

Section 1: 10-Q (10-Q)

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 September 30, 2019

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
incorporation or organization)

56-1431377
(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

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of exchange on which registered</u>
Common Stock, \$0.01 par value	NNN	New York Stock Exchange
5.200% Series F Preferred Stock, \$0.01 par value	NNN/PF	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 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," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange 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.

171,637,561 shares of common stock, \$0.01 par value, outstanding as of October 30, 2019.

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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)

	September 30, 2019	December 31, 2018
<u>ASSETS</u>	(unaudited)	
Real estate portfolio:		
Accounted for using the operating method, net of accumulated depreciation and amortization	\$ 7,121,156	\$ 6,838,907
Accounted for using the direct financing method	6,882	8,069
Real estate held for sale	13,961	28,456
Cash and cash equivalents	353,688	114,267
Receivables, net of allowance of \$506 and \$2,273, respectively	2,882	3,797
Accrued rental income, net of allowance of \$1,842	28,570	25,387
Debt costs, net of accumulated amortization of \$15,210 and \$14,118, respectively	3,104	4,081
Other assets	97,441	80,474
Total assets	<u>\$ 7,627,684</u>	<u>\$ 7,103,438</u>
<u>LIABILITIES AND EQUITY</u>		
Liabilities:		
Mortgages payable, including unamortized premium and net of unamortized debt costs	\$ 12,221	\$ 12,694
Notes payable, net of unamortized discount and unamortized debt costs	2,841,680	2,838,701
Accrued interest payable	45,886	19,519
Other liabilities	101,393	77,919
Total liabilities	<u>3,001,180</u>	<u>2,948,833</u>
Equity:		
Stockholders' equity:		
Preferred stock, \$0.01 par value. Authorized 15,000,000 shares		
5.700% Series E, 115,000 shares issued and outstanding, at stated liquidation value of \$2,500 per share	287,500	287,500
5.200% Series F, 138,000 shares issued and outstanding, at stated liquidation value of \$2,500 per share	345,000	345,000
Common stock, \$0.01 par value. Authorized 375,000,000 shares; 171,637,247 and 161,503,585 shares issued and outstanding, respectively	1,717	1,616
Capital in excess of par value	4,479,600	3,950,055
Accumulated deficit	(469,646)	(424,225)
Accumulated other comprehensive income (loss)	(17,674)	(5,696)
Total stockholders' equity of NNN	<u>4,626,497</u>	<u>4,154,250</u>
Noncontrolling interests	7	355
Total equity	<u>4,626,504</u>	<u>4,154,605</u>
Total liabilities and equity	<u>\$ 7,627,684</u>	<u>\$ 7,103,438</u>

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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues:				
Rental income	\$ 168,224	\$ 154,656	\$ 495,846	\$ 462,570
Interest and other income from real estate transactions	383	675	1,265	1,113
	<u>168,607</u>	<u>155,331</u>	<u>497,111</u>	<u>463,683</u>
Operating expenses:				
General and administrative	8,726	8,543	27,524	25,980
Real estate	6,706	5,759	20,398	17,449
Depreciation and amortization	48,348	42,479	140,769	130,280
Impairment losses – real estate, net of recoveries	10,692	3,635	21,124	9,718
Retirement severance costs	—	222	—	743
	<u>74,472</u>	<u>60,638</u>	<u>209,815</u>	<u>184,170</u>
Gain on disposition of real estate	2,061	14,348	25,508	57,050
Earnings from operations	<u>96,196</u>	<u>109,041</u>	<u>312,804</u>	<u>336,563</u>
Other expenses (revenues):				
Interest and other income	(501)	(195)	(2,912)	(258)
Interest expense	29,948	27,194	89,716	80,906
Leasing transaction costs	51	—	178	—
	<u>29,498</u>	<u>26,999</u>	<u>86,982</u>	<u>80,648</u>
Net earnings	66,698	82,042	225,822	255,915
Earnings attributable to noncontrolling interests	(5)	(10)	(428)	(29)
Net earnings attributable to NNN	66,693	82,032	225,394	255,886
Series E preferred stock dividends	(4,097)	(4,097)	(12,291)	(12,291)
Series F preferred stock dividends	(4,485)	(4,485)	(13,455)	(13,455)
Net earnings attributable to common stockholders	<u>\$ 58,111</u>	<u>\$ 73,450</u>	<u>\$ 199,648</u>	<u>\$ 230,140</u>
Net earnings per share of common stock:				
Basic	<u>\$ 0.35</u>	<u>\$ 0.47</u>	<u>\$ 1.23</u>	<u>\$ 1.49</u>
Diluted	<u>\$ 0.35</u>	<u>\$ 0.47</u>	<u>\$ 1.22</u>	<u>\$ 1.48</u>
Weighted average number of common shares outstanding:				
Basic	<u>164,883,509</u>	<u>156,852,984</u>	<u>162,641,261</u>	<u>154,582,449</u>
Diluted	<u>165,361,731</u>	<u>157,286,165</u>	<u>163,126,063</u>	<u>155,007,857</u>
Other comprehensive income:				
Net earnings attributable to NNN	\$ 66,693	\$ 82,032	\$ 225,394	\$ 255,886
Amortization of interest rate hedges	327	525	975	1,581
Fair value of forward starting swaps	(7,818)	2,985	(11,738)	4,080
Valuation adjustments – available-for-sale securities	—	13	116	65
Realized gain – available-for-sale securities	—	—	(1,331)	—
Comprehensive income attributable to NNN	<u>\$ 59,202</u>	<u>\$ 85,555</u>	<u>\$ 213,416</u>	<u>\$ 261,612</u>

See accompanying notes to condensed consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
Quarter Ended September 30, 2019
(dollars in thousands, except per share data)

	Series E Preferred Stock	Series F Preferred Stock	Common Stock	Capital in Excess of Par Value	Retained Earnings (Loss)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balances at June 30, 2019	\$287,500	\$345,000	\$ 1,636	\$4,042,318	\$(443,822)	\$ (10,183)	\$ 4,222,449	\$ 2	\$4,222,451
Net earnings	—	—	—	—	66,693	—	66,693	5	66,698
Dividends declared and paid:									
\$0.356250 per depository share of Series E preferred stock	—	—	—	—	(4,097)	—	(4,097)	—	(4,097)
\$0.32500 per depository share of Series F preferred stock	—	—	—	—	(4,485)	—	(4,485)	—	(4,485)
\$0.515 per share of common stock	—	—	1	9,219	(83,935)	—	(74,715)	—	(74,715)
Issuance of common stock:									
6,964 shares – director compensation	—	—	—	325	—	—	325	—	325
1,716 shares – stock purchase plan	—	—	1	93	—	—	94	—	94
848,474 shares – ATM equity program	—	—	8	46,516	—	—	46,524	—	46,524
7,000,000 shares – equity offering	—	—	70	395,430	—	—	395,500	—	395,500
100,000 restricted shares – net of buyback and surrender	—	—	1	(1)	—	—	—	—	—
Stock issuance costs	—	—	—	(16,714)	—	—	(16,714)	—	(16,714)
Amortization of deferred compensation	—	—	—	2,414	—	—	2,414	—	2,414
Amortization of interest rate hedges	—	—	—	—	—	327	327	—	327
Fair value of forward starting swaps	—	—	—	—	—	(7,818)	(7,818)	—	(7,818)
Balances at September 30, 2019	\$287,500	\$345,000	\$ 1,717	\$4,479,600	\$(469,646)	\$ (17,674)	\$ 4,626,497	\$ 7	\$4,626,504

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
Quarter Ended September 30, 2018
(dollars in thousands, except per share data)

	Series E Preferred Stock	Series F Preferred Stock	Common Stock	Capital in Excess of Par Value	Retained Earnings (Loss)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balances at June 30, 2018	\$287,500	\$345,000	\$ 1,571	\$3,734,313	\$(368,074)	\$ (11,535)	\$ 3,988,775	\$ 336	\$3,989,111
Net earnings	—	—	—	—	82,032	—	82,032	10	82,042
Dividends declared and paid:									
\$0.356250 per depository share of Series E preferred stock	—	—	—	—	(4,097)	—	(4,097)	—	(4,097)
\$0.32500 per depository share of Series F preferred stock	—	—	—	—	(4,485)	—	(4,485)	—	(4,485)
\$0.50 per share of common stock	—	—	1	3,511	(78,253)	—	(74,741)	—	(74,741)
Issuance of common stock:									
9,308 shares – director compensation	—	—	—	329	—	—	329	—	329
2,923 shares – stock purchase plan	—	—	—	132	—	—	132	—	132
1,859,099 shares – ATM equity program	—	—	19	84,668	—	—	84,687	—	84,687
Stock issuance costs	—	—	—	(1,160)	—	—	(1,160)	—	(1,160)
Amortization of deferred compensation	—	—	—	1,879	—	—	1,879	—	1,879
Amortization of interest rate hedges	—	—	—	—	—	525	525	—	525
Fair value of forward starting swaps	—	—	—	—	—	2,985	2,985	—	2,985
Valuation adjustments – available-for-sale securities	—	—	—	—	—	13	13	—	13
Balances at September 30, 2018	<u>\$287,500</u>	<u>\$345,000</u>	<u>\$ 1,591</u>	<u>\$3,823,672</u>	<u>\$(372,877)</u>	<u>\$ (8,012)</u>	<u>\$ 4,076,874</u>	<u>\$ 346</u>	<u>\$4,077,220</u>

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
Nine Months Ended September 30, 2019
(dollars in thousands, except per share data)

