

NATIONAL RETAIL PROPERTIES, INC.

Form 10-Q

May 05, 2011

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 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**  
(State or other jurisdiction of  
incorporation or organization)  
**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)

**56-1431377**  
(I.R.S. Employer  
Identification No.)

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.

85,011,819 shares of common stock, \$0.01 par value, outstanding as of April 28, 2011.

**Table of Contents**

**TABLE OF CONTENTS**

|                                                                                                      | <b>PAGE<br/>REFERENCE</b> |
|------------------------------------------------------------------------------------------------------|---------------------------|
| <b><u>Part I Financial Information</u></b>                                                           |                           |
| Item 1. <u>Unaudited Financial Statements:</u>                                                       |                           |
| <u>Condensed Consolidated Balance Sheets</u>                                                         | 3                         |
| <u>Condensed Consolidated Statements of Earnings</u>                                                 | 4                         |
| <u>Condensed Consolidated Statements of Cash Flows</u>                                               | 6                         |
| <u>Notes to Condensed Consolidated Financial Statements</u>                                          | 8                         |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 18                        |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | 27                        |
| Item 4. <u>Controls and Procedures</u>                                                               | 28                        |
| <b><u>Part II Other Information</u></b>                                                              |                           |
| Item 1. <u>Legal Proceedings</u>                                                                     | 29                        |
| Item 1A. <u>Risk Factors</u>                                                                         | 29                        |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 29                        |
| Item 3. <u>Defaults Upon Senior Securities</u>                                                       | 29                        |
| Item 4. <u>[Removed and Reserved]</u>                                                                | 29                        |
| Item 5. <u>Other Information</u>                                                                     | 29                        |
| Item 6. <u>Exhibits</u>                                                                              | 29                        |
| <u>Signatures</u>                                                                                    | 34                        |
| <u>Exhibit Index</u>                                                                                 | 35                        |

**Table of Contents**

## 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)

(Unaudited)

|                                                                                                                                                                              | March 31,<br>2011 | December 31,<br>2010 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|----------------------|
| <b><u>ASSETS</u></b>                                                                                                                                                         |                   |                      |
| Real estate, Investment Portfolio:                                                                                                                                           |                   |                      |
| Accounted for using the operating method, net of accumulated depreciation and amortization                                                                                   | \$ 2,560,213      | \$ 2,519,950         |
| Accounted for using the direct financing method                                                                                                                              | 31,107            | 29,773               |
| Real estate, Inventory Portfolio, held for sale                                                                                                                              | 31,230            | 32,076               |
| Investment in unconsolidated affiliate                                                                                                                                       | 4,466             | 4,515                |
| Mortgages, notes and accrued interest receivable, net of allowance                                                                                                           | 29,905            | 30,331               |
| Commercial mortgage residual interests                                                                                                                                       | 16,402            | 15,915               |
| Cash and cash equivalents                                                                                                                                                    | 2,557             | 2,048                |
| Receivables, net of allowance of \$1,817 and \$1,750, respectively                                                                                                           | 2,831             | 3,403                |
| Accrued rental income, net of allowance of \$4,001 and \$3,609, respectively                                                                                                 | 25,482            | 25,535               |
| Debt costs, net of accumulated amortization of \$12,372 and \$11,198, respectively                                                                                           | 8,192             | 9,366                |
| Other assets                                                                                                                                                                 | 41,312            | 40,663               |
| Total assets                                                                                                                                                                 | \$ 2,753,697      | \$ 2,713,575         |
| <b><u>LIABILITIES AND EQUITY</u></b>                                                                                                                                         |                   |                      |
| Liabilities:                                                                                                                                                                 |                   |                      |
| Line of credit payable                                                                                                                                                       | \$ 184,200        | \$ 161,000           |
| Mortgages payable                                                                                                                                                            | 23,997            | 24,269               |
| Notes payable convertible, net of unamortized discount of \$10,597 and \$12,201, respectively                                                                                | 351,138           | 349,534              |
| Notes payable, net of unamortized discount of \$1,068 and \$1,118, respectively                                                                                              | 598,932           | 598,882              |
| Accrued interest payable                                                                                                                                                     | 19,015            | 7,342                |
| Other liabilities                                                                                                                                                            | 39,544            | 43,774               |
| Total liabilities                                                                                                                                                            | 1,216,826         | 1,184,801            |
| Equity:                                                                                                                                                                      |                   |                      |
| Stockholders' equity:                                                                                                                                                        |                   |                      |
| Preferred stock, \$0.01 par value. Authorized 15,000,000 shares Series C, 3,680,000 depositary 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; 84,570,503 and 83,613,289 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively | 847               | 838                  |
| Excess stock, \$0.01 par value. Authorized 205,000,000 shares; none issued or outstanding                                                                                    |                   |                      |
| Capital in excess of par value                                                                                                                                               | 1,448,689         | 1,429,750            |
| Retained earnings                                                                                                                                                            | (9,319)           | 3,234                |
| Accumulated other comprehensive income                                                                                                                                       | 3,322             | 1,661                |

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|                                   |              |              |
|-----------------------------------|--------------|--------------|
| Total stockholders' equity of NNN | 1,535,539    | 1,527,483    |
| Noncontrolling interests          | 1,332        | 1,291        |
| Total equity                      | 1,536,871    | 1,528,774    |
| Total liabilities and equity      | \$ 2,753,697 | \$ 2,713,575 |

See accompanying notes to condensed consolidated financial statements

**Table of Contents**

## NATIONAL RETAIL PROPERTIES, INC.

## and SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(dollars in thousands, except per share data)

(unaudited)

|                                                                                                                            | Quarter Ended<br>March 31, |           |
|----------------------------------------------------------------------------------------------------------------------------|----------------------------|-----------|
|                                                                                                                            | 2011                       | 2010      |
| Revenues:                                                                                                                  |                            |           |
| Rental income from operating leases                                                                                        | \$ 57,340                  | \$ 51,919 |
| Earned income from direct financing leases                                                                                 | 760                        | 764       |
| Percentage rent                                                                                                            | 113                        | 54        |
| Real estate expense reimbursement from tenants                                                                             | 2,335                      | 1,758     |
| Interest and other income from real estate transactions                                                                    | 637                        | 950       |
| Interest income on commercial mortgage residual interests                                                                  | 767                        | 1,049     |
|                                                                                                                            | 61,952                     | 56,494    |
| Retail operations:                                                                                                         |                            |           |
| Revenues                                                                                                                   | 8,850                      | 6,536     |
| Operating expenses                                                                                                         | (8,852)                    | (6,669)   |
| Net                                                                                                                        | (2)                        | (133)     |
| Operating expenses:                                                                                                        |                            |           |
| General and administrative                                                                                                 | 6,657                      | 5,581     |
| Real estate                                                                                                                | 3,722                      | 3,472     |
| Depreciation and amortization                                                                                              | 13,525                     | 11,807    |
| Impairment commercial mortgage residual interests valuation adjustment                                                     | 129                        | 3,683     |
|                                                                                                                            | 24,033                     | 24,543    |
| Earnings from operations                                                                                                   | 37,917                     | 31,818    |
| Other expenses (revenues):                                                                                                 |                            |           |
| Interest and other income                                                                                                  | (342)                      | (252)     |
| Interest expense                                                                                                           | 17,662                     | 15,989    |
|                                                                                                                            | 17,320                     | 15,737    |
| Earnings from continuing operations before income tax benefit (expense) and equity in earnings of unconsolidated affiliate | 20,597                     | 16,081    |
| Income tax benefit (expense)                                                                                               | 19                         | (104)     |
| Equity in earnings of unconsolidated affiliate                                                                             | 109                        | 105       |

