NATIONAL RETAIL PROPERTIES, INC.
Form 10-K
February 19, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-K
(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the fiscal year ended December 31, 2013
OR
¨TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from to .
Commission file number 001-11290
NATIONAL RETAIL PROPERTIES, INC.
(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	56-1431377 (I.R.S. Employer Identification No.)

450 South Orange Avenue, Suite 900
Orlando, Florida 32801
(Address of principal executive offices, including zip code)
Registrant's telephone number, including area code: (407) 265-7348
Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of exchange on which registered:
Common Stock, $0.01 par value	New York Stock Exchange
6.625% Series D Preferred Stock, $0.01 par value	New York Stock Exchange
5.700% Series E Preferred Stock, $0.01 par value	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:
None
(Title of class)
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer x	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 Act). Yes ¨ No x

The aggregate market value of voting common stock held by non-affiliates of the registrant as of June 30, 2013 was $4,057,865,000.

The number of shares of common stock outstanding as of February 11, 2014 was 122,002,008.

DOCUMENTS INCORPORATED BY REFERENCE:

Registrant incorporates by reference into Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K portions of National Retail Properties, Inc.’s definitive Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission (the “Commission”) pursuant to Regulation 14A. The definitive Proxy Statement will be filed with the Commission not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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PART I

Unless the context otherwise requires, references in this Annual Report on Form 10-K to the terms “registrant” or “NNN” or the “Company” refer to National Retail Properties, Inc. and all of its consolidated subsidiaries. NNN has elected to treat certain subsidiaries as taxable real estate investment trust subsidiaries. These subsidiaries and their majority owned and controlled subsidiaries are collectively referred to as the “TRS.”

Statements contained in this annual report on Form 10-K, including the documents that are incorporated by reference, that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”). Also, when NNN uses any of the words “anticipate,” “assume,” “believe,” “estimate,” “expect,” “intend,” or similar expressions, NNN is making forward-lookin statements. Although management believes that the expectations reflected in such forward-looking statements are based upon present expectations and reasonable assumptions, NNN’s actual results could differ materially from those set forth in the forward-looking statements. Certain factors that could cause actual results or events to differ materially from those NNN anticipates or projects are described in “Item 1A. Risk Factors” of this Annual Report on Form 10-K. Given these uncertainties, readers are cautioned not to place undue reliance on such statements, which speak only as of the date of this Annual Report on Form 10-K or any document incorporated herein by reference. NNN undertakes no obligation to publicly release any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date of this Annual Report on Form 10-K.

Item 1. Business

The Company

NNN, a Maryland corporation, is a fully integrated real estate investment trust (“REIT”) formed in 1984. NNN's assets include: real estate assets, mortgages and notes receivable, and commercial mortgage residual interests.

Real Estate Assets

NNN acquires, owns, invests in and develops properties that are leased primarily to retail tenants under long-term net leases and are primarily held for investment (“Properties” or “Property Portfolio”). As of December 31, 2013, NNN owned 1,860 Properties with an aggregate gross leasable area of 20,402,000 square feet, located in 47 states. Approximately 98 percent of the Properties in NNN’s Property Portfolio were leased as of December 31, 2013.

Competition

NNN generally competes with numerous other REITs, commercial developers, real estate limited partnerships and other investors including but not limited to insurance companies, pension funds and financial institutions that own, manage, finance or develop retail and net leased properties.

Employees

As of January 31, 2014, NNN employed 62 full-time associates including executive and administrative personnel.

Other Information

NNN’s executive offices are located at 450 S. Orange Avenue, Suite 900, Orlando, Florida 32801, and its telephone number is (407) 265-7348. NNN has an Internet website at www.nnnreit.com where NNN’s filings with the Securities and Exchange Commission (the “Commission”) can be downloaded free of charge.

The common shares of National Retail Properties, Inc. are traded on the New York Stock Exchange (the "NYSE") under the ticker symbol "NNN." The depositary shares, each representing a 1/100th of a share of 6.625% Series D Cumulative Redeemable Preferred Stock, par value $0.01 per share ("Series D Preferred Stock"), of NNN are traded on the NYSE under the ticker symbol "NNNPRD." The depositary shares, each representing a 1/100th of a share of 5.700% Series E Cumulative Redeemable Preferred Stock, par value $0.01 per share ("Series E Preferred Stock"), of NNN are traded on the NYSE under the ticker symbol "NNNPRE."

Business Strategies and Policies

The following is a discussion of NNN's operating strategy and certain of its investment, financing and other policies. These strategies and policies have been set by management and/or the Board of Directors and, in general, may be amended or revised from time to time by management and/or the Board of Directors without a vote of NNN's stockholders.

Operating Strategies

NNN's strategy is to invest primarily in retail real estate that is typically well located within each local market for its tenants' lines of trade. Management believes that these types of properties, generally leased pursuant to triple-net leases, provide attractive opportunities for a stable current return and the potential for increased returns and capital appreciation. Triple-net leases typically require the tenant to pay property operating expenses such as insurance, utilities, repairs, maintenance, capital expenditures, real estate taxes, assessments and other governmental charges. Initial lease terms are generally 15 to 20 years.

NNN holds real estate assets until it determines that the sale of such an asset is advantageous in view of NNN's investment objectives. In deciding whether to sell a real estate asset, NNN may consider factors such as potential capital appreciation, net cash flow, tenant credit quality, market lease rates, local market conditions, potential use of sale proceeds and federal income tax considerations.

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

In some cases, NNN's investment in real estate is in the form of mortgages or other loans which may be secured by real estate or a borrower's pledge of ownership interests in the entity that owns the real estate or other assets. These investments, which represent less than approximately one-percent of NNN's total assets, may be subordinated to senior loans encumbering the underlying real estate or assets. Subordinated positions are generally subject to a higher risk of nonpayment of principal and interest than the more senior loans.

The operating strategies employed by NNN have allowed NNN to increase the annual dividend (paid quarterly) per common share for 24 consecutive years, one of only four publicly traded REIT's to do so.

Investment in Real Estate or Interests in Real Estate

NNN's management believes that single tenant, freestanding net lease retail properties will continue to provide attractive investment opportunities and that NNN is well suited to take advantage of these opportunities because of its experience in accessing capital markets, and its ability to identify, underwrite and acquire properties.

In evaluating a particular acquisition, management may consider a variety of factors, including:

- the location, visibility and accessibility of the property,
- the geographic area and demographic characteristics of the community, as well as the local real estate market, including potential for growth, market rents, and existing or potential competing properties or retailers,
- the size and age of the property,
- the purchase price,
- the non-financial terms of the proposed acquisition,
- the availability of funds or other consideration for the proposed acquisition and the cost thereof,
- the compatibility of the property with NNN's existing portfolio,
- the quality of construction and design and the current physical condition of the property,
- the property level operating history,
- the financial and other characteristics of the existing tenant,
- the tenant's business plan, operating history and management team,

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- the tenant's industry,
- the terms of any existing leases,
- the rent to be paid by the tenant, and
- the potential for, and current extent of, any environmental problems.

NNN intends to engage in future investment activities in a manner that is consistent with the maintenance of its status as a REIT for federal income tax purposes and that will not make NNN an investment company under the Investment Company Act of 1940, as amended.

Equity investments in acquired properties may be subject to existing mortgage financings and other indebtedness or to new indebtedness which may be incurred in connection with acquiring or refinancing these investments.

Investments in Real Estate Mortgages, Commercial Mortgage Residual Interests, and Securities of or Interests in Persons Engaged in Real Estate Activities

While NNN's primary business objectives emphasize retail properties, NNN may invest in (i) a wide variety of property and tenant types, (ii) leases, mortgages, commercial mortgage residual interests and other types of real estate interests, (iii) loans secured by personal property, (iv) loans secured by partnerships or membership interests in partnerships or limited liability companies, respectively, or (v) securities of other REITs, or other issuers, including for the purpose of exercising control over such entities. For example, NNN from time to time has made investments in mortgage loans, has held mortgages on properties that NNN has sold and has made other loans related to properties acquired or sold.

Financing Strategy

NNN's financing objective is to manage its capital structure effectively in order to provide sufficient capital to execute its operating strategies while servicing its debt requirements and providing value to its stockholders. NNN generally utilizes debt and equity security offerings, bank borrowings, the sale of properties, and to a lesser extent, internally generated funds to meet its capital needs.

NNN typically funds its short-term liquidity requirements including investments in additional retail properties with cash from its $500,000,000 unsecured revolving credit facility ("Credit Facility"). As of December 31, 2013, $46,400,000 was outstanding and $453,600,000 was available for future borrowings under the Credit Facility.

As of December 31, 2013, NNN's ratio of total debt to total gross assets (before accumulated depreciation) was approximately 32 percent and the ratio of secured indebtedness to total gross assets was less than one-percent. The ratio of total debt to total market capitalization was approximately 28 percent. Certain financial agreements to which NNN is a party contain covenants that limit NNN's ability to incur debt under certain circumstances.

NNN anticipates it will be able to obtain additional financing for short-term and long-term liquidity requirements as further described in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity." However, there can be no assurance that additional financing or capital will be available, or that the terms will be acceptable or advantageous to NNN.

The organizational documents of NNN do not limit the absolute amount or percentage of indebtedness that NNN may incur. Additionally, NNN may change its financing strategy at any time. NNN has not engaged in trading, underwriting or agency distribution or sale of securities of other issuers and does not intend to do so.

Strategies and Policy Changes

Any of NNN's strategies or policies described above may be changed at any time by NNN without notice to or a vote of NNN's stockholders.

Property Portfolio

As of December 31, 2013, NNN owned 1,860 Properties with an aggregate gross leasable area of 20,402,000 square feet, located in 47 states. Approximately 98 percent of total Properties in the Property Portfolio were leased as of December 31, 2013.

The following table summarizes NNN's Property Portfolio as of December 31, 2013 (in thousands):

	Size[1]			Acquisition Cost[2]		
	High	Low	Average	High	Low	Average
Land	2,223	5	100	$8,882	$5	$920
Building	142	1	11	29,373	19	1,674

(1) Approximate square feet.
(2) Costs vary depending upon size and local demographic factors.

As of December 31, 2013, NNN has agreed to fund construction commitments on leased Properties, estimated to be completed within 12 months, as outlined in the table below (dollars in thousands):

Number of properties	48
Total commitment[1]	$145,818
Amount funded	99,024
Remaining commitment	46,794

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

As of December 31, 2013, NNN did not have any tenant that accounted for ten percent or more of its rental income.

Leases

The following is a summary of the general structure of NNN's Property leases, although the specific terms of each lease can vary. Generally, the Property leases provide for initial terms of 15 to 20 years. As of December 31, 2013, the weighted average remaining lease term of the Property Portfolio was approximately 12 years. The Properties are generally leased under net leases, pursuant to which the tenant typically bears responsibility for substantially all property costs and expenses associated with ongoing maintenance and operation, including utilities, property taxes and insurance. NNN's Property leases provide for annual base rental payments (payable in monthly installments) ranging from $1,000 to $2,607,000 (average of $211,000), and generally provide for limited increases in rent as a result of fixed increases, increases in the Consumer Price Index ("CPI"), and/or, to a lesser extent, increases in the tenant's sales volume.

Generally, the Property leases provide the tenant with one or more multi-year renewal options subject to generally the same terms and conditions provided under the initial lease term. Some of the leases also provide that in the event NNN wishes to sell the Property subject to that lease, NNN first must offer the lessee the right to purchase the Property on the same terms and conditions as any offer which NNN intends to accept for the sale of the Property.

