

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): November 17, 2023

Net Lease Office Properties

(Exact Name of Registrant as Specified in its Charter)

Maryland
(State of incorporation)

001-41812
(Commission File Number)

92-0887849
(IRS Employer Identification No.)

One Manhattan West, 395 9th Avenue, 58th Floor
New York, New York
(Address of principal executive offices)

10001
(Zip Code)

Registrant's telephone number, including area code: **(844) 656-7348**

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))

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares of Beneficial Interest, par value \$0.001 per share	NLOP	New York Stock Exchange

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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.

Item 7.01 — Regulation FD Disclosure.

Net Lease Office Properties (the “Company,” “NLOP,” “we” or “us”) is filing this Current Report on Form 8-K (this “Report”) to provide certain unaudited pro forma condensed combined financial information of NLOP that gives effect to the Spin-Off (as defined below) and related adjustments in accordance with Article 11 of Regulation S-X under the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

NLOP previously filed a preliminary information statement included as Exhibit 99.1 to the Company’s Registration Statement on Form 10 (File No. 001-41812) (the “Form 10”) filed with the U.S. Securities and Exchange Commission (the “SEC”) on October 4, 2023, the final version of which was included as Exhibit 99.1 to the Current Report on Form 8-K/A filed with the SEC on October 11, 2023 (the “Information Statement”). The Form 10 related to the spin-off (the “Spin-Off”) of NLOP pursuant to which W. P. Carey Inc. (“WPC”) contributed certain office properties to NLOP (the contribution transactions, the “Separation”). The Spin-Off was effected pursuant to the Separation and Distribution Agreement, dated October 31, 2023 between the NLOP and WPC (the “Separation and Distribution Agreement”).

On November 1, 2023, following the Separation, in accordance with the Separation and Distribution Agreement, WPC effected a special dividend to its stockholders of all of the outstanding common shares of beneficial interest of NLOP, \$0.001 par value per share (the “Company Common Shares”), which were held by WPC (the “Distribution”). In the Distribution, WPC distributed one Company Common Share for every 15 shares of common stock of WPC, \$0.001 par value per share, held of record as of close of business on October 19, 2023, the record date for the Distribution.

Furnished in this Current Report are the unaudited pro forma combined statements of operations for the nine months ended September 30, 2023 and year ended December 31, 2022 and the unaudited pro forma combined balance sheet as of September 30, 2023 including the related notes, which are attached hereto as Exhibit 99.1 and incorporated by reference herein.

The information in this report (including Exhibit 99.1) is being furnished pursuant to Item 7.01 and shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities of that Section, nor shall it be deemed to be incorporated by reference in any filing of NLOP under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Item 9.01 — Financial Statements and Exhibits.

(d) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
99.1	Unaudited pro forma combined financial statements (and notes thereto) of Net Lease Office Properties as of September 30, 2023 and for the nine months ended September 30, 2023 and year ended December 31, 2022
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

Forward-Looking Statements

This Report contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements generally are identified by the words “believe,” “project,” “expect,” “anticipate,” “estimate,” “intend,” “strategy,” “plan,” “may,” “should,” “will,” “would,” “will be,” “will continue,” “will likely result,” and similar expressions. These forward-looking statements include, but are not limited to, statements regarding: our corporate strategy and estimated or future economic performance and results, including our expectations surrounding the impact of the broader macroeconomic environment and the ability of tenants to pay rent, financial condition, liquidity, results of operations, and prospects; our future capital expenditure and leverage levels, debt service obligations, and plans to fund our liquidity needs, including our ability to sell or dispose of properties; prospective statements regarding our access to the capital markets; statements that we make regarding our ability to remain qualified for taxation as a real estate investment trust (“REIT”); and the impact of recently issued accounting pronouncements and regulatory activity.