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|                                                                        |        |        |
|------------------------------------------------------------------------|--------|--------|
| Earnings from continuing operations                                    | 20,725 | 16,082 |
| Earnings (loss) from discontinued operations (Note 7):                 |        |        |
| Real estate, Investment Portfolio, net of income tax benefit (expense) | (4)    | 75     |
| Real estate, Inventory Portfolio, net of income tax expense            | 132    | 141    |
|                                                                        | 128    | 216    |

See accompanying notes to condensed consolidated financial statements

**Table of Contents**

## NATIONAL RETAIL PROPERTIES, INC.

## and SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS CONTINUED

(dollars in thousands, except per share data)

(unaudited)

|                                                           | Quarter Ended     |            |
|-----------------------------------------------------------|-------------------|------------|
|                                                           | March 31,<br>2011 | 2010       |
| Earnings including noncontrolling interests               | \$ 20,853         | \$ 16,298  |
| Loss (earnings) attributable to noncontrolling interests: |                   |            |
| Continuing operations                                     | 26                | 143        |
| Discontinued operations                                   | (59)              | (76)       |
|                                                           | (33)              | 67         |
| Net earnings attributable to NNN                          | \$ 20,820         | \$ 16,365  |
| Net earnings attributable to NNN                          | \$ 20,820         | \$ 16,365  |
| Series C preferred stock dividends                        | (1,696)           | (1,696)    |
| Net earnings available to common stockholders             | \$ 19,124         | \$ 14,669  |
| Net earnings per share of common stock:                   |                   |            |
| Basic:                                                    |                   |            |
| Continuing operations                                     | \$ 0.23           | \$ 0.18    |
| Discontinued operations                                   | 0.00              | 0.00       |
| Net earnings                                              | \$ 0.23           | \$ 0.18    |
| Diluted:                                                  |                   |            |
| Continuing operations                                     | \$ 0.23           | \$ 0.18    |
| Discontinued operations                                   | 0.00              | 0.00       |
| Net earnings                                              | \$ 0.23           | \$ 0.18    |
| Weighted average number of common shares outstanding:     |                   |            |
| Basic                                                     | 83,122,731        | 82,320,772 |
| Diluted                                                   | 83,570,438        | 82,446,011 |

See accompanying notes to condensed consolidated financial statements



**Table of Contents**

## NATIONAL RETAIL PROPERTIES, INC.

## and SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

(unaudited)

|                                                                                                                      | Quarter Ended |           |
|----------------------------------------------------------------------------------------------------------------------|---------------|-----------|
|                                                                                                                      | March 31,     | March 31, |
|                                                                                                                      | 2011          | 2010      |
| Cash flows from operating activities:                                                                                |               |           |
| Earnings including noncontrolling interests                                                                          | \$ 20,853     | \$ 16,298 |
| Adjustments to reconcile net earnings to net cash provided by operating activities:                                  |               |           |
| Performance incentive plan expense                                                                                   | 1,739         | 1,113     |
| Stock option expense tax effect                                                                                      |               | 122       |
| Depreciation and amortization                                                                                        | 13,670        | 12,045    |
| Impairment commercial mortgage residual interests valuation                                                          | 129           | 3,683     |
| Amortization of notes payable discount                                                                               | 1,654         | 1,552     |
| Amortization of deferred interest rate hedges                                                                        | (43)          | (42)      |
| Equity in earnings of unconsolidated affiliate                                                                       | (109)         | (105)     |
| Distributions received from unconsolidated affiliate                                                                 | 149           | 143       |
| Gain on disposition of real estate, Investment Portfolio                                                             | (30)          | (22)      |
| Gain on note receivable and property foreclosures                                                                    |               | (16)      |
| Gain on disposition of real estate, Inventory Portfolio                                                              | (102)         | (87)      |
| Change in operating assets and liabilities, net of assets acquired and liabilities assumed in business combinations: |               |           |
| Additions to real estate, Inventory Portfolio                                                                        | (92)          | (8)       |
| Proceeds from disposition of real estate, Inventory Portfolio                                                        | 1,058         | 775       |
| Decrease in real estate leased to others using the direct financing method                                           | 413           | 372       |
| Increase in work in process                                                                                          | (322)         | (152)     |
| Decrease (increase) in mortgages, notes and accrued interest receivable                                              | 209           | (153)     |
| Decrease in receivables                                                                                              | 581           | 766       |
| Increase in commercial mortgage residual interests                                                                   | (556)         | (15)      |
| Decrease (increase) accrued rental income                                                                            | 53            | (270)     |
| Decrease in other assets                                                                                             | 502           | 236       |
| Increase in accrued interest payable                                                                                 | 11,673        | 11,015    |
| Decrease in other liabilities                                                                                        | (3,132)       | (734)     |
| Increase (decrease) in tax liability                                                                                 | 569           | (70)      |
| Net cash provided by operating activities                                                                            | 48,866        | 46,446    |
| Cash flows from investing activities:                                                                                |               |           |
| Proceeds from the disposition of real estate, Investment Portfolio                                                   | 773           | 1,419     |
| Additions to real estate, Investment Portfolio:                                                                      |               |           |
| Accounted for using the operating method                                                                             | (57,512)      | (6,491)   |
| Accounted for using the direct financing method                                                                      | (1,747)       |           |
| Increase in mortgages and notes receivable                                                                           | (1,245)       |           |
| Principal payments on mortgages and notes                                                                            | 1,462         | 291       |
| Payment of lease costs                                                                                               | (138)         | (269)     |
| Other                                                                                                                | 463           | (750)     |

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|                                       |             |            |
|---------------------------------------|-------------|------------|
| Net cash used in investing activities | \$ (57,944) | \$ (5,800) |
|---------------------------------------|-------------|------------|

See accompanying notes to condensed consolidated financial statements

**Table of Contents**

## NATIONAL RETAIL PROPERTIES, INC.

## and SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS CONTINUED

(dollars in thousands)