The following table summarizes the lease expirations, assuming none of the tenants exercise renewal options, of NNN's Property Portfolio for each of the next 10 years and then thereafter in the aggregate as of December 31, 2013:

	% of Annual Base Rent[1]	# of Properties	Gross Leasable Area[2]		% of Annual Base Rent[1]	# of Properties	Gross Leasable Area[2]
2014	1.4%	32	434,000	2020	3.1%	97	916,000
2015	1.6%	32	482,000	2021	4.6%	99	918,000
2016	1.7%	32	567,000	2022	6.9%	92	1,150,000
2017	3.5%	46	1,009,000	2023	3.3%	54	962,000
2018	8.3%	186	1,957,000	Thereafter	62.1%	1,092	10,472,000
2019	3.5%	57	1,005,000				

(1) Based on annualized base rent for all leases in place as of December 31, 2013.
(2) Approximate square feet.

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

		% of Annual Base Rent[(1)]		
	Top 10 Lines of Trade	2013	2012	2011
1.	Convenience stores	19.7%	19.8%	24.6%
2.	Restaurants - full service	9.7%	10.7%	9.4%
3.	Automotive service	7.6%	7.6%	4.9%
4.	Restaurants - limited service	5.5%	5.2%	3.6%
5.	Automotive parts	5.1%	5.6%	6.5%
6.	Theaters	4.5%	4.7%	5.0%
7.	Health and fitness	4.3%	3.7%	2.6%
8.	Banks	4.1%	0.2%	0.2%
9.	Sporting goods	3.7%	4.0%	4.8%
10.	Recreational vehicle dealers, parts and accessories	3.2%	2.7%	2.3%
	Other	32.6%	35.8%	36.1%
		100.0%	100.0%	100.0%

(1) Based on annualized base rent for all leases in place as of December 31 of the respective year.

The following table shows the top 10 states in which NNN's Properties are located as of December 31, 2013:

	State	# of Properties	% of Annual Base Rent[(1)]
1.	Texas	369	20.4%
2.	Florida	164	10.5%
3.	Illinois	63	5.3%
4.	Georgia	102	4.8%
5.	North Carolina	98	4.7%
6.	Virginia	85	4.6%
7.	Indiana	75	3.9%
8.	California	38	3.5%
9.	Ohio	55	3.4%
10.	Pennsylvania	95	3.3%
	Other	716	35.6%
		1,860	100.0%

(1) Based on annualized base rent for all leases in place as of December 31, 2013.

Mortgages and Notes Receivable

Mortgage notes are secured by real estate, real estate securities or other assets. Mortgages and notes receivable consisted of the following at December 31 (dollars in thousands):

	2013	2012
Mortgages and notes receivable	$16,942	$26,952
Accrued interest receivable	177	858
Unamortized discount	—	(40)
	$17,119	$27,770

Commercial Mortgage Residual Interests

Orange Avenue Mortgage Investments, Inc. ("OAMI"), a wholly owned and consolidated subsidiary of NNN, holds the residual interests ("Residuals") from seven commercial real estate loan securitizations. Each of the Residuals is reported at fair value based upon an independent valuation; unrealized gains or losses are reported as other comprehensive income in stockholders' equity, and other than temporary losses as a result of a change in timing or amount of estimated cash flows are recorded as an other than temporary valuation impairment. The Residuals had an estimated fair value of $11,721,000 and $13,096,000 at December 31, 2013 and 2012, respectively.

Governmental Regulations Affecting Properties

Property Environmental Considerations. Subject to a determination of the level of risk and potential cost of remediation, NNN may acquire a property where some level of environmental contamination may exist. Investments in real property create a potential for substantial environmental liability for the owner of such property from the presence or discharge of hazardous materials on the property or the improper disposal of hazardous materials emanating from the property, regardless of fault. In order to mitigate exposure to environmental liability, NNN maintains an environmental insurance policy that covers substantially all of the properties which expires in August 2018. As a part of its acquisition due diligence process, NNN generally obtains an environmental site assessment for each property. In such cases where NNN intends to acquire real estate where some level of contamination may exist, NNN generally requires the seller or tenant to (i) remediate the problem, (ii) indemnify NNN for environmental liabilities, and/or (iii) agree to other arrangements deemed appropriate by NNN, including, under certain circumstances, the purchase of environmental insurance to address environmental conditions at the property.

As of February 12, 2014, NNN has 70 Properties currently under some level of environmental remediation and/or monitoring. In general, the seller, a previous owner, the tenant or an adjacent land owner is responsible for the cost of the environmental remediation for each of these Properties.

Americans with Disabilities Act of 1990. The Properties, as commercial facilities, are required to comply with Title III of the Americans with Disabilities Act of 1990 and similar state and local laws and regulations (collectively, the "ADA"). Investigation of a property may reveal non-compliance with the ADA. The tenants will typically have primary responsibility for complying with the ADA, but NNN may incur costs if the tenant does not comply. As of February 12, 2014, NNN has not been notified by any governmental authority of, nor is NNN's management aware of, any non-compliance with the ADA that NNN's management believes would have a material adverse effect on its business, financial position or results of operations.

Other Regulations. State and local fire, life-safety and similar entities regulate the use of NNN's Properties. NNN's leases generally require each tenant to undertake primary responsibility for complying with regulations, but failure to comply could result in fines by governmental authorities, awards of damages to private litigants, or restrictions on the ability to conduct business on such properties.

Item 1A. Risk Factors

Carefully consider the following risks and all of the other information set forth in this Annual Report on Form 10-K, including the consolidated financial statements and the notes thereto. If any of the events or developments described below were actually to occur, NNN's business, financial condition or results of operations could be adversely affected.

Financial and economic conditions may have an adverse impact on NNN, its tenants, and commercial real estate in general.

Financial and economic conditions continue to be challenging and volatile and any worsening of such conditions, including any disruption in the capital markets, could adversely affect NNN's business and results of operations and the financial condition of NNN's tenants, developers, borrowers, lenders or the institutions that hold NNN's cash balances and short-term investments, which may expose NNN to increased risks of default by these parties.

There can be no assurance that actions of the United States Government, Federal Reserve or other government and regulatory bodies intended to stabilize the economy or financial markets will achieve their intended effect. Additionally, some of these actions may adversely affect financial institutions, capital providers, retailers, consumers or NNN's financial condition, results of operations or the trading price of NNN's shares.

Potential consequences of the current financial and economic conditions include:

- the financial condition of NNN’s tenants may be adversely affected, which may result in tenant defaults under the leases due to bankruptcy, lack of liquidity, operational failures or for other reasons;
- the ability to borrow on terms and conditions that NNN finds acceptable may be limited or unavailable, which could reduce NNN’s ability to pursue acquisition and development opportunities and refinance existing debt, reduce NNN’s returns from acquisition and development activities, reduce NNN’s ability to make cash distributions to its shareholders and increase NNN’s future interest expense;
- the recognition of impairment charges on or reduced values of NNN’s Properties, which may adversely affect NNN's results of operations;
- reduced values of NNN's Properties may limit NNN's ability to dispose of assets at attractive prices and reduce the availability of buyer financing; and
- the value and liquidity of NNN’s short-term investments and cash deposits could be reduced as a result of a deterioration of the financial condition of the institutions that hold NNN’s cash deposits or the institutions or assets in which NNN has made short-term investments, the dislocation of the markets for NNN’s short-term investments, increased volatility in market rates for such investments or other factors.

NNN may be unable to obtain debt or equity capital on favorable terms, if at all.

NNN may be unable to obtain capital on favorable terms, if at all, to further its business objectives or meet its existing obligations. Nearly all of NNN’s debt, including the Credit Facility, is subject to balloon principal payments due at maturity. These maturities range between 2014 and 2023. NNN's ability to make these scheduled principal payments may be adversely impacted by NNN’s inability to extend or refinance the Credit Facility, the inability to dispose of assets at an attractive price or the inability to obtain additional debt or equity capital. Capital that may be available may be materially more expensive or available under terms that are materially more restrictive than NNN’s existing capital which would have an adverse impact on NNN’s business, financial condition or results of operations.

Tenants loss of revenues could reduce NNN’s cash flow.

NNN's tenants encounter significant macroeconomic, governmental and competitive forces. Adverse changes in consumer spending or consumer preferences for particular goods, services or store based retailing or the expansion of e-commerce could severely impact their ability to pay rent. The default, financial distress, bankruptcy or liquidation of one or more of NNN’s tenants could cause substantial vacancies in NNN’s Property Portfolio. Vacancies reduce NNN’s revenues, increase property expenses and could decrease the value of each such vacant Property. Upon the expiration of a lease, the tenant may choose not to renew the lease and/or NNN may not be able to re-lease the vacant Property at a comparable lease rate or without incurring additional expenditures in connection with such renewal or re-leasing.

A significant portion of the source of NNN’s Property Portfolio annual base rent is concentrated in specific industry classifications, tenants and in specific geographic locations.

As of December 31, 2013, approximately,

- 47.7% of NNN’s Property Portfolio annual base rent is generated from five retail lines of trade, including convenience stores (19.7%) and full-service restaurants (9.7%),
- 22.7% of NNN’s Property Portfolio annual base rent is generated from five tenants, including Susser Holdings Corp. (5.0%), Mister Car Wash (4.9%), The Pantry, Inc. (4.4%), 7-Eleven, Inc. (4.2%) and LA Fitness (4.2%), and
- 45.6% of NNN’s Property Portfolio annual base rent is generated from five states, including Texas (20.4%) and Florida (10.5%).

Any financial hardship and/or economic changes in these lines of trade, tenants or states could have an adverse effect on NNN’s results of operations.

Owning real estate and indirect interests in real estate carries inherent risks.
NNN's economic performance and the value of its real estate assets are subject to the risk that if NNN's Properties do not generate revenues sufficient to meet its operating expenses, including debt service, NNN's cash flow and ability to pay distributions to its shareholders will be adversely affected. As a real estate company, NNN is susceptible to the following real estate industry risks, which are beyond its control:

- changes in national, regional and local economic conditions and outlook,
- decreases in consumer spending and retail sales or adverse changes in consumer preferences for particular goods, services or store based retailing,
- economic downturns in the areas where NNN's Properties are located,
- adverse changes in local real estate market conditions, such as an oversupply of space, reduction in demand for space, intense competition for tenants, or a demographic change,
- changes in tenant or consumer preferences that reduce the attractiveness of NNN's Properties to tenants,
- changes in zoning, regulatory restrictions, or tax laws, and
- changes in interest rates or availability of financing.

