

NATIONAL RETAIL PROPERTIES, INC.

Form 10-Q

November 08, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

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)

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Maryland **56-1431377**
(State or other jurisdiction of **(I.R.S. Employer**
incorporation or organization) **Identification No.)**
450 South Orange Avenue, Suite 900, Orlando, Florida 32801
(Address of principal executive offices, including zip code)
(407) 265-7348
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) for the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer Smaller reporting company

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

95,850,511 shares of common stock, \$0.01 par value, outstanding as of October 28, 2011.

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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, 2011 (unaudited) | December 31, 2010 |
|--|--------------------------------------|----------------------|
| <u>ASSETS</u> | | |
| Real estate, Investment Portfolio: | | |
| Accounted for using the operating method, net of accumulated depreciation and amortization | \$ 2,919,942 | \$ 2,519,950 |
| Accounted for using the direct financing method | 26,922 | 29,773 |
| Real estate, Inventory Portfolio, held for sale | 31,928 | 32,076 |
| Investment in unconsolidated affiliate | 4,376 | 4,515 |
| Mortgages, notes and accrued interest receivable, net of allowance | 30,929 | 30,331 |
| Commercial mortgage residual interests | 16,322 | 15,915 |
| Cash and cash equivalents | 19,678 | 2,048 |
| Receivables, net of allowance of \$1,044 and \$1,750, respectively | 1,513 | 3,403 |
| Accrued rental income, net of allowance of \$4,666 and \$3,609, respectively | 25,398 | 25,535 |
| Debt costs, net of accumulated amortization of \$14,983 and \$11,198, respectively | 11,151 | 9,366 |
| Other assets | 58,202 | 40,663 |
| Total assets | \$ 3,146,361 | \$ 2,713,575 |
| <u>LIABILITIES AND EQUITY</u> | | |
| Liabilities: | | |
| Line of credit payable | \$ | \$ 161,000 |
| Mortgages payable | 23,453 | 24,269 |
| Notes payable convertible, net of unamortized discount of \$7,389 and \$12,201, respectively | 354,346 | 349,534 |
| Notes payable, net of unamortized discount of \$5,167 and \$1,118, respectively | 894,833 | 598,882 |
| Accrued interest payable | 22,371 | 7,342 |
| Other liabilities | 72,502 | 43,774 |
| Total liabilities | 1,367,505 | 1,184,801 |
| Equity: | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.01 par value. Authorized 15,000,000 shares Series C, 3,680,000 depository shares issued and outstanding, at stated liquidation value of \$25 per share | 92,000 | 92,000 |
| Common stock, \$0.01 par value. Authorized 190,000,000 shares; 95,379,867 and 83,613,289 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively | 955 | 838 |
| Excess stock, \$0.01 par value. Authorized 205,000,000 shares; none issued or outstanding | | |
| Capital in excess of par value | 1,721,691 | 1,429,750 |

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| | | |
|---|--------------|--------------|
| Retained earnings (accumulated dividends in excess of earnings) | (34,014) | 3,234 |
| Accumulated other comprehensive income (loss) | (3,039) | 1,661 |
| Total stockholders' equity of NNN | 1,777,593 | 1,527,483 |
| Noncontrolling interests | 1,263 | 1,291 |
| Total equity | 1,778,856 | 1,528,774 |
| Total liabilities and equity | \$ 3,146,361 | \$ 2,713,575 |

See accompanying notes to condensed consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(dollars in thousands, except per share data)

(unaudited)

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|--------------------------------|-----------|------------------------------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenues: | | | | |
| Rental income from operating leases | \$ 62,969 | \$ 52,342 | \$ 177,864 | \$ 155,686 |
| Earned income from direct financing leases | 659 | 746 | 2,131 | 2,265 |
| Percentage rent | 229 | 196 | 476 | 367 |
| Real estate expense reimbursement from tenants | 2,440 | 1,620 | 6,868 | 4,865 |
| Interest and other income from real estate transactions | 381 | 601 | 1,545 | 2,551 |
| Interest income on commercial mortgage residual interests | 782 | 798 | 2,325 | 2,705 |
| | 67,460 | 56,303 | 191,209 | 168,439 |
| Disposition of real estate, Inventory Portfolio: | | | | |
| Gross proceeds | | | | 5,600 |
| Costs | | | | (4,959) |
| Gain | | | | 641 |
| Retail operations: | | | | |
| Revenues | 12,402 | 9,225 | 33,702 | 24,458 |
| Operating expenses | (11,563) | (8,579) | (32,175) | (23,513) |
| Net | 839 | 646 | 1,527 | 945 |
| Operating expenses: | | | | |
| General and administrative | 7,036 | 5,927 | 20,261 | 17,299 |
| Real estate | 4,459 | 2,908 | 12,055 | 9,401 |
| Depreciation and amortization | 14,947 | 11,817 | 42,215 | 35,422 |
| Impairment commercial mortgage residual interests valuation | | | 396 | 3,848 |
| | 26,442 | 20,652 | 74,927 | 65,970 |
| Earnings from operations | 41,857 | 36,297 | 117,809 | 104,055 |
| Other expenses (revenues): | | | | |
| Interest and other income | (457) | (332) | (1,083) | (1,170) |
| Interest expense | 20,086 | 16,501 | 55,260 | 48,524 |
| | 19,629 | 16,169 | 54,177 | 47,354 |

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| | | | | |
|--|--------|--------|--------|--------|
| Earnings from continuing operations before income tax expense and equity in earnings of unconsolidated affiliate | 22,228 | 20,128 | 63,632 | 56,701 |
| Income tax expense | (68) | (170) | (258) | (497) |
| Equity in earnings of unconsolidated affiliate | 109 | 107 | 321 | 320 |
| Earnings from continuing operations | 22,269 | 20,065 | 63,695 | 56,524 |
| Earnings (loss) from discontinued operations (Note 8): | | | | |
| Real estate, Investment Portfolio, net of income tax expense | 268 | 1,134 | 686 | 2,363 |
| Real estate, Inventory Portfolio, net of income tax expense | 71 | (5) | 350 | 256 |
| | 339 | 1,129 | 1,036 | 2,619 |

See accompanying notes to condensed consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS CONTINUED

(dollars in thousands, except per share data)

(unaudited)

| | Quarter Ended | | Nine Months Ended | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Earnings including noncontrolling interests | \$ 22,608 | \$ 21,194 | \$ 64,731 | \$ 59,143 |
| Loss (earnings) attributable to noncontrolling interests: | | | | |
| Continuing operations | 20 | (17) | 113 | (363) |
| Discontinued operations | 4 | 33 | (89) | 2 |
| | 24 | 16 | 24 | (361) |
| Net earnings attributable to NNN | \$ 22,632 | \$ 21,210 | \$ 64,755 | \$ 58,782 |
| Net earnings attributable to NNN | \$ 22,632 | \$ 21,210 | \$ 64,755 | \$ 58,782 |
| Series C preferred stock dividends | (1,696) | (1,696) | (5,089) | (5,089) |
| Net earnings available to common stockholders | \$ 20,936 | \$ 19,514 | \$ 59,666 | \$ 53,693 |
| Net earnings per share of common stock: | | | | |
| Basic: | | | | |
| Continuing operations | \$ 0.23 | \$ 0.22 | \$ 0.69 | \$ 0.62 |
| Discontinued operations | 0.01 | 0.01 | 0.01 | 0.03 |
| Net earnings | \$ 0.24 | \$ 0.23 | \$ 0.70 | \$ 0.65 |
| Diluted: | | | | |
| Continuing operations | \$ 0.23 | \$ 0.22 | \$ 0.68 | \$ 0.62 |
| Discontinued operations | 0.01 | 0.01 | 0.01 | 0.03 |
| Net earnings | \$ 0.24 | \$ 0.23 | \$ 0.69 | \$ 0.65 |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 87,109,406 | 82,779,476 | 84,896,946 | 82,638,786 |
| Diluted | 87,788,250 | 82,915,376 | 85,438,870 | 82,769,556 |

See accompanying notes to condensed consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

(unaudited)

| | Nine Months Ended September 30, | |
|--|------------------------------------|-----------|
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Earnings including noncontrolling interests | \$ 64,731 | \$ 59,143 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Performance incentive plan expense | 5,057 | 4,297 |
| Stock option expense tax effect | | 122 |
| Depreciation and amortization | 42,802 | 36,227 |
| Impairment real estate | 431 | |
| Impairment commercial mortgage residual interests valuation | 396 | 3,848 |
| Amortization of notes payable discount | 5,032 | 4,734 |
| Amortization of deferred interest rate hedges | (47) | (124) |
| Equity in earnings of unconsolidated affiliate | (321) | (320) |
| Distributions received from unconsolidated affiliate | 432 | 442 |
| Gain on disposition of real estate, Investment Portfolio | (38) | (1,013) |
| Gain on disposition of real estate, Inventory Portfolio | (102) | (941) |
| Income tax valuation allowance | | 265 |
| Other | 266 | (67) |
| Change in operating assets and liabilities, net of assets acquired and liabilities assumed in business combinations: | | |
| Additions to real estate, Inventory Portfolio | (790) | (397) |
| Proceeds from disposition of real estate, Inventory Portfolio | 1,058 | 42,817 |
| Decrease in real estate leased to others using the direct financing method | 1,191 | 1,144 |
| Increase in work in process | (856) | (499) |
| Decrease (increase) in mortgages, notes and accrued interest receivable | 170 | (264) |
| Decrease in receivables | 1,734 | 925 |
| Decrease (increase) in commercial mortgage residual interests | (204) | 1,812 |
| Decrease (increase) accrued rental income | 93 | (211) |
| Decrease in other assets | 571 | 452 |
| Increase in accrued interest payable | 15,029 | 10,929 |
| Increase (decrease) in other liabilities | 1,548 | (1,610) |
| Increase in tax liability | 962 | 180 |
| Net cash provided by operating activities | 139,145 | 161,891 |
| Cash flows from investing activities: | | |
| Proceeds from the disposition of real estate, Investment Portfolio | 8,138 | 7,103 |
| Additions to real estate, Investment Portfolio: | | |
| Accounted for using the operating method | (434,532) | (106,525) |
| Accounted for using the direct financing method | (1,747) | |
| Increase in mortgages and notes receivable | (5,706) | (8,502) |
| Principal payments on mortgages and notes | 4,938 | 14,026 |
| Payment of lease costs | (862) | (965) |