(unaudited)

|                                                                                                                                                            | Quarter Ended     |           |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-----------|
|                                                                                                                                                            | March 31,<br>2011 | 2010      |
| Cash flows from financing activities:                                                                                                                      |                   |           |
| Proceeds from line of credit payable                                                                                                                       | \$ 129,500        | \$        |
| Repayment of line of credit payable                                                                                                                        | (106,300)         |           |
| Repayment of mortgages payable                                                                                                                             | (272)             | (253)     |
| Proceeds from issuance of common stock                                                                                                                     | 20,025            | 8,357     |
| Payment of Series C preferred stock dividends                                                                                                              | (1,696)           | (1,696)   |
| Payment of common stock dividends                                                                                                                          | (31,678)          | (31,026)  |
| Noncontrolling interest contributions                                                                                                                      | 41                |           |
| Noncontrolling interest distributions                                                                                                                      | (33)              | (10)      |
| Net cash provided by (used in) financing activities                                                                                                        | 9,587             | (24,628)  |
| Net increase in cash and cash equivalents                                                                                                                  | 509               | 16,018    |
| Cash and cash equivalents at beginning of period                                                                                                           | 2,048             | 15,225    |
| Cash and cash equivalents at end of period                                                                                                                 | \$ 2,557          | \$ 31,243 |
| Supplemental disclosure of cash flow information:                                                                                                          |                   |           |
| Interest paid, net of amount capitalized                                                                                                                   | \$ 5,040          | \$ 4,460  |
| Taxes paid (received)                                                                                                                                      | \$ (541)          | \$ 88     |
| Supplemental disclosure of non-cash investing and financing activities:                                                                                    |                   |           |
| Issued 139,351 and 392,474 shares of restricted and unrestricted common stock in 2011 and 2010, respectively, pursuant to NNN's performance incentive plan | \$ 3,407          | \$ 8,392  |
| Issued 2,391 and 2,949 shares of common stock in 2011 and 2010, respectively, to directors pursuant to NNN's performance incentive plan                    | \$ 59             | \$ 59     |
| Issued 7,115 and 6,823 shares of common stock in 2011 and 2010, respectively, pursuant to NNN's Deferred Director Fee Plan                                 | \$ 122            | \$ 93     |
| Change in other comprehensive income                                                                                                                       | \$ 1,661          | 149       |
| Mortgage receivable accepted in connection with real estate transactions                                                                                   | \$                | \$ 5,500  |

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|                                                                       |    |          |
|-----------------------------------------------------------------------|----|----------|
| Mortgages payable assumed in connection with real estate transactions | \$ | \$ 5,432 |
|-----------------------------------------------------------------------|----|----------|

See accompanying notes to condensed consolidated financial statements

**Table of Contents**

## NATIONAL RETAIL PROPERTIES, INC.

## and SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 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:

|                                                | March 31, 2011 |
|------------------------------------------------|----------------|
| Investment Portfolio:                          |                |
| Total properties (including retail operations) | 1,223          |
| Gross leasable area (square feet)              | 13,320,000     |
| States                                         | 46             |

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 March 31, 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 ended March 31, 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.

**Table of Contents**

**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 consisted of the following (dollars in thousands):

|                                                        | Quarter Ended<br>March 31,<br>2011 |
|--------------------------------------------------------|------------------------------------|
| Balance at beginning of period                         | \$ 1,661                           |
| Amortization of interest rate hedges                   | (43)                               |
| Fair value treasury locks                              | 1,663                              |
| Unrealized gain commercial mortgage residual interests | 60                                 |
| Stock value adjustment                                 | (19)                               |
| Balance at end of period                               | \$ 3,322                           |

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

|                                                             | Quarter Ended     |           |
|-------------------------------------------------------------|-------------------|-----------|
|                                                             | March 31,<br>2011 | 2010      |
| Net earnings                                                | \$ 20,820         | \$ 16,365 |
| Other comprehensive income                                  | 1,661             | 50        |
| Comprehensive income including noncontrolling interests     | 22,481            | 16,415    |
| Comprehensive loss attributable to noncontrolling interests |                   | 99        |
| Comprehensive income attributable to NNN                    | \$ 22,481         | \$ 16,514 |

**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



**Table of Contents**

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     |            |
|----------------------------------------------------------------------------------|-------------------|------------|
|                                                                                  | March 31,<br>2011 | 2010       |
| <b>Basic and Diluted Earnings:</b>                                               |                   |            |
| Net earnings attributable to NNN                                                 | \$ 20,820         | \$ 16,365  |
| Less: Series C preferred stock dividends                                         | (1,696)           | (1,696)    |
| Net earnings available to the Company's common stockholders                      | 19,124            | 14,669     |
| Less: Earnings attributable to unvested restricted shares                        | (134)             | (84)       |
| Net earnings used in basic earnings per share                                    | 18,990            | 14,585     |
| Reallocated undistributed income                                                 |                   |            |
| Net earnings used in diluted earnings per share                                  | \$ 18,990         | \$ 14,585  |
| <b>Basic and Diluted Weighted Average Shares Outstanding:</b>                    |                   |            |
| Weighted average number of shares outstanding                                    | 83,955,295        | 82,953,206 |
| Less: unvested restricted stock                                                  | (832,564)         | (632,434)  |
| Weighted average number of shares outstanding used in basic earnings per share   | 83,122,731        | 82,320,772 |
| <b>Effects of dilutive securities:</b>                                           |                   |            |
| Common stock options                                                             | 3,276             | 4,392      |
| Convertible debt                                                                 | 298,241           |            |
| Directors' deferred fee plan                                                     | 146,190           | 120,847    |
| Weighted average number of shares outstanding used in diluted earnings per share | 83,570,438        | 82,446,011 |

The potential dilutive shares related to certain convertible notes payable were not included in computing earnings per common share for March 31, 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 markets that are not active or other inputs that are observable or can be corroborated by

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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.

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

**Table of Contents**

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 those 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.

**Note 2 Real Estate - Investment Portfolio:**

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

|                                                            | March 31, 2011 |
|------------------------------------------------------------|----------------|
| Lease classification:                                      |                |
| Operating                                                  | 1,185          |
| Direct financing                                           | 16             |
| Building portion direct financing / land portion operating | 8              |
| 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 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):

|                                                | March 31,<br>2011 | December 31,<br>2010 |
|------------------------------------------------|-------------------|----------------------|
| Land and improvements                          | \$ 1,136,183      | \$ 1,122,243         |
| Buildings and improvements                     | 1,632,909         | 1,592,752            |
| Leasehold interests                            | 1,290             | 1,290                |
|                                                | 2,770,382         | 2,716,285            |
| Less accumulated depreciation and amortization | (234,461)         | (222,921)            |
|                                                | 2,535,921         | 2,493,364            |
| Work in process                                | 24,292            | 26,586               |
|                                                | \$ 2,560,213      | \$ 2,519,950         |

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

|                      | # of<br>Properties | Total<br>Commitment <sup>(1)</sup> | March 31, 2011<br>Amount<br>Funded | Remaining<br>Commitment |
|----------------------|--------------------|------------------------------------|------------------------------------|-------------------------|
| Investment Portfolio | 26                 | \$ 67,585                          | \$ 48,498                          | \$ 19,087               |

- <sup>(1)</sup> Includes land and construction costs.

**Table of Contents****Note 3 Commercial Mortgage Residual Interests:**

In May 2010 and July 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 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.