These statements are based on the current expectations of our management. It is important to note that our actual results could be materially different from those projected in such forward-looking statements. There are a number of risks and uncertainties that could cause actual results to differ materially from these forward-looking statements. Other unknown or unpredictable risks or uncertainties, like the risks related to inflation and increased interest rates, the effects of pandemics and global outbreaks of contagious diseases (such as the COVID-19 pandemic) and domestic or geopolitical crises, such as terrorism, military conflict, war or the perception that hostilities may be imminent, political instability or civil unrest, or other conflict, could also have material adverse effects on our business, financial condition, liquidity, results of operations, and prospects. You should exercise caution in relying on forward-looking statements as they involve known and unknown risks, uncertainties, and other factors that may materially affect our future results, performance, achievements, or transactions. Information on factors that could impact actual results and cause them to differ from what is anticipated in the forward-looking statements contained herein is included in this Report, as well as in our other filings with the SEC, including but not limited to risk factors contained in our Form 10. Moreover, because we operate in a very competitive and rapidly changing environment, new risks are likely to emerge from time to time. Given these risks and uncertainties, potential investors are cautioned not to place undue reliance on these forward-looking statements as a prediction of future results, which speak only as of the date of this Report, unless noted otherwise. Except as required by federal securities laws and the rules and regulations of the SEC, we do not undertake to revise or update any forward-looking statements.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Net Lease Office Properties

Date: November 17, 2023

By: /s/ Jason E. Fox

Jason E. Fox

Chief Executive Officer

**NET LEASE OFFICE PROPERTIES PREDECESSOR
UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

The following unaudited pro forma condensed combined financial statements and notes thereto should be read in conjunction with (i) the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” our audited combined financial statements, and accompanying notes included in the preliminary information statement included as Exhibit 99.1 to Net Lease Office Properties’s (“NLOP”) Registration Statement on Form 10 (File No. 001-41812) (the “Form 10”) filed with the U.S. Securities and Exchange Commission (the “SEC”) on October 4, 2023, the final version of which was included as Exhibit 99.1 to the Current Report on Form 8-K/A filed with the SEC on October 11, 2023 (the “Information Statement”) and (ii) the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” our unaudited combined financial statements, and accompanying notes included in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 (the “Form 10-Q”).

Our unaudited pro forma condensed combined statement of income for the year ended December 31, 2022 has been derived from our audited combined financial statements for the year ended December 31, 2022, which are included in the Information Statement, and our unaudited pro forma condensed combined statement of income for the nine months ended September 30, 2023 and our unaudited pro forma condensed combined balance sheet as of September 30, 2023 have been derived from our unaudited combined financial statements as of and for the nine months ended September 30, 2023, which are included in the Form 10-Q.

Pursuant to the terms of a separation and distribution agreement, W. P. Carey Inc. (“WPC”) spun off a portfolio of 59 real property assets into a separate publicly-traded company. To accomplish this separation, on October 21, 2022, WPC formed NLOP, a Maryland real estate investment trust, to own the combination of entities under common control that have been “carved-out” of WPC’s consolidated financial statements and presented on a combined basis (the “NLOP Predecessor”). On November 1, 2023, WPC completed the Spin-Off, contributing 59 office properties to NLOP. Following the closing of the Spin-Off, NLOP operates as a separate, publicly-traded real estate investment trust (“REIT”), which WPC externally manages pursuant to certain advisory agreements (the “NLOP Advisory Agreements”).

On September 20, 2023, in connection with the proposed Spin-Off, NLOP and certain of its wholly-owned direct and indirect subsidiaries entered into financing arrangements for which funding was subject to certain conditions (including the closing of the Spin-Off), including (i) a \$335.0 million senior secured mortgage loan maturing on November 9, 2025 (the “NLOP Mortgage Loan”) and (ii) a \$120.0 million mezzanine loan facility maturing on November 9, 2028 (the “NLOP Mezzanine Loan”) and, together with the NLOP Mortgage Loan, the “NLOP Financing Arrangements”). At that time, NLOP was a wholly-owned subsidiary of WPC. The funding of the NLOP Financing Arrangements occurred on November 1, 2023. NLOP borrowed an aggregate of \$455.0 million and each of the NLOP Mortgage Loan and the NLOP Mezzanine Loan was fully drawn. Approximately \$350.0 million of the proceeds from the financing (net of transaction expenses) was transferred to WPC in connection with the Spin-Off.