All of these factors could result in decreases in market rental rates and increases in vacancy rates, which could adversely affect NNN's results of operations.
NNN's real estate investments are illiquid.
Because real estate investments are relatively illiquid, NNN's ability to adjust the portfolio promptly in response to economic or other conditions is limited. Certain significant expenditures generally do not change in response to economic or other conditions, including: (i) debt service (if any), (ii) real estate taxes, and (iii) operating and maintenance costs. This combination of variable revenue and relatively fixed expenditures may result, under certain market conditions, in reduced earnings and could have an adverse effect on NNN's financial condition.
Costs of complying with changes in governmental laws and regulations may adversely affect NNN's results of operations.
NNN cannot predict what other laws or regulations will be enacted in the future, how future laws or regulations will be administered or interpreted, or how future laws or regulations will affect NNN's Properties, including, but not limited to environmental laws and regulations. Compliance with new laws or regulations, or stricter interpretation of existing laws, may require NNN, its retail tenants, or consumers to incur significant expenditures, impose significant liability, restrict or prohibit business activities and could cause a material adverse effect on NNN's results of operation.
NNN may be subject to known or unknown environmental liabilities and hazardous materials on Properties owned by NNN.
There may be known or unknown environmental liabilities associated with properties owned or acquired in the future by NNN. Certain particular uses of some properties may also have a heightened risk of environmental liability because of the hazardous materials used in performing services on those properties, such as convenience stores with underground petroleum storage tanks or auto parts and auto service businesses using petroleum products, paint and machine solvents. Some of NNN's properties may contain asbestos or asbestos-containing materials, or may contain or may develop mold or other bio-contaminants. Asbestos-containing materials must be handled, managed and removed in accordance with applicable governmental laws, rules and regulations. Mold and other bio-contaminants can produce airborne toxins, may cause a variety of health issues in individuals and must be remediated in accordance with applicable governmental laws, rules and regulations.
As part of its due diligence process, NNN generally obtains an environmental site assessment for each property it acquires. In cases where NNN intends to acquire real estate where some level of contamination may exist, NNN generally requires the seller or tenant to (i) remediate the contamination in accordance with applicable laws, rules and regulations, (ii) indemnify NNN for environmental liabilities, and/or (iii) agree to other arrangements deemed appropriate by NNN, including, under certain circumstances, the purchase of environmental insurance. Although sellers or tenants may be contractually responsible for remediating hazardous materials on a property and may be responsible for indemnifying NNN for any liability resulting from the use of a property and for any failure to comply with any applicable environmental laws, rules or regulations, NNN has no assurance that sellers or tenants shall be able to meet their remediation and indemnity obligations to NNN. A tenant or seller may not have the financial ability

to meet its remediation and indemnity obligations to NNN when required. Furthermore, NNN may have strict liability to governmental agencies or third parties as a result of the existence of hazardous materials on properties, whether or not NNN knew about or caused such hazardous materials to exist.

As of February 12, 2014, NNN has 70 Properties currently under some level of environmental remediation and/or monitoring. In general, the seller, a previous owner, the tenant or an adjacent land owner is responsible for the cost of the environmental remediation for each of these Properties.

If NNN is responsible for hazardous materials located on its properties, NNN’s liability may include investigation and remediation costs, property damage to third parties, personal injury to third parties, and governmental fines and penalties. Furthermore, the presence of hazardous materials on a property may adversely impact the property value or NNN’s ability to sell the property. Significant environmental liability could impact NNN’s results of operations, ability to make distributions to shareholders, and its ability to meet its debt obligations.

In order to mitigate exposure to environmental liability, NNN maintains an environmental insurance policy that covers substantially all of its Properties which expires in August 2018. However, the policy is subject to exclusions and limitations and does not cover all of the Properties owned by NNN, and for those Properties covered under the policy, insurance may not fully compensate NNN for any environmental liability. NNN has no assurance that the insurer on its environmental insurance policy will be able to meet its obligations under the policy. NNN may not desire to renew the environmental insurance policy in place upon expiration or a replacement policy may not be available at a reasonable cost, if at all.

NNN may not be able to successfully execute its acquisition or development strategies.

NNN may not be able to implement its investment strategies successfully. Additionally, NNN cannot assure that its Property Portfolio will expand at all, or if it will expand at any specified rate or to any specified size. In addition, investment in additional real estate assets is subject to a number of risks. Because NNN expects to invest in markets other than the ones in which its current properties are located or properties which may be leased to tenants other than those to which NNN has historically leased properties, NNN will also be subject to the risks associated with investment in new markets or with new tenants that may be relatively unfamiliar to NNN’s management team.

NNN’s development activities are subject to, without limitation, risks relating to the availability and timely receipt of zoning and other regulatory approvals, the cost and timely completion of construction (including risks from factors beyond NNN’s control, such as weather or labor conditions or material shortages), the risk of finding tenants for the properties and the ability to obtain both construction and permanent financing on favorable terms. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken or provide a tenant the opportunity to terminate a lease. Any of these situations may delay or eliminate proceeds or cash flows NNN expects from these projects, which could have an adverse effect on NNN’s financial condition.

NNN may not be able to dispose of properties consistent with its operating strategy.

NNN may be unable to sell properties targeted for disposition due to adverse market conditions. This may adversely affect, among other things, NNN’s ability to sell under favorable terms, execute its operating strategy, achieve target earnings or returns, retire or repay debt or pay dividends.

A change in the assumptions used to determine the value of commercial mortgage residual interests could adversely affect NNN’s financial position.

As of December 31, 2013, the Residuals had a carrying value of $11,721,000. The value of these Residuals is based on assumptions made by NNN to determine their fair value. These assumptions include, but are not limited to, discount rate, loan loss, prepayment speed and interest rate assumptions made by NNN to determine their fair value. If actual experience differs materially from these assumptions, the actual future cash flow could be less than expected and the value of the Residuals, as well as NNN’s earnings, could decline.

NNN may suffer a loss in the event of a default or bankruptcy of a borrower.

If a borrower defaults on a mortgage or other loan made by NNN, and does not have sufficient assets to satisfy the loan, NNN may suffer a loss of principal and interest. In the event of the bankruptcy of a borrower, NNN may not be able to recover against all or any of the assets of the borrower, or the collateral may not be sufficient to satisfy the balance due on the loan. In addition, certain of NNN’s loans may be subordinate to other debt of a borrower. These investments are typically loans secured by a borrower’s pledge of its ownership interests in the entity that owns the real estate or other assets. These agreements are typically subordinated to senior loans encumbering the underlying real estate or assets. Subordinated positions are generally subject to a higher risk of nonpayment of principal and interest than the more senior loans. As of December 31, 2013, mortgages and notes receivables had an outstanding principal balance of $16,942,000. If a borrower defaults on the debt senior to NNN's loan, or in the event of the bankruptcy of a borrower, NNN's loan will be satisfied only after the borrower's senior creditors' claims are satisfied. Where debt senior to NNN's loans exists, the presence of intercreditor arrangements may limit

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NNN’s ability to amend loan documents, assign the loans, accept prepayments, exercise remedies and control decisions made in bankruptcy proceedings relating to borrowers. Bankruptcy proceedings and litigation can significantly increase the time needed for NNN to acquire underlying collateral, if any, in the event of a default, during which time the collateral may decline in value. In addition, there are significant costs and delays associated with the foreclosure process.

Certain provisions of NNN’s leases or loan agreements may be unenforceable.

NNN’s rights and obligations with respect to its leases, mortgage loans or other loans are governed by written agreements. A court could determine that one or more provisions of such an agreement are unenforceable, such as a particular remedy, a loan prepayment provision or a provision governing NNN’s security interest in the underlying collateral of a borrower or lessee. NNN could be adversely impacted if this were to happen with respect to an asset or group of assets.

Property ownership through joint ventures and partnerships could limit NNN’s control of those investments.

Joint ventures or partnerships involve risks not otherwise present for direct investments by NNN. It is possible that NNN’s co-venturers or partners may have different interests or goals than NNN at any time and they may take actions contrary to NNN’s requests, policies or objectives, including NNN’s policy with respect to maintaining its qualification as a REIT. Other risks of joint venture or partnership investments include impasses on decisions because in some instances no single co-venturer or partner has full control over the joint venture or partnership, respectively, or the co-venturer or partner may become insolvent, bankrupt or otherwise unable to contribute to the joint venture or partnership, respectively. Further, disputes may develop with a co-venturer or partner over decisions affecting the property, joint venture or partnership that may result in litigation, arbitration or some other form of dispute resolution.

Competition from numerous other REITs, commercial developers, real estate limited partnerships and other investors may impede NNN’s ability to grow.

NNN may not complete suitable property acquisitions or developments on advantageous terms, if at all, due to competition for such properties with others engaged in real estate investment activities or lack of properties for sale on terms deemed acceptable to NNN. NNN’s inability to successfully acquire or develop new properties may affect NNN’s ability to achieve anticipated return on investment or realize its investment strategy, which could have an adverse effect on its results of operations.

NNN's loss of key management personnel could adversely affect performance and the value of its common stock.

NNN is dependent on the efforts of its key management. Competition for senior management personnel can be intense and NNN may not be able to retain its key management. Although NNN believes qualified replacements could be found for any departures of key management, the loss of their services could adversely affect NNN's performance and the value of its common stock.

Uninsured losses may adversely affect NNN’s operating results and asset values.

NNN’s properties are generally covered by comprehensive liability, fire, and extended insurance coverage. NNN believes that the insurance carried on its properties is adequate and in accordance with industry standards. There are, however, types of losses (such as from hurricanes, earthquakes or other types of natural disasters or wars or other acts of violence) which may be uninsurable, or the cost of insuring against these losses may not be economically justifiable. If an uninsured loss occurs or a loss exceeds policy limits, NNN could lose both its invested capital and anticipated revenues from the property, thereby reducing NNN’s cash flow and asset value.

Acts of violence, terrorist attacks or war may affect the markets in which NNN operates and NNN's results of operations.

Terrorist attacks or other acts of violence may negatively affect NNN's operations. There can be no assurance that there will not be terrorist attacks against businesses within the United States. These attacks may directly or indirectly impact NNN's physical facilities or the businesses or the financial condition of its tenants, developers, borrowers, lenders or financial institutions with which NNN has a relationship. The United States is engaged in armed conflict, which could have an impact on these parties. The consequences of armed conflict are unpredictable, and NNN may not be able to foresee events that could have an adverse effect on its business or be insured for such.

More generally, any of these events or threats of these events could cause consumer confidence and spending to decrease or result in increased volatility in the United States and worldwide financial markets and economies. They also could result in, or cause a deepening of, economic recession in the United States or abroad. Any of these occurrences could have an adverse impact on NNN's financial condition or results of operations.

Vacant properties or bankrupt tenants could adversely affect NNN's business or financial condition.

As of December 31, 2013, NNN owned 33 vacant, un-leased Properties, which accounted for approximately two percent of total Properties held in NNN's Property Portfolio. NNN is actively marketing these properties for sale or lease but may not be able to sell or lease these properties on favorable terms or at all. The lost revenues and increased property expenses resulting from the rejection by any bankrupt tenant of any of their respective leases with NNN could have a material adverse effect on the liquidity and results of operations of NNN if NNN is unable to re-lease the Properties at comparable rental rates and in a timely manner. As of January 31, 2014, less than one percent of the total gross leasable area of NNN's Property Portfolio was leased to tenants that have filed a voluntary petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code and have the right to reject or affirm their leases with NNN.

The amount of debt NNN has and the restrictions imposed by that debt could adversely affect NNN's business and financial condition.

As of December 31, 2013, NNN had total mortgage debt outstanding of approximately $9,475,000, total unsecured notes payable of $1,514,184,000 and $46,400,000 outstanding on the Credit Facility. NNN's organizational documents do not limit the level or amount of debt that it may incur. If NNN incurs additional indebtedness and permits a higher degree of leverage, debt service requirements would increase and could adversely affect NNN's financial condition and results of operations, as well as NNN's ability to pay principal and interest on the outstanding indebtedness or cash dividends to its stockholders. In addition, increased leverage could increase the risk that NNN may default on its debt obligations.