	Series E Preferred Stock	Series F Preferred Stock	Common Stock	Capital in Excess of Par Value	Retained Earnings (Loss)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balances at December 31, 2018	\$287,500	\$345,000	\$ 1,616	\$3,950,055	\$(424,225)	\$ (5,696)	\$ 4,154,250	\$ 355	\$4,154,605
Net earnings	—	—	—	—	225,394	—	225,394	428	225,822
Dividends declared and paid:									
\$1.068750 per depository share of Series E preferred stock	—	—	—	—	(12,291)	—	(12,291)	—	(12,291)
\$0.975000 per depository share of Series F preferred stock	—	—	—	—	(13,455)	—	(13,455)	—	(13,455)
\$1.515 per share of common stock	—	—	3	16,168	(245,574)	—	(229,403)	—	(229,403)
Issuance of common stock:									
21,933 shares – director compensation	—	—	—	968	—	—	968	—	968
5,872 shares – stock purchase plan	—	—	—	309	—	—	309	—	309
2,344,022 shares – ATM equity program	—	—	24	127,313	—	—	127,337	—	127,337
7,000,000 shares – equity offering	—	—	70	395,430	—	—	395,500	—	395,500
359,650 restricted shares – net of buyback and surrender	—	—	4	(4)	—	—	—	—	—
Stock issuance costs	—	—	—	(17,480)	—	—	(17,480)	—	(17,480)
Amortization of deferred compensation	—	—	—	6,841	—	—	6,841	—	6,841
Amortization of interest rate hedges	—	—	—	—	—	975	975	—	975
Fair value of forward starting swaps	—	—	—	—	—	(11,738)	(11,738)	—	(11,738)
Valuation adjustments – available-for-sale securities	—	—	—	—	—	116	116	—	116
Realized gain – available- for-sale securities	—	—	—	—	—	(1,331)	(1,331)	—	(1,331)
Other	—	—	—	—	505	—	505	—	505
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(776)	(776)
Balances at September 30, 2019	\$287,500	\$345,000	\$ 1,717	\$4,479,600	\$(469,646)	\$ (17,674)	\$ 4,626,497	\$ 7	\$4,626,504

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
Nine Months Ended September 30, 2018
(dollars in thousands, except per share data)

	Series E Preferred Stock	Series F Preferred Stock	Common Stock	Capital in Excess of Par Value	Retained Earnings (Loss)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balances at December 31, 2017	\$287,500	\$345,000	\$ 1,537	\$3,599,475	\$(379,181)	\$ (13,738)	\$ 3,840,593	\$ 317	\$3,840,910
Net earnings	—	—	—	—	255,886	—	255,886	29	255,915
Dividends declared and paid:									
\$1.068750 per depository share of Series E preferred stock	—	—	—	—	(12,291)	—	(12,291)	—	(12,291)
\$0.975000 per depository share of Series F preferred stock	—	—	—	—	(13,455)	—	(13,455)	—	(13,455)
\$1.45 per share of common stock	—	—	3	8,885	(223,836)	—	(214,948)	—	(214,948)
Issuance of common stock:									
31,941 shares – director compensation	—	—	—	1,047	—	—	1,047	—	1,047
8,429 shares – stock purchase plan	—	—	—	349	—	—	349	—	349
4,896,563 shares – ATM equity program	—	—	49	211,323	—	—	211,372	—	211,372
221,484 restricted shares – net of buyback and surrender	—	—	2	(91)	—	—	(89)	—	(89)
Stock issuance costs	—	—	—	(2,914)	—	—	(2,914)	—	(2,914)
Amortization of deferred compensation	—	—	—	5,598	—	—	5,598	—	5,598
Amortization of interest rate hedges	—	—	—	—	—	1,581	1,581	—	1,581
Fair value of forward starting swaps	—	—	—	—	—	4,080	4,080	—	4,080
Valuation adjustments – available-for-sale securities	—	—	—	—	—	65	65	—	65
Balances at September 30, 2018	\$287,500	\$345,000	\$ 1,591	\$3,823,672	\$(372,877)	\$ (8,012)	\$ 4,076,874	\$ 346	\$4,077,220

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Net earnings	\$ 225,822	\$ 255,915
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	140,769	130,280
Impairment losses – real estate, net of recoveries	21,124	9,718
Amortization of notes payable discount	1,297	1,401
Amortization of debt costs	2,787	2,695
Amortization of mortgages payable premium	(64)	(64)
Amortization of interest rate hedges	975	1,581
Settlement of forward starting swaps	—	4,080
Gain on disposition of real estate	(25,508)	(57,050)
Performance incentive plan expense	8,581	7,231
Performance incentive plan payment	(775)	(432)
Change in operating assets and liabilities, net of assets acquired and liabilities assumed:		
Decrease in real estate leased to others using the direct financing method	508	655
Decrease in receivables	915	1,554
Increase in accrued rental income	(1,702)	(871)
Increase in other assets	(375)	(1,052)
Increase in accrued interest payable	26,367	14,987
Decrease in other liabilities	(1,500)	(4,848)
Other	(189)	(272)
Net cash provided by operating activities	<u>399,032</u>	<u>365,508</u>
Cash flows from investing activities:		
Proceeds from the disposition of real estate	92,586	121,810
Additions to real estate:		
Accounted for using the operating method	(505,693)	(415,118)
Principal payments on mortgages and notes receivable	3,100	—
Other	985	(433)
Net cash used in investing activities	<u>(409,022)</u>	<u>(293,741)</u>

See accompanying notes to condensed consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
(dollars in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2019	2018
Cash flows from financing activities:		
Proceeds from line of credit payable	\$ 429,200	\$ 1,599,500
Repayment of line of credit payable	(429,200)	(1,720,000)
Repayment of mortgages payable	(422)	(400)
Proceeds from notes payable	—	692,913
Payment of debt issuance costs	(115)	(5,506)
Proceeds from issuance of common stock	539,318	220,524
Stock issuance costs	(17,274)	(2,908)
Payment of Series E preferred stock dividends	(12,291)	(12,291)
Payment of Series F preferred stock dividends	(13,455)	(13,455)
Payment of common stock dividends	(245,574)	(223,836)
Noncontrolling interest distributions	(776)	—
Net cash provided by financing activities	<u>249,411</u>	<u>534,541</u>
Net increase in cash, cash equivalents and restricted cash	239,421	606,308
Cash, cash equivalents and restricted cash at beginning of period ⁽¹⁾	114,267	1,364
Cash, cash equivalents and restricted cash at end of period ⁽¹⁾	<u>\$ 353,688</u>	<u>\$ 607,672</u>
Supplemental disclosure of cash flow information:		
Interest paid, net of amount capitalized	\$ 59,151	\$ 62,806
Supplemental disclosure of noncash investing and financing activities:		
Increase (decrease) in other comprehensive income	\$ 11,978	\$ (5,726)
Right-of-use assets recorded in connection with lease liabilities	\$ 8,224	\$ —
Mortgage receivable accepted in connection with real estate transactions	\$ 3,100	\$ —
Change in lease classification (direct financing lease to operating lease)	\$ —	\$ 565
Change in lease classification (operating lease to direct financing lease)	\$ —	\$ 258

⁽¹⁾ Cash, cash equivalents and restricted cash is the aggregate of cash and cash equivalents and restricted cash and cash held in escrow from the Condensed Consolidated Balance Sheets. NNN had no restricted cash and cash held in escrow at September 30, 2019 and 2018.

See accompanying notes to condensed consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2019
(Unaudited)

Note 1 – Organization and Summary of Significant Accounting Policies:

Organization and Nature of Business – National Retail Properties, Inc., a Maryland corporation, is a fully integrated real estate investment trust (“REIT”) formed in 1984. The terms “NNN” or the “Company” refer to National Retail Properties, Inc. and all of its consolidated subsidiaries.

NNN’s assets primarily include real estate assets. NNN acquires, owns, invests in and develops properties that are leased primarily to retail tenants under long-term net leases and primarily held for investment (“Properties”, “Property Portfolio”, or individually a “Property”).

	September 30, 2019
Property Portfolio:	
Total properties	3,057
Gross leasable area (square feet)	32,209,000
States	48
Weighted average remaining lease term (years)	11.2

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by U.S. generally accepted accounting principles (“GAAP”). The unaudited condensed consolidated financial statements reflect all adjustments (including normal recurring accruals) which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. Operating results for the quarter and nine months ended September 30, 2019, may not be indicative of the results that may be expected for the year ending December 31, 2019. Amounts as of December 31, 2018 included in the condensed consolidated financial statements have been derived from the audited consolidated financial statements as of that date. The unaudited condensed consolidated financial statements, included herein, should be read in conjunction with the consolidated financial statements and notes thereto as well as Management’s Discussion and Analysis of Financial Condition and Results of Operations in NNN’s Form 10-K for the year ended December 31, 2018.

Principles of Consolidation – NNN’s condensed consolidated financial statements include the accounts of each of the respective majority owned and controlled affiliates, including transactions whereby NNN has been determined to be the primary beneficiary in accordance with the Financial Accounting Standards Board (“FASB”) guidance included in *Consolidation*. All significant intercompany account balances and transactions have been eliminated.

Real Estate Portfolio – NNN records the acquisition of real estate at cost, including acquisition and closing costs. The cost of properties developed by NNN includes costs of construction, property taxes, interest and other miscellaneous costs incurred during the development period until the project is substantially complete and available for occupancy. NNN recorded \$797,000 and \$2,500,000 in capitalized interest during the development period for the nine months ended September 30, 2019 and 2018, respectively, of which \$327,000 and \$596,000 was recorded during the quarters ended September 30, 2019 and 2018, respectively.

Purchase Accounting for Acquisition of Real Estate Subject to a Lease – In accordance with the FASB guidance on business combinations, the fair value of the real estate acquired with in-place leases is allocated to the acquired tangible assets, consisting of land, building and tenant improvements, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases and the value of in-place leases, as applicable, based on their respective fair values.

The fair value estimate is sensitive to significant assumptions, such as establishing a range of relevant market assumptions for land, building and rent and where the acquired property falls within that range. These market assumptions for land, building and rent use the most relevant comparable properties for an acquisition. The final range relies upon ranking comparable properties’ attributes from most similar to least similar.

The fair value of the tangible assets of an acquired leased property is determined by valuing the property as if it were vacant, and the “as-if-vacant” value is then allocated to land, building and tenant improvements based on the determination of their fair values.

In allocating the fair value of the identified intangible assets and liabilities of an acquired property, above-market and below-market in-place lease values are recorded as other assets or liabilities based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases, and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining term of the lease and the applicable option terms if it is probable that the tenant will exercise options. The capitalized above-market lease values are amortized as a reduction of rental income over the remaining terms of the respective leases. The capitalized below-market lease values are amortized as an increase to rental income over the initial term unless the Company believes that it is likely that the tenant will renew the lease for an option term whereby the Company amortizes the value attributable to the renewal over the renewal period.