Our unaudited pro forma condensed combined statements of income for the year ended December 31, 2022 and nine months ended September 30, 2023 give effect to the Pro Forma Transactions (as defined below) as if they had occurred on January 1, 2022, the beginning of the most recent fiscal year for which audited financial statements are available. Our unaudited pro forma condensed combined balance sheet gives effect to the Pro Forma Transactions as if they had occurred on September 30, 2023, our most recent balance sheet date. As the CPA:18 Merger (as defined below) was completed on August 1, 2022, the combined statement of income and balance sheet for the nine months ended and as of September 30, 2023 already include the financial results of the nine properties acquired as part of WPC’s merger with Corporate Property Associates 18 – Global Incorporated (“CPA:18”) on August 1, 2022 (the “CPA:18 Merger”). The unaudited pro forma condensed combined financial statements give effect to the following (collectively referred to as the “Pro Forma Transactions”):

- the Separation and Distribution, defined as the contribution of certain office properties by WPC to NLOP and the distribution of the outstanding common shares, by WPC, pursuant to the terms and conditions of the separation and distribution agreement between NLOP and WPC, which sets forth, among other things, NLOP’s agreements with WPC regarding the principal transactions necessary to separate NLOP from WPC (the “Separation and Distribution Agreement”);
- transaction costs specifically related to the Separation and the Distribution;

- the inclusion of the financial results of CPA:18 and the related purchase price allocation for the seven months ended July 31, 2022, prior to the CPA:18 Merger; and
- the post-Spin-Off capital structure, including: (i) the issuance of 14,620,919 common shares of NLOP, (ii) the incurrence by NLOP Predecessor of \$455.0 million aggregate principal amount of indebtedness under the NLOP Financing Arrangements, and (iii) the contribution of the WPC receivable related to the parent debt, and the use of proceeds therefrom, including the transfer of approximately \$350.0 million to WPC (net of transaction expenses), as described above.

The pro forma adjustments are based on the best information available as of the date of this current report on Form 8-K (this “Report”) and assumptions that management believes are reasonable given the information available as of the date of this Report. The adjustments in our unaudited pro forma condensed combined financial statements have been identified and presented to provide relevant information in accordance with Article 11 of SEC regulation S-X, as amended, necessary for an illustrative understanding upon consummation of the Pro Forma Transactions.

Our unaudited pro forma condensed combined financial statements are for informational purposes only and are not intended to represent what our results of operations or financial position would have been had the Pro Forma Transactions occurred on the dates indicated. The unaudited pro forma condensed combined financial statements also should not be considered indicative of our future results of operations or financial position as an independent, publicly-traded company.

The accompanying unaudited pro forma condensed combined financial statements have been prepared from WPC’s historical accounting records and are presented on a stand-alone basis including transaction accounting adjustments to reflect as if our operations had been conducted independently from WPC. The values presented as “Historical CPA:18” in the unaudited pro forma condensed combined statement of income for the year ended December 31, 2022 were derived from the historical records of CPA:18. The unaudited pro forma condensed combined statement of income for the year ended December 31, 2022 gives effect to NLOP’s acquisition of CPA:18 as if that acquisition had occurred on January 1, 2022.