The amount of debt outstanding at any time could have important consequences to NNN's stockholders. For example, it could:

- require NNN to dedicate a substantial portion of its cash flow from operations to payments on its debt, thereby reducing funds available for operations, real estate investments and other business opportunities that may arise in the future,
- increase NNN's vulnerability to general adverse economic and industry conditions,
- limit NNN's ability to obtain any additional financing it may need in the future for working capital, debt refinancing, capital expenditures, real estate investments, development or other general corporate purposes,
- make it difficult to satisfy NNN's debt service requirements,
- limit NNN's ability to pay dividends in cash on its outstanding common and preferred stock,
- limit NNN's flexibility in planning for, or reacting to, changes in its business and the factors that affect the profitability of its business, and
- limit NNN's flexibility in conducting its business, which may place NNN at a disadvantage compared to competitors with less debt or debt with less restrictive terms.

NNN's ability to make scheduled payments of principal or interest on its debt, or to retire or refinance such debt will depend primarily on its future performance, which to a certain extent is subject to the creditworthiness of its tenants, competition, and economic, financial, and other factors beyond its control. There can be no assurance that NNN's business will continue to generate sufficient cash flow from operations in the future to service its debt or meet its other cash needs. If NNN is unable to generate sufficient cash flow from its business, it may be required to refinance all or a portion of its existing debt, sell assets or obtain additional financing to meet its debt obligations and other cash needs. NNN cannot assure stockholders that any such refinancing, sale of assets or additional financing would be possible or, if possible, on terms and conditions, including but not limited to the interest rate, which NNN would find acceptable or would not result in a material decline in earnings.

NNN is obligated to comply with financial and other covenants in its debt instruments that could restrict its operating activities, and the failure to comply with such covenants could result in defaults that accelerate the payment of such debt.

As of December 31, 2013, NNN had approximately $1,570,059,000 of outstanding indebtedness, of which approximately $9,475,000 was secured indebtedness. NNN's unsecured debt instruments contain various restrictive covenants which include, among others, provisions restricting NNN's ability to:

- incur or guarantee additional debt,
- make certain distributions, investments and other restricted payments,
- enter into transactions with certain affiliates,
- create certain liens,
- consolidate, merge or sell NNN's assets, and
- pre-pay debt.

NNN's secured debt instruments generally contain customary covenants, including, among others, provisions:

- requiring the maintenance of the property securing the debt,
- restricting its ability to sell, assign or further encumber the properties securing the debt,
- restricting its ability to incur additional debt,
- restricting its ability to amend or modify existing leases, and
- establishing certain prepayment restrictions.

NNN's ability to meet some of its debt covenants, including covenants related to the condition of the property or payment of real estate taxes, may be dependent on the performance by NNN's tenants under their leases.

In addition, certain covenants in NNN's debt instruments, including its Credit Facility, require NNN, among other things, to:

- limit certain leverage ratios,
- maintain certain minimum interest and debt service coverage ratios, and
- limit investments in certain types of assets.

NNN's failure to comply with certain of its debt covenants could result in defaults that accelerate the payment under such debt and limit the dividends paid to NNN's common and preferred stockholders which would likely have a material adverse impact on NNN's financial condition and results of operations. In addition, these defaults could impair its access to the debt and equity markets.

The market value of NNN's equity and debt securities is subject to various factors that may cause significant fluctuations or volatility.

As with other publicly traded securities, the market price of NNN's equity and debt securities depends on various factors, which may change from time-to-time and/or may be unrelated to NNN's financial condition, operating performance or prospects that may cause significant fluctuations or volatility in such prices. These factors, among others, include:

- general economic and financial market conditions,
- level and trend of interest rates,
- NNN's ability to access the capital markets to raise additional capital,
- the issuance of additional equity or debt securities,
- changes in NNN's funds from operations or earnings estimates,
- changes in NNN's debt ratings or analyst ratings,
- NNN's financial condition and performance,
- market perception of NNN compared to other REITs, and
- market perception of REITs compared to other investment sectors.

NNN's failure to qualify as a real estate investment trust for federal income tax purposes could result in significant tax liability.

NNN intends to operate in a manner that will allow NNN to continue to qualify as a REIT. NNN believes it has been organized as, and its past and present operations qualify NNN as a REIT. However, the Internal Revenue Service ("IRS") could successfully assert that NNN is not qualified as such. In addition, NNN may not remain qualified as a REIT in the future. Qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code of 1986, as amended (the "Code") for which there are only limited judicial or administrative interpretations and involves the determination of various factual matters and circumstances not entirely within NNN's control. Furthermore, new tax legislation, administrative guidance or court decisions, in each instance potentially with retroactive effect, could make it more difficult or impossible for NNN to qualify as a REIT or avoid significant tax liability.

If NNN fails to qualify as a REIT, it would not be allowed a deduction for dividends paid to stockholders in computing taxable income and would become subject to federal income tax at regular corporate rates. In this event, NNN could be subject to potentially significant tax liabilities and penalties. Unless entitled to relief under certain statutory provisions, NNN would also be disqualified from treatment as a REIT for the four taxable years following the year during which the qualification was lost.

Even if NNN remains qualified as a REIT, NNN faces other tax liabilities that reduce operating results and cash flow.

Even if NNN remains qualified for taxation as a REIT, NNN is subject to certain federal, state and local taxes on its income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes, such as mortgage recording taxes. Any of these taxes would decrease earnings and cash available for distribution to stockholders. In addition, in order to meet the REIT qualification requirements, NNN holds some of its assets through the TRS.

Adverse legislative or regulatory tax changes could reduce NNN's earnings, cash flow and market price of NNN's common stock.

At any time, the federal and state income tax laws governing REITs or the administrative interpretations of those laws may change. Any such changes may have retroactive effect, and could adversely affect NNN or its stockholders. Legislation could cause shares in non-REIT corporations to be a more attractive investment to individual investors than shares in REITs, and could have an adverse effect on the value of NNN's common stock.

Compliance with REIT requirements, including distribution requirements, may limit NNN's flexibility and negatively affect NNN's operating decisions.

To maintain its status as a REIT for U.S. federal income tax purposes, NNN must meet certain requirements on an on-going basis, including requirements regarding its sources of income, the nature and diversification of its assets, the amounts NNN distributes to its stockholders and the ownership of its shares. NNN may also be required to make distributions to its stockholders when it does not have funds readily available for distribution or at times when NNN's funds are otherwise needed to fund expenditures or debt service requirements. NNN generally will not be subject to federal income taxes on amounts distributed to stockholders, providing it distributes 100 percent of its REIT taxable income and meets certain other requirements for qualifying as a REIT. For each of the years in the three-year period ended December 31, 2013, NNN believes it has qualified as a REIT. Notwithstanding NNN's qualification for taxation as a REIT, NNN is subject to certain state taxes on its income and real estate.

Changes in accounting pronouncements could adversely impact NNN's or NNN's tenants' reported financial performance.

Accounting policies and methods are fundamental to how NNN records and reports its financial condition and results of operations. From time to time the Financial Accounting Standards Board ("FASB") and the Commission, who create and interpret appropriate accounting standards, may change the financial accounting and reporting standards or their interpretation and application of these standards that govern the preparation of NNN's financial statements. These changes could have a material impact on NNN's reported financial condition and results of operations. In some cases, NNN could be required to apply a new or revised standard retroactively, resulting in restating prior period financial statements. Similarly, these changes could have a material impact on NNN's tenants' reported financial condition or results of operations and affect their preferences regarding leasing real estate.

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NNN's failure to maintain effective internal control over financial reporting could have a material adverse effect on its business, operating results and share price.

Section 404 of the Sarbanes-Oxley Act of 2002 requires annual management assessments of the effectiveness of the Company's internal control over financial reporting. If NNN fails to maintain the adequacy of its internal control over financial reporting, as such standards may be modified, supplemented or amended from time to time, NNN may not be able to ensure that it can conclude on an ongoing basis that it has effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. Moreover, effective internal control over financial reporting, particularly those related to revenue recognition, are necessary for NNN to produce reliable financial reports and to maintain its qualification as a REIT and are important in helping to prevent financial fraud. If NNN cannot provide reliable financial reports or prevent fraud, its business and operating results could be harmed, REIT qualification could be jeopardized, investors could lose confidence in the Company's reported financial information, and the trading price of NNN's shares could drop significantly.

NNN's ability to pay dividends in the future is subject to many factors.

NNN's ability to pay dividends may be impaired if any of the risks described in this section were to occur. In addition, payment of NNN's dividends depends upon NNN's earnings, financial condition, maintenance of NNN's REIT status and other factors as NNN's Board of Directors may deem relevant from time to time.

Cybersecurity risks and cyber incidents could adversely affect NNN's business and disrupt operations.

Cyber incidents can result from deliberate attacks or unintentional events. These incidents can include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. The result of these incidents could include, but are not limited to, disrupted operations, misstated financial data, liability for stolen assets or information, increased cybersecurity protection costs, litigation and reputational damage adversely affecting customer or investor confidence. These cyber incidents could negatively impact NNN, NNN's tenants and/or the capital markets.

Future investment in international markets could subject NNN to additional risks.

If NNN expands its operating strategy to include investment in international markets, NNN could face additional risks, including foreign currency exchange rate fluctuations, operational risks due to local economic and political conditions and laws and policies of the U.S. affecting foreign investment.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Please refer to Item 1. "Business."

Item 3. Legal Proceedings

In the ordinary course of its business, NNN is a party to various legal actions that management believes are routine in nature and incidental to the operation of the business of NNN. Management believes that the outcome of these proceedings will not have a material adverse effect upon its operations, financial condition or liquidity.

Item 4. Mine Safety Disclosures

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The common stock of NNN currently is traded on the NYSE under the symbol "NNN." Set forth below is a line graph comparing the cumulative total stockholder return on NNN's common stock, based on the market price of the common stock and assuming reinvestment of dividends, with the FTSE National Association of Real Estate Investment Trusts Equity Index ("NAREIT") and the S&P 500 Index ("S&P") for the five year period commencing December 31, 2008 and ending December 31, 2013. The graph assumes an investment of $100 on December 31, 2008.

Comparison to Five-Year Cumulative Total Return

Set forth below is a line graph comparing the cumulative total stockholder return on NNN's common stock, based on the market price of the common stock and assuming reinvestment of dividends, with the FTSE National Association of Real Estate Investment Trusts Equity Index ("NAREIT") and the S&P 500 Index ("S&P") for the fifteen year period commencing December 31, 1998 and ending December 31, 2013. The graph assumes an investment of $100 on December 31, 1998.

Comparison to Fifteen-Year Cumulative Total Return

For each calendar quarter and year indicated, the following table reflects respective high, low and closing sales prices for the common stock as quoted by the NYSE and the dividends paid per share in each such period.

2013	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
High	$36.18	$41.98	$37.74	$35.51	$41.98
Low	31.43	31.31	30.06	30.01	30.01
Close	36.17	34.40	31.82	30.33	30.33
Dividends paid per share	0.395	0.395	0.405	0.405	1.600
2012					
High	$27.81	$28.33	$31.82	$32.39	$32.39
Low	26.30	26.04	28.21	29.98	26.04
Close	27.19	28.29	30.50	31.20	31.20
Dividends paid per share	0.385	0.385	0.395	0.395	1.560

The following table presents the characterizations for tax purposes of such common stock dividends for the years ended December 31:

	2013			2012		
Ordinary dividends	$1.224568	76.5355	%	$1.199003	76.8592	%
Qualified dividends	0.056784	3.5490	%	0.013346	0.8555	%
Capital gain	—	—		0.021358	1.3691	%
Unrecaptured Section 1250 Gain	0.000650	0.0406	%	0.048890	3.1340	%
Nontaxable distributions	0.317998	19.8749	%	0.277403	17.7822	%
	$1.600000	100.0000	%	$1.560000	100.0000	%

NNN intends to pay regular quarterly dividends to its stockholders, although all future distributions will be declared and paid at the discretion of the Board of Directors and will depend upon cash generated by operating activities, NNN’s financial condition, capital requirements, annual distribution requirements under the REIT provisions of the Code and such other factors as the Board of Directors deems relevant.