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| | | |
|---|--------------|-------------|
| Acquired additional interest in controlled subsidiary | | (1,603) |
| Other | (2,191) | (2,087) |
| Net cash used in investing activities | \$ (431,962) | \$ (98,553) |

See accompanying notes to condensed consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS CONTINUED

(dollars in thousands)

(unaudited)

| | Nine Months Ended September 30, | |
|--|------------------------------------|-----------------|
| | 2011 | 2010 |
| Cash flows from financing activities: | | |
| Proceeds from line of credit payable | \$ 504,800 | \$ 38,100 |
| Repayment of line of credit payable | (665,800) | (1,000) |
| Payment of interest rate hedge | (5,300) | |
| Payment of debt costs | (5,464) | |
| Repayment of mortgages payable | (816) | (6,190) |
| Proceeds from notes payable | 295,731 | |
| Repayment of notes payable | | (20,000) |
| Proceeds from issuance of common stock | 299,528 | 14,220 |
| Payment of Series C preferred stock dividends | (5,089) | (5,089) |
| Payment of common stock dividends | (96,915) | (93,762) |
| Noncontrolling interest contributions | 41 | 28 |
| Noncontrolling interest distributions | (45) | (861) |
| Stock issuance costs | (10,224) | |
| Net cash provided by (used in) financing activities | 310,447 | (74,554) |
| | | |
| Net increase (decrease) in cash and cash equivalents | 17,630 | (11,216) |
| Cash and cash equivalents at beginning of period | 2,048 | 15,225 |
| | | |
| Cash and cash equivalents at end of period | \$ 19,678 | \$ 4,009 |
| Supplemental disclosure of cash flow information: | | |
| Interest paid, net of amount capitalized | \$ 37,117 | \$ 35,616 |
| | | |
| Taxes paid (received) | \$ (541) | \$ 430 |
| Supplemental disclosure of non-cash investing and financing activities: | | |
| Issued 141,351 and 392,474 shares of restricted and unrestricted common stock in 2011 and 2010, respectively, pursuant to NNN's performance incentive plan | \$ 3,456 | \$ 7,490 |
| | | |
| Issued 6,975 and 7,912 shares of common stock in 2011 and 2010, respectively, to directors pursuant to NNN's performance incentive plan | \$ 177 | \$ 177 |
| | | |
| Issued 19,962 and 18,605 shares of common stock in 2011 and 2010, respectively, pursuant to NNN's Deferred Director Fee Plan | \$ 338 | \$ 279 |
| | | |
| Surrender of 5,215 shares of restricted stock in 2011 | \$ 109 | \$ |

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| | | |
|--|------------|----------|
| Change in lease classification (direct financing lease to operating lease) | \$ 3,407 | \$ |
| Change in other comprehensive income | \$ (4,701) | \$ 687 |
| Mortgage receivable accepted in connection with real estate transactions | \$ | \$ 5,950 |
| Mortgages payable assumed in connection with real estate transactions | \$ | \$ 5,432 |
| Real estate acquired in connection with mortgage receivable foreclosure | \$ | \$ 4,350 |

See accompanying notes to condensed consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2011

(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 term NNN or the Company refers to National Retail Properties, Inc. and all of its consolidated subsidiaries. NNN has elected to treat certain subsidiaries as taxable REIT subsidiaries. These taxable subsidiaries and their majority owned and controlled subsidiaries are collectively referred to as the TRS.

NNN's operations are divided into two primary business segments: (i) investment assets, including real estate assets, mortgages and notes receivable and commercial mortgage residual interests (collectively, Investment Assets), and (ii) inventory real estate assets (Inventory 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 (Investment Properties or Investment Portfolio). NNN's Investment Portfolio consisted of the following:

| | September 30, 2011 |
|--|--------------------|
| Investment Portfolio: | |
| Total properties (including retail operations) | 1,298 |
| Gross leasable area (square feet) | 15,342,000 |
| States | 47 |

The Inventory Assets typically represent direct and indirect investment interests in real estate assets acquired or developed primarily for the purpose of selling the real estate (Inventory Properties or Inventory Portfolio). NNN owned 16 Inventory Properties at September 30, 2011.

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 accounting principles generally accepted in the United States of America. The unaudited condensed consolidated financial statements reflect all adjustments 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, 2011, may not be indicative of the results that may be expected for the year ending December 31, 2011. Amounts as of December 31, 2010, 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, 2010.

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.

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Investment in an Unconsolidated Affiliate NNN accounts for its investment in an unconsolidated affiliate under the equity method of accounting.

Cash and Cash Equivalents NNN considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents consist of cash and money market accounts. Cash equivalents are stated at cost plus accrued interest, which approximates fair value.

Cash accounts maintained on behalf of NNN in demand deposits at commercial banks and money market funds may exceed federally insured levels; however, NNN has not experienced any losses in such accounts.

Valuation of Receivables 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, customer credit-worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. In addition, tenants in bankruptcy are analyzed and estimates are made in connection with the expected recovery of pre-petition and post-petition claims.

Goodwill Goodwill arises from business combinations and represents the excess of the cost of an acquired entity over the net fair value amounts that were assigned to the assets acquired and the liabilities assumed. In accordance with the FASB guidance included in *Goodwill*, NNN performs impairment testing on goodwill by comparing fair value to carrying amount annually.

Other Comprehensive Income The components for the change in other comprehensive income (loss) consisted of the following (dollars in thousands):

| | Nine Months Ended September 30, 2011 |
|--|---|
| Balance at beginning of period | \$ 1,661 |
| Amortization of interest rate hedges | (47) |
| Fair value treasury locks | (5,218) |
| Unrealized gain commercial mortgage residual interests | 599 |
| Stock value adjustment | (34) |
| Balance at end of period | \$ (3,039) |

NNN's total comprehensive income consisted of the following (dollars in thousands):

| | Quarter Ended | | Nine Months Ended | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Net earnings | \$ 22,632 | \$ 21,210 | \$ 64,755 | \$ 58,782 |
| Other comprehensive income (loss) | 30 | 628 | (4,700) | 661 |
| Comprehensive income including noncontrolling interests | 22,662 | 21,838 | 60,055 | 59,443 |
| Comprehensive loss attributable to noncontrolling interests | | | | 26 |
| Comprehensive income attributable to NNN | \$ 22,662 | \$ 21,838 | \$ 60,055 | \$ 59,469 |

Earnings Per Share Earnings per share have been computed pursuant to the FASB guidance included in *Earnings Per Share*. Effective January 1, 2009, the guidance requires classification of the Company's unvested restricted share units which contain 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

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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 | | Nine Months Ended | |
|--|---------------|------------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2011 | 2010 | 2011 | 2010 |
| Basic and Diluted Earnings: | | | | |
| Net earnings attributable to NNN | \$ 22,632 | \$ 21,210 | \$ 64,755 | \$ 58,782 |
| Less: Series C preferred stock dividends | (1,696) | (1,696) | (5,089) | (5,089) |
| Net earnings available to NNN's common stockholders | 20,936 | 19,514 | 59,666 | 53,693 |
| Less: Earnings attributable to unvested restricted shares | (160) | (93) | (442) | (238) |
| Net earnings used in basic earnings per share | 20,776 | 19,421 | 59,224 | 53,455 |
| Reallocated undistributed income | (1) | | (2) | |
| Net earnings used in diluted earnings per share | \$ 20,775 | \$ 19,421 | \$ 59,222 | \$ 53,455 |
| Basic and Diluted Weighted Average Shares Outstanding: | | | | |
| Weighted average number of shares outstanding | 88,008,849 | 83,429,299 | 85,772,590 | 83,244,062 |
| Less: contingent shares | (251,826) | | (251,826) | |
| Less: unvested restricted stock | (647,617) | (649,823) | (623,818) | (605,276) |
| Weighted average number of shares outstanding used in basic earnings per share | 87,109,406 | 82,779,476 | 84,896,946 | 82,638,786 |
| Effects of dilutive securities: | | | | |
| Common stock options | 2,669 | 3,054 | 3,093 | 3,825 |
| Convertible debt | 516,775 | | 385,942 | |
| Directors' deferred fee plan | 159,400 | 132,846 | 152,889 | 126,945 |
| Weighted average number of shares outstanding used in diluted earnings per share | 87,788,250 | 82,915,376 | 85,438,870 | 82,769,556 |

The potential dilutive shares related to certain convertible notes payable were not included in computing earnings per common share for the nine months ended September 30, 2011 and 2010 because their effects would be antidilutive.

Fair Value Measurement NNN's estimates of fair value of certain 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

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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.