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:

|                                          | March 31, 2011        | December 31, 2010     |
|------------------------------------------|-----------------------|-----------------------|
| Discount rate                            | 25%                   | 25%                   |
| Average life equivalent CPR speeds range | 3.26% to 20.13% CPR   | 4.35% to 20.37% CPR   |
| Foreclosures:                            |                       |                       |
| Frequency curve default model            | 0.1% - 14.0% 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         |

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  |                |
|-------------------------------------------|----------------|----------------|
|                                           | March 31, 2011 | March 31, 2010 |
| Unrealized gains                          | \$ 60          | \$ 92          |
| Other than temporary valuation impairment | \$ 129         | \$ 3,683       |

**Note 4 Line of Credit Payable:**

NNN's \$400,000,000 revolving credit facility (the Credit Facility ) had a weighted average outstanding balance of \$178,836,000 and a weighted average interest rate of 3.8% during the three months ended March 31, 2011. The Credit Facility matures November 2012, with an option to extend the maturity to November 2013. The Credit Facility bears interest at LIBOR plus 280 basis points with a 1.0% LIBOR floor; 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 for NNN to increase, at its option, the facility size up to \$500,000,000. As of March 31, 2011, \$184,200,000 was outstanding and \$215,800,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$57,000.

**Table of Contents****Note 5 Stockholders Equity:**

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

|                                           | Quarter Ended |                   |
|-------------------------------------------|---------------|-------------------|
|                                           | 2011          | March 31,<br>2010 |
| Series C preferred stock <sup>(1)</sup> : |               |                   |
| Dividends                                 | \$ 1,696      | \$ 1,696          |
| Per share                                 | 0.4609        | 0.4609            |
| Common stock:                             |               |                   |
| Dividends                                 | 31,678        | 31,026            |
| Per share                                 | 0.380         | 0.375             |

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

In April 2011, NNN declared a dividend of \$0.380 per share, which is payable in May 2011 to its common stockholders of record as of April 29, 2011.

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):

|                               | Quarter Ended |                   |
|-------------------------------|---------------|-------------------|
|                               | 2011          | March 31,<br>2010 |
| Shares of common stock issued | 818,156       | 502,892           |
| Net proceeds                  | \$ 20,081     | \$ 10,460         |

**Note 6 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 filing positions. NNN believes that its income tax filing positions and deductions are well documented and supported. Additionally, NNN believes that its accruals for



**Table of Contents**

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 2007 through 2011. NNN also files in many states with varying open years under statute.

**Note 7 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 March 31, 2011, as discontinued operations. The following is a summary of the earnings from discontinued operations from the Investment Portfolio (dollars in thousands):

|                                                                                            | Quarter Ended     |        |
|--------------------------------------------------------------------------------------------|-------------------|--------|
|                                                                                            | March 31,<br>2011 | 2010   |
| Revenues:                                                                                  |                   |        |
| Rental income from operating leases                                                        | \$ 26             | \$ 185 |
| Real estate expense reimbursement from tenants                                             | 3                 | 15     |
| Interest and other income from real estate transactions                                    |                   | 28     |
|                                                                                            | 29                | 228    |
| Operating expenses:                                                                        |                   |        |
| General and administrative                                                                 |                   | 14     |
| Real estate                                                                                | 55                | 84     |
| Depreciation and amortization                                                              | 5                 | 79     |
|                                                                                            | 60                | 177    |
| Earnings (loss) before gain on disposition of real estate and income tax benefit (expense) | (31)              | 51     |
| Gain on disposition of real estate                                                         | 30                | 22     |
| Income tax benefit (expense)                                                               | (3)               | 2      |
| Earnings (loss) from discontinued operations attributable to NNN                           | \$ (4)            | \$ 75  |

**Table of Contents**

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 March 31, 2011. The following is a summary of the earnings from discontinued operations from the Inventory Portfolio (dollars in thousands):

|                                                                                 | Quarter Ended     |          |
|---------------------------------------------------------------------------------|-------------------|----------|
|                                                                                 | March 31,<br>2011 | 2010     |
| <b>Revenues:</b>                                                                |                   |          |
| Rental income from operating leases                                             | \$ 473            | \$ 1,152 |
| Real estate expense reimbursement from tenants                                  | 106               | 987      |
| Interest and other income from real estate transactions                         | 14                | 36       |
|                                                                                 | 593               | 2,175    |
| <b>Disposition of real estate:</b>                                              |                   |          |
| Gross proceeds                                                                  | 1,100             | 802      |
| Costs                                                                           | (998)             | (715)    |
| <b>Gain</b>                                                                     | 102               | 87       |
| <b>Operating expenses:</b>                                                      |                   |          |
| General and administrative                                                      | 4                 | 37       |
| Real estate                                                                     | 154               | 1,041    |
| Depreciation and amortization                                                   | 21                | 61       |
|                                                                                 | 179               | 1,139    |
| <b>Other expenses:</b>                                                          |                   |          |
| Interest expense                                                                | 340               | 943      |
| <b>Earnings before income tax expense</b>                                       | 176               | 180      |
| Income tax expense                                                              | (44)              | (39)     |
| <b>Earnings from discontinued operations including noncontrolling interests</b> | 132               | 141      |
| Earnings attributable to noncontrolling interests                               | (59)              | (76)     |
| <b>Earnings from discontinued operations attributable to NNN</b>                | \$ 73             | \$ 65    |

**Note 8 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.

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

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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 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

**Table of Contents**

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 March 2011, the Company entered into two treasury locks with a total notional amount of \$150,000,000 to hedge the risk of changes in the interest-related cash outflows associated with the potential issuance of long-term debt. The outstanding treasury locks were designated as cash flow hedges, and at March 31, 2011, have a fair value of \$1,663,000 included in other assets on the condensed consolidated balance sheet. No hedge ineffectiveness was recognized during the quarter ended March 31, 2011.

As of March 31, 2011, \$758,000 remains in other comprehensive income related to the effective portion of NNN's previous interest rate hedges. During the quarters ended March 31, 2011 and 2010, NNN reclassified \$43,000 and \$42,000, respectively, out of other comprehensive income as a reduction to interest expense. Over the next 12 months, NNN estimates that an additional \$169,000 will be reclassified as a reduction in 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.