**NET LEASE OFFICE PROPERTIES PREDECESSOR
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET**

As of September 30, 2023

	Historical NLOP Predecessor	Transaction Accounting Adjustments	(Notes)	Pro Forma Combined
Assets				
Investments in real estate:				
Land, buildings and improvements	\$ 1,300,956	\$ —		\$ 1,300,956
Net investments in direct financing leases	—	—		—
In-place lease intangible assets and other	374,565	—		374,565
Above-market rent intangible assets	58,642	—		58,642
Investments in real estate	1,734,163	—		1,734,163
Accumulated depreciation and amortization	(449,032)	—		(449,032)
Net investments in real estate	1,285,131	—		1,285,131
Cash and cash equivalents	5,083	48,746	(c)	53,829
Other assets, net	66,061	(12,596)	(m), (n)	53,465
Goodwill	62,648	—		62,648
Total assets	\$ 1,418,923	\$ 36,150		\$ 1,455,073
Liabilities and Equity				
Non-recourse mortgages, net	\$ 166,715	\$ —		\$ 166,715
Parent debt	94,270	(94,270)	(f)	—
Secured term loan, net	—	309,450	(b), (n)	309,450
Mezzanine loan, net	—	110,848	(e), (n)	110,848
Accounts payable, accrued expenses and other liabilities	47,301	(1,577)	(f)	45,724
Below-market rent and other intangible liabilities, net	12,178	—		12,178
Deferred income taxes	10,310	—	(h)	10,310
Total liabilities	330,774	324,451		655,225
Commitments and contingencies				
Equity				
Common shares, \$0.001 par value, shares authorized; and shares respectively issued and outstanding	—	15	(d)	15
Additional paid-in-capital	—	844,126	(d)	844,126
Distributions in excess of accumulated earnings	—	(7,363)	(d), (k)	(7,363)
Net parent investment	1,125,079	(1,125,079)	(d)	—
Accumulated other comprehensive loss	(41,525)	—		(41,525)
Total shareholders' equity	1,083,554	(288,301)		795,253
Noncontrolling interests	4,595	—		4,595
Total equity	1,088,149	(288,301)		799,848
Total liabilities and equity	\$ 1,418,923	\$ 36,150		\$ 1,455,073

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements

NET LEASE OFFICE PROPERTIES PREDECESSOR
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENTS OF INCOME

For the nine months ended September 30, 2023

(in thousands, except share and per share amounts)

	Historical NLOP Predecessor	Transaction Accounting Adjustments	(Notes)	Autonomous Entity Adjustments (Note 3)	Pro Forma Combined
Revenues					
Lease revenues	\$ 124,972	\$ —		\$ —	\$ 124,972
Income from direct financing leases	1,175	—		—	1,175
Other lease-related income	2,424	—		—	2,424
	<u>128,571</u>	<u>—</u>		<u>—</u>	<u>128,571</u>
Operating Expenses					
Depreciation and amortization	53,226	—		—	53,226
Reimbursable tenant costs	20,831	—		—	20,831
General and administrative	10,034	—		2,030	12,064
Property expenses, excluding reimbursable tenant costs	6,479	—		—	6,479
Separation and distribution related costs and other	2,882	—		—	2,882
	<u>93,452</u>	<u>—</u>		<u>2,030</u>	<u>95,482</u>
Other Income and Expenses					
Interest expense	(24,433)	(36,106)	(i), (j)	—	(60,539)
Other gains and (losses)	26	—		—	26
	<u>(24,407)</u>	<u>(36,106)</u>		<u>—</u>	<u>(60,513)</u>
Income (loss) before income taxes	10,712	(36,106)		(2,030)	(27,424)
Provision for income taxes	(303)	—	(h)	—	(303)
Net Income (Loss)	<u>10,409</u>	<u>(36,106)</u>		<u>(2,030)</u>	<u>(27,727)</u>
Net income attributable to noncontrolling interests	(77)	—		—	(77)
Net Income (Loss) Attributable to NLOP Predecessor	<u>\$ 10,332</u>	<u>\$ (36,106)</u>		<u>\$ (2,030)</u>	<u>\$ (27,804)</u>
Basic Earnings (Loss) per Share (I)					<u>\$ (1.90)</u>
Diluted Earnings (Loss) per Share (I)					<u>\$ (1.90)</u>
Weighted-Average Shares Outstanding (I) :					
Basic					<u>14,620,919</u>
Diluted					<u>14,620,919</u>

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements

NET LEASE OFFICE PROPERTIES PREDECESSOR
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENTS OF INCOME

For the Year Ended December 31, 2022
(in thousands, except share and per share amounts)