In February 2014, NNN paid dividends to its stockholders of $49,274,000, or $0.405 per share, of common stock.

On January 31, 2014, there were 1,852 stockholders of record of common stock.

In February 2014, NNN declared a dividend on its Series D and E Preferred Stock of 41.40625 and 35.62500 cents per depositary share, respectively, payable March 14, 2014.

Item 6. Selected Financial Data
Historical Financial Highlights
(dollars in thousands, except per share data)

	2013	2012	2011	2010	2009
Gross revenues[1]	$397,006	$342,059	$271,696	$237,062	$243,933
Earnings from continuing operations	155,013	133,228	84,740	64,844	50,013
Earnings including noncontrolling interests	160,085	141,937	92,416	73,353	56,399
Net earnings attributable to NNN	160,145	142,015	92,325	72,997	54,810
Total assets	4,454,523	3,988,026	3,435,043	2,713,575	2,590,962
Total debt	1,570,059	1,586,964	1,339,109	1,133,685	987,346
Total stockholders' equity	2,777,045	2,296,285	2,002,498	1,527,483	1,564,240
Cash dividends declared to:					
Common stockholders	189,107	167,495	133,720	125,391	120,256
Series C preferred stockholders	—	1,979	6,785	6,785	6,785
Series D preferred stockholders	19,047	15,449	—	—	—
Series E preferred stockholders	8,876	—	—	—	—
Weighted average common shares:					
Basic	118,204,148	106,965,156	88,100,076	82,715,645	79,846,258
Diluted	119,864,824	109,117,515	88,837,057	82,849,362	79,953,499
Per share information:					
Earnings from continuing operations:					
Basic	$1.07	$1.05	$0.88	$0.70	$0.52
Diluted	1.06	1.03	0.87	0.70	0.52
Net earnings:					
Basic	1.11	1.13	0.96	0.80	0.60
Diluted	1.10	1.11	0.96	0.80	0.60
Cash dividends declared to:					
Common stockholders	1.60	1.56	1.53	1.51	1.50
Series C preferred depositary stockholders	—	0.537760	1.843750	1.843750	1.843750
Series D preferred depositary stockholders	1.656250	1.343403	—	—	—
Series E preferred depositary stockholders	0.771875	—	—	—	—
Other data:					
Cash flows provided by (used in):					
Operating activities	$274,421	$228,130	$177,728	$187,914	$149,502
Investing activities	(568,040)	(601,759)	(752,068)	(220,260)	(28,063)
Financing activities	293,028	373,623	574,374	19,169	(108,840)
Funds from operations – available to common stockholders[2]	229,518	193,682	139,834	108,625	90,039

(1) Gross revenues include revenues from NNN's continuing and discontinued operations. In accordance with FASB guidance on Accounting for the Impairment or Disposal of Long-Lived Assets, NNN has classified the revenues related to (i) all Properties which generated revenue that were sold and a leasehold interest which expired and (ii) all Properties which generated revenue and were held for sale at December 31, 2013, as discontinued operations.

(2) The National Association of Real Estate Investment Trusts ("NAREIT") developed Funds from Operations ("FFO") as a relative non-GAAP financial measure of performance of a REIT in order to recognize that income-producing real

estate historically has not depreciated on the basis determined under U.S. generally accepted accounting principles ("GAAP"). FFO is defined by NAREIT and is used by NNN as follows: net earnings (computed in accordance with GAAP) plus depreciation and amortization of real estate assets, excluding gains (or including losses) on the disposition of certain assets, any impairment charges on a depreciable real estate asset and NNN's share of these items from NNN's unconsolidated partnerships and joint ventures.

FFO is generally considered by industry analysts to be an appropriate measure of operating performance of real estate companies. FFO does not necessarily represent cash provided by operating activities in accordance with GAAP and should not be considered an alternative to net income as an indication of NNN's operating performance or to cash flow as a measure of liquidity or ability to make distributions. Management considers FFO an appropriate measure of operating performance of an equity REIT because it primarily excludes the assumption that the value of the real estate assets diminishes
predictably over time, and because industry analysts have accepted it as an operating performance measure. NNN's computation of FFO may differ from the methodology for calculating FFO used by other equity REITs, and therefore, may not be comparable to such other REITs.

All revenue generating property dispositions and revenue generating properties held for sale at December 31, 2013 from NNN's Property Portfolio are classified as discontinued operations. These properties have not historically been classified as discontinued operations, therefore, prior period comparable consolidated financial statements have been restated to include these properties in earnings from discontinued operations. These adjustments resulted in a decrease in NNN's reported total revenues and total and per share earnings from continuing operations and an increase in NNN's earnings from discontinued operations. However, NNN's total and per share net earnings available to common stockholders is not affected.

The following table reconciles FFO to the most directly comparable GAAP measure, net earnings for the years ended December 31:

	2013	2012	2011	2010	2009
Reconciliation of funds from operations:					
Net earnings attributable to NNN's stockholders	$160,145	$142,015	$92,325	$72,997	$54,810
Series C preferred stock dividends	—	(1,979)	(6,785)	(6,785)	(6,785)
Series D preferred stock dividends	(19,047)	(15,449)	—	—	—
Series E preferred stock dividends	(8,876)	—	—	—	—
Excess of redemption value over carrying value of Series C preferred shares redeemed	—	(3,098)	—	—	—
Net earnings available to common stockholders	132,222	121,489	85,540	66,212	48,025
Real estate depreciation and amortization:					
Continuing operations	99,020	73,586	52,179	41,595	40,901
Discontinued operations	371	1,480	1,957	2,214	3,699
Joint venture real estate depreciation	—	112	176	178	178
Joint venture gain on disposition of real estate	—	(2,341)	—	—	—
Gain on disposition of real estate, net of tax and noncontrolling interest	(5,442)	(10,956)	(449)	(1,574)	(2,764)
Impairment losses – real estate	3,347	10,312	431	—	—
FFO available to common stockholders	$229,518	$193,682	$139,834	$108,625	$90,039

For a discussion of material events affecting the comparability of the information reflected in the selected financial data, refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with “Item 6. Selected Financial Data,” and the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K, and the forward-looking disclaimer language in italics before “Item 1. Business.”

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 subsidiaries. These subsidiaries and their majority owned and controlled subsidiaries are collectively referred to as the “TRS.”

Overview

NNN, a Maryland corporation, is a fully integrated real estate investment trust (“REIT”) formed in 1984. NNN's assets include: real estate assets, mortgages and notes receivable, and commercial mortgage residual interests. NNN acquires, owns, invests in and develops properties that are leased primarily to retail tenants under long-term net leases and primarily held for investment (“Properties” or “Property Portfolio”).

As of December 31, 2013, NNN owned 1,860 Properties, with an aggregate gross leasable area of approximately 20,402,000 square feet, located in 47 states. Approximately 98 percent of total properties in the Property Portfolio were leased as of December 31, 2013.

NNN’s management team focuses on certain key indicators to evaluate the financial condition and operating performance of NNN. The key indicators for NNN include items such as: the composition of the Property Portfolio (such as tenant, geographic and line of trade diversification), the occupancy rate of the Property Portfolio, certain financial performance ratios and profitability measures, 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 Property Portfolio is geographically concentrated in the south and southeast United States, which are regions of historically above-average population growth. Given these concentrations, any financial hardship within these sectors or geographic locations, respectively, could have a material adverse effect on the financial condition and operating performance of NNN.

As of the years ended December 31, 2013, 2012 and 2011, NNN's Property Portfolio has remained at least 97 percent leased. The average remaining lease term of NNN's Property Portfolio was 12 years, and has remained fairly constant over the past three years which, coupled with its net lease structure, provides enhanced probability of maintaining occupancy and operating earnings.

Critical Accounting Policies and Estimates

The preparation of NNN’s consolidated financial statements in conformance with accounting principles generally accepted in the United States of America requires management to make estimates on assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as other disclosures in the financial statements. On an ongoing basis, management evaluates its estimates and assumptions; however, actual results may differ from these estimates and assumptions, which in turn could have a material impact on NNN’s financial statements. A summary of NNN’s accounting policies and procedures are included in Note 1 of NNN’s consolidated financial statements. Management believes the following critical accounting policies, among others, affect its more significant estimates and assumptions used in the preparation of NNN’s consolidated financial statements.

Real Estate Portfolio. NNN records the acquisition of real estate at cost, including acquisition and closing costs. The cost of properties developed or funded by NNN includes direct and indirect costs of construction, property taxes, interest and other miscellaneous costs incurred during the development period until the project is substantially complete and available for occupancy.

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

Impairment – Real Estate. Based upon the events or changes in certain circumstances, management periodically assesses its Properties for possible impairment indicating that the carrying value of the asset, including accrued rental income, may not be recoverable through operations. Events or circumstances that may occur include significant changes in real estate market conditions or the ability of NNN to re-lease or sell properties that are vacant or become vacant. Management determines whether an impairment in value has occurred by comparing the estimated future cash flows (undiscounted and without interest charges), including the residual value of the real estate, with the carrying cost of the individual asset. If an impairment is indicated, a loss will be recorded for the amount by which the carrying value of the asset exceeds its fair value. Real estate held for sale is not depreciated and is recorded at the lower of cost or fair value, less costs to sell.

Commercial Mortgage Residual Interests, at Fair Value. Commercial mortgage residual interests, classified as available for sale, are reported at their market values with unrealized gains and losses reported as other comprehensive income in stockholders’ equity. NNN recognizes the excess of all cash flows attributable to the commercial mortgage residual interests estimated at the acquisition/transaction date over the initial investment (the accretable yield) as interest income over the life of the beneficial interest using the effective yield method. Losses are considered other than temporary valuation impairments if and when there has been a change in the timing or amount of estimated cash flows, exclusive of changes in interest rates, that leads to a loss in value.

Revenue Recognition. Rental revenues for non-development real estate assets are recognized when earned in accordance with the FASB guidance on accounting for leases, based on the terms of the lease of the leased asset. Rental revenues for properties under construction commence upon completion of construction of the leased asset and delivery of the leased asset to the tenant.

NNN's real estate is generally leased to tenants on a net lease basis, whereby the tenant is responsible for all operating expenses relating to the property, generally including property taxes, insurance, maintenance, repairs and capital expenditures. The leases are accounted for using either the operating or the direct financing method. Such methods are described below:

Operating method – Properties with leases accounted for using the operating method are recorded at the cost of the real estate. Revenue is recognized as rentals are earned and expenses (including depreciation) are charged to operations as incurred. Buildings are depreciated on the straight-line method over their estimated useful lives. Leasehold interests are amortized on the straight-line method over the terms of their respective leases. When scheduled rental revenue varies during the lease term, income is recognized on a straight-line basis so as to produce a constant periodic rent over the term of the lease. Accrued rental income is the aggregate difference between the scheduled rents which vary during the lease term and the income recognized on a straight-line basis.

