Months Ended July 2, 2016	Three Months Ended July 4, 2015	Six Months Ended July 2, 2016	Six Months Ended July 4, 2015
Net sales	$ 707	$ 779	$ 1,416	$ 1,599
Operating income as reported	$ 19	$ 8	$ 28	$ 12
Mark-to-market gains	(18)	(2)	(13)	(6)
Operating income excluding mark-to-market adjustments	$ 1	$ 6	$ 15	$ 6
Loss from affiliates	$ (11)	$ (16)	$ (15)	$ (25)

Net sales for the Commodity Trading and Milling segment decreased $72 million and $183 million for the three and six month periods of 2016, respectively, compared to the same periods in 2015. The decreases primarily reflected lower sales prices, resulting from lower commodity prices, and the mix of products sold, partially offset by higher volumes in corn, soybeans and wheat.

Operating income for this segment increased $11 million and $16 million for the three and six month periods of 2016, respectively, compared to the same periods in 2015. The increases primarily reflected higher margins on commodity trades to third parties and affiliates, partially offset by higher affiliate bad debt expense. See Note 9 to the Condensed Consolidated Financial Statements for further discussion of this bad debt expense. The increases also reflected higher gains of $16 million and $7 million of mark-to-market derivative contracts for the three and six month periods, respectively, as further discussed below. Excluding the effects of mark-to-market adjustments for derivative contracts, operating income decreased $5 million for the three month period of 2016 and increased $9 million for the six month period of 2016, compared to the same periods for 2015.

Due to worldwide commodity price fluctuations, the uncertain political and economic conditions in the countries in which Seaboard operates, and the current volatility in the commodity markets, management is unable to predict future sales and operating results for this segment. However, management anticipates positive operating income for this segment for the remainder of 2016, excluding the effects of marking to market derivative contracts.

Had Seaboard not applied mark-to-market accounting to its derivative instruments, operating income for this segment would have been lower by $18 million and $13 million for the three and six month periods of 2016, respectively, and would have been lower by $2 million and $6 million for the three and six month periods of 2015, respectively. While management believes its commodity futures, options and foreign exchange contracts are primarily economic hedges of its firm purchase and sales contracts or anticipated sales contracts, Seaboard does not perform the extensive record-keeping required to account for these transactions as hedges for accounting purposes. Accordingly, while the changes in value of the derivative instruments were marked-to-market, the changes in value of the firm purchase or sales contracts were not. As products are delivered to customers, these existing mark-to-market adjustments should be primarily offset by realized margins or losses as revenue is recognized over time and, these mark-to-market adjustments could reverse in fiscal 2016. Management believes eliminating these mark-to-market adjustments provides a more reasonable presentation to compare and evaluate period-to-period financial results for this segment.

Loss from affiliates for the three and six month periods of 2016 decreased by $5 million and $10 million, respectively, from the same periods in 2015. The decreases primarily reflect lower operating losses and the write-off of a notes receivable from an affiliate in Brazil during the second quarter of 2015. See Note 9 to the Condensed Consolidated Financial Statements for further information on this affiliate. Based on the uncertainty of local political and economic environments in the countries in which Seaboard's affiliates operate, management cannot predict future results.

Marine Segment

(Millions of dollars)	Three Months Ended July 2, 2016	Three Months Ended July 4, 2015	Six Months Ended July 2, 2016	Six Months Ended July 4, 2015
Net sales	$ 232	$ 242	$ 459	$ 479
Operating income	$ 7	$ 5	$ 10	$ 12
Income from affiliates	$ —	$ —	$ 1	$ 1

Net sales for the Marine segment decreased $10 million and $20 million for the three and six month periods of 2016, respectively, compared to the same periods in 2015. The decreases were primarily the result of lower cargo rates in certain markets during 2016 compared to 2015, partially offset by higher volumes.

Operating income increased $2 million for the three month period of 2016 compared to the same period in 2015. The increase was primarily the result of lower voyage costs, principally fuel costs on a per unit shipped basis, partially offset by lower cargo rates. Operating income decreased $2 million for the six month period of 2016 compared to the same period in 2015 primarily the result of lower cargo rates, partially offset by lower voyage costs, principally fuel costs on a per unit shipped basis. Management cannot predict changes in future cargo volumes, cargo rates and fuel costs, or to what extent changes in economic conditions in markets served will affect net sales or operating income during the remainder of 2016. However, management anticipates this segment will have positive operating income for the remainder of 2016.

Sugar Segment

(Millions of dollars)	Three Months Ended July 2, 2016	Three Months Ended July 4, 2015	Six Months Ended July 2, 2016	Six Months Ended July 4, 2015
Net sales	$ 36	$ 45	$ 69	$ 90
Operating income	$ 2	$ 1	$ 2	$ 5
Income from affiliates	$ —	$ —	$ 1	$ —

Net sales for the Sugar segment decreased $9 million and $21 million for the three and six month periods of 2016, respectively, compared to the same periods in 2015. The decreases primarily reflected lower selling prices for sugar and alcohol and lower volumes of sugar sold. Sugar and alcohol sales are denominated in Argentine pesos, and an increase in local sale prices in terms of U.S. dollars was principally offset by exchange rate changes as the Argentine peso continued to be weaker against the U.S. dollar as compared to the same period last year. Management cannot predict local sugar and alcohol prices for the remainder of 2016, but management anticipates that the Argentine peso will continue to be weaker against the U.S. dollar.