New Accounting Pronouncements In May 2011, the FASB amended its guidance on Fair Value Measurements, providing a consistent definition and measurement of fair value, as well as similar disclosure requirements between U.S. GAAP and International Financial Reporting Standards. The new guidance changes certain fair value measurement principles, clarifies the application of existing fair value measurement and expands the disclosure requirements, particularly for Level 3 fair value measurements. The new guidance will be effective for fiscal years beginning after December 1, 2011. NNN is currently evaluating the provisions to determine the potential impact, if any, the adoption will have on its financial position and results of operations.

In June 2011, the FASB amended its guidance on the presentation of comprehensive income in financial statements. The new guidance requires that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The provisions of this new guidance are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance is not expected to have a material effect on the Company's condensed consolidated financial statements, but may require certain additional disclosures.

In September 2011, the FASB amended its guidance on testing goodwill for impairment. The objective of the amendment is to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The new guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. NNN is currently evaluating the provisions to determine the potential impact, if any, the adoption will have on its financial position and results of operations.

Use of Estimates Management of NNN 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 accounting principles generally accepted in the United States of America. Significant estimates include provision for impairment and allowances for certain assets, accruals, useful lives of assets and capitalization of costs. Actual results could differ from these estimates.

Reclassification Certain items in the prior year's consolidated financial statements and notes to consolidated financial statements have been reclassified to conform to the 2011 presentation.

Table of Contents**Note 2 Real Estate Investment Portfolio:**

Leases The following outlines key information for NNN's Investment Property leases:

| | September 30, 2011 |
|--|--------------------|
| Lease classification: | |
| Operating | 1,270 |
| Direct financing | 15 |
| Building portion direct financing / land portion operating | 5 |
| Weighted average remaining lease term | 12 Years |

The leases generally provide for limited increases in rent as a result of fixed increases, increases in the consumer price index, and/or increases in the tenant's sales volume. Generally, the tenant is also required to pay all property taxes and assessments, substantially maintain the interior and exterior of the building, as well as the entire leased premises, and carry property and liability insurance coverage. Certain of NNN's Investment Properties are subject to leases under which NNN retains responsibility for certain costs and expenses of the property. Generally, the leases of the Investment Properties provide the tenants with one or more multi-year renewal options subject to generally the same terms and conditions, including rent increases, consistent with the initial lease term.

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

| | September 30, 2011 | December 31, 2010 |
|--|-----------------------|----------------------|
| Land and improvements | \$ 1,234,825 | \$ 1,122,243 |
| Buildings and improvements | 1,901,533 | 1,592,752 |
| Leasehold interests | 1,290 | 1,290 |
| | 3,137,648 | 2,716,285 |
| Less accumulated depreciation and amortization | (256,452) | (222,921) |
| | 2,881,196 | 2,493,364 |
| Work in process | 38,746 | 26,586 |
| | \$ 2,919,942 | \$ 2,519,950 |

NNN has remaining funding commitments as follows (dollars in thousands):

| | Total Commitment ⁽¹⁾ | September 30, 2011 Amount Funded | Remaining Commitment |
|----------------------|------------------------------------|--|-------------------------|
| Investment Portfolio | \$ 97,959 | \$ 69,145 | \$ 28,814 |

⁽¹⁾ Includes land and construction costs.

Note 3 Commercial Mortgage Residual Interests:

In 2010, NNN acquired the 21.1% non-controlling interest in its majority owned and controlled subsidiary, Orange Avenue Mortgage Investments, Inc. (OAMI), for \$1,603,000, and OAMI became a wholly owned subsidiary of NNN. NNN accounted for the transaction as an

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equity transaction in accordance with the FASB guidance on consolidation. OAMI holds the commercial mortgage residual interests (Residuals) from seven securitizations. Each of the Residuals is recorded at fair value based upon an independent valuation. Unrealized gains and losses are reported as other comprehensive income in stockholders' equity and other than temporary losses as a result of a change in the timing or amount of estimated cash flows are recorded as an other than temporary valuation impairment.

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Due to changes in loan performance relating to the Residuals, the independent valuation adjusted certain of the valuation assumptions. The following table summarizes the key assumptions used in determining the value of the Residuals as of:

| | September 30, 2011 | December 31, 2010 |
|---|-----------------------|-----------------------|
| Discount rate | 25% | 25% |
| Average life equivalent CPR ⁽¹⁾ speeds range | 2.18% to 20.77% CPR | 4.35% to 20.37% CPR |
| Foreclosures: | | |
| Frequency curve default model | 0.2% - 14.7% range | 0.1% - 15.0% range |
| Loss severity of loans in foreclosure | 20% | 20% |
| Yield: | | |
| LIBOR | Forward 3-month curve | Forward 3-month curve |
| Prime | Forward curve | Forward curve |

⁽¹⁾ Conditional prepayment rate

The following table summarizes the recognition of unrealized gains and/or losses recorded as other comprehensive income as well as other than temporary valuation impairments recorded in condensed consolidated statements of earnings (dollars in thousands):

| | Quarter Ended | | Nine Months Ended | |
|---|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Unrealized gains | \$ | \$ 658 | \$ 599 | \$ 785 |
| Other than temporary valuation impairment | \$ | \$ | \$ 396 | \$ 3,848 |

Note 4 Line of Credit Payable:

In May 2011, NNN amended and restated its credit agreement increasing the borrowing capacity under its unsecured revolving credit facility from \$400,000,000 to \$450,000,000 and amending certain other terms under the former revolving credit facility (as the context requires, the previous and new revolving credit facility, the Credit Facility). The Credit Facility had a weighted average outstanding balance of \$135,741,000 and a weighted average interest rate of 3.2% during the nine months ended September 30, 2011. The Credit Facility matures May 2015, with an option to extend maturity to May 2016. The Credit Facility bears interest at LIBOR plus 150 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 to increase the facility size up to \$650,000,000. As of September 30, 2011, no amount was outstanding and \$450,000,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$57,000.

Note 5 Notes Payable:

In June 2011, NNN filed a prospectus supplement to the prospectus contained in its February 2009 shelf registration statement and issued \$300,000,000 of principal amount 5.50% Notes due July 2021 (2021 Notes) which closed in July 2011. The 2021 Notes were sold at a discount at an aggregate purchase price of \$295,731,000 with interest payable semi-annually commencing on January 15, 2012. The discount of \$4,269,000 is being amortized to interest expense over the term of the note using the effective interest method. The effective interest rate after note discount is 5.69%. In connection with the debt offering, NNN previously entered into two interest rate hedges with a total notional amount of \$150,000,000. Upon issuance of the 2021 Notes, NNN terminated the interest rate hedge agreements resulting in a liability of \$5,300,000, of which \$5,218,000 was deferred in other comprehensive income. The deferred liability is being amortized over the term of the note using the effective interest method.

The 2021 Notes are senior unsecured obligations of NNN and are subordinated to all secured indebtedness and to the indebtedness and other liabilities of NNN's subsidiaries. Additionally, the 2021 Notes are redeemable at NNN's option, in whole or part anytime, for an amount equal to (i)

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the sum of the outstanding principal balance of the notes being redeemed plus accrued interest thereon to the redemption date, and (ii) the make whole amount, if any, as defined in the supplemental indenture dated July 6, 2011, relating to the 2021 Notes.

NNN received \$292,956,000 of proceeds in connection with the issuance of the 2021 Notes, net of debt issuance cost totaling \$2,775,000 consisting primarily of underwriting discounts and commissions, legal and accounting fees and rating agency fees.

In September 2011, pursuant to the terms of the 3.95% Convertible Senior Notes due 2026 (2026 Notes), the holders of the 2026 Notes had the option to surrender all or a portion of the 2026 Notes to NNN in exchange for cash at par value (Put Option). At the expiration of the Put Option on September 19, 2011, none of the 2026 Notes were surrendered and therefore none of the 2026 Notes were purchased by NNN pursuant to the Put Option. The next Put Option for the holders of the 2026 Notes is September 2016.

Note 6 Stockholders Equity:

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

| | Nine Months Ended September 30, | |
|--|------------------------------------|----------|
| | 2011 | 2010 |
| Series C preferred stock⁽¹⁾: | | |
| Dividends | \$ 5,089 | \$ 5,089 |
| Per share | 1.3828 | 1.3828 |
| Common stock: | | |
| Dividends | 96,915 | 93,762 |
| Per share | 1.145 | 1.130 |

⁽¹⁾ The Series C preferred stock has no maturity date and will remain outstanding unless redeemed.

In October 2011, NNN declared a dividend of \$0.385 per share, which is payable in November 2011 to its common stockholders of record as of October 31, 2011.

In September 2011, NNN filed a prospectus supplement to the prospectus contained in its February 2009 shelf registration statement and issued 9,200,000 shares (including 1,200,000 shares in connection with the underwriters over allotment) of common stock at a price of \$26.07 per share and received net proceeds of \$229,451,000. In connection with this offering, NNN incurred stock issuance costs totaling approximately \$10,393,000, consisting primarily of underwriters fees and commissions, legal and accounting fees and printing expenses.

