

COMMERCIAL NET LEASE REALTY INC

Form 8-K

December 27, 2005

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 8-K**  
**CURRENT REPORT**  
**Pursuant to Section 13 or 15(d) of**  
**The Securities Exchange Act of 1934**  
**Date of Report (Date of earliest event reported): December 21, 2005**  
**COMMERCIAL NET LEASE REALTY, INC.**

(Exact name of registrant as specified in its charter)

**Maryland**

**001-11290**

**56-1431377**

(State or other jurisdiction  
of incorporation)

(Commission  
File Number)

(IRS Employer  
Identification No.)

**450 South Orange Avenue**  
**Suite 900**  
**Orlando, Florida**

**32801**

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code **(407) 265-7348**  
Not applicable

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

**Item 2.01. Completion of Acquisition or Disposition of Assets.**

On December 21, 2005, Commercial Net Lease Realty, Inc. (the Company ) completed the acquisition of 74 convenience store properties from SSP Partners, a subsidiary of Susser Holdings, LLC (together, Susser ), for \$170 million. The properties are primarily located in Texas and operated under the Circle K brand. Susser has entered into triple-net leases whereby Susser has leased back the properties from the Company for a twenty-year initial term. Approximately \$31 million of acquired properties are being held as inventory properties for subsequent sale.

Susser operates over 300 retail convenience stores in Texas and Oklahoma and distributes motor fuel to over 340 branded dealer units and 25 unattended units through its wholesale fuel division. Founded in 1938 by the Susser family, Susser has experienced dynamic growth over the last decade and is one of the largest convenience store operators in the United States.

**Item 7.01. Regulation FD Disclosure.**

On December 21, 2005, Commercial Net Lease Realty, Inc. (the Company ) issued a press release announcing the Susser acquisition described in Item 2.01 above. The press release is being furnished and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 (the Exchange Act ) or otherwise subject to the liabilities of such section, nor shall such information be deemed to be incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

**Item 9.01. Financial Statements and Exhibits.**

(b) Pro Forma Financial Information

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COMMERCIAL NET LEASE REALTY, INC.  
PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

The unaudited Pro Forma Condensed Consolidated Balance Sheet as of September 30, 2005, and the unaudited Pro Forma Condensed Consolidated Statements of Earnings for the nine months ended September 30, 2005, and for the year ended December 31, 2004, are based on the historical financial statements of the Company.

The unaudited Pro Forma Condensed Consolidated Balance Sheet as of September 30, 2005, is presented as if the completion of the acquisition of 74 convenience store properties (the Properties ) from Susser had occurred September 30, 2005. The Company financed the purchase price with proceeds from the Company's credit facility and a portion of the proceeds from the Company's \$150,000,000 debt offering, which closed on November 17, 2005. The unaudited Pro Forma Condensed Consolidated Balance Sheet as of September 30, 2005, is presented as if the proceeds of the debt offering and credit facility were received on September 30, 2005.

The unaudited Pro Forma Condensed Consolidated Statements of Earnings for the nine months ended September 30, 2005, and for the year ended December 31, 2004, are presented as if the completion of the acquisition of the properties, the receipt of the proceeds from the Company's \$150 million debt offering and the receipt of the proceeds from the Company's credit facility used to purchase the Properties each had occurred at the beginning of the periods presented. The unaudited pro forma information should be read in conjunction with the historical financial statements and notes related thereto appearing in the Company's Forms 10-Q and 10-K.

Preparation of the pro forma information was based on assumptions considered appropriate by the Company's management. The pro forma financial information is unaudited and is not necessarily indicative of the results which would have occurred if the completion of the acquisition of the Properties had been consummated at the beginning of the periods presented, nor does it purport to represent the future financial position and the results of operations for future periods. In management's opinion, all adjustments necessary to reflect the effects of the completion of the acquisition of the Properties have been made.