	CPA:18							
	Historical NLOP Predecessor	Historical CPA:18 (a1)	Transaction Accounting Adjustments CPA:18 (a2)	Pro Forma (adjusted for merger with CPA:18) (a3)	Transaction Accounting Adjustments	(Notes)	Autonomous Entity Adjustments (Note 3)	Pro Forma Combined
Revenues								
Lease revenues	\$ 151,249	\$ 15,190	\$ (1,498)	\$ 164,941	—		\$ —	\$ 164,941
Income from direct financing leases	1,744	—	—	1,744	—		—	1,744
Other lease-related income	3,221	120	—	3,341	—		—	3,341
	<u>156,214</u>	<u>15,310</u>	<u>(1,498)</u>	<u>170,026</u>	<u>—</u>		<u>—</u>	<u>170,026</u>
Operating Expenses								
Depreciation and amortization	63,205	5,516	(3,069)	65,652	—		—	65,652
General and administrative	11,871	1	—	11,872	—		4,157	16,029
Reimbursable tenant costs	24,251	2,836	—	27,087	—		—	27,087
Property expenses, excluding reimbursable tenant costs	7,751	322	—	8,073	—		—	8,073
Separation and distribution related costs and other	6,025	—	—	6,025	7,363	(k)	—	13,388
	<u>113,103</u>	<u>8,675</u>	<u>(3,069)</u>	<u>118,709</u>	<u>7,363</u>		<u>4,157</u>	<u>130,229</u>
Other Income and Expenses								
Interest expense	(26,841)	(4,963)	(1,034)	(32,838)	(55,613)	(i), (j)	—	(88,451)
Other gains and (losses)	(7)	(331)	—	(338)	—		—	(338)
	<u>(26,848)</u>	<u>(5,294)</u>	<u>(1,034)</u>	<u>(33,176)</u>	<u>(55,613)</u>		<u>—</u>	<u>(88,789)</u>
Income (loss) before income taxes	16,263	1,341	537	18,141	(62,976)		(4,157)	(48,992)
Provision for income taxes	(486)	(40)	—	(526)	—	(h)	—	(526)
Net Income (Loss)	<u>15,777</u>	<u>1,301</u>	<u>537</u>	<u>17,615</u>	<u>(62,976)</u>		<u>(4,157)</u>	<u>(49,518)</u>
Net income attributable to noncontrolling interests	2	(18)	18	2	—		—	2
Net Income (Loss) Attributable to NLOP Predecessor	<u>\$ 15,779</u>	<u>\$ 1,283</u>	<u>\$ 555</u>	<u>\$ 17,617</u>	<u>\$ (62,976)</u>		<u>\$ (4,157)</u>	<u>\$ (49,516)</u>
Basic Earnings (Loss) per Share (I)								
								\$ (3.39)
Diluted Earnings (Loss) per Share (I)								
								\$ (3.39)
Weighted-Average Shares Outstanding (I) :								
Basic								14,620,919
Diluted								14,620,919

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The accompanying unaudited pro forma condensed combined financial statements have been derived from WPC's September 30, 2023 and December 31, 2022 historical accounting records and in accordance with Article 11 of SEC Regulation S-X, as amended.

The historical NLOP balances presented on the combined unaudited financial statements reflect the revenues and direct expenses of the NLOP Predecessor and include material assets and liabilities of WPC that are specifically attributable to the historical activities of certain office properties contributed by WPC to NLOP in the Separation ("Office Properties") and related assets contributed by WPC to NLOP ("NLOP Business") prior to the Distribution (the "NLOP Predecessor Business"). NLOP Predecessor equity in these combined unaudited financial statements represents the excess of total assets over total liabilities. NLOP Predecessor equity is impacted by contributions from and distributions to WPC, which are the result of treasury activities and net funding provided by or distributed to WPC prior to the Pro Forma Transactions, as well as the allocated costs and expenses incurred by WPC related to the NLOP Predecessor Business.

The accounting policies used in the preparation of these unaudited pro forma condensed combined financial statements are those set out in our combined financial statements as of and for the year ended December 31, 2022 (as disclosed in the Information Statement) and our unaudited condensed combined financial statements as of and for the nine months ended September 30, 2023 (as disclosed in the Form 10-Q).

CPA:18 Merger

The values presented as Historical CPA:18 in the unaudited pro forma condensed combined statement of income for the year ended December 31, 2022 were derived from the historical records of CPA:18. The unaudited pro forma condensed combined statement of income for the year ended December 31, 2022 gives effect to NLOP's acquisition of CPA:18 as if that acquisition had occurred on January 1, 2022.

