In the Matter of

VEREIT, INC.,

Respondent.

ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933 AND SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”) and Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against Vereit, Inc., formerly known as American Realty Capital Properties, Inc. (“ARCP” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933 and Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order (“Order”), as set forth below.
III.

On the basis of this Order and Respondent’s Offer, the Commission finds\(^1\) that:

**Summary**

1. This proceeding arises from ARCP’s violations of the antifraud and books and records provisions of the federal securities laws. ARCP, now known as VEREIT, Inc. (hereinafter, “ARCP” or the “Company”), is a real estate investment trust (“REIT”) primarily engaged in the business of acquiring, owning, and managing single-tenant commercial real estate properties that by February 2014 had grown to be the nation’s largest publicly-traded net lease REIT. ARCP, acting through its then Chief Financial Officer, Brian S. Block (the “CFO”), and its then Chief Accounting Officer, Lisa McAlister (the “CAO”), falsely reported and manipulated the Company’s “Adjusted Funds from Operations” or “AFFO,” a key non-GAAP performance metric relied on by ARCP management, investors, and analysts to assess ARCP’s financial performance from at least May 2014 until the Company’s initial disclosure on October 29, 2014 of their misconduct (the “Relevant Period”).

2. On October 29, 2014, ARCP announced that its Audit Committee had concluded that the previously issued financial reports for its full fiscal year 2013, first quarter 2014 (“1Q14”), and second quarter 2014 (“2Q14”) should no longer be relied upon. The Audit Committee’s conclusion was based on the preliminary findings of an internal investigation that ARCP had overstated AFFO in its 1Q14 financial reports and that this error was identified but intentionally not corrected, and other AFFO and financial statement errors were intentionally made resulting in an overstatement of AFFO in its 2Q14 financial reports. The Company also announced that the CFO and CAO had resigned at the request of the Audit Committee, and that the investigation was ongoing and had been expanded to encompass fiscal year 2013 in light of the fact that the CFO and CAO had key roles in the preparation of such filings. The closing price of ARCP’s stock on the day of this announcement, declined by approximately 19 percent from the prior day’s close.

**Respondent**

3. ARCP is a Maryland corporation that during the Relevant Period was headquartered in New York, New York. ARCP’s common stock has been registered with the Commission under Exchange Act Section 12(b) since conducting its initial public offering and becoming a publicly-traded REIT in 2011. ARCP files periodic reports, including Forms 10-K and 10-Q, with the Commission pursuant to Section 13(a) of the Exchange Act and related rules thereunder. ARCP’s stock was traded on NASDAQ’s Global Select Market (ticker: ARCP) until July 2015 at which time it changed its name to

\(^1\) The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.
VEREIT, Inc. and moved its listing to the New York Stock Exchange (ticker: VER). As of June 30, 2014, ARCP reported total assets of approximately $21 billion.

Facts

A. AFFO and AFFO Per Share

4. For financial reporting purposes, publicly traded issuers in the United States must follow accounting standards that are commonly known as generally accepted accounting principles, or GAAP. Additionally, many REITs, including ARCP, report supplemental non-GAAP financial measures utilized by Company management, investors, and analysts in understanding and assessing operating results. One such key measure typically reported by REITs, AFFO, is an “adjusted” version of a standardized metric of REIT operating performance, Funds From Operations (“FFO”), as defined by the National Association of Real Estate Investment Trusts (“Nareit”). Nareit defines FFO as: GAAP net income or loss “excluding gains or losses from sales of property, and adding back real estate depreciation.”

5. ARCP, like many REITs, defined AFFO as Nareit FFO with further adjustments to exclude certain non-cash income and expense items (e.g., unrealized gains and losses) and certain “special” or “non-routine” expenses (such as merger and acquisition-related expenses) that are expensed-as-incurred under GAAP. ARCP reported AFFO in its quarterly and annual reports filed with the Commission on Forms 10-Q and 10-K and explained that “AFFO is a recognized measure of sustainable operating performance by the REIT industry” and that the ARCP adjustments to calculate its AFFO “provides information consistent with management’s analysis of the operating performance of the properties.” REIT investors and analysts typically consider AFFO a measure of “normalized” residual cash flow after eliminating non-cash and non-recurring expenses, and an indicator of a REIT’s ability to pay dividends.