COMMERCIAL NET LEASE REALTY, INC.  
and SUBSIDIARIES  
PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET  
AS OF SEPTEMBER 30, 2005  
(dollars in thousands, except per share data)  
(unaudited)

	Historical	Susser Transaction	Pro Forma
Real estate, Investment Portfolio:			
Accounted for using the operating method, net of accumulated depreciation and amortization and impairment	\$ 1,140,481	\$ 139,944 <sub>(A)</sub>	\$ 1,280,425
Accounted for using the direct financing method	100,445		100,445
Held for sale, net of impairment	1,600		1,600
Real estate, Inventory Portfolio, held for sale, net of accumulated depreciation	80,311	30,516 <sub>(B)</sub>	110,827
Mortgages, notes and accrued interest receivable, net of allowance	51,607		51,607
Mortgage residual interests	69,917		69,917
Cash and cash equivalents	11,856		11,856
Restricted cash	26,500		26,500
Receivables, net of allowance	12,777		12,777
Accrued rental income, net of allowance	27,510		27,510
Debt costs, net of accumulated amortization	3,615		3,615
Other assets	22,758		22,758
 Total assets	 \$ 1,549,377	 \$ 170,460	 \$ 1,719,837
 <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
Line of credit payable	\$ 120,800	\$ 20,460 <sub>(C)</sub>	\$ 141,260 <sub>(C)</sub>
Mortgages payable	152,043		152,043
Notes payable secured	30,000		30,000
Notes payable, net of unamortized discount and amortized interest rate hedge gain	343,765	150,000 <sub>(C)</sub>	493,765
Financing lease obligation	26,041		26,041
Accrued interest payable	5,513		5,513
Other liabilities	23,353		23,353
Income tax liability	24,786		24,786
 Total liabilities	 726,301	 170,460	 896,761
 Minority interest	 9,360		 9,360
Stockholders equity:			
Preferred stock, \$0.01 par value. Authorized 15,000,000 shares			

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Series A, 1,781,589 shares issued and outstanding, stated liquidation value of \$25 per share	44,540		44,540
Series B Convertible, 10,000 shares issued and outstanding, stated liquidation value of \$2,500 per share	25,000		25,000
Common stock, \$0.01 par value. Authorized 190,000,000 shares; 54,195,216 shares issued and outstanding	542		542
Excess stock, \$0.01 par value. Authorized 205,000,000 shares; none issued or outstanding			
Capital in excess of par value	765,717		765,717
Accumulated dividends in excess of net earnings	(19,623)		(19,623)
Other comprehensive income	1,254		1,254
Deferred compensation	(3,714)		(3,714)
Total stockholders equity	813,716		813,716
	\$ 1,549,377	\$ 170,460	\$ 1,719,837

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COMMERCIAL NET LEASE REALTY, INC.  
and SUBSIDIARIES  
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF EARNINGS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005  
(dollars in thousands, except per share data)  
(unaudited)

	Historical	Adjusted for Discontinued Operations	Adjusted Historical	Susser Transaction	Pro Forma
Revenues:					
Rental income from operating leases	\$ 81,687	\$	\$ 81,687	\$ 9,431 <sup>(D)</sup>	\$ 91,118
Earned income from direct financing leases	7,992		7,992		7,992
Real estate expense reimbursement from tenants	4,221		4,221		4,221
Gain on disposition of real estate, Inventory Portfolio	708		708		708
Interest income from real estate transactions	4,940		4,940		4,940
Interest income on mortgage residual interests	4,719		4,719		4,719
	104,267		104,267	9,431	113,698
Operating expenses:					
General and administrative	16,841		16,841		16,841
Real estate	7,683		7,683		7,683
Depreciation and amortization	15,828		15,828	1,301 <sup>(E)</sup>	17,129
Impairments	1,750		1,750		1,750
	42,102		42,102	1,301	43,403
Earnings from operations	62,165		62,165	8,130	70,295
Other expenses (revenues):					
Interest and other income	(1,191)		(1,191)		(1,191)
Interest expense	25,169		25,169	6,855 <sup>(F)</sup>	32,024
	23,978		23,978	6,855	30,833
Earnings from continuing operations before provision for income taxes, minority interest and equity in	38,187		38,187	1,275	39,462



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earnings of unconsolidated affiliates

Income tax benefit	1,397	1,397		1,397
Minority interest	250	250		250
Equity in earnings of unconsolidated affiliates	1,291	1,291		1,291
Earnings from continuing operations	41,125	41,125	1,275	42,400
Earnings from discontinued operations:				
Real estate, Investment Portfolio	10,827	10,827		10,827
Real estate, Inventory Portfolio, net of income tax expense and minority interest	7,471	7,471	205 <sub>(G)</sub>	7,676
	18,298	18,298	205	18,503
Earnings before extraordinary gain	59,423	59,423	1,480	60,903
Extraordinary gain, net of income tax expense	11,805	11,805		11,805
Net earnings	71,228	71,228	1,480	72,708
Series A Preferred Stock dividends	(3,006)	(3,006)		(3,006)
Series B Convertible Preferred Stock dividends	(1,256)	(1,256)		(1,256)
Earnings available to common stockholders basic	66,966	66,966	1,480	68,446
Series B Convertible Preferred Stock dividends	1,256	1,256		1,256
Earnings available to common stockholders diluted	\$ 68,222	\$ 68,222	\$ 1,480	\$ 69,702