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

**Note 9 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 March 31, |                     |                                | Condensed              |
|---------------------------------------------|-------------------------|---------------------|--------------------------------|------------------------|
|                                             | Investment<br>Assets    | Inventory<br>Assets | Eliminations<br>(Intercompany) | Consolidated<br>Totals |
| <b>2011</b>                                 |                         |                     |                                |                        |
| External revenues                           | \$ 62,252               | \$ 42               | \$                             | \$ 62,294              |
| Intersegment revenues                       | 12                      |                     | (12)                           |                        |
| Earnings from continuing operations         | 20,824                  | 57                  | (156)                          | 20,725                 |
| Earnings including noncontrolling interests | 20,820                  | 189                 | (156)                          | 20,853                 |
| Net earnings attributable to NNN            | 20,820                  | 156                 | (156)                          | 20,820                 |
| Total assets                                | \$ 2,885,922            | \$ 37,741           | \$ (169,966)                   | \$ 2,753,697           |
| <b>2010</b>                                 |                         |                     |                                |                        |
| External revenues                           | \$ 56,704               | \$ 42               | \$                             | \$ 56,746              |
| Intersegment revenues                       | 299                     | 259                 | (558)                          |                        |
| Earnings from continuing operations         | 16,197                  | 268                 | (383)                          | 16,082                 |
| Earnings including noncontrolling interests | 16,272                  | 409                 | (383)                          | 16,298                 |
| Net earnings attributable to NNN            | 16,365                  | 383                 | (383)                          | 16,365                 |
| Total assets                                | \$ 2,706,011            | \$ 131,433          | \$ (235,643)                   | \$ 2,601,801           |

**Table of Contents****Note 10 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):

|                                                                                                                              | Quarter Ended<br>March 31,<br>2011 |
|------------------------------------------------------------------------------------------------------------------------------|------------------------------------|
| Balance at beginning of period                                                                                               | \$ 15,915                          |
| Total gains (losses) realized/unrealized:                                                                                    |                                    |
| Included in earnings                                                                                                         | (129)                              |
| Included in other comprehensive income                                                                                       | 60                                 |
| Interest income on Residuals                                                                                                 | 767                                |
| Cash received from Residuals                                                                                                 | (211)                              |
| Purchases, sales, issuances and settlements, net                                                                             |                                    |
| Transfers in and/or out of Level 3                                                                                           |                                    |
| Balance at end of period                                                                                                     | \$ 16,402                          |
| Losses included in earnings attributable to a change in unrealized losses relating to assets still held at the end of period | \$                                 |

**Note 11 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 March 31, 2011, and December 31, 2010, approximates their fair value based upon current market prices for similar issuances. At March 31, 2011 and December 31, 2010, the fair value of NNN's notes payable and convertible notes payable, collectively, were \$1,037,489,000 and \$1,044,621,000, respectively, based upon quoted market price.

**Note 12 Subsequent Events:**

NNN reviewed all subsequent events and transactions that have occurred after March 31, 2011, the date of the condensed consolidated balance sheet. There were no reportable subsequent events or transactions.

## **Table of Contents**

### **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.

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, including those risks included in Item 1A. Risk Factors of NNN s Annual Report on Form 10-K for the year ended December 31, 2010, which 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 March 31, 2011, NNN owned 1,223 Investment Properties (including 11 properties with retail operations that NNN operates), with an aggregate gross leasable area of approximately 13,320,000 square feet, located in 46 states. Approximately 97 percent of total properties in NNN s Investment Portfolio were leased or operated as of March 31, 2011. As of March 31, 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 Contents**Results of OperationsProperty Analysis   Investment Portfolio

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

|                                                             | March 31,<br>2011 | December 31,<br>2010 | March 31,<br>2010 |
|-------------------------------------------------------------|-------------------|----------------------|-------------------|
| <b>Investment Properties Owned:</b>                         |                   |                      |                   |
| Number                                                      | 1,223             | 1,195                | 1,014             |
| Total gross leasable area (square feet)                     | 13,320,000        | 12,972,000           | 11,423,000        |
| <b>Investment Properties:</b>                               |                   |                      |                   |
| Leased                                                      | 1,174             | 1,147                | 965               |
| Operated                                                    | 11                | 11                   | 12                |
| Percent of Investment Properties leased and operated        | 97%               | 97%                  | 96%               |
| Weighted average remaining lease term (years)               | 12                | 12                   | 12                |
| Total gross leasable area (square feet) leased and operated | 12,558,000        | 12,215,000           | 10,552,000        |

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

|                |                             | % of Annual Base Rent <sup>(1)</sup> |                      |                   |
|----------------|-----------------------------|--------------------------------------|----------------------|-------------------|
| Lines of Trade |                             | March 31,<br>2011                    | December 31,<br>2010 | March 31,<br>2010 |
| 1.             | Convenience Stores          | 23.3%                                | 23.7%                | 26.5%             |
| 2.             | Restaurants Full Service    | 10.7%                                | 10.1%                | 9.2%              |
| 3.             | Automotive Parts            | 7.8%                                 | 7.8%                 | 6.7%              |
| 4.             | Theaters                    | 5.6%                                 | 5.7%                 | 6.2%              |
| 5.             | Automotive Service          | 5.4%                                 | 5.3%                 | 5.6%              |
| 6.             | Sporting Goods              | 4.4%                                 | 4.5%                 | 3.1%              |
| 7.             | Restaurants Limited Service | 4.1%                                 | 4.1%                 | 3.2%              |
| 8.             | Drug Stores                 | 3.9%                                 | 4.0%                 | 4.4%              |
| 9.             | Books                       | 3.8%                                 | 3.8%                 | 4.1%              |
| 10.            | Health and Fitness          | 2.7%                                 | 2.1%                 | 1.6%              |
|                | Other                       | 28.3%                                | 28.9%                | 29.4%             |
|                |                             | 100.0%                               | 100.0%               | 100.0%            |

<sup>(1)</sup> 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 March 31, |           |
|-----------------------------------|-------------------------|-----------|
|                                   | 2011                    | 2010      |
| <b>Acquisitions:</b>              |                         |           |
| Number of Investment Properties   | 29                      | 4         |
| Gross leasable area (square feet) | 354,000                 | 64,000    |
| Total investments <sup>(1)</sup>  | \$ 55,053               | \$ 12,376 |

- <sup>(1)</sup> Includes investments in projects under construction for each respective period.

**Table of Contents**

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

|                                   | Quarter Ended March 31, |          |
|-----------------------------------|-------------------------|----------|
|                                   | 2011                    | 2010     |
| Number of properties              | 1                       | 5        |
| Gross leasable area (square feet) | 6,000                   | 14,000   |
| Net sales proceeds                | \$ 773                  | \$ 6,777 |
| Net gain                          | \$ 30                   | \$ 22    |

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

**Revenue from Continuing Operations Analysis**

*General.* During the quarter ended March 31, 2011, NNN's revenue increased primarily due to the acquisition of Investment Properties during 2010.

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

|                                                           | Quarter Ended March 31, |           |        |        | Percent Increase (Decrease) |
|-----------------------------------------------------------|-------------------------|-----------|--------|--------|-----------------------------|
|                                                           | 2011                    | 2010      | 2011   | 2010   |                             |
|                                                           | Percent of Total        |           |        |        |                             |
| Rental income <sup>(1)</sup>                              | \$ 58,213               | \$ 52,737 | 94.0%  | 93.3%  | 10.4%                       |
| Real estate expense reimbursement from tenants            | 2,335                   | 1,758     | 3.8%   | 3.1%   | 32.8%                       |
| Interest and other income from real estate transactions   | 637                     | 950       | 1.0%   | 1.7%   | (32.9)%                     |
| Interest income on commercial mortgage residual interests | 767                     | 1,049     | 1.2%   | 1.9%   | (26.9)%                     |
| Total revenues from continuing operations                 | \$ 61,952               | \$ 56,494 | 100.0% | 100.0% | 9.7%                        |

<sup>(1)</sup> 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 ended March 31, 2011, as compared to the same period in 2010, but remained consistent as a percent of the total revenues from continuing operations. The increase for the quarter ended March 31, 2011, is primarily due to the acquisition of 194 properties with aggregate gross leasable area of approximately 1,700,000 square feet during 2010.