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In June 2009, NNN filed a shelf registration statement with the Securities and Exchange Commission for its Dividend Reinvestment and Stock Purchase Plan (DRIP). The following outlines the common stock issuances pursuant to the DRIP (dollars in thousands):

| | Nine Months Ended September 30, | |
|-------------------------------|------------------------------------|-----------|
| | 2011 | 2010 |
| Shares of common stock issued | 2,423,611 | 663,741 |
| Net proceeds | \$ 59,707 | \$ 14,159 |

Note 7 Income Taxes:

NNN has elected to be taxed as a REIT under the Internal Revenue Code (Code), commencing with its taxable year ended December 31, 1984. To qualify as a REIT, NNN must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its REIT taxable income to its stockholders. NNN intends to adhere to these requirements and maintain its REIT status. As a REIT, NNN generally will not be subject to corporate level federal income tax on taxable income that it distributes currently to its stockholders. NNN may be subject to certain state and local taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income, if any. The provision for federal income taxes in NNN 's consolidated financial statements relates to its TRS operations and any potential taxable built-in gain. NNN did not have significant tax provisions or deferred income tax items during the periods reported hereunder.

In June 2006, the FASB issued guidance, which clarifies the accounting for uncertainty in income taxes recognized in a company 's financial statements in accordance with FASB guidance included in *Income Taxes*. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

NNN, in accordance with FASB guidance included in *Income Taxes*, has analyzed its various federal and state tax filing positions. NNN believes that its income tax filing positions and deductions are well documented and supported. Additionally, NNN believes that its accruals for tax liabilities are adequate. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to the FASB guidance. In addition, NNN did not record a cumulative effect adjustment related to the adoption of the FASB guidance.

NNN has had no increases or decreases in unrecognized tax benefits for current or prior years since adopting the guidance. Further, no interest or penalties have been included since no reserves were recorded and no significant increases or decreases are expected to occur within the next 12 months. When applicable, such interest and penalties will be recorded as non-operating expenses. The periods that remain open under federal statute are 2008 through 2011. NNN also files in many states with varying open years under statute.

Table of Contents**Note 8 Earnings from Discontinued Operations:**

Real Estate Investment Portfolio NNN classified the revenues and expenses related to (i) all Investment Properties that were sold and leasehold interests which expired, and (ii) all Investment Properties that were held for sale as of September 30, 2011, as discontinued operations. The following is a summary of the earnings from discontinued operations from the Investment Portfolio (dollars in thousands):

| | Quarter Ended | | Nine Months Ended | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Revenues: | | | | |
| Rental income from operating leases | \$ 861 | \$ 731 | \$ 1,517 | \$ 1,899 |
| Percentage rent | 1 | 1 | | 14 |
| Real estate expense reimbursement from tenants | 18 | 65 | 130 | 204 |
| Interest and other income from real estate transactions | | | 14 | 63 |
| | 880 | 797 | 1,661 | 2,180 |
| Operating expenses: | | | | |
| General and administrative | 8 | 15 | 1 | 21 |
| Real estate | 126 | 184 | 387 | 429 |
| Depreciation and amortization | 55 | 99 | 191 | 366 |
| Impairment losses and other charges | 431 | | 431 | |
| | 620 | 298 | 1,010 | 816 |
| Earnings before gain on disposition of real estate and income tax expense | 260 | 499 | 651 | 1,364 |
| Gain on disposition of real estate | 8 | 635 | 38 | 1,013 |
| Income tax expense | | | (3) | (14) |
| Earnings from discontinued operations attributable to NNN | \$ 268 | \$ 1,134 | \$ 686 | \$ 2,363 |

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Real Estate Inventory Portfolio NNN has classified as discontinued operations the revenues and expenses related to (i) Inventory Properties which generated rental revenues prior to disposition, and (ii) Inventory Properties which generated rental revenues and were held for sale as of September 30, 2011. The following is a summary of the earnings from discontinued operations from the Inventory Portfolio (dollars in thousands):

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|--------------------------------|--------|------------------------------------|----------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenues: | | | | |
| Rental income from operating leases | \$ 490 | \$ 500 | \$ 1,629 | \$ 2,868 |
| Real estate expense reimbursement from tenants | 126 | 113 | 330 | 1,254 |
| Interest and other income from real estate transactions | 4 | 13 | 21 | 511 |
| | 620 | 626 | 1,980 | 4,633 |
| Disposition of real estate: | | | | |
| Gross proceeds | | | 1,100 | 37,470 |
| Costs | | | (998) | (37,170) |
| Gain | | | 102 | 300 |
| Operating expenses: | | | | |
| General and administrative | 3 | 10 | 11 | 66 |
| Real estate | 133 | 197 | 471 | 1,618 |
| Depreciation and amortization | 23 | 22 | 66 | 137 |
| | 159 | 229 | 548 | 1,821 |
| Other expenses: | | | | |
| Interest expense | 345 | 385 | 1,025 | 2,271 |
| | 345 | 385 | 1,025 | 2,271 |
| Earnings before income tax expense | 116 | 12 | 509 | 841 |
| Income tax expense | (45) | (17) | (159) | (585) |
| Earnings (loss) from discontinued operations including noncontrolling interests | 71 | (5) | 350 | 256 |
| Loss (earnings) attributable to noncontrolling interests | 4 | 33 | (89) | 2 |
| Earnings from discontinued operations attributable to NNN | \$ 75 | \$ 28 | \$ 261 | \$ 258 |

Note 9 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 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.

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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 swaps (forward hedges) 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 swaps also lock the associated swap spread. Interest rate swaps

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designated as cash flow hedges hedging the variable cash flows associated with floating rate debt involve the receipt 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 effective portion of changes 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, and the ineffective portion of changes in the fair value of the derivative is recognized directly in 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 continues to carry the derivative at its fair value on the balance sheet, and recognizes any changes in its fair value in earnings or may choose to cash settle the derivative at that time.

In June 2011, NNN terminated its two treasury locks with a total notional amount of \$150,000,000 that were hedging the risk of changes in the interest-related cash outflows associated with the potential issuance of long-term debt. The fair value of the treasury locks, designated as cash flow hedges, when terminated was a liability of \$5,300,000, of which \$5,218,000 was deferred in other comprehensive income.

As of September 30, 2011, \$5,980,000 remains in other comprehensive income related to the effective portion of NNN's interest rate hedges. During the nine months ended September 30, 2011 and 2010, NNN reclassified \$47,000 and \$124,000, respectively, out of other comprehensive income as a reduction to interest expense.

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. Over the next 12 months, NNN estimates that an additional \$227,000 will be reclassified as an increase in interest expense.

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

Table of Contents**Note 10 Segment Information:**

NNN has identified two primary financial segments: (i) Investment Assets, and (ii) Inventory Assets. The following tables represent the segment data and reconciliation to NNN's consolidated totals (dollars in thousands):

| | Quarter Ended September 30, | | | Condensed Consolidated Totals |
|---|-----------------------------|------------------|-----------------------------|-------------------------------|
| | Investment Assets | Inventory Assets | Eliminations (Intercompany) | |
| 2011 | | | | |
| External revenues | \$ 68,027 | \$ 74 | \$ | \$ 68,101 |
| Intersegment revenues | 13 | | (13) | |
| Earnings from continuing operations | 22,364 | 271 | (366) | 22,269 |
| Earnings including noncontrolling interests | 22,632 | 342 | (366) | 22,608 |
| Net earnings attributable to NNN | 22,632 | 366 | (366) | 22,632 |
| Total assets | \$ 3,274,997 | \$ 36,383 | \$ (165,019) | \$ 3,146,361 |

| | | | | |
|---|--------------|-----------|--------------|--------------|
| 2010 | | | | |
| External revenues | \$ 56,749 | \$ (114) | \$ | \$ 56,635 |
| Intersegment revenues | 74 | | (74) | |
| Earnings from continuing operations | 20,076 | 579 | (590) | 20,065 |
| Earnings including noncontrolling interests | 21,210 | 574 | (590) | 21,194 |
| Net earnings attributable to NNN | 21,210 | 590 | (590) | 21,210 |
| Total assets | \$ 2,750,581 | \$ 37,991 | \$ (178,817) | \$ 2,609,755 |

The following tables represent the segment data and reconciliation to NNN's consolidated totals (dollars in thousands):

| | Nine Months Ended September 30, | | | Condensed Consolidated Totals |
|--|---------------------------------|------------------|-----------------------------|-------------------------------|
| | Investment Assets | Inventory Assets | Eliminations (Intercompany) | |
| 2011 | | | | |
| External revenues | \$ 192,441 | \$ 117 | \$ | \$ 192,558 |
| Intersegment revenues | 37 | | (37) | |
| Earnings from continuing operations | 64,069 | 695 | (1,069) | 63,695 |
| Earnings including noncontrolling interest | 64,755 | 1,045 | (1,069) | 64,731 |
| Net earnings attributable to NNN | 64,755 | 1,069 | (1,069) | 64,755 |
| Total assets | \$ 3,274,997 | \$ 36,383 | \$ (165,019) | \$ 3,146,361 |

| | | | | |
|--|--------------|-----------|--------------|--------------|
| 2010 | | | | |
| External revenues | \$ 169,544 | \$ (2) | \$ | \$ 169,542 |
| Intersegment revenues | 658 | 534 | (1,192) | |
| Earnings from continuing operations | 56,428 | 1,884 | (1,788) | 56,524 |
| Earnings including noncontrolling interest | 58,791 | 2,140 | (1,788) | 59,143 |
| Net earnings attributable to NNN | 58,782 | 1,788 | (1,788) | 58,782 |
| Total assets | \$ 2,750,581 | \$ 37,991 | \$ (178,817) | \$ 2,609,755 |

Table of Contents**Note 11 Fair Value Measurements:**

NNN currently values its Residuals based upon an independent valuation which provides a discounted cash flow analysis based upon prepayment speeds, expected loan losses and yield curves. These valuation inputs are generally considered unobservable; therefore, the Residuals are considered Level 3 financial assets. The table below presents a reconciliation of the Residuals (dollars in thousands):

| | Nine Months Ended September 30, 2011 |
|---|--|
| Balance at beginning of period | \$ 15,915 |
| Total gains (losses) realized/unrealized: | |
| Included in earnings | (396) |
| Included in other comprehensive income | 599 |
| Interest income on Residuals | 2,325 |
| Cash received from Residuals | (2,121) |
| Purchases, sales, issuances and settlements, net | |
| Transfers in and/or out of Level 3 | |
| Balance at end of period | \$ 16,322 |
| Gains included in earnings attributable to a change in unrealized losses relating to assets still held at the end of period | \$ 75 |

Note 12 Fair Value of Financial Instruments:

NNN believes the carrying value of its revolving Credit Facility approximates fair value based upon its nature, terms and variable interest rate. NNN believes that the carrying value of its cash and cash equivalents, mortgages, notes and other receivables, mortgages payable and other liabilities at September 30, 2011, and December 31, 2010, approximates their fair value based upon current market prices for similar issuances. At September 30, 2011 and December 31, 2010, the fair value of NNN's notes payable and convertible notes payable, collectively, were \$1,342,478,000 and \$1,044,621,000, respectively, based upon quoted market price.