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COMMERCIAL NET LEASE REALTY, INC.  
and SUBSIDIARIES  
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF EARNINGS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005  
(dollars in thousands, except per share data)  
(unaudited)

	Historical	Adjusted for Discontinued Operations	Adjusted Historical	Susser Transaction	Pro Forma
Net earnings per share of common stock:					
Basic:					
Continuing operations	\$ 0.70	\$	\$ 0.70	\$ 0.03	\$ 0.73
Discontinued operations	0.35		0.35		0.35
Extraordinary gain	0.22		0.22		0.22
Net earnings	\$ 1.27	\$	\$ 1.27	\$ 0.03	\$ 1.30
Diluted:					
Continuing operations	\$ 0.70	\$	\$ 0.70	0.03	0.73
Discontinued operations	0.34		0.34		0.34
Extraordinary gain	0.22		0.22		0.22
Net earnings	\$ 1.26	\$	\$ 1.26	\$ 0.03	\$ 1.29
Weighted average number of common shares outstanding:					
Basic	52,596,163		52,596,163		52,596,163
Diluted	54,122,139		54,122,139		54,122,139

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COMMERCIAL NET LEASE REALTY, INC.  
and SUBSIDIARIES  
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF EARNINGS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(dollars in thousands, except per share data)  
(unaudited)

	Historical	Adjusted for Discontinued Operations	Adjusted Historical	Susser Transaction	Pro Forma
<b>Revenues:</b>					
Rental income from operating leases	\$ 98,278	\$ 36	\$ 98,314	\$ 12,575 <sup>(D)</sup>	\$ 110,889
Earned income from direct financing leases	10,861		10,861		10,861
Real estate expense reimbursement from tenants	5,756		5,756		5,756
Gain on disposition of real estate, Inventory Portfolio	4,700		4,700		4,700
Interest income from real estate transactions	7,698		7,698		7,698
	127,293	36	127,329	12,575	139,904
<b>Operating expenses:</b>					
General and administrative	22,996	(1)	22,995		22,995
Real estate	12,021	(141)	11,880		11,880
Depreciation and amortization	16,728	(35)	16,693	1,735 <sup>(E)</sup>	18,428
Transition costs	3,741		3,741		3,741
	55,486	(177)	55,309	1,735	57,044
Earnings from operations	71,807	213	72,020	10,840	82,860
<b>Other expenses (revenues):</b>					
Interest and other income	(3,808)	(47)	(3,761)		(3,761)
Interest expense	32,381		32,381	9,008 <sup>(F)</sup>	41,389
	28,573	(47)	28,620	9,008	37,628
Earnings from continuing operations before provision for income taxes, minority interest and equity in earnings of unconsolidated affiliates	43,234	166	43,400	1,832	45,232

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Income tax benefit	2,544		2,544		2,544
Minority interest	(1,243)		(1,243)		(1,243)
Equity in earnings of unconsolidated affiliates	4,724		4,724		4,724
Earnings from continuing operations	49,259	166	49,425	1,832	51,257
Earnings from discontinued operations:					
Real estate, Investment Portfolio	6,129	(166)	5,963		5,963
Real estate, Inventory Portfolio, net of income tax expense and minority interest	9,546		9,546	291(G)	9,837
	15,675	(166)	15,509	291	15,800
Net earnings	64,934		64,934	2,123	67,057
Series A Preferred Stock dividends	(4,008)		(4,008)		(4,008)
Series B Convertible Preferred Stock dividends	(1,675)		(1,675)		(1,675)
Earnings available to common stockholders basic	59,251		59,251	2,123	61,374
Series B Convertible Preferred Stock dividends					
Earnings available to common stockholders diluted	\$ 59,251	\$	\$ 59,251	\$ 2,123	\$ 61,374

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COMMERCIAL NET LEASE REALTY, INC.  
and SUBSIDIARIES  
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF EARNINGS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(dollars in thousands, except per share)  
(unaudited)