Note 2. Transaction Accounting Adjustments

This note should be read in conjunction with the other notes in the unaudited pro forma condensed combined financial statements.

- (a) Represents the pro forma condensed combined statements of income for NLOP for the year ended December 31, 2022 adjusted for the CPA:18 Merger that was completed on August 1, 2022 to give effect of the merger had it occurred on January 1, 2022. The pro forma financial information is not necessarily indicative of what the actual results would have been had the CPA:18 Merger occurred on that date, nor does it purport to represent the results of operations for future periods.
 - 1) Represents the historical seven months of business operational results of the nine CPA:18 properties, prior to the CPA:18 Merger.
 - 2) Represents the transaction accounting adjustments reflecting the purchase accounting adjustments related to the CPA:18 Merger. These adjustments represent the reset of the straight-line rent adjustments and incremental above/below market amortization of lease-related intangibles; depreciation and amortization adjustments to reflect the new basis in the assets; and interest expense adjustments associated with the fair value of the debt.
 - 3) Represents the pro forma condensed combined statements of income for NLOP adjusted for the CPA:18 Merger.
- (b) Reflects the incurrence by NLOP of the \$335.0 million NLOP Mortgage Loan, which is part of the NLOP Financing Arrangements. We will incur an estimated \$25.5 million of origination fees which are reflected as a reduction of debt, \$10.6 million of which was incurred during the nine months ended September 30, 2023 and reflected within Other assets, net in the condensed combined balance sheet. For purposes of preparing the unaudited pro forma condensed combined statements of income, we have calculated interest expense using the effective interest method and the rate as specified in the Financing Arrangements, which resulted in an effective interest rate of approximately 15.4%, factoring in the defined loan principal repayment (which requires a payment of 15% and 25% during the first two years of the loan term). The

stated interest rate of 10.32% is based on the adjusted one-month forward-looking term rate based on the Secured Overnight Financing Rate (“SOFR”) (the “Term SOFR” rate) as of November 6, 2023 of 5.32%, plus an assumed applicable margin of 5.0%. A 0.125% increase or decrease in the assumed interest rate would result in a change of \$0.3 million and \$0.4 million in interest expense for the nine months ended September 30, 2023 and the year ended December 31, 2022, respectively.

(c) Represents the cumulative impact on Cash and cash equivalents from the following transaction accounting adjustments:

<i>(in thousands)</i>	September 30, 2023
Cash and cash equivalents, historical	\$ 5,083
Secured term loan, net (b)	309,450
Mezzanine loan, net (e)	110,848
Settlement of interest on parent debt	(1,577)
Purchase of interest rate cap (m)	(1,769)
Separation and distribution-related costs (g)	(15,164)
Distribution to WPC ⁽¹⁾	(353,042)
Cash and cash equivalents, pro forma combined	<u>\$ 53,829</u>

(1) The proceeds under the NLOP Financing Arrangements that are expected to be transferred to WPC in accordance with the Separation and Distribution Agreement.

(d) Represents the capitalization of NLOP giving effect to the anticipated post-Spin-Off capital structure of \$844.1 million as of September 30, 2023 via the issuance of 14,620,919 common shares at \$0.001 par value per share for a total par amount of \$14,621. In addition to the parent debt that is reflected in NLOP Predecessor (see Note (f) below), WPC will also contribute the related receivable for this parent debt to an NLOP subsidiary at Spin-Off. The retained earnings impact of the adjustments to the company’s net income are reflected in Distributions in excess of accumulated earnings in the condensed combined balance sheet.

(e) Reflects the incurrence by NLOP of the \$120.0 million NLOP Mezzanine Loan, which is part of the Financing Arrangements. We will incur an estimated \$9.2 million of origination fees which are reflected as a reduction of debt, \$3.8 million of which was incurred during the nine months ended September 30, 2023 and reflected within Other assets, net in the condensed combined balance sheet. For purposes of preparation of the unaudited pro forma condensed combined statements of income, we have calculated interest expense using the effective interest method and the rate as specified in the Financing Arrangements of 14.5% (10.0% of which is required to be paid current on a monthly basis, and 4.5% of which will be a payment-in-kind accrual, on a quarterly basis), which resulted in an effective interest rate of approximately 16.5% for the monthly interest expense due and 6.3% for the payment-in-kind accrual.