Direct financing method – Properties with leases accounted for using the direct financing method are recorded at their net investment (which at the inception of the lease generally represents the cost of the property). Unearned income is deferred and amortized into income over the lease terms so as to produce a constant periodic rate of return on NNN’s net investment in the leases.

New Accounting Pronouncements. Refer to Note 1 of the December 31, 2013, Consolidated Financial Statements.

Use of Estimates. Additional critical accounting policies of NNN include management’s estimates and assumptions relating to the reporting of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Additional critical accounting policies include management’s estimates of the useful lives used in calculating depreciation expense relating to real estate assets, the recoverability of the carrying value of long-lived assets, including the commercial mortgage residual interests, the recoverability of the income tax benefit, and the collectibility of receivables from tenants, including accrued rental income. Actual results could differ from those estimates.

Correction of Immaterial Errors. During the year ended December 31, 2012, NNN identified certain immaterial errors related to deferred tax assets and the related valuation allowance. In 2009, NNN incurred a loss on foreclosure and impairment charges associated with acquiring the operations of one of its lessees. The properties and operations were transferred to taxable REIT subsidiaries upon foreclosure. Certain charges associated with the acquisition and impaired properties should have been recorded in NNN’s qualified REIT subsidiaries prior to the properties’ transfer to the taxable REIT subsidiary group. Deferred tax assets associated with the book charges of $10,350,000 in that year were inappropriately recorded in the taxable REIT subsidiary group. A valuation allowance for the full amount of the deferred tax assets was also recorded in 2009. In the year ended December 31, 2012, NNN decreased deferred tax assets and the related valuation allowance by $10,350,000 each to correct the error.

NNN further reviewed its conclusions in previous periods, commencing in 2009, with respect to the realizability of the remaining deferred tax assets. Upon further review, NNN determined that its available sources of income supported realizability of all but $3,104,000 of its gross deferred tax assets as of December 31, 2009, 2010 and 2011. As a result, NNN determined that it had previously understated its deferred income tax benefit in the years ended December 31, 2010 and 2009 by $3,121,000 and $3,372,000, respectively, and understated its net deferred tax assets by $6,493,000 as of December 31, 2011 and 2010, in its financial statements. NNN corrected this in the year ended December 31, 2012 by reversing the valuation allowance and recording an income tax benefit of $6,493,000. NNN reviewed the impact of correcting the prior period errors in 2012 as well as its impact on prior periods in accordance with SAB Topics 1.M and 1.N and determined that the misstatements did not have a material effect on the Company's financial position, results of operations, trends in earnings, or cash flows for any of the periods presented.
Furthermore, NNN determined in the year ended December 31, 2012 that its available sources of income supported realizability of all of its gross deferred tax assets. In 2012, NNN reversed the remaining valuation allowance and recorded an income tax benefit of $1,178,000.
During the year ended December 31, 2013, NNN identified an immaterial error related to its statement of cash flows for the year ended December 31, 2011. The Company previously classified its payment for the termination of interest rate hedges of $5,218,000 in financing activities. These instruments were hedging the risk of changes in the interest-related cash outflows associated with the potential issuance of long-term debt. This amount has been presented in operating activities in the 2013 consolidated financial statements.

Results of Operations
Property Analysis
General. The following table summarizes NNN's Property Portfolio as of December 31:

	2013	2012	2011
Properties Owned:			
Number	1,860	1,622	1,422
Total gross leasable area (square feet)	20,402,000	19,168,000	16,428,000
Properties:			
Leased or operated, and unimproved land	1,827	1,588	1,384
Percent of Properties – leased or operated, and unimproved land	98 %	98 %	97 %
Weighted average remaining lease term (years)	12	12	12
Total gross leasable area (square feet) – leased or operated	19,872,000	18,524,000	15,681,000

The following table summarizes the lease expirations, assuming none of the tenants exercise renewal options, of NNN's Property Portfolio for each of the next 10 years and then thereafter in the aggregate as of December 31, 2013:

	% of Annual Base Rent(1)	# of Properties	Gross Leasable Area(2)		% of Annual Base Rent(1)	# of Properties	Gross Leasable Area(2)
2014	1.4%	32	434,000	2020	3.1%	97	916,000
2015	1.6%	32	482,000	2021	4.6%	99	918,000
2016	1.7%	32	567,000	2022	6.9%	92	1,150,000
2017	3.5%	46	1,009,000	2023	3.3%	54	962,000
2018	8.3%	186	1,957,000	Thereafter	62.1%	1,092	10,472,000
2019	3.5%	57	1,005,000				

(1) Based on the annualized base rent for all leases in place as of December 31, 2013.
(2) Approximate square feet.

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

		% of Annual Base Rent[1]		
	Top 10 Lines of Trade	2013	2012	2011
1.	Convenience stores	19.7%	19.8%	24.6%
2.	Restaurants - full service	9.7%	10.7%	9.4%
3.	Automotive service	7.6%	7.6%	4.9%
4.	Restaurants - limited service	5.5%	5.2%	3.6%
5.	Automotive parts	5.1%	5.6%	6.5%
6.	Theaters	4.5%	4.7%	5.0%
7.	Health and fitness	4.3%	3.7%	2.6%
8.	Banks	4.1%	0.2%	0.2%
9.	Sporting goods	3.7%	4.0%	4.8%
10.	Recreational vehicle dealers, parts and accessories	3.2%	2.7%	2.3%
	Other	32.6%	35.8%	36.1%
		100.0%	100.0%	100.0%

(1) Based on annualized base rent for all leases in place as of December 31 of the respective year.

The following table shows the top 10 states in which NNN's Properties are located in as of December 31, 2013:

	State	# of Properties	% of Annual Base Rent[1]
1.	Texas	369	20.4%
2.	Florida	164	10.5%
3.	Illinois	63	5.3%
4.	Georgia	102	4.8%
5.	North Carolina	98	4.7%
6.	Virginia	85	4.6%
7.	Indiana	75	3.9%
8.	California	38	3.5%
9.	Ohio	55	3.4%
10.	Pennsylvania	95	3.3%
	Other	716	35.6%
		1,860	100.0%

(1) Based on annualized base rent for all leases in place as of December 31, 2013.

Property Acquisitions. The following table summarizes the Property acquisitions for each of the years ended December 31 (dollars in thousands):

	2013	2012	2011
Acquisitions:			
Number of Properties	275	232	218
Gross leasable area (square feet)	1,652,000	2,955,000	3,448,000
Initial cash yield	7.8 %	8.3 %	8.4 %
Total dollars invested[1]	$629,896	$707,233	$772,463

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

NNN typically funds property acquisitions either through borrowings under NNN's unsecured revolving credit facility (the "Credit Facility") or by issuing its debt or equity securities in the capital markets.
Property Dispositions. The following table summarizes the Properties sold by NNN for each of the years ended December 31 (dollars in thousands):

	2013	2012	2011
Number of properties	35	34	8
Gross leasable area (square feet)	360,000	211,000	122,000
Net sales proceeds	$61,000	$81,120	$12,632
Gain, net of non-controlling interests	$6,293	$10,956	$527
Cap rate	7.5 %	8.2 %	8.2 %

NNN typically uses the proceeds from property sales either to pay down the Credit Facility or reinvest in real estate.
Analysis of Revenue from Continuing Operations
General. During the year ended December 31, 2013, NNN's rental income increased primarily due to the increase in rental income from property acquisitions (See "Results of Operations – Property Analysis – Property Acquisitions"). NNN anticipates increases in rental income will continue to come from additional property acquisitions and increases in rents pursuant to existing lease terms.
The following summarizes NNN's revenues from continuing operations (dollars in thousands):

	2013	2012	2011	Percent of Total 2013	Percent of Total 2012	Percent of Total 2011	2013 Versus 2012 Percent	2012 Versus 2011 Percent
Rental Income[1]	$375,460	$315,037	$243,218	95.7 %	95.0 %	94.0 %	19.2 %	29.5 %
Real estate expense reimbursement from tenants	13,110	11,587	10,080	3.3 %	3.5 %	3.9 %	13.1 %	15.0 %
Interest and other income from real estate transactions	1,467	2,239	2,287	0.4 %	0.7 %	0.9 %	(34.5)%	(2.1)%
Interest income on commercial mortgage residual interests	2,290	2,673	3,105	0.6 %	0.8 %	1.2 %	(14.3)%	(13.9)%
Total revenues from continuing operations	$392,327	$331,536	$258,690	100.0 %	100.0 %	100.0 %	18.3 %	28.2 %

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

Comparison of Revenues from Continuing Operations – 2013 versus 2012
Rental Income. Rental Income increased in amount and as a percent of the total revenues from continuing operations for the year ended December 31, 2013 as compared to the same period in 2012. The increase for the year ended December 31, 2013, is primarily due to a partial year of rental income received as a result of the acquisition of 275 properties in continuing operations with aggregate gross leasable area of approximately 1,652,000 during 2013 and a full year of rental income received as a result of the acquisition of 232 properties in continuing operations with a gross leasable area of approximately 2,955,000 square feet in 2012. In addition, lease termination fees increased $597,000 for the year ended December 31, 2013, as compared to December 31, 2012.

Real Estate Expense Reimbursement from Tenants. Real estate expense reimbursements from tenants increased for the year ended December 31, 2013, as compared to the same period in 2012, but decreased as a percentage of total revenues from continuing operations. The increase is primarily attributable to a full year of reimbursements from properties acquired in 2012 and a partial year of reimbursements from certain newly acquired properties in 2013.

Comparison of Revenues from Continuing Operations – 2012 versus 2011

Rental Income. Rental Income increased in amount and as a percent of the total revenues from continuing operations for the year ended December 31, 2012 as compared to the same period in 2011. The increase for the year ended December 31, 2012, is primarily due to a full year of rental income from the acquisition of 218 properties in continuing operations with a gross leasable area of approximately 3,448,000 square feet in 2011 and a partial year of rental income from the acquisition of 232 properties in continuing operations with aggregate gross leasable area of approximately 2,955,000 during 2012. In addition, the increase was partially offset by the decrease in lease termination fees. NNN recorded $661,000 as compared to $2,649,000 in lease termination and rent settlement fees during the years ended December 31, 2012 and 2011, respectively.

Real Estate Expense Reimbursement from Tenants. Real estate expense reimbursements from tenants increased for the year ended December 31, 2012, as compared to the same period in 2011, but decreased as a percentage of total revenues from continuing operations. The increase is primarily attributable to a full year of reimbursements from properties acquired in 2011 and a partial year of reimbursements from certain newly acquired properties in 2012.