*Real Estate Expense Reimbursements from Tenants.* Real estate expense reimbursements from tenants increased for the quarter ended March 31, 2011, as compared to the same period in 2010, but remained relatively stable as a percentage of total revenues. The increase is primarily attributable to a full year of reimbursements from certain newly acquired Investment Properties in 2010 and timing of real estate tax reimbursements from certain tenants.

*Interest and Other Income from Real Estate Transactions.* Interest and other income from real estate transactions decreased for the quarter ended March 31, 2011, as compared to the quarter ended March 31, 2010, but remained relatively stable as a percentage of total revenues. The decrease is primarily due to the decrease in the average outstanding balance of NNN's mortgages receivable to \$20,790,000 in 2011 from \$40,710,000 in 2010.

*Interest Income on Commercial Mortgage Residual Interests.* Interest income on commercial mortgage residual interests (Residuals) decreased for the quarter ended March 31, 2011, as compared to the same period last year. The decrease in interest income on Residuals is primarily the result of declining loan balances from prepayments and scheduled loan amortization.



**Table of Contents****Analysis of Expenses from Continuing Operations**

*General.* Operating expenses from continuing operations decreased for the quarter ended March 31, 2011, primarily due to a lower valuation adjustment of the Residuals fair value. However, the decrease was partially offset by an increase in incentive compensation. The following table summarizes NNN's expenses from continuing operations for the quarter ended March 31 (dollars in thousands):

|                                                              | 2011             | 2010             | Percent Increase (Decrease) | Percentage of Total |               | Percent of Revenues from Continuing Operations |              |
|--------------------------------------------------------------|------------------|------------------|-----------------------------|---------------------|---------------|------------------------------------------------|--------------|
|                                                              |                  |                  |                             | 2011                | 2010          | 2011                                           | 2010         |
| General and administrative                                   | \$ 6,657         | \$ 5,581         | 19.2%                       | 27.7%               | 22.7%         | 10.7%                                          | 9.9%         |
| Real estate                                                  | 3,722            | 3,472            | 7.2%                        | 15.5%               | 14.2%         | 6.0%                                           | 6.1%         |
| Depreciation and amortization                                | 13,525           | 11,807           | 14.5%                       | 56.3%               | 48.1%         | 21.8%                                          | 20.9%        |
| Impairment commercial mortgage residual valuation adjustment | 129              | 3,683            | (96.4)%                     | 0.5%                | 15.0%         | 0.2%                                           | 6.5%         |
| <b>Total operating expenses</b>                              | <b>\$ 24,033</b> | <b>\$ 24,543</b> | <b>(2.0)%</b>               | <b>100.0%</b>       | <b>100.0%</b> | <b>38.7%</b>                                   | <b>43.4%</b> |
| Interest and other income                                    | \$ (342)         | \$ (252)         | 35.7%                       | (2.0)%              | (1.6)%        | (0.6)%                                         | (0.4)%       |
| Interest expense                                             | 17,662           | 15,989           | 10.4%                       | 102.0%              | 101.6%        | 28.5%                                          | 28.3%        |
| <b>Total other expenses (revenues)</b>                       | <b>\$ 17,320</b> | <b>\$ 15,737</b> | <b>10.0%</b>                | <b>100.0%</b>       | <b>100.0%</b> | <b>27.9%</b>                                   | <b>27.9%</b> |

*General and Administrative Expenses.* General and administrative expenses increased for the quarter ended March 31, 2011, as compared to the same period in 2010. The increase in general and administrative expenses for the quarter ended March 31, 2011, is primarily attributable to an increase in executive incentive compensation.

*Real Estate.* Real estate expenses increased for the quarter ended March 31, 2011, as compared to the same period in 2010, but remained fairly consistent as a percentage of revenues from continuing operations. The increase in real estate expenses for the quarter ended March 31, 2011 as compared to the quarter ended March 31, 2010, is primarily attributable to an increase in tenant reimbursable expenses from certain newly acquired Investment Properties in 2010.

*Depreciation and Amortization.* Depreciation and amortization increased for the quarter ended March 31, 2011, as compared to the same period in 2010. The increase for the quarter ended March 31, 2011, is primarily due to the acquisition of 194 properties with aggregate gross leasable area of approximately 1,700,000 square feet during 2010.

*Impairment Commercial Mortgage Residual Interests Valuation Adjustment.* In connection with the independent valuations of the Residuals fair value during the quarter ended March 31, 2011, NNN recorded an other than temporary valuation adjustment of \$129,000 during the quarter ended March 31, 2011 as compared to \$3,683,000 recorded during the same period in 2010. The decrease in the valuation adjustment was attributable to the changes effective in 2010 in the valuation assumptions due to the changes in loan performance relating to the Residuals.

*Interest Expense.* Interest expense increased for the quarter ended March 31, 2011, as compared to the quarter ended March 31, 2010. The following represents the primary changes in debt that have impacted interest expense:

- (i) the \$178,836,000 increase in the weighted average debt outstanding on the Credit Facility for the quarter ended March 31, 2011, as compared to the same period in 2010,
- (ii) the \$270,000 increase in capitalized interest expense for the quarter ended March 31, 2011, as compared to the same period in 2010, and

(iii) the payoff of the \$20,000,000 8.5% notes payable in September 2010.

**Table of Contents****Earnings from Discontinued Operations**

*Earnings (Loss).* NNN classified as discontinued operations the revenues and expenses related to its Investment Properties that were sold, its leasehold interests that expired or were terminated and any Investment Properties that were held for sale at March 31, 2011. NNN also classified as discontinued operations the revenues and expenses of its Inventory Properties that generated rental revenues. NNN records discontinued operations by NNN's identified segments: (i) Investment Assets, and (ii) Inventory Assets. The following table summarizes the earnings from discontinued operations for the quarters ended March 31 (dollars in thousands):

|                          | 2011                          |       |                    | 2010                          |       |                    |
|--------------------------|-------------------------------|-------|--------------------|-------------------------------|-------|--------------------|
|                          | #<br>of<br>Sold<br>Properties | Gain  | Earnings<br>(Loss) | #<br>of<br>Sold<br>Properties | Gain  | Earnings<br>(Loss) |
| Investment Assets        | 1                             | \$ 30 | \$ (4)             | 5                             | \$ 22 | \$ 75              |
| Inventory Assets         | 1                             | 102   | 132                | 1                             | 87    | 141                |
| Noncontrolling interests |                               | (46)  | (59)               |                               | (42)  | (76)               |
|                          | 2                             | \$ 86 | \$ 69              | 6                             | \$ 67 | \$ 140             |

NNN periodically sells Investment Properties and may reinvest the sale proceeds to purchase additional properties. NNN evaluates its ability to pay dividends to stockholders by considering the combined effect of income from continuing and discontinued operations.