Note 13 Subsequent Events:

NNN reviewed all subsequent events and transactions that have occurred after September 30, 2011, the date of the condensed consolidated balance sheet.

In November 2011, NNN entered into two real estate purchase and sale contracts totaling approximately \$200,000,000.

There were no other reportable subsequent events or transactions.

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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, 2010. The term "NNN" or the "Company" refers to National Retail Properties, Inc. and all of its consolidated subsidiaries. NNN has elected to treat certain subsidiaries as taxable real estate investment trust ("REIT") subsidiaries. These subsidiaries and their majority owned and controlled subsidiaries are collectively referred to as the "TRS."

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," 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:

- Current 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;
- Loss of revenues from tenants would reduce NNN's cash flow;
- A significant portion of the source of NNN's investment portfolio annual base rent is heavily concentrated in specific industry classifications, tenants and in specific geographic locations;
- Owning real estate and indirect interests in real estate carries inherent risk;
- 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;
- A change in the assumptions used to determine the value of commercial mortgage residual interests could adversely affect NNN's financial position;
- NNN may suffer a loss in the event of a default or bankruptcy of a borrower or a tenant;
- 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 with numerous other REITs, commercial developers, real estate limited partnerships and other investors may impede NNN's ability to grow;
- Operating losses from retail operations on certain investment properties may adversely impact NNN's results of operations;
- Uninsured losses may adversely affect NNN's ability to pay outstanding indebtedness;
- 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 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;

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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 real estate investment trust for federal income tax purposes could result in significant tax liability; Even if NNN remains qualified as a REIT, NNN may face other tax liabilities that reduce operating results and cash flow; Adverse legislative or regulatory tax changes could reduce NNN's earnings, cash flow and market price of NNN's common stock; Compliance with REIT requirements, including distribution requirements, may limit NNN's flexibility and 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 share price; and 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 and disrupt operations.

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, 2010, 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 is a fully integrated REIT. NNN's operations are divided into two primary business segments: (i) investment assets, including real estate assets, mortgages and notes receivable and commercial mortgage residual interests (collectively, "Investment Assets"), and (ii) inventory real estate assets ("Inventory 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 ("Investment Properties" or "Investment Portfolio"). The Inventory Assets typically represent direct and indirect investment interests in real estate assets acquired or developed primarily for the purpose of selling the real estate ("Inventory Properties" or "Inventory Portfolio").

As of September 30, 2011, NNN owned 1,298 Investment Properties (including 11 properties with retail operations that NNN operates), with an aggregate gross leasable area of approximately 15,342,000 square feet, located in 47 states. Approximately 97 percent of total properties in NNN's Investment Portfolio were leased or operated as of September 30, 2011. As of September 30, 2011, NNN owned 16 Inventory Properties.

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 NNN's Investment Portfolio (such as tenant, geographic and line of trade diversification), the occupancy rate of NNN's Investment Portfolio, certain financial performance ratios and profitability measures, and industry trends and performance compared to that of NNN.

NNN continues to maintain its diversification by tenant, geography and tenant's line of trade. NNN's highest 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. NNN's Investment 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 locations, respectively, could have a material adverse effect on the financial condition and operating performance of NNN.

Table of ContentsResults of OperationsProperty Analysis Investment Portfolio

General. The following table summarizes NNN's Investment Portfolio:

| | September 30, 2011 | December 31, 2010 | September 30, 2010 |
|---|-----------------------|----------------------|-----------------------|
| Investment Properties Owned: | | | |
| Number | 1,298 | 1,195 | 1,037 |
| Total gross leasable area (square feet) | 15,342,000 | 12,972,000 | 11,741,000 |
| Investment Properties: | | | |
| Leased | 1,250 | 1,147 | 996 |
| Operated | 11 | 11 | 11 |
| Percent of Investment Properties leased and operated | 97% | 97% | 97% |
| Weighted average remaining lease term (years) | 12 | 12 | 12 |
| Total gross leasable area (square feet) leased and operated | 14,699,000 | 12,215,000 | 11,129,000 |

The following table summarizes the diversification of NNN's Investment Portfolio based on the top 10 lines of trade:

| Lines of Trade | % of Annual Base Rent ⁽¹⁾ | | |
|--------------------------------|--------------------------------------|----------------------|--------------------|
| | September 30, 2011 | December 31, 2010 | September, 2010 |
| 1. Convenience Stores | 21.6% | 23.7% | 25.3% |
| 2. Restaurants Full Service | 10.0% | 10.1% | 9.8% |
| 3. Automotive Parts | 7.1% | 7.8% | 6.6% |
| 4. General Merchandise | 5.7% | 1.4% | 1.3% |
| 5. Theaters | 5.5% | 5.7% | 6.0% |
| 6. Sporting Goods | 5.4% | 4.5% | 4.1% |
| 7. Automotive Services | 5.2% | 5.3% | 5.4% |
| 8. Consumer Electronics | 3.7% | 2.5% | 2.6% |
| 9. Restaurants Limited Service | 3.5% | 4.1% | 3.1% |
| 10. Drug Stores | 3.4% | 4.0% | 4.2% |
| Other | 28.9% | 30.9% | 31.6% |
| | 100.0% | 100.0% | 100.0% |

⁽¹⁾ Based on the annualized base rent for all leases in place as of the end of the respective period.

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

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|-----------------------------------|-----------------------------|---------|---------------------------------|---------|
| | 2011 | 2010 | 2011 | 2010 |
| Acquisitions: | | | | |
| Number of Investment Properties | 53 | 25 | 107 | 35 |
| Gross leasable area (square feet) | 1,814,000 | 351,000 | 2,470,000 | 449,000 |

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| | | | | |
|----------------------------------|------------|-----------|------------|------------|
| Total investments ⁽¹⁾ | \$ 335,287 | \$ 88,791 | \$ 444,548 | \$ 127,413 |
|----------------------------------|------------|-----------|------------|------------|

⁽¹⁾ Includes investments in projects under construction for each respective period.

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

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|-----------------------------------|-----------------------------|----------|---------------------------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| Number of properties | 3 | 2 | 4 | 13 |
| Gross leasable area (square feet) | 94,000 | 9,000 | 100,000 | 80,000 |
| Net sales proceeds | \$ 7,307 | \$ 1,400 | \$ 8,080 | \$ 12,770 |
| Net gain | \$ 8 | \$ 635 | \$ 36 | \$ 1,013 |

NNN typically uses the proceeds from property sales either to pay down the outstanding indebtedness of NNN's revolving credit facility or reinvest in real estate.

Revenue from Continuing Operations Analysis

General. During the quarter and nine months ended September 30, 2011, NNN's revenue increased primarily due to the increase in rental income based on acquisition volume.

The following table summarizes NNN's revenues from continuing operations (dollars in thousands):

| | Quarter Ended September 30, | | | | Percent Increase (Decrease) | Nine Months Ended September 30, | | | | Percent Increase (Decrease) |
|---|-----------------------------|-----------|--------------------------|--------------------------|-----------------------------|---------------------------------|------------|--------------------------|--------------------------|-----------------------------|
| | 2011 | 2010 | 2011 Percent of Total | 2010 Percent of Total | | 2011 | 2010 | 2011 Percent of Total | 2010 Percent of Total | |
| Rental income ⁽¹⁾ | \$ 63,857 | \$ 53,284 | 94.6% | 94.6% | 19.8% | \$ 180,471 | \$ 158,318 | 94.4% | 94.0% | 14.0% |
| Real estate expense reimbursement from tenants | 2,440 | 1,620 | 3.6% | 2.9% | 50.6% | 6,868 | 4,865 | 3.6% | 2.9% | 41.2% |
| Interest and other income from real estate transactions | 381 | 601 | 0.6% | 1.1% | (36.6)% | 1,545 | 2,551 | 0.8% | 1.5% | (39.4)% |
| Interest income on commercial mortgage residual interests | 782 | 798 | 1.2% | 1.4% | (2.0)% | 2,325 | 2,705 | 1.2% | 1.6% | (14.0)% |
| Total revenues from continuing operations | \$ 67,460 | \$ 56,303 | 100.0% | 100.0% | 19.8% | \$ 191,209 | \$ 168,439 | 100.0% | 100.0% | 13.5% |

⁽¹⁾ Includes rental income from operating leases, earned income from direct financing leases and percentage rent from continuing operations (Rental Income).