Analysis of Expenses from Continuing Operations

General. Operating expenses from continuing operations increased primarily due to an increase in depreciation expense and an increase in reimbursable real estate expenses, but was partially offset by a decrease in incentive compensation during the year ended December 31, 2013, as compared to the same period in 2012. The following summarizes NNN's expenses from continuing operations (dollars in thousands):

	2013	2012	2011
General and administrative	$32,576	$32,187	$28,796
Real estate	18,100	17,041	16,997
Depreciation and amortization	99,246	73,707	56,466
Impairment – commercial mortgage residual interests valuation	1,185	2,812	1,024
Impairment losses and other charges, net of recoveries	1,972	3,088	(1,349)
Total operating expenses	$153,079	$128,835	$101,934
Interest and other income	$(1,493)	$(2,232)	$(1,593)
Interest expense	85,283	83,192	75,532
Total other expenses (revenues)	$83,790	$80,960	$73,939

	Percentage of Total Operating Expenses			Percentage of Revenues from Continuing Operations			2013 Versus 2012 Percent	2012 Versus 2011 Percent
	2013	2012	2011	2013	2012	2011		
General and administrative	21.3 %	25.0 %	28.2 %	8.3 %	9.7 %	11.1 %	1.2 %	11.8 %
Real estate	11.8 %	13.2 %	16.7 %	4.6 %	5.1 %	6.6 %	6.2 %	0.3 %
Depreciation and amortization	64.8 %	57.2 %	55.4 %	25.3 %	22.2 %	21.8 %	34.6 %	30.5 %
Impairment – commercial mortgage residual interests valuation	0.8 %	2.2 %	1.0 %	0.3 %	0.8 %	0.4 %	(57.9)%	174.6 %
Impairment losses and other charges, net of recoveries	1.3 %	2.4 %	(1.3)%	0.5 %	0.9 %	(0.5)%	(36.1)%	328.9 %
Total operating expenses	100.0 %	100.0 %	100.0 %	39.0 %	38.7 %	39.4 %	18.8 %	26.4 %

Interest and other income	(1.8	)%	(2.8	)%	(2.2	)%	(0.4	)%	(0.7	)%	(0.6	)%	(33.1	)%	40.1	%
Interest expense	101.8	%	102.8	%	102.2	%	21.7	%	25.1	%	29.2	%	2.5	%	10.1	%
Total other expenses (revenues)	100.0	%	100.0	%	100.0	%	21.3	%	24.4	%	28.6	%	3.5	%	9.5	%

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Comparison of Expenses from Continuing Operations – 2013 versus 2012

General and Administrative Expenses. General and administrative expenses increased for the year ended December 31, 2013, as compared to the same period in 2012, but decreased both as a percentage of total operating expenses and as a percentage of revenues from continuing operations. The increase in general and administrative expenses for the year ended December 31, 2013, is primarily attributable to increases in real estate acquisition costs, but was partially offset by a decrease in incentive compensation.

Real Estate. Real estate expenses increased for the year ended December 31, 2013, as compared to the same period in 2012, but decreased both as a percentage of total operating expenses and as a percentage of revenues from continuing operations. The increase is primarily due to the increase in tenant reimbursable expenses related to a partial year of reimbursable expenses from certain properties acquired in 2013 and a full year of reimbursable expenses from certain properties acquired in 2012. The increase was partially offset by a decrease in real estate expenses that are not reimbursable by the tenant and a decrease in real estate expenses incurred on vacant properties for the year ended December 31, 2013, as compared to the same period in 2012.

Depreciation and Amortization. Depreciation and amortization expenses increased as a percentage of total operating expenses and increased as a percentage of revenues from continuing operations for the year ended December 31, 2013, as compared to the year ended December 31, 2012. The increase in expenses is primarily due to the acquisition of 275 properties in continuing operations with an aggregate gross leasable area of approximately 1,652,000 square feet in 2013 and 232 properties in continuing operations with an aggregate gross leasable area of approximately 2,955,000 square feet during 2012.

Impairment – Commercial Mortgage Residual interests valuation. In connection with the independent valuations of the Residuals' fair value, during the years ended December 31, 2013 and 2012, NNN recorded an other than temporary valuation adjustment of $1,185,000 and $2,812,000, respectively, as a reduction of earnings from operations.

Impairment Losses and Other Charges, Net of Recoveries. NNN reviews long-lived assets for impairment whenever certain events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Events or circumstances that may occur include changes in real estate market conditions, the ability of NNN to re-lease properties that are currently vacant or become vacant, and the ability to sell properties at an attractive price. Management evaluates whether an impairment in value has occurred by comparing the estimated future cash flows (undiscounted and without interest charges), including the residual value of the real estate, with the carrying cost of the individual asset. If an impairment is indicated, a loss will be recorded for the amount by which the carrying value of the asset exceeds its fair value. During the years ended December 31, 2013 and 2012, NNN recorded $1,957,000 and $3,258,000, respectively, of real estate impairments.

Interest Expense. Interest expense increased for the year ended December 31, 2013, as compared to the same period in 2012, but decreased as a percentage of revenues from continuing operations and as a percentage of total operating expenses.

The following represents the primary changes in debt that have impacted interest expense:

(i) the issuance in August 2012 of $325,000,000 principal amount of notes payable with a maturity of October 2022, and stated interest rate of 3.800%;

(ii) the repayment in June 2012 of $50,000,000 principal amount of notes payable with a stated interest rate of 7.750%;

(iii) the repayment in July 2012 of a mortgage, with a balance of $18,488,000 at December 31, 2011 and an interest rate of 6.900%;

(iv) the settlement of $138,700,000 principal amount of 3.950% convertible notes payable, of which $123,163,000 was settled in the fourth quarter 2012 and the remaining $15,537,000 was settled in the first quarter 2013;

(v) the issuance in April 2013 of $350,000,000 principal amount of notes payable with a maturity of April 2023, and stated interest rate of 3.300%;

(vi) the settlement of $223,035,000 principal amount of 5.125% convertible notes payable in 2013; and

(vii) the decrease of $12,017,000 in the weighted average debt outstanding on the credit facility for the year ended December 31, 2013, as compared to the same period in 2012.

Comparison of Expenses from Continuing Operations – 2012 versus 2011

General and Administrative Expenses. General and administrative expenses increased for the year ended December 31, 2012, as compared to the same period in 2011, but decreased both as a percentage of total operating expenses and as a percentage of revenues from continuing operations. The increase in general and administrative expenses for the year ended December 31, 2012, is primarily attributable to an increase in stock based incentive compensation.

Real Estate. Real estate expenses increased for the year ended December 31, 2012 compared to the same period in 2011, but decreased both as a percentage of total operating expenses and as a percentage of revenues from continuing operations. The increase is primarily due to the increase in tenant reimbursable expenses related to a partial year of reimbursable expenses from certain properties acquired in 2012 and a full year of reimbursable expenses from certain properties acquired in 2011. The increase for the year ended December 31, 2012, was partially offset by a reduction of real estate expenses due to the leasing of certain vacant properties.

Depreciation and Amortization. Depreciation and amortization expenses increased as a percentage of total operating expenses and increased as a percentage of revenues from continuing operations for the year ended December 31, 2012, as compared to the year ended December 31, 2011. The increase in expenses is primarily due to the acquisition of 232 properties in continuing operations with an aggregate gross leasable area of approximately 2,955,000 square feet in 2012 and 218 properties in continuing operations with an aggregate gross leasable area of approximately 3,448,000 square feet during 2011.

Impairment – Commercial Mortgage Residual interests valuation. In connection with the independent valuations of the Residuals' fair value, during the years ended December 31, 2012 and 2011, NNN recorded an other than temporary valuation adjustment of $2,812,000 and $1,024,000, respectively, as a reduction of earnings from operations.

Impairment Losses and Other Charges, Net of Recoveries. NNN reviews long-lived assets for impairment whenever certain events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Events or circumstances that may occur include changes in real estate market conditions, the ability of NNN to re-lease properties that are currently vacant or become vacant, and the ability to sell properties at an attractive price. Management evaluates whether an impairment in value has occurred by comparing the estimated future cash flows (undiscounted and without interest charges), including the residual value of the real estate, with the carrying cost of the individual asset. If an impairment is indicated, a loss will be recorded for the amount by which the carrying value of the asset exceeds its fair value. During the year ended December 31, 2012, NNN recorded $3,258,000 of real estate impairments. Although no real estate impairments were recorded, the recovery of $2,931,000 of a mortgage receivable charge, partially offset by the impairment of goodwill of $1,500,000, were recorded during the year ended December 31, 2011.

Interest Expense. Interest expense increased for the year ended December 31, 2012, as compared to the same period in 2011, and increased as a percentage of revenues from continuing operations but remained relatively stable as a percentage of total operating expenses.

The following represents the primary changes in debt that have impacted interest expense:

(i) the issuance of $300,000,000 in July 2011 of notes payable with a maturity of July 2021, and stated interest rate of 5.500%;

(ii) the issuance of $325,000,000 in August 2012 of notes payable with a maturity of October 2022, and stated interest rate of 3.800%;

(iii) the repayment of the $50,000,000 7.750% notes payable in June 2012;

(iv) the repayment of a mortgage in July 2012, with a balance of $18,488,000 at December 31, 2011 and an interest rate of 6.900%;

(v) the settlement of $123,163,000 of the $138,700,000 3.950% convertible notes payable in the fourth quarter 2012; and

(vi) the decrease of $51,225,000 in the weighted average debt outstanding on the credit facility for the year ended December 31, 2012, as compared to the same period in 2011.

Discontinued Operations

Earnings (Loss). NNN classified as discontinued operations the revenues and expenses related to its revenue generating Properties that were sold and any revenue generating Properties that were held for sale at December 31, 2013. The following table summarizes the earnings from discontinued operations for the years ended December 31 (dollars in thousands):

	2013			2012			2011		
	# of Sold Properties	Gain	Earnings	# of Sold Properties	Gain	Earnings	# of Sold Properties	Gain	Earnings
Properties	35	$6,272	$5,072	34	$10,956	$8,709	8	$424	$7,676
Noncontrolling interests	—	(152)	(226)	—	—	(29)	—	—	(100)
	35	$6,120	$4,846	34	$10,956	$8,680	8	$424	$7,576

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

Impairment Losses and Other Charges. NNN periodically assesses its real estate for possible impairment whenever certain events or changes in circumstances indicate that the carrying amount of the asset, including accrued rental income, may not be recoverable through operations. Events or circumstances that may occur include significant changes in real estate market conditions and the ability of NNN to re-lease or sell properties that are vacant or become vacant. Management evaluates whether an impairment in value has occurred by comparing the estimated future cash flows (undiscounted and without interest charges), including the residual value of the real estate, with the carrying cost of the individual asset. If an impairment is indicated, a loss will be recorded for the amount by which the carrying value of the asset exceeds its fair value. During the years ended December 31, 2013, 2012 and 2011, NNN recognized real estate impairments on discontinued operations of $2,149,000, $7,054,000 and $431,000, respectively.

Impact of Inflation

NNN's leases typically contain provisions to mitigate the adverse impact of inflation on NNN's results of operations. Tenant leases generally provide for limited increases in rent as a result of fixed increases, increases in the consumer price index, and/or, to a lesser extent, increases in the tenant's sales volume. During times when inflation is greater than increases in rent, rent increases will not keep up with the rate of inflation.

Properties are leased to tenants under long-term, net leases which typically require the tenant to pay certain operating expenses for a property, thus, NNN's exposure to inflation is reduced with respect to these expenses. Inflation may have an adverse impact on NNN's tenants.

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.

NNN expects to meet short term liquidity requirements through cash provided from operations and NNN's Credit Facility. As of December 31, 2013, $46,400,000 was outstanding and $453,600,000 was available for future borrowings under the Credit Facility. NNN anticipates its long term capital needs will be funded by the Credit Facility, cash provided from operations, the issuance of long-term debt or the issuance of common or preferred equity or other instruments convertible into or exchangeable for common or preferred equity. However, there can be no assurance that additional financing or capital will be available, or that the terms will be acceptable or advantageous to NNN.