6. Because FFO and AFFO are non-GAAP measures, ARCP was required by Commission regulations to provide a reconciliation of those metrics to the “most directly comparable GAAP financial measure.” See 17 C.F.R. §§ 228, 229, 244 and 249. The most directly comparable GAAP measure to FFO and AFFO is net income. And FFO per share or AFFO per share is most directly comparable to GAAP’s earnings per share (“EPS”) metric.

7. Both prior to and during the Relevant Period, ARCP’s senior management considered AFFO per share as an important performance metric. ARCP prominently featured its AFFO per share in its earnings releases, financial supplements, and presentations furnished with Forms 8-K that ARCP filed contemporaneously with each quarterly and annual report. ARCP also provided public earnings guidance in the form of projected full-year AFFO per share. Internally, ARCP personnel regularly prepared models for forecasting performance and evaluating potential transactions in terms of impact to AFFO per share. Externally, analysts also watched ARCP’s reported AFFO per share closely, and many included in their reports their predictions of ARCP’s quarterly and annual AFFO per share.
8. ARCP provided public projections of its full-year 2014 AFFO per share beginning in early 2013, in connection with announcements about quarterly earnings and announced transactions. On October 23, 2013, ARCP updated its 2014 AFFO per share projection to a range of $1.13 to $1.19. That projection remained unchanged until an update in connection with a transaction announced on October 1, 2014, and the $1.13 to $1.19 AFFO per share earnings guidance was reaffirmed on numerous occasions during that period, including in ARCP’s earnings releases for both 1Q14 and 2Q14. Throughout the reporting periods for 1Q14 and 2Q14, ARCP’s senior management tracked analysts’ estimates of ARCP’s quarterly AFFO per share and sought to meet or exceed those estimates, as well as to maintain reported AFFO within the previously announced 2014 guidance range of $1.13 to $1.19 per share.

B. The Operating Partnership and Non-Controlling Interests

9. ARCP, like many REITs, conducts substantially all of its business activities through an operating partnership (the “OP”). From 2013 through 2014, ARCP was the sole general partner of the OP and owned in excess of 95% of its equity interests (the “OP units”). The remainder OP units (i.e., those not owned by ARCP) were held by certain affiliated and unaffiliated investors and could be redeemed for a corresponding number of ARCP shares (or cash, at ARCP’s election) after a one-year holding period.

10. Under GAAP, these remainder OP units are deemed non-controlling interests (“NCI”). GAAP requires the consolidated income statement of ARCP to present net income or loss on a consolidated basis, as well as to identify separately the net income or loss attributable to ARCP stockholders and to the NCI. As such, ARCP reported both forms of its net loss: one that included the total operations of ARCP and the OP, without eliminating the portion of the consolidated net loss that was attributable to the NCI interests (identified simply as “net loss”), and one that eliminated from the net loss the portion of the consolidated net loss that was attributable to the NCI interests (identified as “net loss attributable to common stockholders”).

11. Similarly, because FFO and AFFO represent net income or loss with adjustments, they may be presented on either (i) a “gross” consolidated basis (stockholders plus NCI) or (ii) a “net” basis (stockholders only). The “gross” basis calculation begins with consolidated net income or loss and excludes the gross amount of the adjustment items. To properly calculate FFO and AFFO per share on a “gross” basis, the share count divisor would include the shares into which the NCI holders’ OP units can be converted (“the NCI shares”). This “gross method” essentially includes both 100% of the consolidated results and 100% of the shares of the OP. The “net” basis calculation begins with net income or loss attributable to the stockholders and excludes only the Company’s portion of the adjustment items. To properly calculate FFO and AFFO per share on a “net” basis, the share count divisor would exclude the NCI shares. The “net method” essentially includes only the results and shares of the stockholders. Both methods are internally consistent and should produce virtually the same FFO or AFFO per share.
C. ARCP’s 1Q14 AFFO Presentation

12. On April 10, 2014, ARCP announced plans to issue its 1Q14 financial results before market open on May 8, 2014. At the announced time, ARCP reported its financial results for 1Q14 in a Form 10-Q filed with the Commission, along with an earnings release, earnings supplement, and investor presentation furnished as exhibits to a Form 8-K. ARCP reported for 1Q14 consolidated net loss of approximately $321 million, net loss attributable to the Company of approximately $309 million, total FFO of negative $184 million, total AFFO of approximately $147 million (positive), and AFFO per share of $0.26. In its earnings release, ARCP highlighted that “[w]e had a record quarter with earnings coming exactly in line with our expectations of $0.26 AFFO per share, consistent with our previously stated guidance for the year” and reaffirmed its 2014 AFFO guidance of $1.13 to $1.19 per share.