Rental Income. Rental income increased for the quarter and nine months ended September 30, 2011, as compared to the same periods in 2010, but remained consistent as a percent of the total revenues from continuing operations. The increase for the quarter and nine months ended September 30, 2011, is primarily due to the rental income generated from the acquisition of 194 properties with aggregate gross leasable area of approximately 1,700,000 square feet during 2010 and 107 properties with aggregate gross leasable area of approximately 2,470,000 square feet during 2011.

Real Estate Expense Reimbursements from Tenants. Real estate expense reimbursements from tenants increased for the quarter and nine months ended September 30, 2011, as compared to the same periods in 2010. The increase is primarily attributable to a full year of reimbursements from certain newly acquired Investment Properties in 2010 and 2011 and the timing of real estate tax reimbursements from certain tenants.

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Interest and Other Income from Real Estate Transactions. Interest and other income from real estate transactions decreased for the quarter and nine months ended September 30, 2011, as compared to 2010. The decrease

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is primarily due to the decrease in the average outstanding balance of NNN's mortgages receivable to \$20,954,000 for the nine months ended September 30, 2011 as compared to \$34,563,000 for the same period in 2010.

Interest Income on Commercial Mortgage Residual Interests. Interest income on commercial mortgage residual interests (Residuals) decreased for the quarter and nine months ended September 30, 2011, as compared to the same periods in 2010. The decrease in interest income on Residuals is primarily the result of scheduled loan amortization.

Analysis of Expenses from Continuing Operations

General. Operating expenses from continuing operations increased for the quarter and nine months ended September 30, 2011, primarily due to an increase in depreciation expense, reimbursable real estate expenses from acquired properties and an increase in incentive compensation. The increase in operating expenses for the nine months ended September 30, 2011 was partially offset by a lower valuation adjustment of the Residuals' fair value. The following table summarizes NNN's expenses from continuing operations for the quarters ended September 30 (dollars in thousands):

| | 2011 | 2010 | Percent Increase (Decrease) | Percentage of Total | | Percent of Revenues from Continuing Operations | |
|---------------------------------|-----------|-----------|-----------------------------|---------------------|--------|--|--------|
| | | | | 2011 | 2010 | 2011 | 2010 |
| General and administrative | \$ 7,036 | \$ 5,927 | 18.7% | 26.6% | 28.7% | 10.4% | 10.5% |
| Real estate | 4,459 | 2,908 | 53.3% | 16.9% | 14.1% | 6.6% | 5.2% |
| Depreciation and amortization | 14,947 | 11,817 | 26.5% | 56.5% | 57.2% | 22.2% | 21.0% |
| Total operating expenses | \$ 26,442 | \$ 20,652 | 28.0% | 100.0% | 100.0% | 39.2% | 36.7% |
| Interest and other income | \$ (457) | \$ (332) | 37.7% | (2.3)% | (2.1)% | (0.7)% | (0.6)% |
| Interest expense | 20,086 | 16,501 | 21.7% | 102.3% | 102.1% | 29.8% | 29.3% |
| Total other expenses (revenues) | \$ 19,629 | \$ 16,169 | 21.4% | 100.0% | 100.0% | 29.1% | 28.7% |

The following table summarizes NNN's expenses from continuing operations for the nine months ended September 30 (dollars in thousands):

| | 2011 | 2010 | Percent Increase (Decrease) | Percentage of Total | | Percent of Revenues from Continuing Operations | |
|---|------------|------------|-----------------------------|---------------------|--------|--|--------|
| | | | | 2011 | 2010 | 2011 | 2010 |
| General and administrative | \$ 20,261 | \$ 17,299 | 17.1% | 27.1% | 26.2% | 10.6% | 10.3% |
| Real estate | 12,055 | 9,401 | 28.2% | 16.1% | 14.3% | 6.3% | 5.6% |
| Depreciation and amortization | 42,215 | 35,422 | 19.2% | 56.3% | 53.7% | 22.1% | 21.0% |
| Impairment commercial mortgage residual interests valuation | 396 | 3,848 | (89.7)% | 0.5% | 5.8% | 0.2% | 2.3% |
| Total operating expenses | \$ 74,927 | \$ 65,970 | 13.6% | 100.0% | 100.0% | 39.2% | 39.2% |
| Interest and other income | \$ (1,083) | \$ (1,170) | (7.4)% | (2.0)% | (2.5)% | (0.6)% | (0.7)% |
| Interest expense | 55,260 | 48,524 | 13.9% | 102.0% | 102.5% | 28.9% | 28.8% |

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| | | | | | | | |
|---------------------------------|-----------|-----------|-------|--------|--------|-------|-------|
| Total other expenses (revenues) | \$ 54,177 | \$ 47,354 | 14.4% | 100.0% | 100.0% | 28.3% | 28.1% |
|---------------------------------|-----------|-----------|-------|--------|--------|-------|-------|

General and Administrative Expenses. General and administrative expenses increased for the quarter and nine months ended September 30, 2011, as compared to the same periods in 2010, but remained constant as a percentage of revenues from continuing operations. The increase is primarily attributable to an increase in incentive compensation.

Real Estate. Real estate expenses increased for the quarter and nine months ended September 30, 2011 as compared to the same periods in 2010.

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This increase in real estate expenses is primarily attributable to an increase in tenant reimbursable expenses from certain newly acquired Investment Properties in 2010 and 2011 and timing of real estate tax payments for certain properties.

Depreciation and Amortization. Depreciation and amortization increased for the quarter and nine months ended September 30, 2011, as compared to the same periods in 2010. The increase is primarily due to the acquisition of 194 properties with aggregate gross leasable area of approximately 1,700,000 square feet during 2010 and 107 properties with aggregate gross leasable area of approximately 2,470,000 square feet during 2011.

Impairment Commercial Mortgage Residual Interests Valuation. In connection with the independent valuations of the Residuals fair value, NNN recorded an other than temporary valuation adjustment of \$396,000 during the nine months ended September 30, 2011, as compared to \$3,848,000 recorded during the same period in 2010. For the nine months ended September 30, 2011, the decrease in the valuation adjustment was attributable to the changes, effective in 2010, in the valuation assumptions. Adjustments to valuation assumptions are due to changes in loan performance relating to the Residuals.

Interest Expense. Interest expense increased for the quarter and nine months ended September 30, 2011, as compared to the quarter and nine months ended September 30, 2010. The following represents the primary changes in debt that have impacted interest expense:

- (i) the \$135,533,000 increase in the weighted average debt outstanding on the credit facility for the nine months ended September 30, 2011, as compared to the same period in 2010,
- (ii) the payoff of the \$20,000,000 8.5% notes payable in September 2010, and
- (iii) the issuance of \$300,000,000 in July 2011 of notes payable with a maturity of July 2021, and stated interest rate of 5.500%.

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) origination of mortgages and notes receivable; (iv) capital expenditures; (v) payment of principal and interest on its outstanding indebtedness; and (vi) other investments.

Cash and Cash Equivalents. The table below summarizes NNN's cash flows for the nine months ended September 30 (dollars in thousands):

| | 2011 | 2010 |
|--|------------|------------|
| Cash and cash equivalents: | | |
| Provided by operating activities | \$ 139,145 | \$ 161,891 |
| Used in investing activities | (431,962) | (98,553) |
| Provided by (used in) financing activities | 310,447 | (74,554) |
| Increase | 17,630 | (11,216) |
| Net cash at beginning of period | 2,048 | 15,225 |
| Net cash at end of period | \$ 19,678 | \$ 4,009 |

Cash provided by operating activities represents cash received primarily from rental income from tenants, proceeds from the disposition of Inventory Properties and interest income less cash used for general and administrative expenses, interest expense and the acquisition of Inventory Properties. NNN's cash flow from operating activities, net of the cash used in and provided by the acquisition and disposition of its Inventory Properties, has been sufficient to pay the dividends in each of the periods presented. NNN generally uses proceeds from its credit facility to fund the acquisition of its Inventory Properties. The

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change in cash provided by operations for the nine months ended September 30, 2011 and 2010 is primarily the result of changes in revenues and expenses as discussed in Results of Operations.

Changes in cash for investing activities are primarily attributable to the acquisitions and dispositions of Investment Properties.

NNN's financing activities for the nine months ended September 30, 2011, include the following significant transactions:

\$161,000,000 in net payments on NNN's credit facility,

\$229,451,000 in net proceeds from the issuance of 9,200,000 shares of common stock in September,

\$292,956,000 in net proceeds from the issuance of 5.50% notes payable,

\$96,915,000 in dividends paid to common stockholders,

\$5,089,000 in dividends paid to holders of the depository shares of NNN's Series C preferred stock, and

\$59,707,000 in net proceeds from the issuance of 2,423,611 shares of common stock in connection with the Dividend Reinvestment and Stock Purchase Plan (DRIP).

Contractual Obligations and Commercial Commitments. As of September 30, 2011, NNN has agreed to fund construction commitments in connection with the development of additional properties as outlined in the table below (dollars in thousands):

| | Total Commitment ⁽¹⁾ | Amount Funded | Remaining Commitment |
|----------------------|------------------------------------|------------------|-------------------------|
| Investment Portfolio | \$ 97,959 | \$ 69,145 | \$ 28,814 |

⁽¹⁾ Includes construction and land costs.