The aggregate value of other acquired intangible assets, consisting of in-place leases, is measured by the excess of (i) the purchase price paid for a property after adjusting existing in-place leases to market rental rates over (ii) the estimated fair value of the property as-if-vacant, determined as set forth above. The value of in-place leases exclusive of the value of above-market and below-market in-place leases is amortized to expense over the remaining non-cancelable periods of the respective leases. If a lease were to be terminated prior to its stated expiration, all unamortized amounts relating to that lease would be written off in that period. The value of tenant relationships is reviewed on individual transactions to determine if future value was derived from the acquisition.

Intangible assets and liabilities consisted of the following as of (dollars in thousands):

	September 30, 2019	December 31, 2018
Intangible lease assets (included in <i>other assets</i>):		
Above-market in-place leases	\$ 15,786	\$ 15,175
Less: accumulated amortization	(9,801)	(9,239)
Above-market in-place leases, net	<u>\$ 5,985</u>	<u>\$ 5,936</u>
In-place leases		
In-place leases	\$ 119,713	\$ 104,871
Less: accumulated amortization	(63,916)	(60,797)
In-place leases, net	<u>\$ 55,797</u>	<u>\$ 44,074</u>
Intangible lease liabilities (included in <i>other liabilities</i>):		
Below-market in-place leases	\$ 42,099	\$ 41,554
Less: accumulated amortization	(25,922)	(25,258)
Below-market in-place leases, net	<u>\$ 16,177</u>	<u>\$ 16,296</u>

The amounts amortized as a net increase to rental income for above-market and below-market in-place leases for the nine months ended September 30, 2019 and 2018, were \$579,000 and \$2,334,000, respectively, of which \$178,000 and \$219,000 were recorded for the quarters ended September 30, 2019 and 2018, respectively. The value of in-place leases amortized to expense for the nine months ended September 30, 2019 and 2018, were \$5,946,000 and \$7,305,000, respectively, of which \$1,904,000 and \$1,789,000 were recorded for the quarters ended September 30, 2019 and 2018, respectively.

Lease Accounting – Effective January 1, 2019, NNN adopted ASU 2016-02, "Leases (Topic 842)," ("ASC 842") using the modified retrospective approach in which the cumulative effect of applying the new standard was recognized at the date of initial application with a positive adjustment to NNN's opening balance of accumulated deficit. The modified retrospective approach provides a method for recording existing leases upon adoption which in comparative periods approximates the results of a full retrospective approach. NNN elected the package of practical expedients permitted under the transition guidance (which included: (i) an entity need not reassess whether any expired or existing contracts are or contain leases, (ii) an entity need not reassess the lease classification for any expired or existing leases, and (iii) an entity need not reassess initial direct costs for any existing leases), the land easement practical expedient to carry forward existing accounting treatment on existing land easements, and the lease and non-lease component combined practical expedient.

NNN estimates the collectability of its accounts receivable related to rents, expense reimbursements and other revenues. NNN analyzes accounts receivable and historical bad debt levels, tenant credit-worthiness and current economic trends when evaluating the probable collection. At the point NNN deems the collection of lease payments not probable, a bad debt is recognized for any outstanding receivable and any related accrued rent and, subsequently, any lease revenue is only recognized when cash receipts are received.

Adoption of the new standard resulted in the recording of ROU assets and operating lease liabilities of approximately \$7,735,000 and \$10,155,000 respectively, as of January 1, 2019. Additional disclosures are included in Note 3 – Right-Of-Use Assets and Operating Lease Liabilities. The condensed consolidated financial statements for the quarter and nine months ended September 30, 2019 are presented under the new standard, while comparative periods presented are not adjusted and continue to be reported in accordance with NNN's historical accounting policy. ASC 842 did not materially impact NNN's financial position or results of operations and had no impact on cash flows.

Debt Costs – Line of Credit Payable – Debt costs incurred in connection with NNN's \$900,000,000 line of credit have been deferred and are being amortized to interest expense over the term of the loan commitment using the straight-line method, which approximates the effective interest method. NNN has recorded debt costs associated with the line of credit as an asset, in *debt costs* on the Condensed Consolidated Balance Sheets.

Debt Costs – Mortgages Payable – Debt costs incurred in connection with NNN's mortgages payable have been deferred and are being amortized over the term of the respective loan commitment using the straight-line method, which approximates the effective interest method. These costs of \$147,000 as of September 30, 2019 and December 31, 2018, are included in *mortgages payable* on the Condensed Consolidated Balance Sheets net of accumulated amortization of \$86,000 and \$73,000, respectively.

Debt Costs – Notes Payable – Debt costs incurred in connection with the issuance of NNN's notes payable have been deferred and are being amortized to interest expense over the term of the respective debt obligation using the effective interest method. These costs of \$26,932,000, as of September 30, 2019 and December 31, 2018, respectively, are included in *notes payable* on the Condensed Consolidated Balance Sheets net of accumulated amortization of \$8,387,000 and \$6,705,000, respectively.

Revenue Recognition – In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)". The core principle of ASU 2014-09, is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Certain contracts are excluded from ASU 2014-09, including lease contracts within the scope of the FASB guidance included in Leases (Topic 842). NNN determined the key revenue stream impacted by ASU 2014-09 is *gain on disposition of real estate* reported on the Condensed Consolidated Statements of Income and Comprehensive Income. NNN evaluates any separate contracts or performance obligations to determine proper timing and/or amount of revenue recognition, as well as, transaction price allocation.

Earnings Per Share – Earnings per share have been computed pursuant to the FASB guidance included in *Earnings Per Share*. The guidance requires classification of the Company's unvested restricted share units, which carry rights to receive nonforfeitable dividends, as participating securities requiring the two-class method of computing earnings per share. Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings to common stockholders and undistributed earnings allocated to common stockholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both common shares and participating securities based on the weighted average shares outstanding during the period.

The following table is a reconciliation of the numerator and denominator used in the computation of basic and diluted earnings per common share using the two-class method (dollars in thousands):

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Basic and Diluted Earnings:				
Net earnings attributable to NNN	\$ 66,693	\$ 82,032	\$ 225,394	\$ 255,886
Less: Series E preferred stock dividends	(4,097)	(4,097)	(12,291)	(12,291)
Less: Series F preferred stock dividends	(4,485)	(4,485)	(13,455)	(13,455)
Net earnings available to NNN's common stockholders	58,111	73,450	199,648	230,140
Less: Earnings allocated to unvested restricted shares	(163)	(147)	(412)	(412)
Net earnings used in basic and diluted earnings per share	<u>\$ 57,948</u>	<u>\$ 73,303</u>	<u>\$ 199,236</u>	<u>\$ 229,728</u>
Basic and Diluted Weighted Average Shares Outstanding:				
Weighted average number of shares outstanding	165,737,947	157,634,757	163,421,419	155,316,866
Less: Unvested restricted stock	(316,856)	(294,453)	(272,185)	(276,046)
Less: Unvested contingent restricted shares	(537,582)	(487,320)	(507,973)	(458,371)
Weighted average number of shares outstanding used in basic earnings per share	164,883,509	156,852,984	162,641,261	154,582,449
Other dilutive securities	478,222	433,181	484,802	425,408
Weighted average number of shares outstanding used in diluted earnings per share	<u>165,361,731</u>	<u>157,286,165</u>	<u>163,126,063</u>	<u>155,007,857</u>

Fair Value Measurement – NNN's estimates of fair value of financial and non-financial assets and liabilities are based on the framework established in the fair value accounting guidance. The framework specifies a hierarchy of valuation inputs which was established to increase consistency, clarity and comparability in fair value measurements and related disclosures. The guidance describes a fair value hierarchy based upon three levels of inputs that may be used to measure fair value, two of which are considered observable and one that is considered unobservable. The following describes the three levels:

- Level 1 – Valuation is based upon quoted prices in active markets for identical assets or liabilities.
- Level 2 – Valuation is based upon inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include option pricing models, discounted cash flow models and similar techniques.

Accumulated Other Comprehensive Income (Loss) – The following table outlines the changes in accumulated other comprehensive income (loss) (dollars in thousands):

	Gain or Loss on Cash Flow Hedges ⁽¹⁾	Gains and Losses on Available-for-Sale Securities	Total
Beginning balance, December 31, 2018	\$ (6,911)	\$ 1,215	\$ (5,696)
Other comprehensive income	(11,738)	116	(11,622)
Reclassifications from accumulated other comprehensive income to net earnings	975 ⁽²⁾	(1,331) ⁽³⁾	(356)
Net current period other comprehensive income (loss)	(10,763)	(1,215)	(11,978)
Ending balance, September 30, 2019	\$ (17,674)	\$ —	\$ (17,674)

⁽¹⁾ Additional disclosure is included in Note 6 – Derivatives.

⁽²⁾ Recorded in *interest expense* on the Condensed Consolidated Statements of Income and Comprehensive Income.

⁽³⁾ Recorded in *interest and other income* on the Condensed Consolidated Statements of Income and Comprehensive Income.

Use of Estimates – Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these condensed consolidated financial statements in conformity with GAAP. Significant estimates include provisions for impairment and allowances for certain assets, accruals, useful lives of assets and purchase price allocation. Actual results could differ from those estimates.

Reclassification – Certain items in the prior year’s condensed consolidated financial statements and notes to condensed consolidated financial statements have been reclassified to conform to the 2019 presentation.

NNN adopted certain practical expedients in ASC 842 which allows the presentation of all income earned pursuant to tenant leases to be included in *rental income* reported on the Condensed Consolidated Statements of Income and Comprehensive Income.

Note 2 – Real Estate:

Real Estate – Portfolio

Leases – The following outlines key information for NNN’s leases:

	September 30, 2019
Lease classification:	
Operating	3,084
Direct financing	7
Building portion – direct financing/land portion – operating	1
Weighted average remaining lease term (years)	11.2

The following is a summary of the general structure of the leases in the Property Portfolio, although the specific terms of each lease can vary significantly. Generally, the Property leases provide for initial terms of 10 to 20 years. The Properties are generally leased under net leases, pursuant to which the tenant typically bears responsibility for substantially all property costs and expenses associated with ongoing maintenance, repair, replacement and operation of the property, including utilities, property taxes and property and liability insurance. Certain Properties are subject to leases under which NNN retains responsibility for specific costs and expenses of the Property. NNN’s leases provide for annual base rental payments (generally payable in monthly installments), and generally provide for limited increases in rent as a result of (i) increases in the Consumer Price Index ("CPI"), (ii) fixed increases, or, to a lesser extent, (iii) increases in the tenant’s sales volume.