(f) Represents the settlement of debt agreements historically entered into by NLOP Predecessor entities with wholly-owned affiliates of WPC, to provide funding necessary to acquire certain international assets (“parent debt”) and settlement of related accrued interest on the parent debt of \$1.6 million. The amount of such debt is \$94.3 million as of September 30, 2023. See Note (d) above.

(g) Represents the reimbursement of estimated separation and distribution-related costs of \$15.2 million incurred and paid by WPC on behalf of NLOP prior to the Separation, as specified in the Separation and Distribution Agreement.

(h) NLOP Predecessor was held by a REIT pre-Spin-Off and NLOP will operate and has made an election to qualify as a REIT under the requirements of the Internal Revenue Code of 1986, as amended, and as a result, the direct income tax expense is expected to be minimal. Consequently, no additional adjustments to pro forma income tax expense has been made. With respect to the Spin-Off, a subsidiary of NLOP, NLOP Mezzanine Borrower, together with certain other subsidiaries, has made taxable REIT subsidiary (“TRS”) election(s) and any TRSs will therefore be subject to U.S. federal income taxes at corporate rates. However, no pro forma adjustments for deferred income tax assets or liabilities, and related income tax expense, if any, has been reflected in the pro forma financial statements as incremental adjustments due to the uncertainties in relation to these amounts as NLOP Predecessor is in the process of evaluating the allocation of the fair value, which impacts the tax basis of the properties included in the TRS.

- (i) Represents interest expense of \$52.5 million and \$74.5 million for the nine months ended September 30, 2023 and the year ended December 31, 2022, respectively, resulting from the interest expense under the NLOP Financing Arrangements, as described in Notes (b) and (e) above.
- (j) Represents removal of historically recorded intercompany interest expense associated with parent debt totaling \$16.4 million and \$18.9 million for the nine months ended September 30, 2023 and year ended December 31, 2022, respectively. See Note (f) above for description of parent debt.
- (k) Represents the adjustment for the Separation and distribution related costs of \$7.4 million for the year ended December 31, 2022 resulting from estimated non-recurring transaction-related costs that are currently not reflected in the historical combined financial statements of NLOP. These estimated transaction costs consist primarily of advisor fees, legal fees, transfer taxes, and tax and accounting fees. It is assumed that these costs will not affect the statement of operations of NLOP beyond 12 months after the closing date of the Separation and Distribution.
- (l) For purposes of determining earnings per share, the number of basic and diluted shares outstanding has been calculated based on the number of shares outstanding of WPC and a distribution ratio of one NLOP common share for every 15 shares of WPC stock outstanding, resulting in a distribution of an aggregate of 14,620,919 NLOP common shares issued on November 1, 2023. The par value of NLOP common shares is \$0.001 per share. The foregoing amounts do not reflect any equity issued by WPC after September 30, 2023.
- (m) Represents the purchase of an interest rate cap agreement at a strike rate of 5.35% under the terms set forth under the NLOP Mortgage Loan.
- (n) Represents the reclassification of the deferred financing costs incurred in connection with the execution of the Financing Arrangements included in the historical Other assets, net, amount.

Note 3. Autonomous Entity Adjustments

Our historical combined financial statements include an allocation of direct and reimbursable general and administrative costs and management fees of \$10.0 million and \$11.9 million for the nine months ended September 30, 2023 and the year ended December 31, 2022, respectively. Pursuant to the NLOP Advisory Agreements, management estimates an incremental cost that is expected to be incurred for a total amount of approximately \$16 million per year, following the Separation. The adjustment represents the incremental fees needed to increase the historical allocation of general and administrative costs to \$12.0 million and \$16.0 million for the nine months ended September 30, 2023 and the year ended December 31, 2022, respectively.