	Historical	Adjusted for Discontinued Operations	Adjusted Historical	Susser Transaction	Pro Forma
Net earnings per share of common stock:					
Basic:					
Continuing operations	\$ 0.85	\$	\$ 0.85	\$ 0.03	\$ 0.88
Discontinued operations	0.30		0.30	0.01	0.31
Net earnings	\$ 1.15	\$	\$ 1.15	\$ 0.04	\$ 1.19
Diluted:					
Continuing operations	\$ 0.85	\$	\$ 0.85	0.03	0.88
Discontinued operations	0.30		0.30	0.01	0.31
Net earnings	\$ 1.15	\$	\$ 1.15	\$ 0.04	\$ 1.19
Weighted average number of common shares outstanding:					
Basic	51,312,434		51,312,434		51,312,434
Diluted	51,742,518		51,742,518		51,742,518

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COMMERCIAL NET LEASE REALTY, INC.  
and SUBSIDIARIES  
NOTES AND ASSUMPTIONS TO THE PRO FORMA CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS  
(unaudited)

1. Adjustments to Pro Forma Condensed Consolidated Balance Sheet:
  - (A) Increase in Real Estate Investment Portfolio represents the acquisition of the Properties to be held for investment for approximately \$140 million, including closing costs.
  - (B) Increase in Real Estate Inventory Portfolio represents the acquisition of the portion of the Properties to be held for sale for approximately \$31 million, including closing costs.
  - (C) Increase in the Notes payable and decrease in the Line of Credit payable represents proceeds from the Company's \$150,000,000 debt offering and the use of those proceeds to pay down the Company's credit facility. The remaining \$29,200,000 of such proceeds and a draw of \$141,260,000 under the Company's credit facility were used to fund the purchase price of the Properties.
2. Adjustments the Pro Forma Condensed Consolidated Statements of Earnings:
  - (D) Rental income has been adjusted to reflect the lease payments from Susser calculated on a pro forma basis in accordance with rent provisions in the leases, assuming the leases were entered into at the beginning of each period.
  - (E) Depreciation and amortization have been adjusted based on the allocated purchase price of the real estate held for investment acquired and an estimated useful life of 40 years, assuming the acquisition occurred at the beginning of each period.
  - (F) Interest expense has been adjusted to reflect the interest costs related to the proceeds from the debt offering and the line of credit, assuming that the borrowings to finance the Properties occurred at the beginning of each period.
  - (G) Earnings from discontinued operations: Real Estate Inventory Portfolio has been adjusted to reflect the revenues and expenses related to the acquisition of Properties held for sale, assuming the acquisition had occurred at the beginning of each period.

(d) Exhibits.

- 2.1\* Real Estate Purchase and Sale Agreement, dated November 28, 2005, between Commercial Net Lease Realty, LP and SSP Partners, as amended.
- 2.2\* Real Estate Purchase and Sale Agreement, dated December 1, 2005, between Commercial Net Lease Realty, LP and SSP Partners, as amended.
- 10.1 Form of Lease Agreement, between an affiliate of Commercial Net Lease Realty, Inc., as landlord and SSP Partners, as tenant.
- 99.1 Press Release, dated December 21, 2005, of Commercial Net Lease Realty, Inc.

\* Exhibits and Schedules have been omitted but will be furnished supplementally to the Securities and Exchange Commission upon request.

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**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 hereunto duly authorized.

COMMERCIAL NET LEASE REALTY,  
INC.

By: /s/ Kevin B. Habicht

Name: Kevin B. Habicht

Title: Chief Financial Officer

Dated: December 27, 2005

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EXHIBIT INDEX

Exhibit No.	Description
2.1*	Real Estate Purchase and Sale Agreement, dated as of November 28, 2005, between Commercial Net Lease Realty, LP and SSP Partners, as amended.
2.2*	Real Estate Purchase and Sale Agreement, dated as of December 1, 2005, between Commercial Net Lease Realty, LP and SSP Partners, as amended.
10.1	Form of Lease Agreement, between a subsidiary of Commercial Net Lease Realty, Inc., as landlord and SSP Partners, as tenant.
99.1	Press Release, dated December 21, 2005, of Commercial Net Lease Realty, Inc.

\* Exhibits and Schedules have been omitted but will be furnished supplementally to the Securities and Exchange Commission upon request.