13. In these 1Q14 reports and its quarterly reports in 2013, ARCP’s presentations of its FFO and AFFO indicated that it was on a “net” basis. Specifically, ARCP’s Form 10-Q for 1Q14 presented a reconciliation of FFO and AFFO to “net loss attributable to stockholders” and stated that the “[a]mounts are presented net of any non-controlling interest effect where applicable.” However, ARCP’s presentation of FFO and AFFO was not in fact “net” of NCI effects and instead used an improper hybrid method that overstated its results.

14. Specifically, while ARCP began the calculation with the net loss attributable to the stockholders, (in this case, a loss that was smaller than the consolidated net loss), ARCP’s adjustment items to calculate FFO and AFFO (most of which were positive) used for the most part the gross amounts of the applicable items (i.e., both the stockholders’ portion and the NCI holders’ portion of these items, rather than only the stockholders’ portion, resulting in an increase in the total dollar amount of those adjustments and, in turn, an increase in positive AFFO), and divided by a share count that excluded the NCI shares (i.e., a lower share count, resulting in greater AFFO per share). This improper hybrid method misleadingly inflated ARCP’s reported AFFO and AFFO per share.

15. ARCP’s AFFO calculated on an actual “net” basis would have been approximately $129.8 million in total and $0.23 per share for 1Q14. ARCP’s reported 1Q14 AFFO was thus overstated by approximately $17 million in total and $0.03 per share.

16. Shortly before the 1Q14 financial results were scheduled to be announced, ARCP personnel, including a senior member of the accounting staff responsible for financial reporting (the “Accountant”), raised concerns about ARCP’s method of calculating AFFO and AFFO per share—specifically that those metrics may be overstated because it was calculated using an improper hybrid method. These concerns were raised to ARCP’s CFO, CAO, and others. Despite those concerns, and without having a substantive explanation or completing an analysis, the CFO instructed that they file the 1Q14 Form 10-Q and related releases as-is by the previously announced date of May 8, 2014.
D. ARCP Personnel Quantified the 1Q14 AFFO Misstatement

17. Following the 1Q14 filings, the Accountant continued to analyze ARCP’s 1Q14 AFFO presentation. The Accountant repeatedly advised the CFO, CAO and others that the Accountant believed ARCP had made a mistake in its 1Q14 AFFO calculation, and thus, had reported incorrect results by a significant amount.

18. For example, by no later than May 23, 2014, the Accountant had informed the CAO that a correct calculation under either the “net method” or the “gross method” yielded 1Q14 AFFO results of only $0.23 per share, rather than the $0.26 per share ARCP reported.

19. Notwithstanding the understanding of the significance of this error, ARCP conducted an offering of common stock on May 23, 2014, pursuant to a Prospectus Supplement filed with the Commission pursuant to Rule 424(b)(5) on the same date. The Prospectus Supplement incorporated by reference ARCP’s 1Q14 Form 10-Q that included the false and misleading AFFO results. The offering raised $1.66 billion, of which the net proceeds to ARCP after underwriting discounts, commissions, and offering-related expenses were $1.59 billion.

E. ARCP’s CFO and CAO Take Additional Manipulative Steps to Conceal the Inflated 1Q14 AFFO Results and to Further Inflate 2Q14 AFFO

20. ARCP was scheduled to file its 2Q14 Form 10-Q and publish its related earnings releases, before market-open on the morning of July 29, 2014.

21. Based on the Accountant’s analysis of the AFFO issue, the Accountant determined to prepare the 3-month 2Q14 AFFO results using the correct “net method” and provided numerous AFFO schedules reflecting that calculation throughout July to the CAO and CFO. However, the 2Q14 financial reports would need to report not only the 3-month 2Q14 results, but also the results for the first half of the year (“FH14”). The FH14 AFFO result adds the first and second quarter amounts for each line in the calculation. Therefore, adding the original, as-reported 1Q14 AFFO would overstate the FH14 results even if the correct method was used to calculate the 3-month 2Q14 AFFO result.