Generally, NNN’s leases provide the tenant with one or more multi-year renewal options, subject to generally the same terms and conditions provided under the initial lease term, including rent increases. NNN’s lease term is based on the non-cancellable base term unless economic incentives make it reasonably certain that an option period to extend the lease will be exercised, in which event NNN includes the options. Some of the leases also provide that in the event NNN wishes to sell the Property subject to that lease, NNN first must offer the lessee the right to purchase the Property on the same terms and conditions as any offer which NNN intends to accept for the sale of the Property.

Real Estate Portfolio – Accounted for Using the Operating Method – Real estate subject to operating leases consisted of the following as of (dollars in thousands):

	September 30, 2019	December 31, 2018
Land and improvements ⁽¹⁾	\$ 2,463,934	\$ 2,368,891
Buildings and improvements	5,752,916	5,461,888
Leasehold interests	355	3,630
	8,217,205	7,834,409
Less accumulated depreciation and amortization	(1,109,285)	(1,003,519)
	7,107,920	6,830,890
Work in progress for buildings and improvements	13,236	8,017
	\$ 7,121,156	\$ 6,838,907

⁽¹⁾ Includes \$11,707 and \$5,571 in land for Properties under construction at September 30, 2019 and December 31, 2018, respectively.

NNN recognized the following revenues in rental income (dollars in thousands):

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Rental income from operating leases	\$ 163,674	\$ 150,418	\$ 482,306	\$ 449,216
Earned income from direct financing leases	204	242	624	696
Percentage rent	329	284	1,051	1,018
Real estate expense reimbursement from tenants	4,017	3,712	11,865	11,640
	\$ 168,224	\$ 154,656	\$ 495,846	\$ 462,570

Some leases provide for a free rent term or scheduled rent increases throughout the lease term. Such amounts are recognized on a straight-line basis over the terms of the leases. For the nine months ended September 30, 2019 and 2018, NNN recognized \$1,354,000 and \$547,000, respectively, of such income, net of reserves, of which \$429,000 and (\$163,000) of such income, net of reserves, was recorded during the quarters ended September 30, 2019 and 2018, respectively. At September 30, 2019 and December 31, 2018, the balance of accrued rental income was \$28,570,000 and \$25,387,000, respectively, net of allowance of \$1,842,000.

The following is a schedule of undiscounted cash flows to be received on noncancellable operating leases as of September 30, 2019 (dollars in thousands):

2019	\$ 163,060
2020	648,578
2021	630,739
2022	600,904
2023	572,995
Thereafter	4,757,532
	\$ 7,373,808

Since lease renewal periods are exercisable at the option of the tenant, the above table only presents undiscounted cash flows due during the current lease terms. In addition, this table does not include amounts for potential variable rent increases that are based on the CPI or future contingent rents which may be received on the leases based on a percentage of the tenant's sales volume.

Real Estate Portfolio – Accounted for Using the Direct Financing Method – The following lists the components of net investment in direct financing leases as of (dollars in thousands):

	September 30, 2019	December 31, 2018
Minimum lease payments to be received	\$ 9,860	\$ 10,899
Estimated unguaranteed residual values	3,632	4,395
Less unearned income	(6,610)	(7,225)
Net investment in direct financing leases	<u>\$ 6,882</u>	<u>\$ 8,069</u>

The following is a schedule of undiscounted cash flows to be received on direct financing leases held for investment as of September 30, 2019 (dollars in thousands):

2019	\$ 360
2020	1,045
2021	920
2022	897
2023	895
Thereafter	5,743
	<u>\$ 9,860</u>

The table above does not include future minimum lease payments for renewal periods, potential variable CPI rent increases or contingent rental payments that may become due in future periods (see Real Estate Portfolio – Accounted for Using the Operating Method).

Real Estate – Held For Sale

On a quarterly basis, the Company evaluates its Properties for held for sale classification based on specific criteria as outlined in ASC 360, *Property, Plant and Equipment*, including management’s intent to commit to a plan to sell the asset. NNN anticipates the disposition of Properties classified as held for sale to occur within 12 months. As of September 30, 2019, NNN had five of its Properties categorized as held for sale. NNN’s real estate held for sale at December 31, 2018, included eight Properties, three of which were sold in 2019. Real estate held for sale consisted of the following as of (dollars in thousands):

	September 30, 2019	December 31, 2018
Land and improvements	\$ 5,120	\$ 13,720
Building and improvements	15,591	41,738
	20,711	55,458
Less accumulated depreciation and amortization	(6,172)	(12,752)
Less impairment	(578)	(14,250)
	<u>\$ 13,961</u>	<u>\$ 28,456</u>

Real Estate – Dispositions

The following table summarizes the Properties sold and the corresponding gain recognized on the disposition of Properties (dollars in thousands):

	Quarter Ended September 30,				Nine Months Ended September 30,			
	2019		2018		2019		2018	
	# of Sold Properties	Gain	# of Sold Properties	Gain	# of Sold Properties	Gain	# of Sold Properties	Gain
Gain on disposition of real estate	13	\$ 2,061	18	\$ 14,348	43	\$ 25,508	46	\$ 57,050

Real Estate – Commitments

NNN has committed to fund construction on 12 Properties. The improvements on such Properties are estimated to be completed within 12 months. These construction commitments, as of September 30, 2019, are outlined in the table below (dollars in thousands):

Total commitment ⁽¹⁾	\$	53,724
Less amount funded		24,943
Remaining commitment	\$	<u>28,781</u>

⁽¹⁾ Includes land, construction costs, tenant improvements, lease costs and capitalized interest.

Real Estate – Impairments

Management periodically assesses its real estate for possible impairment whenever certain events or changes in circumstances indicate that the carrying amount of the asset, including accrued rental income, may not be recoverable through operations. Events or circumstances that may occur include significant changes in real estate market conditions and the ability of NNN to re-lease or sell properties that are vacant or become vacant in a reasonable period of time. Impairments are measured as the amount by which the current book value of the asset exceeds the estimated fair value of the asset. As a result of the Company's review of long-lived assets, including identifiable intangible assets, NNN recognized real estate impairments, net of recoveries of \$21,124,000 and \$9,718,000 for the nine months ended September 30, 2019 and 2018, respectively, of which \$10,692,000 and \$3,635,000 was recorded during the quarters ended September 30, 2019 and 2018, respectively.

The valuation of impaired assets is determined using widely accepted valuation techniques including discounted cash flow analysis, income capitalization, analysis of recent comparable sales transactions, actual sales negotiations and bona fide purchase offers received from third parties, which are Level 3 inputs. NNN may consider a single valuation technique or multiple valuation techniques, as appropriate, when estimating the fair value of its real estate.

Note 3 – Right-Of-Use Assets and Operating Lease Liabilities:

NNN is a lessee for three ground lease arrangements and for its headquarters office lease. NNN recognized an ROU asset (recorded in *other assets* on the Condensed Consolidated Balance Sheets) and an operating lease liability (recorded in *other liabilities* on the Condensed Consolidated Balance Sheets) for the present value of the minimum lease payments. ROU assets represent NNN's right to use an underlying asset for the lease term and lease liabilities represent NNN's obligation to make lease payments arising from the lease. ROU assets and operating lease liabilities are recognized at the lease commencement date based on the estimated present value of the lease payments over the lease term. NNN's lease term is based on the non-cancellable base term unless economic incentives make it reasonably certain that an option period to extend the lease will be exercised, in which event NNN includes the options.

NNN estimates an incremental borrowing rate, which is derived from information available at the lease commencement date, in determining the present value of the lease payments. NNN gives consideration to the Company's debt issuances, as well as, publicly available data for secured instruments with similar characteristics when calculating its incremental borrowing rates. A 50 basis point increase or decrease in the estimate of the incremental borrowing rate at January 1, 2019 (the date of adoption of ASC 842) would not have a material impact on NNN's financial position. NNN will reevaluate its incremental borrowing rate on an annual basis.

NNN's lease agreements do not contain any residual value guarantees.

As of September 30, 2019, NNN has recorded the following (dollars in thousands):

	Ground Leases	Headquarters Office Lease
Operating lease – ROU assets ⁽¹⁾	\$ 4,548	\$ 3,117
Operating lease – lease liabilities	(6,247)	(3,775)
Weighted average remaining lease term (years)	14.5	5.5
Weighted average discount rate	4.1%	3.5%

⁽¹⁾ ROU assets are shown net of accrued lease payments of \$1,699 and \$658, respectively.

The following is a schedule of the undiscounted cash flows to be paid as of September 30, 2019 (dollars in thousands):

	Ground Leases	Headquarters Office Lease
2019	\$ 136	\$ 191
2020	564	773
2021	573	788
2022	582	804
2023	582	821
Thereafter	6,145	1,047
	<u>\$ 8,582</u>	<u>\$ 4,424</u>

Note 4 – Line of Credit Payable:

NNN's \$900,000,000 unsecured revolving credit facility (the "Credit Facility") had a weighted average outstanding balance of \$8,443,000 and a weighted average interest rate of 3.2% during the nine months ended September 30, 2019. The Credit Facility matures January 2022, unless the Company exercises its option to extend maturity to January 2023. The Credit Facility bears interest at LIBOR plus 87.5 basis points; however, such interest rate may change pursuant to a tiered interest rate structure based on NNN's debt rating. The Credit Facility also includes an accordion feature which permits NNN to increase the facility size up to \$1,600,000,000, subject to lender approval. As of September 30, 2019, there was no outstanding balance and \$900,000,000 was available for future borrowings under the Credit Facility.

Note 5 – Stockholders' Equity:

In February 2018, NNN filed a shelf registration statement with the Securities and Exchange Commission (the "Commission") which permits the issuance by NNN of an indeterminate amount of debt and equity securities.

In September 2019, NNN filed a prospectus supplement to the prospectus contained in its February 2018 shelf registration statement and issued 7,000,000 shares of common stock at a price of \$56.50 per share and received net proceeds of \$379,410,000. In connection with this offering, NNN incurred stock issuance costs totaling approximately \$16,090,000, consisting primarily of underwriters' fees and commissions, legal and accounting fees and printing expenses.