Cash and Cash Equivalents. The table below summarizes NNN's cash flows for each of the years ended December 31 (in thousands):

	2013	2012	2011
Cash and cash equivalents:			
Provided by operating activities	$274,421	$228,130	$177,728
Used in investing activities	(568,040)	(601,759)	(752,068)
Provided by financing activities	293,028	373,623	574,374
Increase (decrease)	(591)	(6)	34
Net cash at beginning of period	2,076	2,082	2,048
Net cash at end of period	$1,485	$2,076	$2,082

Cash provided by operating activities represents cash received primarily from rental income from tenants, proceeds from the disposition of certain properties and interest income less cash used for general and administrative expenses, interest expense and acquisition of certain properties. NNN's cash flow from operating activities, net of cash used in and provided by the acquisition and disposition of certain properties, has been sufficient to pay the distributions for each period presented. NNN uses proceeds from its Credit Facility to fund the acquisition of its properties. The change in cash provided by operations for the years ended December 31, 2013, 2012 and 2011, is primarily the result of changes in revenues and expenses as discussed in "Results of Operations." Cash generated from operations is expected to fluctuate in the future.

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

NNN's financing activities for the year ended December 31, 2013, included the following significant transactions:

- $127,800,000 in net payments to NNN's Credit Facility,
- $277,644,000 in net proceeds from the issuance of 11,500,000 depositary shares representing interests in NNN's 5.700% Series E Cumulative Redeemable Preferred Stock (the "Series E Preferred Stock") in May,
- $25,407,000 in net proceeds from the issuance of 764,891 shares of common stock in connection with the Dividend Reinvestment and Stock Purchase Plan ("DRIP"),
- $238,643,000 in net proceeds from the issuance of 6,956,992 shares of common stock in connection with the at-the-market ("ATM") equity program,
- $189,107,000 in dividends paid to common stockholders,
- $19,047,000 in dividends paid to holders of the depositary shares of NNN's Series D Preferred Stock,
- $8,876,000 in dividends paid to holders of the depositary shares of NNN's Series E Preferred Stock,
- $344,266,000 in net proceeds from the issuance of the 3.300% notes payable in April,
- $20,565,000 paid in the first quarter to settle the remaining $15,537,000 principal amount of the 3.950% convertible notes payable, and
- $226,231,000 paid to settle the $223,035,000 principal amount of the 5.125% convertible notes payable.

Financing Strategy. NNN's financing objective is to manage its capital structure effectively in order to provide sufficient capital to execute its operating strategy while servicing its debt requirements, maintaining investment grade credit rating, staggering debt maturities and providing value to NNN's stockholders. NNN generally utilizes debt and equity security offerings, bank borrowings, the sale of properties, and to a lesser extent, internally generated funds to meet its capital needs.

NNN typically funds its short-term liquidity requirements, including investments in additional Properties, with cash from its Credit Facility. As of December 31, 2013, $46,400,000 was outstanding and $453,600,000 was available for future borrowings under the Credit Facility.

As of December 31, 2013, NNN's ratio of total debt to total gross assets (before accumulated depreciation) was approximately 32 percent and the ratio of secured indebtedness to total gross assets was less than one percent. The ratio of total debt to total market capitalization was approximately 28 percent. Certain financial agreements to which NNN is a party contain covenants that limit NNN's ability to incur debt under certain circumstances. The organizational documents of NNN do not limit the absolute amount or percentage of indebtedness that NNN may incur. Additionally, NNN may change its financing strategy.

Contractual Obligations and Commercial Commitments. The information in the following table summarizes NNN's contractual obligations and commercial commitments outstanding as of December 31, 2013. The table presents principal cash flows by year-end of the expected maturity for debt obligations and commercial commitments outstanding as of December 31, 2013.

	Expected Maturity Date (dollars in thousands)						
	Total	2014	2015	2016	2017	2018	Thereafter
Long-term debt(1)	$1,534,345	$151,100	$151,150	$6,827	$250,147	$86	$975,035
Credit Facility	46,400	—	—	46,400	—	—	—
Operating leases	831	831	—	—	—	—	—
Total contractual cash obligations(2)	$1,581,576	$151,931	$151,150	$53,227	$250,147	$86	$975,035

(1) Includes amounts outstanding under mortgages payable and notes payable and excludes unamortized note discounts.

(2) Excludes $17,142 of accrued interest payable.

In addition to the contractual obligations outlined above, NNN has agreed to fund construction commitments on certain of its leased Properties. The improvements are estimated to be completed within 12 months. These construction commitments, as of December 31, 2013, are outlined in the table below (dollars in thousands):

Number of properties	48
Total commitment(1)	$145,818
Amount funded	99,024
Remaining commitment	46,794

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

As of December 31, 2013, 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. 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 Properties are leased under long-term net leases. Therefore, management anticipates that capital demands to meet obligations with respect to these Properties will be modest for the foreseeable future and can be met with funds from operations and working capital. Certain of NNN's Properties are subject to leases under which NNN retains responsibility for specific costs and expenses associated with the Property. Management anticipates the costs associated with NNN's vacant Properties or those Properties that become vacant will also be met with funds from operations and working capital. NNN may be required to borrow under its Credit Facility or use other sources of capital in the event of unforeseen significant capital expenditures.

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 Properties at comparable rental rates and in a timely manner. As of December 31, 2013, NNN owned 33 vacant, un-leased Properties which accounted for approximately two percent of total Properties held in NNN's Property Portfolio. Additionally, as of January 31, 2014, less than one percent of the total gross leasable area of NNN's Property Portfolio was leased to tenants that have 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 Code, as amended, and related regulations and intends to continue to operate so as to remain qualified as a REIT for federal income tax purposes. NNN generally will not be subject to federal income tax on income that it distributes to its stockholders, provided that it distributes 100 percent of its REIT taxable income and meets certain other requirements for qualifying as a REIT. If NNN fails to qualify as a REIT in any taxable year, it will be subject to federal income tax on its taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year during which qualification is lost. Such an event could materially adversely affect NNN's income and ability to pay dividends.

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 NNN's common stock for the years ended December 31 (in thousands, except per share data):

	2013	2012	2011
Dividends	$189,107	$167,495	$133,720
Per share	1.600	1.560	1.530

The following presents the characterizations for tax purposes of such common stock dividends for the years ended December 31:

	2013			2012			2011		
Ordinary dividends	$1.224568	76.5355	%	$1.199003	76.8592	%	$1.088228	71.1260	%
Qualified dividends	0.056784	3.5490	%	0.013346	0.8555	%	—	—	
Capital gain	—	—		0.021358	1.3691	%	—	—	
Unrecaptured Section 1250 Gain	0.000650	0.0406	%	0.048890	3.1340	%	—	—	
Nontaxable distributions	0.317998	19.8749	%	0.277403	17.7822	%	0.441772	28.8740	%
	$1.600000	100.0000	%	$1.560000	100.0000	%	$1.530000	100.0000	%

In February 2014, NNN paid dividends to its common stockholders of $49,274,000, or $0.405 per share of common stock.

Holders of NNN's preferred stock issuance are entitled to receive, when and as authorized by the Board of Directors, cumulative preferential cash distributions based on the stated rate and liquidation preference per annum. The following table outlines the dividends declared and paid for NNN's preferred stock for the years ended December 31(in thousands, except per share data):

	2013	2012	2011
Series C Preferred Stock (1):			
Dividends	$—	$1,979	$6,785
Per share	—	0.537760	1.843750
Series D Preferred Stock (2):			
Dividends	19,047	15,449	—
Per share	1.656250	1.343403	—
Series E Preferred Stock (3):			
Dividends	8,876	—	—
Per share	0.771875	—	—

1) The Series C Preferred Stock was redeemed in March 2012. The dividends paid during the quarter ended March 31, 2012 include accumulated and unpaid dividends through the redemption date.

2) The Series D Preferred Stock dividends paid during the quarter ended June 30, 2012 include accumulated and unpaid dividends from the issuance date through the declaration date. The Series D Preferred Stock has no maturity date and will remain outstanding unless redeemed.

3) The Series E Preferred Stock dividends paid during the quarter ended September 30, 2013 include accumulated and unpaid dividends from the issuance date through the declaration date. The Series E Preferred Stock has no maturity date and will remain outstanding unless redeemed.

The following presents the characterizations for tax purposes of such preferred stock dividends for the years ended December 31:

	2013			2012			2011	
	Series E (3)	Series D	Percentage of Total	Series D (2)	Series C(1)	Percentage of Total	Series C	Percentage of Total
Ordinary dividends	$0.741150	$1.590323	96.0195 %	$1.255844	$0.502710	93.4823 %	$1.843750	100.0000%
Qualified dividends	0.030332	0.065084	3.9296 %	0.013979	0.005596	1.0406 %	—	—
Capital gain	—	—	—	0.022371	0.008956	1.6652 %	—	—
Unrecaptured Section 1250 Gain	0.000393	0.000843	0.0509 %	0.051209	0.020498	3.8119 %	—	—
	$0.771875	$1.656250	100.0000%	$1.343403	$0.537760	100.0000%	$1.843750	100.0000%

1) The Series C preferred stock was redeemed in March 2012.

2) The Series D preferred stock was issued in February 2012.

3) The Series E preferred stock was issued in May 2013.

In February 2014, NNN declared a dividend on its Series D and E Preferred Stock of 41.40625 and 35.62500 cents per depositary share, respectively, payable March 14, 2014.

Capital Resources

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

Debt

The following is a summary of NNN's total outstanding debt as of December 31 (dollars in thousands):

	2013	Percentage of Total	2012	Percentage of Total
Line of credit payable	$46,400	3.0 %	$174,200	11.0 %
Mortgages payable	9,475	0.6 %	10,602	0.7 %
Notes payable – convertible	—	—	236,500	14.9 %
Notes payable	1,514,184	96.4 %	1,165,662	73.4 %
Total outstanding debt	$1,570,059	100.0 %	$1,586,964	100.0 %

Indebtedness. NNN expects to use indebtedness primarily for property acquisitions and development of single-tenant retail properties, either directly or through investment interests, and mortgages and notes receivable.

Line of Credit Payable. In October 2012, NNN amended and restated its credit agreement increasing the borrowing capacity under its unsecured revolving credit facility from $450,000,000 to $500,000,000 and amended certain other terms under the former revolving credit facility (as the context requires, the previous and new revolving credit facility, the "Credit Facility"). The Credit Facility had a weighted average outstanding balance of $41,402,000 and a weighted average interest rate of 1.4% during the year ended December 31, 2013. The Credit Facility matures October 2016, with an option to extend maturity to October 2017. As of December 31, 2013, the Credit Facility bears interest at LIBOR plus 107.5 basis points; however, such interest rate may change pursuant to a tiered interest rate structure based on NNN's debt rating. The Credit Facility also includes an accordion feature to increase the facility size up to $1,000,000,000. As of December 31, 2013, $46,400,000 was outstanding and $453,600,000 was available for future

borrowings under the Credit Facility.
In accordance with the terms of the Credit Facility, NNN is required to meet certain restrictive financial covenants, which, among other things, require NNN to maintain certain (i) leverage ratios, (ii) debt service coverage, (iii) cash flow coverage, and (iv) investment limitations. At December 31, 2013, NNN was in compliance with those covenants. In the event that NNN

violates any of these restrictive financial covenants, it could cause the indebtedness under the Credit Facility to be accelerated and may impair NNN's access to the debt and equity markets and limit NNN's ability to pay dividends to its common and preferred stockholders, each of which would likely have a material adverse impact on NNN's financial condition and results of operations.

Mortgages Payable. The following table outlines the mortgages payable included in NNN's consolidated financial statements (dollars in thousands):

Entered	Initial Balance	Interest Rate	Maturity[3]	Carrying Value of Encumbered Asset(s)[1]	Outstanding Principal Balance at December 31,