22. Instead of correcting the reported 1Q14 AFFO amount, the CFO and CAO ultimately chose to conceal the misstated 1Q14 AFFO amount and make further intentional errors in the 2Q14 AFFO result in order to meet analysts’ consensus expectations for ARCP’s AFFO results.

23. Specifically, late in the evening of July 28, 2014, the night before the 2Q14 filings would be made, the CFO, the CAO, and the Accountant met in the CFO’s office about ARCP’s AFFO calculations. The CFO began preparing a spreadsheet in which he recalculated AFFO and AFFO per share for 1Q14, 2Q14 and FH14 using the “gross method.” Using this method properly, however, would have revealed the 1Q14 AFFO per share overstatement of $0.03 per share. Moreover, the correct “gross method” calculation for 2Q14 AFFO would have shown that ARCP only achieved $0.23 per share
(versus analysts’ consensus expectations of $0.24) and $0.46 per share for FH14 (out of the Company’s annual guidance projections for AFFO of $1.13 to $1.19 per share).

24. The CFO then manipulated several line items of the AFFO calculation to inflate the figures in order to conceal the 1Q14 overstatement, meet the analysts’ consensus expectations for the 3-month 2Q14 period, and report FH14 results that would not require ARCP to lower its annual guidance projection for AFFO of $1.13 to $1.19 per share. First, the CFO added a total of approximately $13.1 million in unsupported plugged amounts to a certain line item in both the 1Q14 and 2Q14 AFFO calculations, which served to mask the overstatement of ARCP’s reported 1Q14 AFFO as well as to meet analysts’ consensus estimates for 2Q14 AFFO per share of $0.24. Second, the CFO also improperly deducted millions of shares from the weighted shares outstanding for FH14 for the AFFO calculation, thereby improperly inflating the FH14 AFFO per share in his spreadsheet from $0.46 to $0.49.

25. Despite the Accountant’s objections, the CFO instructed the Accountant to use the numbers and calculations in the spreadsheet the CFO had just prepared in ARCP’s 2Q14 Form 10-Q and related earnings releases and emailed to the Accountant and CAO. The CAO informed the Accountant that she would handle communicating with the auditors. The Accountant followed the CFO’s and CAO’s instruction and prepared the filings accordingly. Prior to market open on July 29, 2014, the CFO and CAO authorized the filing of the Form 10-Q and related earnings releases.

26. ARCP’s 2Q14 Form 10-Q falsely reported total AFFO on a purportedly “gross method” basis for 2Q14 of $205.3 million and FH14 of $353 million. ARCP also filed a related Form 8-K furnishing a press release and supplemental financial presentation that falsely reported AFFO of $0.24 per share for 2Q14 and $0.49 per share for FH14. ARCP’s press release further highlighted these falsely inflated AFFO and AFFO per share figures and affirmed the prior 2014 annual guidance range of AFFO per share of $1.13 to $1.19.

27. On September 7, 2014, the Audit Committee of ARCP’s Board of Directors was informed by ARCP’s independent auditor of concerns raised by an employee regarding accounting practices and other matters, including ARCP’s 2Q14 reporting of AFFO. On October 29, 2014, prior to market open, ARCP announced that, based on the preliminary results of an internal investigation, the Audit Committee of the Board of Directors believed that 1Q14, 2Q14, and FH14 AFFO and AFFO per share had been overstated, with the 2Q14 report “intentionally not correct[ing]” the 1Q14 error and making “other AFFO and financial statement errors … intentionally.” The announcement also stated that at the request of the Audit Committee, the CFO and CAO had resigned. Following this disclosure, ARCP’s stock price dropped by approximately 19% (from a closing price of $12.38 on October 28 to $10.00 on October 29), resulting in a market-capitalization loss of over $2 billion. When ARCP ultimately filed restatements on March 2, 2015, its stock price closed at $9.90.

28. ARCP filed restatements of its Form 10-K for fiscal year 2013, 1Q14 Form 10-Q, and 2Q14 Form 10-Q on March 2, 2015. Among other things, the
restatements disclosed the Company’s conclusion that AFFO had been overstated for fiscal years 2011-2013 and for the first two quarters of 2014. The restatements also reported that the investigation found that senior management considered AFFO to be an important metric used by analysts and investors in evaluating the Company’s performance and, for the first two quarters of 2014, sought to maintain reported AFFO within the 2014 guidance range of $1.13 to $1.19 per share announced at the end of 2013. It further reported that some members of senior management were aware of AFFO errors prior to the 1Q14 Form 10-Q filing but allowed the report to be filed without completing an analysis of the errors and in the 2Q14 Form 10-Q report, as previously reported, errors were intentionally not corrected and other AFFO and financial statement errors were intentionally made. The restatements also identified other corrections and issues relating to multiple matters, including related party payments to affiliates of the former external manager and issues relating to equity awards made to its former CEO and CFO.