Dividend Reinvestment and Stock Purchase Plan – In February 2018, NNN filed a shelf registration statement with the Commission for its Dividend Reinvestment and Stock Purchase Plan ("DRIP") which permits the issuance by NNN of up to 10,000,000 shares of common stock. The following table outlines the common stock issuances pursuant to NNN's DRIP (dollars in thousands):

	Nine Months Ended September 30,	
	2019	2018
Shares of common stock	309,127	225,481
Net proceeds	\$ 16,481	\$ 9,115

At-The-Market Offerings – NNN has established an at-the-market equity program ("ATM") which allows NNN to sell shares of common stock from time to time. The following outlines NNN's ATM program:

	2018 ATM
Established date	February 2018
Termination date	February 2021
Total allowable shares	12,000,000
Total shares issued as of September 30, 2019	9,722,185

The following table outlines the common stock issuances pursuant to NNN's ATM equity programs (dollars in thousands, except per share data):

	Nine Months Ended September 30,	
	2019	2018
Shares of common stock	2,344,022	4,896,563
Average price per share (net)	\$ 53.73	\$ 42.60
Net proceeds	\$ 125,946	\$ 208,579
Stock issuance costs ⁽¹⁾	\$ 1,390	\$ 2,792

⁽¹⁾ Stock issuance costs consist primarily of underwriters' fees and commissions, and legal and accounting fees.

Dividends – The following table outlines the dividends declared and paid for each issuance of NNN's stock (dollars in thousands, except per share data):

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Series E preferred stock⁽¹⁾:				
Dividends	\$ 4,097	\$ 4,097	\$ 12,291	\$ 12,291
Per depositary share	0.356250	0.356250	1.068750	1.068750
Series F preferred stock⁽²⁾:				
Dividends	4,485	4,485	13,455	13,455
Per depositary share	0.325000	0.325000	0.975000	0.975000
Common stock:				
Dividends	83,935	78,253	245,574	223,836
Per share	0.515	0.500	1.515	1.450

⁽¹⁾ In September 2019, NNN called for redemption of all outstanding shares of its 5.700% Series E Cumulative Redeemable Preferred Stock (the "Series E Preferred Stock"), including all accrued and unpaid dividends through, but not including, the redemption date, on October 5, 2019.

⁽²⁾ The 5.200% Series F Cumulative Redeemable Preferred Stock (the "Series F Preferred Stock") has no maturity date and will remain outstanding unless redeemed by NNN. The earliest redemption date for the Series F Preferred Stock is October 2021.

In October 2019, NNN declared a dividend of \$0.515 per share, which is payable in November 2019 to its common stockholders of record as of October 31, 2019.

Note 6 – Derivatives:

In accordance with the guidance on derivatives and hedging, NNN records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or a firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

NNN's objective in using derivatives is to add stability to interest expense and to manage its exposure to interest rate movements or other identified risks. To accomplish this objective, NNN primarily uses treasury locks, forward starting swaps

and interest rate swaps as part of its cash flow hedging strategy. Treasury locks and forward starting swaps are used to hedge forecasted debt issuances. Treasury locks designated as cash flow hedges lock in the yield/price of a treasury security. Forward starting swaps also lock the associated swap spread. Interest rate swaps designated as cash flow hedges are used to hedge the variable cash flows associated with floating rate debt and involve the receipt or payment of variable rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount.

For derivatives designated as cash flow hedges, the change in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified to earnings when the hedged transaction affects earnings.

NNN discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item, the derivative expires or is sold, terminated or exercised, the derivative is re-designated as a hedging instrument or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

When hedge accounting is discontinued, NNN recognizes any changes in its fair value in earnings and continues to carry the derivative on the balance sheet or may choose to settle the derivative at that time with a cash payment or receipt. NNN records a cash settlement of forward starting swaps in the statement of cash flows as an operating activity.

The following table outlines NNN's terminated derivatives which were hedging the risk of changes in forecasted interest payments on forecasted issuance of long-term debt (dollars in thousands):

Terminated	Description	Aggregate Notional Amount	Liability (Asset) Fair Value When Terminated	Fair Value Deferred In Other Comprehensive Income ⁽¹⁾
April 2013	Four forward starting swaps	\$ 240,000	\$ 3,156	\$ 3,141
May 2014	Three forward starting swaps	225,000	6,312	6,312
October 2015	Four forward starting swaps	300,000	13,369	13,369
December 2016	Two forward starting swaps	180,000	(13,352)	(13,345)
September 2017	Two forward starting swaps	250,000	7,690	7,688
September 2018	Two forward starting swaps	250,000	(4,080)	(4,080)

⁽¹⁾ The amount reported in accumulated other comprehensive income will be reclassified to interest expense as interest payments are made on the related notes payable.

As of September 30, 2019, \$5,936,000 remained in other comprehensive income related to NNN's previously terminated interest rate hedges. During the nine months ended September 30, 2019 and 2018, NNN reclassified out of other comprehensive income \$975,000 and \$1,581,000, respectively, as an increase in interest expense. Over the next 12 months, NNN estimates that an additional \$1,349,000 will be reclassified as an increase in interest expense from these terminated derivatives. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on NNN's long-term debt.

During the nine months ended September 30, 2019, NNN entered into three forward starting swaps with a total notional amount of \$200,000,000 to hedge the risk of changes in the interest-related cash outflows associated with the potential issuance of long-term debt. The outstanding forward swaps were designated as cash flow hedges, and as of September 30, 2019, had a fair value of \$11,738,000 included in *other liabilities* and *accumulated other comprehensive income (loss)* on the Condensed Consolidated Balance Sheets. The fair value of the forward starting swaps were based on Level 2 valuation. These derivative financial instruments were still outstanding as of September 30, 2019.

NNN does not use derivatives for trading or speculative purposes or currently have any derivatives that are not designated as hedges.

Note 7 – Fair Value of Financial Instruments:

NNN believes the carrying value of its Credit Facility approximates fair value based upon its nature, terms and variable interest rate. NNN believes that the carrying value of its mortgages payable at September 30, 2019 and December 31, 2018, approximate fair value based upon current market prices of comparable instruments (Level 3). At September 30, 2019 and December 31, 2018, the fair value of NNN's notes payable net of unamortized discount and excluding debt costs was \$3,074,246,000 and \$2,813,583,000, respectively, based upon quoted market prices, which is a Level 1 valuation since NNN's notes payable are publicly traded.

Note 8 – Subsequent Events:

NNN reviewed its subsequent events and transactions that have occurred after September 30, 2019, the date of the condensed consolidated balance sheet.

In September 2019, NNN announced the redemption of all outstanding depositary shares representing interests in its 5.700% Series E Preferred Stock. The depositary shares were redeemed on October 5, 2019 at \$25.00 per depositary share, plus all accrued and unpaid dividends through, but not including, the redemption date, for an aggregate redemption price of \$25.079167 per depositary share. For the quarter ended December 31, 2019, NNN will record a preferred stock redemption charge of \$9,856,000, which is the excess carrying amount of the preferred stock redeemed over the cash paid to redeem the Series E Preferred Stock. After the redemption date, dividends on the depositary shares representing interests in the Series E Preferred Stock ceased to accrue.

There were no other reportable subsequent events or transactions.

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

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes included in the Annual Report on Form 10-K of National Retail Properties, Inc. for the year ended December 31, 2018. The terms "NNN" and the "Company" refer to National Retail Properties, Inc. and all of its consolidated subsidiaries.

Forward-Looking Statements

The information herein contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934 (the "Exchange Act"). These statements generally are characterized by the use of terms such as "believe," "expect," "intend," "may," "estimated" or similar words or expressions. Forward-looking statements are not historical facts or guarantees of future performance and are subject to known and unknown risks. Certain factors that could cause actual results or events to differ materially from those NNN anticipates or projects include, but are not limited to, the following:

- Financial and economic conditions may have an adverse impact on NNN, its tenants, and commercial real estate in general;
- NNN may be unable to obtain debt or equity capital on favorable terms, if at all;
- Changes in established interest rate index could have an adverse affect on NNN's results of operations;
- Loss of rent from tenants would reduce NNN's cash flow;
- A significant portion of the source of the Property Portfolio annual base rent is concentrated in specific industry classifications, tenants and geographic locations;
- Owning real estate and indirect interests in real estate carries inherent risks;
- NNN's real estate investments are illiquid;
- Costs of complying with changes in governmental laws and regulations may adversely affect NNN's results of operations;
- NNN may be subject to known or unknown environmental liabilities and hazardous materials on Properties owned by NNN;
- NNN may not be able to successfully execute its acquisition or development strategies;
- NNN may not be able to dispose of properties consistent with its operating strategy;
- NNN may suffer a loss in the event of a default of or bankruptcy of a tenant or a borrower;
- Certain provisions of NNN's leases or loan agreements may be unenforceable;
- Property ownership through joint ventures and partnerships could limit NNN's control of those investments;
- Competition from numerous other REITs, commercial developers, real estate limited partnerships and other investors may impede NNN's ability to grow;
- NNN's loss of key management personnel could adversely affect performance and the value of its securities;
- Uninsured losses may adversely affect NNN's operating results and asset values;
- Acts of violence, terrorist attacks or war may affect the markets in which NNN operates and NNN's results of operations;
- Vacant properties or bankrupt tenants could adversely affect NNN's business or financial condition;
- The amount of debt NNN has and the restrictions imposed by that debt could adversely affect NNN's business and financial condition;
- NNN is obligated to comply with financial and other covenants in its debt instruments that could restrict its operating activities, and the failure to comply with such covenants could result in defaults that accelerate the payment of such debt;
- The market value of NNN's equity and debt securities is subject to various factors that may cause significant fluctuations or volatility;
- NNN's failure to qualify as a REIT for federal income tax purposes could result in significant tax liability;
- Even if NNN remains qualified as a REIT, NNN faces other tax liabilities that reduce operating results and cash flow;
- Adverse legislative or regulatory tax changes could reduce NNN's earnings and cash flow and the market value of NNN's securities;
- Compliance with REIT requirements, including distribution requirements, may limit NNN's flexibility and may negatively affect NNN's operating decisions;
- Changes in accounting pronouncements could adversely impact NNN's or NNN's tenants' reported financial performance;
- NNN's failure to maintain effective internal control over financial reporting could have a material adverse effect on its business, operating results and the market value of NNN's securities;
- NNN's ability to pay dividends in the future is subject to many factors;
- Cybersecurity risks and cyber incidents could adversely affect NNN's business, disrupt operations and expose NNN to liabilities to tenants, employees, capital providers, and other third parties; and

- Future investment in international markets could subject NNN to additional risks, including foreign currency exchange rate fluctuations, operational risks due to local economic and political conditions and laws and policies of the U.S. affecting foreign investment.

