

NATIONAL RETAIL PROPERTIES, INC.  
Form 10-Q  
May 02, 2016

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

FORM 10-Q

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 001-11290

NATIONAL RETAIL PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction of 56-1431377  
incorporation or organization) (I.R.S. Employer Identification No.)

450 South Orange Avenue, Suite 900

Orlando, Florida 32801

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (407) 265-7348

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 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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

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

144,025,700 shares of common stock, \$0.01 par value, outstanding as of April 28, 2016.

## TABLE OF CONTENTS

	PAGE REFERENCE
Part I - Financial Information	
Item 1. <u>Financial Statements:</u>	
<u>Condensed Consolidated Balance Sheets</u>	<u>3</u>
<u>Condensed Consolidated Statements of Income and Comprehensive Income</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>18</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>27</u>
Item 4. <u>Controls and Procedures</u>	<u>28</u>
Part II - Other Information	
Item 1. <u>Legal Proceedings</u>	<u>29</u>
Item 1A. <u>Risk Factors</u>	<u>29</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>29</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>29</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>29</u>
Item 5. <u>Other Information</u>	<u>29</u>
Item 6. <u>Exhibits</u>	<u>29</u>
<u>Signatures</u>	<u>33</u>
<u>Exhibit Index</u>	<u>34</u>

---

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share data)

	March 31, 2016 (unaudited)	December 31, 2015
<b>ASSETS</b>		
Real estate portfolio:		
Accounted for using the operating method, net of accumulated depreciation and amortization	\$5,343,433	\$ 5,256,274
Accounted for using the direct financing method	14,178	14,518
Real estate held for sale	627	32,666
Mortgages, notes and accrued interest receivable, net of allowance of \$8 and \$5, respectively	8,558	8,688
Commercial mortgage residual interests	10,801	11,115
Cash and cash equivalents	8,203	13,659
Restricted cash and cash held in escrow	43,136	601
Receivables, net of allowance of \$671 and \$566, respectively	5,236	3,344
Accrued rental income, net of allowance of \$3,133 and \$3,078, respectively	25,575	25,529
Debt costs, net of accumulated amortization of \$10,218 and \$9,877, respectively	3,662	4,003
Other assets	89,494	89,647
Total assets	\$5,552,903	\$ 5,460,044
<b>LIABILITIES AND EQUITY</b>		
Liabilities:		
Mortgages payable, including unamortized premium and net of unamortized debt costs	\$ 17,066	\$ 23,964
Notes payable, net of unamortized discount and unamortized debt costs	1,952,723	1,951,980
Accrued interest payable	33,637	20,113
Other liabilities	115,315	121,594
Total liabilities	2,118,741	2,117,651
Equity:		
Stockholders' equity:		
Preferred stock, \$0.01 par value. Authorized 15,000,000 shares		
6.625% Series D, 115,000 shares issued and outstanding, at stated liquidation value of \$2,500 per share	287,500	287,500
5.700% Series E, 115,000 shares issued and outstanding, at stated liquidation value of \$2,500 per share	287,500	287,500
Common stock, \$0.01 par value. Authorized 375,000,000 shares; 143,235,896 and 141,007,725 shares issued and outstanding, respectively	1,434	1,412
Capital in excess of par value	3,139,585	3,049,198
Accumulated deficit	(262,451 )	(263,124 )
Accumulated other comprehensive income (loss)	(19,658 )	(20,352 )
Total stockholders' equity of NNN	3,433,910	3,342,134
Noncontrolling interests	252	259
Total equity	3,434,162	3,342,393
Total liabilities and equity	\$5,552,903	\$ 5,460,044

See accompanying notes to condensed consolidated financial statements.



## NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(dollars in thousands, except per share data)

(Unaudited)

	Quarter Ended March	
	31,	
	2016	2015
Revenues:		
Rental income from operating leases	\$ 121,645	\$ 111,474
Earned income from direct financing leases	356	405
Percentage rent	474	185
Real estate expense reimbursement from tenants	3,590	3,515
Interest and other income from real estate transactions	463	163
Interest income on commercial mortgage residual interests	452	445
	126,980	116,187
Operating expenses:		
General and administrative	9,249	8,605
Real estate	4,787	4,759
Depreciation and amortization	34,655	32,141
Impairment – commercial mortgage residual interests valuation	220	—
Impairment losses, net of recoveries	572	1,028
	49,483	46,533
Earnings from operations	77,497	69,654
Other expenses (revenues):		
Interest and other income	(19	) (11
Interest expense	23,586	21,786
Real estate acquisition costs	129	599
	23,696	22,374
Earnings before income tax expense	53,801	47,280
Income tax expense	—	(442
Earnings before gain on disposition of real estate, net of income tax expense	53,801	46,838
Gain on disposition of real estate, net of income tax expense	16,875	7,200
Earnings including noncontrolling interests	70,676	54,038
Loss (earnings) attributable to noncontrolling interests	7	(60
Net earnings attributable to NNN	\$ 70,683	\$ 53,978

See accompanying notes to condensed consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(dollars in thousands, except per share data)

(Unaudited)

Quarter Ended  
March 31,  
2016      2015

Net earnings attributable to NNN	\$70,683	\$53,978
Series D preferred stock dividends	(4,762 )	(4,762 )
Series E preferred stock dividends	(4,097 )	(4,097 )