As of September 30, 2011, 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 table 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, 2010. In addition to items reflected in the table, NNN has issued preferred stock with cumulative preferential cash distributions, as described below under Dividends.

In November 2011, NNN entered into two real estate purchase and sale contracts totaling approximately \$200,000,000.

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 Investment Properties are leased under long-term net leases, which generally require the tenant to pay all property taxes and assessments, substantially maintain the interior and exterior of the building, as well as the entire leased premises, and carry property and liability insurance coverage. Therefore, management anticipates that capital demands to meet obligations with respect to these Investment Properties will

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be modest for the foreseeable future and can be met with funds from operations and working capital. NNN retains responsibility for certain costs and expenses associated with certain Investment Properties. Management anticipates the costs associated with certain Investment Properties, NNN's vacant Investment Properties or those Investment Properties that become vacant will also be met with funds from operations and working capital. However, NNN may be required to borrow under its credit facility or use other sources of capital in the event of unforeseen significant capital expenditures.

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As of September 30, 2011, NNN owned 37 vacant, un-leased Investment Properties which accounted for approximately three percent of total Investment Properties held in NNN's Investment Portfolio. The lost revenues and increased property expenses resulting from vacant properties could have a material adverse effect on the liquidity and results of operations if NNN is unable to release the Investment Properties at comparable rental rates and in a timely manner. Additionally, as of October 28, 2011, less than approximately one percent of the total gross leasable area of NNN's Investment Portfolio was leased to three tenants that filed a voluntary petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. As a result, these tenants have the right to reject or affirm their leases with NNN.

Dividends. NNN has made an election to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, 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 four years following the year during which qualification is lost. Such an event could materially affect NNN's income and its 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 (in thousands, except per share data):

| | Nine Months Ended | |
|---|-------------------|----------|
| | September 30, | |
| | 2011 | 2010 |
| Series C preferred stock ⁽¹⁾ : | | |
| Dividends | \$ 5,089 | \$ 5,089 |
| Per share | 1.3828 | 1.3828 |
| Common stock: | | |
| Dividends | 96,915 | 93,762 |
| Per share | 1.145 | 1.130 |

⁽¹⁾ The Series C preferred stock has no maturity date and will remain outstanding unless redeemed.

In October 2011, NNN declared a dividend of \$0.385 per share which is payable in November 2011 to its common stockholders of record as of October 31, 2011.

Capital Resources

Generally, cash needs for property acquisitions, mortgages and notes receivable investments, debt payments, dividends, 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 other items have been met from operations. 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.

Table of Contents**Debt**

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

| | September 30, 2011 | Percentage of Total | December 31, 2010 | Percentage of Total |
|-------------------------------|-----------------------|------------------------|----------------------|------------------------|
| Line of credit payable | \$ | | \$ 161,000 | 14.2% |
| Mortgages payable | 23,453 | 1.9% | 24,269 | 2.2% |
| Notes payable - convertible | 354,346 | 27.8% | 349,534 | 30.8% |
| Notes payable | 894,833 | 70.3% | 598,882 | 52.8% |
| Total outstanding debt | \$ 1,272,632 | 100.0% | \$ 1,133,685 | 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, and mortgages and notes receivable.

Line of Credit Payable. On May 25, 2011, NNN amended and restated its credit agreement increasing the borrowing capacity under its unsecured revolving credit facility from \$400,000,000 to \$450,000,000 and amending certain other terms under the former revolving credit facility (as the context requires, the previous and new revolving credit facility, the "Credit Facility"). The Credit Facility had a weighted average outstanding balance of \$135,741,000 and a weighted average interest rate of 3.2% during the nine months ended September 30, 2011. The Credit Facility matures May 2015, with an option to extend maturity to May 2016. The Credit Facility bears interest at LIBOR plus 150 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 to increase the facility size up to \$650,000,000. As of September 30, 2011, no amount was outstanding and \$450,000,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$57,000. In July and September 2011, NNN used the proceeds from the \$300,000,000 senior notes public offering and the 9,200,000 shares issued, respectively, to pay down all of the outstanding indebtedness on the Credit Facility.

Notes Payable - Convertible. Each of NNN's outstanding series of convertible notes is summarized in the table below (dollars in thousands, except per share data):

| Terms | 2026 Notes ⁽¹⁾⁽³⁾ | 2028 Notes ⁽¹⁾⁽⁴⁾ |
|---|---------------------------------|---------------------------------|
| Issue Date | September 2006 | March 2008 |
| Net Proceeds | \$ 168,650 | \$ 228,576 |
| Stated Interest Rate | 3.950% | 5.125% |
| Effective Interest Rate | 5.840% | 7.192% |
| Debt Issuance Costs | \$ 3,850 ⁽²⁾ | \$ 5,459 ⁽⁵⁾ |
| Earliest Conversion Date | September 2025 | June 2027 |
| Earliest Put Option Date | September 2016 ⁽⁶⁾ | June 2013 |
| Maturity Date | September 2026 | June 2028 |
| Outstanding principal balance at September 30, 2011 | \$ 138,700 | \$ 223,035 |

(1) Debt issuance costs include underwriting discounts and commissions, legal and accounting fees, rating agency fees and printing expenses. These costs have been deferred and are amortized over the period to the earliest put option date of the holders using the effective interest method.

(2) Debt issuance costs have been fully amortized as of September 2011.

(3) The conversion rate per \$1 principal amount was 42.2144 shares of NNN's common stock, which is equivalent to a conversion price of \$23.6886 per share of common stock.

(4)

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The conversion rate per \$1 principal amount was 39.3932 shares of NNN's common stock, which is equivalent to a conversion price of \$25.3851 per share of common stock.

- (5) Includes \$219 of note costs which were written off in connection with the repurchase of \$11,000 of the 2028 Notes, respectively.
- (6) None of the 2026 Notes were repurchased in connection with the prior put option date of September 2011.

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Each series of convertible notes represents senior, unsecured obligations of NNN and are subordinated to all secured indebtedness of the Company. Each note is redeemable at the option of NNN, in whole or in part, at a redemption price equal to the sum of (i) the principal amount of the notes being redeemed plus accrued and unpaid interest thereon through but not including the redemption date, and (ii) the make whole amount, if any, as defined in the applicable supplemental indenture relating to the notes.

Notes Payable. In June 2011, NNN filed a prospectus supplement to the prospectus contained in its February 2009 shelf registration statement and issued \$300,000,000 principal amount of 5.50% Notes due July 2021 (2021 Notes) which closed in July 2011. The 2021 Notes were sold at a discount at an aggregate purchase price of \$295,731,000 with interest payable semi-annually commencing on January 15, 2012. The discount of \$4,269,000 is being amortized to interest expense over the term of the debt obligation using the effective interest method. The effective interest rate after note discount is 5.69%. In connection with the debt offering, NNN previously entered into two interest rate hedges with a total notional amount of \$150,000,000. Upon issuance of the 2021 Notes, NNN terminated the interest rate hedge agreements resulting in a liability of \$5,300,000, of which \$5,218,000 was deferred in other comprehensive income. The deferred liability is being amortized over the term of the note using the effective interest method.

The 2021 Notes are senior unsecured obligations of NNN and are subordinated to all secured indebtedness and to the indebtedness and other liabilities of NNN's subsidiaries. Additionally, the 2021 Notes are redeemable at NNN's option, in whole or part anytime, for an amount equal to (i) the sum of the outstanding principal balance of the notes being redeemed plus accrued interest thereon to the redemption date, and (ii) the make whole amount, if any, as defined in the supplemental indenture dated July 6, 2011, relating to the 2021 Notes.

NNN received \$292,956,000 of proceeds in connection with the issuance of the 2021 Notes, net of debt issuance cost totaling \$2,775,000 consisting primarily of underwriting discounts and commissions, legal and accounting fees, printing fees, and rating agency fees. The Company used a portion of the net proceeds from the offering to repay borrowings under its Credit Facility and intends to use the remainder for general corporate purposes, which may include future property acquisitions.

In September 2011, pursuant to the terms of the 3.95% Convertible Senior Notes due 2026 (2026 Notes), the holders of the 2026 Notes had the option to surrender all or a portion of the 2026 Notes to NNN in exchange for cash at par value (Put Option). At the expiration of the Put Option on September 19, 2011, none of the 2026 Notes were surrendered and therefore none of the 2026 Notes were purchased by NNN pursuant to the Put Option. The next Put Option for the holders of the 2026 Notes is September 2016.

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 investment acquisitions.

Securities Offering. In February 2009, NNN filed a shelf registration statement with the Securities and Exchange Commission which permits the issuance by NNN of an indeterminate amount of debt and equity securities.

In September 2011, NNN issued 9,200,000 shares (including 1,200,000 shares in connection with the underwriters' over allotment) of common stock at a price of \$26.07 per share and received net proceeds of \$229,451,000. In connection with this offering, NNN incurred stock issuance costs totaling approximately \$10,393,000, consisting primarily of underwriters' fees and commissions, legal and accounting fees and printing expenses. The Company used a portion of the net proceeds from the offering to repay borrowings under its Credit Facility and intends to use the remainder for general corporate purposes, which may include future property acquisitions.