Additional information related to these risks and uncertainties are included in Item 1A. Risk Factors of NNN's Annual Report on Form 10-K for the year ended December 31, 2018, and may cause NNN's actual future results to differ materially from expected results. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. NNN undertakes no obligation to update or revise such forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

NNN, a Maryland corporation, is a fully integrated real estate investment trust ("REIT") formed in 1984. NNN's assets are primarily real estate assets. NNN acquires, owns, invests in and develops properties that are leased primarily to retail tenants under long-term net leases and are primarily held for investment ("Properties" or "Property Portfolio", or individually a "Property").

As of September 30, 2019, NNN owned 3,057 Properties, with an aggregate gross leasable area of approximately 32,209,000 square feet, located in 48 states, with a weighted average remaining lease term of 11.2 years. Approximately 99 percent of the Properties were leased as of September 30, 2019.

NNN's management team focuses on certain key indicators to evaluate the financial condition and operating performance of NNN. The key indicators for NNN include items such as: the composition of the Property Portfolio (such as tenant, geographic and line of trade diversification), the occupancy rate of the Property Portfolio, certain financial performance ratios and profitability measures, industry trends and industry performance compared to that of NNN.

NNN evaluates the creditworthiness of its current and prospective tenants. This evaluation may include reviewing available financial statements, store level financial performance, press releases, public credit ratings from major credit rating agencies, industry news publications and financial market data (debt and equity pricing). NNN may also evaluate the business and operations of its tenants, including past payment history and periodically meeting with senior management of certain tenants.

NNN continues to maintain its diversification by tenant, geography and tenant's line of trade. NNN's largest lines of trade concentrations are the convenience store and restaurant (including full and limited service) sectors. These sectors represent a large part of the freestanding retail property marketplace and NNN's management believes these sectors present attractive investment opportunities. The Property Portfolio is geographically concentrated in the south and southeast United States, which are regions of historically above-average population growth. Given these concentrations, any financial hardship within these sectors or geographic regions could have a material adverse effect on the financial condition and operating performance of NNN.

Results of Operations

Property Analysis

General. The following table summarizes the Property Portfolio:

	September 30, 2019	December 31, 2018	September 30, 2018
Properties Owned:			
Number	3,057	2,969	2,847
Total gross leasable area (square feet)	32,209,000	30,487,000	29,739,000
Properties:			
Leased and unimproved land	3,029	2,917	2,809
Percent of Properties – leased and unimproved land	99%	98%	99%
Weighted average remaining lease term (years)	11.2	11.5	11.4
Total gross leasable area (square feet) – leased	31,651,000	29,439,000	29,296,000

The following table summarizes the diversification of the Property Portfolio based on the top 10 lines of trade:

Lines of Trade	% of Annual Base Rent ⁽¹⁾		
	September 30, 2019	December 31, 2018	September 30, 2018
1. Convenience stores	17.5%	18.0%	18.5%
2. Restaurants – full service	11.3%	11.4%	11.8%
3. Automotive service	9.3%	8.6%	7.6%
4. Restaurants – limited service	8.8%	8.9%	7.8%
5. Family entertainment centers	6.8%	7.1%	7.0%
6. Health and fitness	5.3%	5.6%	5.6%
7. Theaters	4.8%	5.0%	5.1%
8. Recreational vehicle dealers, parts and accessories	3.5%	3.4%	3.0%
9. Automotive parts	3.2%	3.4%	3.5%
10. Equipment rental	2.7%	1.9%	1.9%
Other	26.8%	26.7%	28.2%
	100.0%	100.0%	100.0%

⁽¹⁾ Based on annualized base rent for all leases in place for each respective period.

Property Acquisitions. The following table summarizes the Property acquisitions (dollars in thousands):

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Acquisitions:				
Number of Properties	27	18	131	129
Gross leasable area (square feet)	533,000	529,000	2,645,000	1,265,000
Initial cash yield	6.8%	6.9%	6.9%	6.9%
Total dollars invested ⁽¹⁾	\$ 116,801	\$ 78,620	\$ 509,598	\$ 396,091

⁽¹⁾ Includes dollars invested in projects under construction or tenant improvements for each respective year.

NNN typically funds Property acquisitions either through borrowings under NNN's unsecured revolving credit facility (the "Credit Facility") (see "Debt – Line of Credit Payable") or by issuing its debt or equity securities in the capital markets.

Property Dispositions. The following table summarizes the Properties sold by NNN (dollars in thousands):

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Number of properties	13	18	43	46
Gross leasable area (square feet)	360,000	179,000	853,000	531,000
Net sales proceeds	\$ 33,469	\$ 37,586	\$ 94,828	\$ 121,106
Gain	\$ 2,061	\$ 14,348	\$ 25,508	\$ 57,050

NNN typically uses the proceeds from a Property disposition to either pay down the Credit Facility or reinvest in real estate.

Analysis of Revenue

General. During the quarter and nine months ended September 30, 2019, total revenues increased, as compared to the same periods in 2018, primarily due to the increase in income from Property acquisitions (See “Results of Operations – Property Analysis – Property Acquisitions”). NNN anticipates increases in revenues will continue to come from additional Property acquisitions and increases in rents pursuant to existing lease terms.

The following table summarizes NNN’s revenues (dollars in thousands):

	Quarter Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Percent Increase (Decrease)	2019	2018	Percent Increase (Decrease)
Rental Revenues ⁽¹⁾	\$ 164,207	\$ 150,944	8.8%	\$ 483,981	\$ 450,930	7.3%
Real estate expense reimbursement from tenants	4,017	3,712	8.2%	11,865	11,640	1.9%
Rental income	168,224	154,656	8.8%	495,846	462,570	7.2%
Interest and other income from real estate transactions	383	675	(43.3%)	1,265	1,113	13.7%
Total revenues	<u>\$ 168,607</u>	<u>\$ 155,331</u>	8.5%	<u>\$ 497,111</u>	<u>\$ 463,683</u>	7.2%

⁽¹⁾ Includes rental income from operating leases, earned income from direct financing leases and percentage rent (“Rental Revenues”).

Quarter and Nine Months Ended September 30, 2019 versus Quarter and Nine Months Ended September 30, 2018

Rental Income. Rental income increased for the quarter and nine months ended September 30, 2019, as compared to the same periods in 2018. The increase for the quarter and nine months ended September 30, 2019, is primarily due to a partial year of rental income received as a result of the acquisition of 131 properties with aggregate gross leasable area of approximately 2,645,000 during 2019 and a full year of rental income received as a result of the acquisition of 265 properties with a gross leasable area of approximately 2,167,000 square feet in 2018.

Analysis of Expenses

General. Operating expenses increased for the quarter and nine months ended September 30, 2019, as compared to the same periods in 2018, primarily due to the increase in depreciation expense and impairment losses recognized on real estate. The following table summarizes NNN's expenses (dollars in thousands):

	Quarter Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Percent Increase (Decrease)	2019	2018	Percent Increase (Decrease)
General and administrative	\$ 8,726	\$ 8,543	2.1%	\$ 27,524	\$ 25,980	5.9%
Real estate	6,706	5,759	16.4%	20,398	17,449	16.9%
Depreciation and amortization	48,348	42,479	13.8%	140,769	130,280	8.1%
Impairment losses – real estate, net of recoveries	10,692	3,635	194.1%	21,124	9,718	117.4%
Retirement severance costs	—	222	(100.0)%	—	743	(100.0)%
Total operating expenses	<u>\$ 74,472</u>	<u>\$ 60,638</u>	22.8%	<u>\$ 209,815</u>	<u>\$ 184,170</u>	13.9%
Interest and other income	\$ (501)	\$ (195)	156.9%	\$ (2,912)	\$ (258)	1,028.7%
Interest expense	29,948	27,194	10.1%	89,716	80,906	10.9%
Leasing transaction costs	51	—	N/C ⁽¹⁾	178	—	N/C ⁽¹⁾
Total other expenses	<u>\$ 29,498</u>	<u>\$ 26,999</u>	9.3%	<u>\$ 86,982</u>	<u>\$ 80,648</u>	7.9%

As a percentage of total revenues:

General and administrative	5.2%	5.5%	5.5%	5.6%
Real estate	4.0%	3.7%	4.1%	3.7%

⁽¹⁾ Not calculable ("N/C")

Quarter and Nine Months Ended September 30, 2019 versus Quarter and Nine Months Ended September 30, 2018

General and Administrative. General and administrative expenses increased in amount but decreased as a percentage of total revenues for the quarter and nine months ended September 30, 2019, as compared to the same periods in 2018. The increase in general and administrative expenses for the nine months ended September 30, 2019, is primarily attributable to an increase in compensation costs.

Real Estate. Real estate expenses increased in amount and as a percentage of total revenues for the quarter and nine months ended September 30, 2019, as compared to the same periods in 2018. The increase is primarily attributable to the increase in reimbursable expenses and expenses from certain properties that became vacant during the quarter and nine months ended September 30, 2019, and during the year ended December 31, 2018.

Depreciation and Amortization. Depreciation and amortization expenses increased in amount for the quarter and nine months ended September 30, 2019, as compared to the same periods in 2018. The increase is primarily due to the acquisition of 131 properties with an aggregate gross leasable area of approximately 2,645,000 square feet in 2019 and 265 properties with an aggregate gross leasable area of approximately 2,167,000 square feet during 2018.