Operating income increased $1 million and decreased $3 million for the three and six month periods of 2016, respectively, compared to the same periods in 2015. The increase for the three month period primarily reflected lower production costs for sugar, alcohol and cogeneration and reduced selling, general and administrative expenses principally from decreased personnel-related costs, partially offset by lower income from sugar sales as a result of lower sales prices and volumes. The decrease for the six month period primarily reflected lower income from sugar sales as a result of lower volumes of sugar sold, lower sales prices and higher cogeneration costs. Partially offsetting the decrease was lower production costs for sugar and reduced selling, general and administrative expenses as noted above. Based on market conditions, management currently cannot predict if this segment will be profitable for the remainder of 2016.

Power Segment

(Millions of dollars)	Three Months Ended July 2, 2016	Three Months Ended July 4, 2015	Six Months Ended July 2, 2016	Six Months Ended July 4, 2015
Net sales	$ 19	$ 28	$ 36	$ 53
Operating income	$ 2	$ 4	$ 2	$ 7
Income from affiliates	$ —	$ 1	$ 1	$ 1

Net sales for the Power segment decreased $9 million and $17 million for the three and six month periods of 2016, respectively, compared to the same periods in 2015. The decreases primarily reflect lower spot market rates, which were attributable primarily to lower fuel costs, a component of pricing.

Operating income decreased $2 million and $5 million for the three and six month periods of 2016, respectively, compared to the same periods in 2015. The decreases primarily reflected lower spot market rates, partially offset by lower fuel costs per kilowatt hour generated and other lower production costs. Management cannot predict future fuel costs or the extent that spot market rates will fluctuate compared to fuel costs. However, management anticipates positive operating income for this segment for the remainder of 2016.

Turkey Segment

	Three Months Ended		Six Months Ended	
(Millions of dollars)	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Income from affiliates	$ 18	$ 23	$ 38	$ 40

The Turkey segment, accounted for using the equity method, represents Seaboard's investment in Butterball, LLC. The decreases in income from affiliates for the three and six month periods of 2016, respectively, compared to the same periods in 2015 were primarily the result of higher costs from the increased production of further processed turkey products, higher marketing costs and lower volumes, partially offset by higher prices for turkey products sold. Management is unable to predict future market prices for turkey products, the cost of feed or the impact to the Turkey segment from avian influenza. However, management anticipates positive income for this segment for the remainder of 2016.

Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expenses increased by $7 million and $6 million for the three and six month periods of 2016, respectively, compared to the same periods in 2015. The increases were primarily related to higher affiliate bad debt expense in the Commodity Trading and Milling segment. As a percent of sales, SG&A was 5% for the first half of 2016 and for the same period in 2015.

Interest Expense

Interest expense increased by $5 million and $8 million for the three and six month periods of 2016, respectively, compared to the same periods in 2015. The increases were primarily related to long-term debt issued in December 2015 and higher interest rates on larger notes payable balances at Seaboard's foreign subsidiaries. See Note 7 to the Condensed Consolidated Financial Statements for further information on debt.

Other Investment Income (Loss), Net

The fluctuations in other investment income (loss), net for the three and six month periods of 2016 compared to the same periods in 2015 primarily reflects higher income on short-term investments related to mark-to-market fluctuations and dividends, partially offset by higher losses associated with investments in refined coal processing plants. A portion of Seaboard's investment losses in refined coal processing plants are offset by tax credits in income tax expense.

Foreign Currency Gains, Net

Foreign currency gains, net totaled $2 million and $9 million for the three and six month periods of 2016, respectively, and $1 million and $2 million for the three and six month periods of 2015, respectively. The fluctuation primarily reflects gains in the South African rand, partially offset by losses in the Zambian kwacha, among other currency exchange rate changes in several foreign countries. The political and economic conditions of the countries in which Seaboard operates and does business, along with fluctuations in the value of the U.S. dollar, cause volatility in currency exchange rates, which exposes Seaboard to fluctuating foreign currency gains and losses that cannot be predicted by Seaboard. Although Seaboard does not utilize hedge accounting, Seaboard does utilize foreign currency exchange contracts to manage its risks and exposure to foreign currency fluctuations primarily related to the South African rand. Management believes gains and losses on commodity transactions, including the mark-to-market effects, of such foreign currency exchange contracts relate to the underlying commodity transactions and classifies such gains and losses in cost of sales. All other gains and losses on foreign currency exchange agreements are included in foreign currency gains, net.

Income Tax Expense

On December 18, 2015, the Protecting Americans from Tax Hikes Act of 2015 (the “2015 Tax Act”) was signed into law. The 2015 Tax Act reinstated and made permanent certain expired corporate income tax provisions that impact current and deferred taxes for financial reporting purposes. Certain reinstated provisions were extended for 2015 and 2016, while certain other provisions were extended beyond 2016.