29. ARCP’s control environment during the Relevant Period significantly contributed to the fraudulent misrepresentations of AFFO described above. As acknowledged in ARCP’s restatements, including for 1Q14 and 2Q14, the Company had numerous material weaknesses in the design and implementation of controls to, among other things, ensure that AFFO was correctly calculated, ensure that the information contained in ARCP’s periodic reports and other SEC filings correctly reflected the information contained in the Company’s accounting records and other supporting information, prevent changes to the financial statements and supporting financial information by senior management without proper review, and ensure that accounting employees would not be subject to pressure to make inappropriate decisions affecting the financial statement components of the calculation of AFFO.

Violations

30. As a result of the conduct described above, ARCP violated Section 17(a) of the Securities Act, which prohibits fraudulent conduct in connection with the offer or sale of securities, and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibit fraudulent conduct in connection with the purchase or sale of securities.

31. Also, as a result of the conduct described above, ARCP violated Section 13(a) of the Exchange Act and Rules 12b-20, 13a-11, and 13a-13, which require every issuer of a security registered pursuant to Section 12 of the Exchange Act to file with the Commission information, documents, and quarterly reports as the Commission may require, and mandate that periodic reports contain such further material information as may be necessary to make the required statements not misleading.

32. In addition, as a result of the conduct described above, ARCP violated Section 13(b)(2)(A) of the Exchange Act, which requires all reporting companies to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect their transactions and dispositions of their assets.
ARCP’s Self-Reporting, Remediation, and Cooperation

33. In determining to accept ARCP’s Offer, the Commission considered ARCP’s self-reporting, public disclosures, cooperation, and remediation, as described below.

34. ARCP promptly self-reported to the Commission, and in its Form 8-K filed on October 29, 2014 disclosed to investors the preliminary results of the Audit Committee investigation that the Company incorrectly calculated its 1Q14 AFFO and that “this error was identified but intentionally not corrected, and other AFFO and financial statement errors were intentionally made” for the three and six month periods covered by the 2Q14 reports, and that at the request of the Audit Committee the CFO and CAO had resigned.

35. ARCP’s Audit Committee continued its investigation thereafter and provided timely updates to the Commission staff. ARCP voluntarily produced compilations of documents and other information at the staff’s request, made timely disclosure of relevant factual information, and facilitated making its employees available for interviews with the staff. After issuing restatements in March 2015, ARCP continued to cooperate with the Commission staff’s investigation, including providing certain information relevant to the Commission’s action entitled SEC v. AR Capital, LLC, et al., No. 19 Civ. 6603 (AT) (S.D.N.Y).

36. ARCP also promptly undertook a series of remedial measures, including reforming policies, procedures, and controls; instituting enhanced annual trainings; and reporting the remediation as of December 31, 2015 of all material weaknesses identified in its restated financials. In addition, the Company replaced the CEO, Chief Operating Officer, General Counsel, CFO, and CAO—constituting an entirely new senior management team—as well as its entire board of directors (including a new independent Chairman) and numerous other employees.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent ARCP’s Offer.

Accordingly, pursuant to Section 8A of the Securities Act and Section 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent ARCP cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act and Sections 10(b), 13(a), and 13(b)(2)(A) of the Exchange Act and Rules 10b-5, 12b-20, 13a-11, and 13a-13 thereunder.

B. Respondent ARCP shall, within 14 days of the entry of this Order, pay a civil money penalty in the amount of $8,000,000 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717.
Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier’s check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying ARCP as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Sanjay Wadhwa, Division of Enforcement, Securities and Exchange Commission, 200 Vesey Street, Suite 400, New York, NY 10281.

C. Pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, as amended, a Fair Fund is created for the civil penalties paid as referenced in paragraph B above. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent’s payment of a civil penalty in this action (“Penalty Offset”). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a “Related Investor Action” means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Vanessa A. Countryman
Secretary