Impairment Losses – real estate, net of recoveries. NNN reviews long-lived assets for impairment whenever certain events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Events or circumstances that may occur include changes in real estate market conditions, the ability of NNN to re-lease properties that are currently vacant or become vacant, and the ability to sell properties at a price that exceeds NNN's carrying value. Management evaluates whether an impairment in value has occurred by comparing the estimated future cash flows (undiscounted and without interest charges), and the residual value of the real estate, with the carrying cost of the individual asset. If an impairment is indicated, a loss will be recorded for the amount by which the carrying value of the asset exceeds its fair value. NNN recognized real estate impairments, net of recoveries of \$21,124,000 and \$9,718,000 for the nine months ended September 30, 2019 and 2018, respectively, of which \$10,692,000 and \$3,635,000 was recorded during the quarters ended September 30, 2019 and 2018, respectively.

Interest and Other Income. Interest and other income increased in amount for the quarter and nine months ended September 30, 2019, as compared to the same periods in 2018. The increase is primarily due to the gain of \$1,331,000 on sale

of equity investments and \$1,471,000 in interest income on cash balances recognized during the nine months ended September 30, 2019.

Interest expense. Interest expense increased for the quarter and nine months ended September 30, 2019, as compared to the same period in 2018. The following represents the primary changes in debt that have impacted interest expense:

- (i) the issuance in September 2018 of \$400,000,000 principal amount of notes payable with a maturity of October 2028, and stated interest rate of 4.300%,
- (ii) the issuance in September 2018 of \$300,000,000 principal amount of notes payable with a maturity of October 2048, and stated interest rate of 4.800%,
- (iii) the redemption in October 2018 of \$300,000,000 principal amount of notes payable with a maturity of July 2021, and stated interest rate of 5.500%, and
- (iv) the decrease of \$113,145,000 in the weighted average outstanding balance on the Credit Facility and a lower weighted average interest rate for the nine months ended September 30, 2019, as compared to the same period in 2018.

Liquidity

General. NNN's demand for funds has been, and will continue to be, primarily for (i) payment of operating expenses and cash dividends; (ii) Property acquisitions and development; (iii) capital expenditures; (iv) payment of principal and interest on its outstanding indebtedness; and (v) other investments.

Cash and Cash Equivalents. NNN's cash and cash equivalents includes the aggregate of *cash and cash equivalents* and *restricted cash and cash held in escrow* from the Condensed Consolidated Balance Sheets. The table below summarizes NNN's cash flows (dollars in thousands):

	Nine Months Ended September 30,	
	2019	2018
Cash and cash equivalents:		
Provided by operating activities	\$ 399,032	\$ 365,508
Used in investing activities	(409,022)	(293,741)
Provided by financing activities	249,411	534,541
Increase	239,421	606,308
Net cash at beginning of period	114,267	1,364
Net cash at end of period	\$ 353,688	\$ 607,672

Cash provided by operating activities represents cash received primarily from Rental Revenue and interest income less cash used for general and administrative expenses. NNN's cash flow from operating activities has been sufficient to pay the distributions for each period presented. The change in cash provided by operations for the nine months ended September 30, 2019 and 2018, is primarily the result of changes in revenues and expenses as discussed in "Results of Operations." Cash generated from operations is expected to fluctuate in the future.

Changes in cash for investing activities are primarily attributable to the acquisitions and dispositions of Properties. NNN typically uses proceeds from its Credit Facility to fund the acquisition of its Properties.

NNN's financing activities for the nine months ended September 30, 2019, included the following significant transactions:

- \$379,410,000 in net proceeds from the issuance of 7,000,000 shares of common stock in September,
- \$16,481,000 in net proceeds from the issuance of 309,127 shares of common stock in connection with the Dividend Reinvestment and Stock Purchase Plan ("DRIP"),
- \$125,946,000 in net proceeds from the issuance of 2,344,022 shares of common stock in connection with the at-the-market ("ATM") equity program,
- \$12,291,000 in dividends paid to holders of the depositary shares of NNN's 5.700% Series E Cumulative Redeemable Preferred Stock (the "Series E Preferred Stock"),
- \$13,455,000 in dividends paid to holders of the depositary shares of NNN's 5.200% Series F Cumulative Redeemable Preferred Stock (the "Series F Preferred Stock"), and
- \$245,574,000 in dividends paid to common stockholders.

Contractual Obligations and Commercial Commitments. The information in the following table summarizes NNN's contractual obligations and commercial commitments outstanding as of September 30, 2019. The table presents principal cash flows by year-end of the expected maturity for debt obligations and commercial commitments outstanding as of September 30, 2019.

	Expected Maturity Date (dollars in thousands)						
	Total	2019	2020	2021	2022	2023	Thereafter
Long-term debt ⁽¹⁾	\$ 2,886,982	\$ 145	\$ 596	\$ 630	\$ 325,664	\$ 359,947	\$ 2,200,000
Long-term debt – interest ⁽²⁾	1,019,854	28,095	112,365	112,331	109,724	91,308	566,031
Headquarters office lease	4,424	191	773	788	804	821	1,047
Ground leases	8,582	136	564	573	582	582	6,145
Total contractual cash obligations	\$ 3,919,842	\$ 28,567	\$ 114,298	\$ 114,322	\$ 436,774	\$ 452,658	\$ 2,773,223

⁽¹⁾ Includes only principal amounts outstanding under mortgages payable and notes payable and excludes unamortized mortgage premiums, note discounts and note costs.

⁽²⁾ Interest calculation based on stated rate of the principal amount.

In addition to the contractual obligations outlined above, NNN has committed to fund construction on 12 Properties. The improvements on such Properties are estimated to be completed within 12 months. These construction commitments, at September 30, 2019, are outlined in the table below (dollars in thousands):

Total commitment ⁽¹⁾	\$ 53,724
Less amount funded	24,943
Remaining commitment	\$ 28,781

⁽¹⁾ Includes land, construction costs, tenant improvements, lease costs and capitalized interest.

As of September 30, 2019, NNN did not have any other material contractual cash obligations, such as purchase obligations, financing lease obligations or other long-term liabilities other than those reflected in the tables above and previously disclosed under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in NNN's Annual Report on Form 10-K for the year ended December 31, 2018. In addition to items reflected in the tables, NNN has issued preferred stock with cumulative preferential cash distributions, as described below under "Dividends."

Management anticipates satisfying these obligations with a combination of NNN's cash provided from operations, current capital resources on hand, its credit facility, debt or equity financings and asset dispositions.

Generally, the Properties are leased under long-term net leases, which require the tenant to pay all property taxes and assessments, to maintain the interior and exterior of the property, and to carry property and liability insurance coverage. Therefore, management anticipates that capital demands to meet obligations with respect to these Properties will be modest for the foreseeable future and can be met with funds from operations and working capital. Certain Properties are subject to leases under which NNN retains responsibility for specific costs and expenses associated with the Property. Management anticipates that the costs associated with these Properties, NNN's vacant Properties or those Properties that become vacant will also be met with funds from operations and working capital. NNN may be required to borrow under its credit facility or use other sources of capital in the event of significant capital expenditures.

The lost revenues and increased property expenses resulting from vacant Properties or uncollectability of lease revenues could have a material adverse effect on the liquidity and results of operations if NNN is unable to re-lease the Properties at comparable rental rates and in a timely manner. As of September 30, 2019, NNN owned 28 vacant, un-leased Properties which accounted for approximately one percent of total Properties held in the Property Portfolio. Additionally, as of September 30, 2019, less than one percent of the Property Portfolio is leased to one tenant that filed a petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. As a result, this tenant has the right to reject or affirm their leases with NNN.

NNN generally monitors the financial performance of its significant tenants on an ongoing basis.

Dividends. NNN has made an election to be taxed as a REIT under Sections 856 through 860 of the Code, as amended, and related regulations and intends to continue to operate so as to remain qualified as a REIT for federal income tax purposes. NNN generally will not be subject to federal income tax on income that it distributes to its stockholders, provided that it distributes 100 percent of its REIT taxable income and meets certain other requirements for qualifying as a REIT. If NNN fails to qualify as a REIT in any taxable year, it will be subject to federal income tax on its taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four years following the year during

which qualification is lost. Such an event could materially adversely affect NNN's income and ability to pay dividends. NNN believes it has been structured as, and its past and present operations qualify NNN as, a REIT.

One of NNN's primary objectives, consistent with its policy of retaining sufficient cash for reserves and working capital purposes and maintaining its status as a REIT, is to distribute a substantial portion of its funds available from operations to its stockholders in the form of dividends.

The following table outlines the dividends declared and paid for each issuance of NNN's stock (dollars in thousands, except per share data):

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Series E Preferred Stock⁽¹⁾:				
Dividends	\$ 4,097	\$ 4,097	12,291	12,291
Per depositary share	0.356250	0.356250	1.068750	1.068750
Series F Preferred Stock⁽²⁾:				
Dividends	4,485	4,485	13,455	13,455
Per depositary share	0.325000	0.325000	0.975000	0.975000
Common stock:				
Dividends	83,935	78,253	245,574	223,836
Per share	0.515	0.500	1.515	1.450

⁽¹⁾ In October 2019, NNN redeemed the 5.700% Series E Preferred Stock, including all accrued and unpaid dividends through, but not including, the redemption date.

⁽²⁾ The Series F Preferred Stock has no maturity date and will remain outstanding unless redeemed by NNN. The earliest redemption date for the Series F Preferred Stock is October 2021.

In October 2019, NNN declared a dividend of \$0.515 per share which is payable in November 2019 to its common stockholders of record as of October 31, 2019.

Capital Resources

Generally, cash needs for Property acquisitions, debt payments, capital expenditures, development and other investments have been funded by equity and debt offerings, bank borrowings, the sale of Properties and, to a lesser extent, by internally generated funds. Cash needs for operating and interest expenses and dividends have generally been funded by internally generated funds. If available, future sources of capital include proceeds from the public or private offering of NNN's debt or equity securities, secured or unsecured borrowings from banks or other lenders, proceeds from the sale of Properties, as well as undistributed funds from operations.

Debt

The following is a summary of NNN's total outstanding debt as of (dollars in thousands):

	September 30, 2019	Percentage of Total	December 31, 2018	Percentage of Total
Mortgages payable	\$ 12,221	0.4%	\$ 12,694	0.4%
Notes payable	2,841,680	99.6%	2,838,701	99.6%
Total outstanding debt	\$ 2,853,901	100.0%	\$ 2,851,395	100.0%

Indebtedness. NNN expects to use indebtedness primarily for property acquisitions and development of single-tenant retail properties, either directly or through investment interests. Additionally indebtedness may be used to refinance existing indebtedness.