**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 quarters ended March 31 (dollars in thousands):

|                                            | 2011      | 2010      |
|--------------------------------------------|-----------|-----------|
| Cash and cash equivalents:                 |           |           |
| Provided by operating activities           | \$ 48,866 | \$ 46,446 |
| Used in investing activities               | (57,944)  | (5,800)   |
| Provided by (used in) financing activities | 9,587     | (24,628)  |
| Increase                                   | 509       | 16,018    |
| Net cash at beginning of period            | 2,048     | 15,225    |
| Net cash at end of period                  | \$ 2,557  | \$ 31,243 |

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 change in cash provided by operations for the quarters ended March 31, 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.



**Table of Contents**

NNN's financing activities for the quarter ended March 31, 2011, include the following significant transactions:

\$23,200,000 in net proceeds from NNN's Credit Facility,

\$31,678,000 in dividends paid to common stockholders,

\$1,696,000 in dividends paid to holders of the depositary shares of NNN's Series C preferred stock, and

\$20,081,000 in net proceeds from the issuance of 818,156 shares of common stock in connection with the Dividend Reinvestment and Stock Purchase Plan (DRIP).

*Contractual Obligations and Commercial Commitments.* As of March 31, 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):

|                      | # of<br>Properties | Total<br>Commitment <sup>(1)</sup> | Amount<br>Funded | Remaining<br>Commitment |
|----------------------|--------------------|------------------------------------|------------------|-------------------------|
| Investment Portfolio | 26                 | \$ 67,585                          | \$ 48,498        | \$ 19,087               |

<sup>(1)</sup> Includes construction and land costs.

As of March 31, 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.

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 and carry property and liability insurance coverage. Therefore, management anticipates that capital demands to meet obligations with respect to these Investment Properties will be modest for the foreseeable future and can be met with funds from operations and working capital. Certain of NNN's Investment Properties are subject to leases under which NNN retains responsibility for certain costs and expenses associated with the Investment Property. Management anticipates the costs associated with these 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.

As of March 31, 2011, NNN owned 38 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 or uncollectibility of lease revenues 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 April 28, 2011, approximately one percent of the total gross leasable area of NNN's Investment Portfolio was leased to five 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

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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

**Table of Contents**

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):

|                                           | Quarter Ended     |          |
|-------------------------------------------|-------------------|----------|
|                                           | March 31,<br>2011 | 2010     |
| Series C preferred stock <sup>(1)</sup> : |                   |          |
| Dividends                                 | \$ 1,696          | \$ 1,696 |
| Per share                                 | 0.4609            | 0.4609   |
| Common stock:                             |                   |          |
| Dividends                                 | 31,678            | 31,026   |
| Per share                                 | 0.380             | 0.375    |

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

In April 2011, NNN declared a dividend of \$0.380 per share which is payable in May 2011 to its common stockholders of record as of April 29, 2011.

NNN declared and paid dividends to its Series C preferred stockholders of \$1,696,000 or \$0.4609 per share during each of the quarters ended March 31, 2011 and 2010, respectively. The Series C preferred stock has no maturity date and will remain outstanding unless redeemed.

**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):

|                               | March 31,<br>2011   | Percentage<br>of Total | December 31,<br>2010 | Percentage<br>of Total |
|-------------------------------|---------------------|------------------------|----------------------|------------------------|
| Line of credit payable        | \$ 184,200          | 15.9%                  | \$ 161,000           | 14.2%                  |
| Mortgages payable             | 23,997              | 2.1%                   | 24,269               | 2.2%                   |
| Notes payable - convertible   | 351,138             | 30.3%                  | 349,534              | 30.8%                  |
| Notes payable                 | 598,932             | 51.7%                  | 598,882              | 52.8%                  |
| <b>Total outstanding debt</b> | <b>\$ 1,158,267</b> | <b>100.0%</b>          | <b>\$ 1,133,685</b>  | <b>100.0%</b>          |

*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.* NNN's \$400,000,000 Credit Facility matures November 2012, with an option to extend maturity to November 2013. The Credit Facility bears interest at LIBOR plus 280 basis points with a 1.0% LIBOR floor; 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 for NNN to increase the facility size up to \$500,000,000.

NNN's \$400,000,000 Credit Facility had a weighted average outstanding balance of \$178,836,000 and a weighted average interest rate of 3.8% during the three months ended March 31, 2011. As of March 31, 2011, \$184,200,000 was outstanding and approximately \$215,800,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$57,000.

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

| Terms                                           | 2026<br>Notes <sup>(1)(3)</sup> | 2028<br>Notes <sup>(1)(4)</sup> |
|-------------------------------------------------|---------------------------------|---------------------------------|
| Issue Date                                      | September 2006                  | March 2008                      |
| Net Proceeds                                    | \$ 168,650                      | \$ 228,576                      |
| Stated Interest Rate <sup>(6)</sup>             | 3.950%                          | 5.125%                          |
| Debt Issuance Costs                             | \$ 3,850 <sup>(2)</sup>         | \$ 5,459 <sup>(5)</sup>         |
| Earliest Conversion Date                        | September 2025                  | June 2027                       |
| Earliest Put Option Date                        | September 2011                  | June 2013                       |
| Maturity Date                                   | September 2026                  | June 2028                       |
| Outstanding principal balance at March 31, 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 being amortized over the period to the earliest put option date of the holders using the effective interest method.

(2) Includes \$463 of note costs which were written off in connection with the repurchase of \$33,800 of the 2026 Notes.

(3) The conversion rate per \$1 principal amount was 42.0575 shares of NNN's common stock, which is equivalent to a conversion price of \$23.7770 per share of common stock.

(4) The conversion rate per \$1 principal amount was 39.3700 shares of NNN's common stock, which is equivalent to a conversion price of \$25.4000 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) With the adoption of the new accounting guidance on convertible debt securities, the effective interest rate for the 2026 Notes and the 2028 Notes are 5.840% and 7.192%, respectively.

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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

**Table of Contents**

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.

**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.

*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):

|                        | Quarter Ended March 31, |           |
|------------------------|-------------------------|-----------|
|                        | 2011                    | 2010      |
| Shares of common stock | 818,156                 | 502,892   |
| Net proceeds           | \$ 20,081               | \$ 10,460 |

**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 March 31, 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:

|                                          | March 31, 2011        | December 31, 2010     |
|------------------------------------------|-----------------------|-----------------------|
| Discount rate                            | 25%                   | 25%                   |
| Average life equivalent CPR speeds range | 3.26% to 20.13% CPR   | 4.35% to 20.37% CPR   |
| Foreclosures:                            |                       |                       |
| Frequency curve default model            | 0.1% - 14.0% 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         |

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 March 31, |          |
|-------------------------------------------|-------------------------|----------|
|                                           | 2011                    | 2010     |
| Unrealized gains                          | \$ 60                   | \$ 92    |
| Other than temporary valuation impairment | \$ 129                  | \$ 3,683 |

**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. As of March 31, 2011, NNN has two interest rate hedges with a total notional amount of \$150,000,000 to hedge the risk of changes in the interest-related cash outflows associated with the potential issuance of long-term debt.