Dividend Reinvestment and Stock Purchase Plan. In June 2009, NNN filed a shelf registration statement with the Securities and Exchange Commission for the DRIP which permits the issuance by NNN of 16,000,000 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 the DRIP (dollars in thousands):

| | Nine Months Ended September 30, | |
|------------------------|------------------------------------|-----------|
| | 2011 | 2010 |
| Shares of common stock | 2,423,611 | 663,741 |
| Net proceeds | \$ 59,707 | \$ 14,159 |

Table of Contents**Commercial Mortgage Residual Interests**

In connection with the independent valuations of the Residuals fair value, NNN adjusted the carrying value of the Residuals to reflect such fair value as of September 30, 2011. Due to changes in market conditions relating to residual assets, the independent valuation changed certain of the valuation assumptions. The following table summarizes the key assumptions used in determining the value of the Residuals as of:

| | September 30, 2011 | December 31, 2010 |
|---|------------------------|-------------------------|
| Discount rate | 25% | 25% |
| Average life equivalent CPR ⁽¹⁾ speeds range | 2.18% to 20.77% CPR | 4.35% to 20.37% CPR |
| Foreclosures: | | |
| Frequency curve default model | 0.2% - 14.7% range | 0.1% - 15.0% range |
| Loss severity of loans in foreclosure | 20% | 20% |
| Yield: | | |
| LIBOR | Forward 3 -month curve | Forward 3 - month curve |
| Prime | Forward curve | Forward curve |

⁽¹⁾ Conditional prepayment rate

The following table summarizes the recognition of unrealized gains and/or losses recorded as other comprehensive income as well as other than temporary valuation impairments recorded in condensed consolidated statements of earnings (dollars in thousands):

| | Quarter Ended September 30, 2011 | September 30, 2010 | Nine Months Ended September 30, 2011 | September 30, 2010 |
|---|-------------------------------------|-----------------------|---|-----------------------|
| Unrealized gains | \$ | \$ 658 | \$ 599 | \$ 785 |
| Other than temporary valuation impairment | \$ | \$ | \$ 396 | \$ 3,848 |

Recent Accounting Pronouncements

Refer to Note 1 to the September 30, 2011, Condensed Consolidated Financial Statements.

Table of Contents**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 are 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 lower its overall borrowing costs. To achieve its objectives, NNN borrows at both fixed and variable rates on its long-term debt. In June 2011, NNN terminated its two interest rate hedges with a total notional amount of \$150,000,000 that were hedging the risk of changes in the interest-related cash outflows with the potential issuance of long-term debt. NNN had no outstanding derivatives as of September 30, 2011.

The information in the table below summarizes NNN's market risks associated with its debt obligations outstanding as of September 30, 2011 and December 31, 2010. The table presents principal payments and related interest rates by year for debt obligations outstanding as of September 30, 2011. NNN has a variable interest rate risk on its Credit Facility which had no outstanding balance as of September 30, 2011 and an outstanding balance of \$161,000,000 as of December 31, 2010. The table incorporates only those debt obligations that existed as of September 30, 2011, and it does not consider those debt obligations or positions which could arise after this date. Moreover, because firm commitments are not presented in the table below, the information presented therein 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 more than two percent for the nine months ended September 30, 2011.

| | Debt Obligations (dollars in thousands) | | | |
|--------------------|---|--------------|---------------------|--------------|
| | Mortgages | | Fixed Rate Debt | |
| | Debt | Weighted | Debt | Effective |
| | Obligation | Average | Obligation | Interest |
| | | Interest | | Rate |
| | | Rate | | Rate |
| 2011 | \$ 282 | 7.20% | \$ | |
| 2012 | 19,290 | 6.92% | 49,973 | 7.83% |
| 2013 | 863 | 7.35% | 215,646 | 7.19% |
| 2014 | 881 | 7.27% | 149,854 | 5.91% |
| 2015 | 917 | 7.22% | 149,807 | 6.19% |
| Thereafter | 1,220 | 7.47% | 683,899 | 6.17% |
| Total | \$ 23,453 | 6.99% | \$ 1,249,179 | 6.38% |
| Fair Value: | | | | |
| September 30, 2011 | \$ 23,453 | | \$ 1,342,478 | |
| December 31, 2010 | \$ 24,269 | | \$ 1,044,621 | |

(1) Includes NNN's notes payable and convertible notes payable, each net of unamortized discounts. NNN uses Bloomberg to determine the fair value.

NNN is also exposed to market risks related to NNN's Residuals. Factors that may impact the market value of the Residuals include delinquencies, loan losses, prepayment speeds and interest rates. The Residuals, which are reported at market value based upon an independent valuation, had a carrying value of \$16,322,000 and \$15,915,000 as of September 30, 2011 and December 31, 2010, respectively. Unrealized gains and losses are reported as other comprehensive income in stockholders' equity. Losses are considered other than temporary and reported as a valuation impairment in earnings from operations if and when there has been a change in the timing or amount of estimated cash flows that leads to a loss in value.

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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 and Chief Financial Officer, of the effectiveness as of September 30, 2011 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 and Chief Financial 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. There has been no change in NNN's internal control over financial reporting that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, NNN's internal control over financial reporting.

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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, 2010

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

Item 3. Defaults Upon Senior Securities. Not applicable.

Item 4. [Removed and Reserved]

Item 5. Other Information. Not applicable.

Item 6. Exhibits

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

3. Articles of Incorporation and By-laws

- 3.1 First Amended and Restated Articles of Incorporation of the Registrant, as amended (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on May 1, 2006, and incorporated herein by reference).
- 3.2 Articles Supplementary Establishing and Fixing the Rights and Preferences of 7.375% Series C Cumulative Preferred Stock, par value \$0.01 per share, dated October 11, 2006 (filed as Exhibit 3.2 to the Registrant's Registration Statement on Form 8-A dated October 11, 2006 and filed with the Securities and Exchange Commission on October 12, 2006, and incorporated herein by reference).
- 3.3 Third Amended and Restated Bylaws of the Registrant, as amended (filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on May 1, 2006, and incorporated herein by reference; second amendment filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 14, 2007, and incorporated herein by reference).

4. Instruments Defining the Rights of Security Holders, Including Indentures

- 4.1 Specimen Certificate of Common Stock, par value \$0.01 per share, of the Registrant (filed as Exhibit 3.4 to the Registrant's Registration Statement No. 1-11290 on Form 8-B filed with the Securities and Exchange Commission and incorporated herein by reference).
- 4.2 Indenture, dated as of March 25, 1998, between the Registrant and First Union National Bank, as trustee (filed as Exhibit 4.4 to the Registrant's Registration Statement on Form S-3 (Registration No. 333-132095) filed with the Securities and Exchange Commission on February 28, 2006, and incorporated herein by reference).

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- 4.3 Form of Supplemental Indenture No. 4 dated as of May 30, 2002, by and among Registrant and Wachovia Bank, National Association, Trustee, relating to \$50,000,000 of 7.75% Notes due 2012 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on June 4, 2002, and incorporated herein by reference).
- 4.4 Form of 7.75% Notes due 2012 (filed as Exhibit 4.3 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on June 4, 2002, and incorporated herein by reference).
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- 4.11 Specimen certificate representing the 7.375% Series C Cumulative Redeemable Preferred Stock, par value \$.01 per share, of the Registrant (filed as Exhibit 4.4 to the Registrant's Registration Statement on Form 8-A dated October 11, 2006 and filed with the Securities and Exchange Commission on October 12, 2006, and incorporated herein by reference).

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- 4.12 Deposit Agreement, among the Registrant, American Stock Transfer & Trust Company, as Depositary, and the holders of depositary receipts (filed as Exhibit 4.18 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 6, 2006, and incorporated herein by reference).
 - 4.13 Form of Supplemental Indenture No. 8 between National Retail Properties, Inc. and U.S. Bank National Association relating to 6.875% Notes due 2017 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on September 4, 2007, and incorporated herein by reference).
 - 4.14 Form of 6.875% Notes due 2017 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on September 4, 2007, and incorporated herein by reference).
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 - 4.16 Form of 5.125% Convertible Senior Notes due 2028 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated February 27, 2008 and filed with the Securities and Exchange Commission on March 4, 2008, and incorporated herein by reference).
 - 4.17 Form of Tenth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 5.500% Notes due 2021 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K dated July 6, 2011 and filed with the Securities and Exchange Commission on July 6, 2011, and incorporated herein by reference).
 - 4.18 Form of 5.500% Notes due 2021 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated July 6, 2011 and filed with the Securities and Exchange Commission on July 6, 2011, and incorporated herein by reference).
10. Material Contracts
- 10.1 2007 Performance Incentive Plan (filed as Annex A to the Registrant's 2007 Annual Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 3, 2007, and incorporated herein by reference).
 - 10.2 Form of Restricted Stock Agreement between NNN and the Participant of NNN (filed as Exhibit 10.2 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2005, and incorporated herein by reference).

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- 10.8 Form of Indemnification Agreement (as entered into between the Registrant and each of its directors and executive officers) (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on June 12, 2009, and incorporated herein by reference).
- 10.09 Credit Agreement, dated as of November 3, 2009, by and among the Registrant, certain lenders and Wells Fargo Bank, National Association, as the Administrative Agent (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2009, and incorporated herein by reference).
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- 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).
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- 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, 2011, formatted in Extensible Business Reporting Language: (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of earnings, (iii) condensed consolidated statements of cash flows, and (iv) notes to condensed consolidated financial statements. As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of

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Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934 (filed herewith).

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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 thereunto duly authorized.

DATED this 8th day of November, 2011.

NATIONAL RETAIL PROPERTIES, INC.

By: /s/ Craig Macnab
Craig Macnab
Chairman of the Board and

Chief Executive Officer

By: /s/ Kevin B. Habicht
Kevin B. Habicht
Chief Financial Officer,

Executive Vice President and

Director

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Exhibit Index

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