Line of Credit Payable. NNN's \$900,000,000 unsecured revolving credit facility (the "Credit Facility") had a weighted average outstanding balance of \$8,443,000 and a weighted average interest rate of 3.2% during the nine months ended September 30, 2019. The Credit Facility matures January 2022, unless the Company exercises its option to extend maturity to January 2023. The Credit Facility bears interest at LIBOR plus 87.5 basis points; however, such interest rate may change pursuant to a tiered

interest rate structure based on NNN's debt rating. The Credit Facility also includes an accordion feature which permits NNN to increase the facility size up to \$1,600,000,000, subject to lender approval. As of September 30, 2019, there was no outstanding balance and \$900,000,000 was available for future borrowings under the Credit Facility.

Debt and Equity Securities

NNN has used, and expects to use in the future, issuances of debt and equity securities primarily to pay down its outstanding indebtedness and to finance acquisitions.

Securities Offerings. In February 2018, NNN filed a shelf registration statement with the Securities and Exchange Commission (the "Commission") which was automatically effective and permits the issuance by NNN of an indeterminate amount of debt and equity securities.

Information related to NNN's publicly held debt and equity securities is included in NNN's Annual Report on Form 10-K for the year ended December 31, 2018.

Common Stock Issuances. In September 2019, NNN filed a prospectus supplement to the prospectus contained in its February 2018 shelf registration statement and issued 7,000,000 shares of common stock at a price of \$56.50 per share and received net proceeds of \$379,410,000. In connection with this offering, NNN incurred stock issuance costs totaling approximately \$16,090,000, consisting primarily of underwriters' fees and commissions, legal and accounting fees and printing expenses. In October 2019, NNN used the net proceeds from this offering to redeem all of its 11,500,000 outstanding depositary shares, each representing a 1/100th interest in a share of its Series E Preferred Stock. The Series E Preferred Stock was redeemed at \$25.00 per depositary share, plus accumulated and unpaid distributions through, but not including, the redemption date, for an aggregate redemption price of \$25.079167 per depositary share. In addition, NNN used the net proceeds from this offering to repay outstanding indebtedness under the Credit Facility, to fund property acquisitions and for general corporate purposes.

Dividend Reinvestment and Stock Purchase Plan. In February 2018, NNN filed a shelf registration statement which was automatically effective with the Commission for its DRIP, which permits the issuance by NNN of up to 10,000,000 shares of common stock. NNN's DRIP provides an economical and convenient way for current stockholders and other interested new investors to invest in NNN's common stock. The following outlines the common stock issuances pursuant to NNN's DRIP (dollars in thousands):

	Nine Months Ended September 30,	
	2019	2018
Shares of common stock	309,127	225,481
Net proceeds	\$ 16,481	\$ 9,115

At-The-Market Offerings. NNN established an at-the-market equity program ("ATM") which allows NNN to sell shares of common stock from time to time. The following outlines NNN's ATM program:

	2018 ATM
Established date	February 2018
Termination date	February 2021
Total allowable shares	12,000,000
Total shares issued as of September 30, 2019	9,722,185

The following table outlines the common stock issuances pursuant to NNN's ATM equity programs (dollars in thousands, except per share data):

	Nine Months Ended September 30,	
	2019	2018
Shares of common stock	2,344,022	4,896,563
Average price per share (net)	\$ 53.73	\$ 42.60
Net proceeds	\$ 125,946	\$ 208,579
Stock issuance costs ⁽¹⁾	\$ 1,390	\$ 2,792

⁽¹⁾ Stock issuance costs consist primarily of underwriters' fees and commissions, and legal and accounting fees.

Recent Accounting Pronouncements

Refer to Note 1 to the September 30, 2019, condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

NNN is exposed to interest rate risk primarily as a result of its variable rate Credit Facility and its fixed rate debt which is used to finance NNN's development and acquisition activities, as well as for general corporate purposes. NNN's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to reduce overall borrowing costs. To achieve its objectives, NNN borrows at both fixed and variable rates on its long-term debt. As of September 30, 2019, NNN had three forward starting swaps with a total notional amount of \$200,000,000 to hedge the risk of changes in the interest-related cash outflows associated with the potential issuance of long-term debt.

The information in the table below summarizes NNN's market risks associated with its debt obligations outstanding as of September 30, 2019 and December 31, 2018. The table presents principal payments and related interest rates by year for debt obligations outstanding as of September 30, 2019. NNN had no outstanding balance on its variable rate Credit Facility as of September 30, 2019 and December 31, 2018, respectively, and had no other outstanding variable rate debt as of September 30, 2019. The table incorporates only those debt obligations that existed as of September 30, 2019, and it does not consider those debt obligations or positions which could arise after this date and therefore has limited predictive value. As a result, NNN's ultimate realized gain or loss with respect to interest rate fluctuations will depend on the exposures that arise during the period, NNN's hedging strategies at that time and interest rates. If interest rates on NNN's variable rate debt increased by one percent, NNN's interest expense would have increased by less than one percent for the nine months ended September 30, 2019.

Debt Obligations (dollars in thousands)

	Fixed Rate Debt			
	Mortgages ⁽¹⁾		Unsecured Debt ⁽²⁾	
	Debt Obligation	Weighted Average Effective Interest Rate	Debt Obligation	Effective Interest Rate
2019	\$ 166	5.23%	\$ —	—
2020	682	5.23%	—	—
2021	716	5.23%	—	—
2022	750	5.23%	323,293	3.99%
2023	9,968	5.23%	348,981	3.39%
Thereafter	—	—	2,187,951	4.06% ⁽³⁾
Total	\$ 12,282	5.23%	\$ 2,860,225	3.97%
Fair Value:				
September 30, 2019	\$ 12,282		\$ 3,074,246	
December 31, 2018	\$ 12,768		\$ 2,813,583	

⁽¹⁾ NNN's mortgages payable represent principal payments by year and include unamortized premiums and exclude debt costs.

⁽²⁾ Includes NNN's notes payable, each exclude debt costs and are net of unamortized discounts. NNN uses market prices quoted from Bloomberg, a third party, which is a Level 1 input, to determine the fair value.

⁽³⁾ Weighted average effective interest rate for periods after 2023.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. An evaluation was performed under the supervision and with the participation of NNN's management, including NNN's Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer, of the effectiveness as of September 30, 2019, of the design and operation of NNN's disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act. Based on that evaluation, the Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer concluded that the design and operation of these disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting. NNN adopted the new lease accounting guidance in ASU 2016-02 "Leases (Topic 842)" on January 1, 2019. The implementation of the new lease accounting standard included additions to NNN's internal controls, policies and procedures. There have been no other changes in NNN's internal control over financial reporting during the nine months ended September 30, 2019 that have materially affected or are reasonably likely to materially affect NNN's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings. Not applicable.

Item 1A. Risk Factors. There were no material changes in NNN's risk factors disclosed in Item 1A. Risk Factors of NNN's Annual Report on Form 10-K for the year ended December 31, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds. Not applicable.

Item 3. Defaults Upon Senior Securities. Not applicable.

Item 4. Mine Safety Disclosures. Not applicable.

Item 5. Other Information. Not applicable.

Item 6. Exhibits

The following exhibits are filed as a part of this report.

31. Section 302 Certifications

31.1 [Certification of Chief Executive Officer pursuant to Rule 13a-14\(a\) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \(filed herewith\).](#)

31.2 [Certification of Chief Financial Officer pursuant to Rule 13a-14\(a\) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \(filed herewith\).](#)

32. Section 906 Certifications

32.1 [Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \(filed herewith\).](#)

32.2 [Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \(filed herewith\).](#)

101. Interactive Data File

101.1 The following materials from National Retail Properties, Inc. Quarterly Report on Form 10-Q for the period ended September 30, 2019, are formatted in Extensible Business Reporting Language: (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of income and comprehensive income, (iii) condensed consolidated statements of cash flows, and (iv) notes to condensed consolidated financial statements.

104.1 Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document.

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.

DATED this 31st day of October, 2019.

NATIONAL RETAIL PROPERTIES, INC.

By: /s/ Julian E. Whitehurst

Julian E. Whitehurst
Chief Executive Officer, President
and Director

By: /s/ Kevin B. Habicht

Kevin B. Habicht
Chief Financial Officer, Executive
Vice President and Director

Exhibit Index

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- 104.1 Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document.

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Section 2: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Julian E. Whitehurst, certify that:

1. I have reviewed this report on Form 10-Q of National Retail Properties, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 31, 2019

/s/ Julian E. Whitehurst

Date	Name: Julian E. Whitehurst
	Title: Chief Executive Officer and President

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Section 3: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kevin B. Habicht, certify that:

1. I have reviewed this report on Form 10-Q of National Retail Properties, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which

are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information;
and

- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 31, 2019

/s/ Kevin B. Habicht

Date

Name: Kevin B. Habicht

Title: Chief Financial Officer

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Section 4: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Julian E. Whitehurst, Chief Executive Officer and President, certifies, to the best of his knowledge, that (1) this Quarterly Report of National Retail Properties, Inc. ("NNN") on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (this "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (2) the information contained in this Report fairly presents, in all material respects, the financial condition of NNN as of September 30, 2019 and December 31, 2018 and its results of operations for the quarter and nine months ended September 30, 2019 and 2018.

October 31, 2019

/s/ Julian E. Whitehurst

Date

Name: Julian E. Whitehurst

Title: Chief Executive Officer and President

A signed original of this written statement required by Section 906 has been provided to NNN and will be retained by NNN and furnished to the Securities and Exchange Commission or its staff upon request.

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Section 5: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Kevin B. Habicht, Chief Financial Officer, certifies, to the best of his knowledge, that (1) this Quarterly Report of National Retail Properties, Inc. ("NNN") on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (this "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (2) the information contained in this Report fairly presents, in all material respects, the financial condition of NNN as of September 30, 2019 and December 31, 2018 and its results of operations for the quarter and nine months ended September 30, 2019 and 2018.

October 31, 2019

/s/ Kevin B. Habicht

Date

Name: Kevin B. Habicht

Title: Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to NNN and will be retained by NNN and furnished to the Securities and Exchange Commission or its staff upon request.

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