The information in the table below summarizes NNN's market risks associated with its debt obligations outstanding as of March 31, 2011 and December 31, 2010. The table presents principal payments and related interest rates by year for debt obligations outstanding as of March 31, 2011. The variable interest rates shown represent weighted average rate for the Credit Facility for the three months ended March 31, 2011. The table incorporates only those debt obligations that existed as of March 31, 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 quarter ended March 31, 2011.

|                   | Debt Obligations (dollars in thousands) |                                |           |                               |                                |                         |
|-------------------|-----------------------------------------|--------------------------------|-----------|-------------------------------|--------------------------------|-------------------------|
|                   | Variable Rate Debt                      |                                |           | Fixed Rate Debt               |                                |                         |
|                   | Credit Facility                         |                                | Mortgages | Unsecured Debt <sup>(1)</sup> |                                | Effective Interest Rate |
|                   | Debt Obligation                         | Weighted Average Interest Rate |           | Debt Obligation               | Weighted Average Interest Rate |                         |
| 2011              | \$                                      |                                | \$ 826    | 7.20%                         | \$ 137,489                     | 5.84%                   |
| 2012              | 184,200                                 | 3.80%                          | 19,290    | 6.92%                         | 49,954                         | 7.83%                   |
| 2013              |                                         |                                | 863       | 7.35%                         | 213,649                        | 7.19%                   |
| 2014              |                                         |                                | 881       | 7.27%                         | 149,830                        | 5.91%                   |
| 2015              |                                         |                                | 917       | 7.22%                         | 149,787                        | 6.19%                   |
| Thereafter        |                                         |                                | 1,220     | 7.47%                         | 249,361                        | 6.92%                   |
| Total             | \$ 184,200                              | 3.80%                          | \$ 23,997 | 7.00%                         | \$ 950,070                     | 6.60%                   |
| Fair Value:       |                                         |                                |           |                               |                                |                         |
| March 31, 2011    | \$ 184,200                              |                                | \$ 23,997 |                               | \$ 1,037,489                   |                         |
| December 31, 2010 | \$ 161,000                              |                                | \$ 24,269 |                               | \$ 1,044,621                   |                         |

<sup>(1)</sup> 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 \$16,402,000 and \$15,915,000 as of March 31, 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.

**Table of Contents**

**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 March 31, 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.

**Table of Contents**

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).



## Table of Contents

- 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).
  
- 4.5 Form of Supplemental Indenture No. 5 dated as of June 18, 2004, by and among Registrant and Wachovia Bank, National Association, Trustee, relating to \$150,000,000 of 6.25% Notes due 2014 (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated June 15, 2004 and filed with the Securities and Exchange Commission on June 18, 2004, and incorporated herein by reference).
  
- 4.6 Form of 6.25% Notes due 2014 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated June 15, 2004 and filed with the Securities and Exchange Commission on June 18, 2004, and incorporated herein by reference).
  
- 4.7 Form of Supplemental Indenture No. 6 dated as of November 17, 2005, by and among Registrant and Wachovia Bank, National Association, Trustee, relating to \$150,000,000 of 6.15% Notes due 2015 (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated November 14, 2005 and filed with the Securities and Exchange Commission on November 17, 2005, and incorporated herein by reference).
  
- 4.8 Form of 6.15% Notes due 2015 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated November 14, 2005 and filed with the Securities and Exchange Commission on November 17, 2005, and incorporated herein by reference).
  
- 4.9 Seventh Supplemental Indenture, dated as of September 13, 2006, between National Retail Properties, Inc. and U.S. Bank National Association relating to 3.95% Convertible Senior Notes due 2026 (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated September 7, 2006 and filed with the Securities and Exchange Commission on September 13, 2006, and incorporated herein by reference).
  
- 4.10 Form of 3.95% Convertible Senior Notes due 2026 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated September 7, 2006 and filed with the Securities and Exchange Commission on September 13, 2006, and incorporated herein by reference).
  
- 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).

## **Table of Contents**

- 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).
- 4.15 Form of Ninth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 5.125% Convertible Senior Notes due 2028 (filed as Exhibit 4.1 to Registrants' 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).
- 4.16 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).

## 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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**Table of Contents**

- 10.5 Employment Agreement dated as of December 1, 2008, between the Registrant and Kevin B. Habicht (filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, 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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- 10.13 Amendment to Employment Agreement dated as of November 8, 2010, between the Registrant and Paul E. Bayer (filed as Exhibit 10.13 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2011, and incorporated herein by reference).

**Table of Contents**

- 10.14 Amendment to Employment Agreement dated as of November 8, 2010, between the Registrant and Christopher P. Tessitore (filed as Exhibit 10.14 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2011, and incorporated herein by reference).

31. Section 302 Certifications

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

32. Section 906 Certifications

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

101. Interactive Data File

- 101.1 The following materials from National Retail Properties, Inc. Quarterly Report on Form 10-Q for the period ended March 31, 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 Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934 (filed herewith).

**Table of Contents**

**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 5th day of May, 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

**Table of Contents**

**Exhibit Index**

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).
- 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).
- 4.5 Form of Supplemental Indenture No. 5 dated as of June 18, 2004, by and among Registrant and Wachovia Bank, National Association, Trustee, relating to \$150,000,000 of 6.25% Notes due 2014 (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated June 15, 2004 and filed

## **Table of Contents**

with the Securities and Exchange Commission on June 18, 2004, and incorporated herein by reference).

- 4.6 Form of 6.25% Notes due 2014 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated June 15, 2004 and filed with the Securities and Exchange Commission on June 18, 2004, and incorporated herein by reference).
- 4.7 Form of Supplemental Indenture No. 6 dated as of November 17, 2005, by and among Registrant and Wachovia Bank, National Association, Trustee, relating to \$150,000,000 of 6.15% Notes due 2015 (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated November 14, 2005 and filed with the Securities and Exchange Commission on November 17, 2005, and incorporated herein by reference).
- 4.8 Form of 6.15% Notes due 2015 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated November 14, 2005 and filed with the Securities and Exchange Commission on November 17, 2005, and incorporated herein by reference).
- 4.9 Seventh Supplemental Indenture, dated as of September 13, 2006, between National Retail Properties, Inc. and U.S. Bank National Association relating to 3.95% Convertible Senior Notes due 2026 (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated September 7, 2006 and filed with the Securities and Exchange Commission on September 13, 2006, and incorporated herein by reference).
- 4.10 Form of 3.95% Convertible Senior Notes due 2026 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated September 7, 2006 and filed with the Securities and Exchange Commission on September 13, 2006, and incorporated herein by reference).
- 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).
- 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).

## **Table of Contents**

- 4.15 Form of Ninth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 5.125% Convertible Senior Notes due 2028 (filed as Exhibit 4.1 to Registrants' 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).
- 4.16 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).

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**Table of Contents**

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