The effective tax rate for the three and six month periods of 2016 was lower than that for the three and six month periods of 2015 primarily due to the 2015 Tax Act’s extension of certain tax provisions that had expired during the three and six month periods of 2015 and additional tax credits earned.

Other Financial Information

See Note 1 to the Condensed Consolidated Financial Statements for a discussion of recently issued accounting standards.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Seaboard is exposed to various types of market risks in its day-to-day operations. Seaboard utilizes derivative instruments to mitigate some of these risks, including both purchases and sales of futures and options to hedge inventories, forward purchases and sale contracts. Primary market risk exposures result from changing commodity prices, foreign currency exchange rates and interest rates. Seaboard also enters into speculative derivative transactions not directly related to its raw material requirements. The nature of Seaboard’s market risk exposure related to these items has not changed materially since December 31, 2015. See Note 5 to the Condensed Consolidated Financial Statements for further discussion.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures — Seaboard’s management evaluated, under the direction of our Chief Executive and Chief Financial Officers, the effectiveness of Seaboard’s disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e) as of July 2, 2016. Based upon and as of the date of that evaluation, Seaboard’s Chief Executive and Chief Financial Officers concluded that Seaboard’s disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports it files and submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported as and when required. It should be noted that any system of disclosure controls and procedures, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any system of disclosure controls and procedures is based in part upon assumptions about the likelihood of future events. Due to these and other inherent limitations of any such system, there can be no assurance that any design will always succeed in achieving its stated goals under all potential future conditions.

Change in Internal Controls — There has been no change in Seaboard’s internal control over financial reporting required by Exchange Act Rule 13a-15(f) that occurred during the fiscal quarter ended July 2, 2016 that has materially affected, or is reasonably likely to materially affect, Seaboard’s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

For information related to Seaboard's legal proceedings, see Note 7 to the Condensed Consolidated Financial Statements.

Item 1A. Risk Factors

There have been no material changes in the risk factors as previously disclosed in Seaboard's annual report on Form 10-K for the year ended December 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

As of the date of this report, Seaboard may repurchase up to $100 million market value of its common stock from time to time in open market or privately negotiated purchases under its share repurchase program. See Note 8 to the Condensed Consolidated Financial Statements for further discussion. There were no purchases made pursuant to Seaboard's share repurchase program during the second quarter of 2016.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification of the Chief Executive Officer Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the 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.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Forward-looking Statements

This Form 10-Q contains forward-looking statements with respect to the financial condition, results of operations, plans, objectives, future performance and business of Seaboard Corporation and its subsidiaries (“Seaboard”). Forward-looking statements generally may be identified as statements that are not historical in nature and statements preceded by, followed by or that include the words “believes,” “expects,” “may,” “will,” “should,” “could,” “anticipates,” “esti “intends,” or similar expressions. In more specific terms, forward-looking statements, include without limitation: statements concerning projection of revenues, income or loss, capital expenditures, capital structure or other financial items, including the impact of mark-to-market accounting on operating income; statements regarding the plans and objectives of management for future operations; statements of future economic performance; statements regarding the intent, belief or current expectations of Seaboard and its management with respect to: (i) Seaboard’s ability to obtain adequate financing and liquidity; (ii) the price of feed stocks and other materials used by Seaboard; (iii) the sales price or market conditions for pork, grains, sugar, turkey and other products and services; (iv) the recorded tax effects under certain circumstances and changes in tax laws; (v) the volume of business and working capital requirements associated with the competitive trading environment for the Commodity Trading and Milling segment; (vi) the charter hire rates and fuel prices for vessels; (vii) the fuel costs and related spot market prices in the Dominican Republic;

(viii) the effect of the fluctuation in foreign currency exchange rates; (ix) the profitability or sales volume of any of Seaboard’s segments; (x) the anticipated costs and completion timetables for Seaboard’s scheduled capital improvements, acquisitions and dispositions; (xi) the productive capacity of facilities that are planned or under construction, and the timing of the commencement of operations at such facilities; (xii) the increase in Seaboard's hog and other production capacity attributable to acquisitions; (xiii) the amount of Seaboard's funding commitment for refined coal processing plants; or (xiv) other trends affecting Seaboard’s financial condition or results of operations, and statements of the assumptions underlying or relating to any of the foregoing statements.

This list of forward-looking statements is not exclusive. Seaboard undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changes in assumptions or otherwise. Forward-looking statements are not guarantees of future performance or results. They involve risks, uncertainties and assumptions. Actual results may differ materially from those contemplated by the forward-looking statements due to a variety of factors. The information contained in this report, including without limitation the information under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” identifies important factors that could cause such differences.

SIGNATURES

Pursuant to the requirements 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.

SEABOARD CORPORATION

by: /s/ Robert L. Steer
Robert L. Steer, Executive Vice President,
Chief Financial Officer
(principal financial officer)

Date: August 10, 2016

by: /s/ Michael D. Trollinger
Michael D. Trollinger, Vice President, Corporate Controller
and Chief Accounting Officer
(principal accounting officer)

Date: August 10, 2016