

NATIONAL RETAIL PROPERTIES, INC.

Form 10-K

February 24, 2011

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended December 31, 2010

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

56-1431377

(State or other jurisdiction of

(I.R.S. Employer Identification No.)

incorporation or organization)

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

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7.375% Series C 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 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

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 No

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

Indicate by check mark 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.

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 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

The aggregate market value of voting common stock held by non-affiliates of the registrant as of June 30, 2010 was \$1,766,742,768.

The number of shares of common stock outstanding as of February 15, 2011 was 83,759,282.

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 2011 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-looking 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 operations are divided into two primary business segments: (i) investment assets, including real estate assets, mortgages and notes receivable, and commercial mortgage residual interests (collectively, Investment Assets), and (ii) inventory real estate assets (Inventory Assets).

Real Estate Assets

NNN acquires, owns, invests in and develops properties that are leased primarily to retail tenants under long-term net leases and primarily held for investment (Investment Properties or Investment Portfolio). As of December 31, 2010, NNN owned 1,195 Investment Properties (including 11 properties with retail operations that NNN operates), with an aggregate leasable area of 12,972,000 square feet, located in 46 states. Approximately 97 percent of total properties in NNN's Investment Portfolio were leased or operated as of December 31, 2010.

The Inventory Assets typically represent direct and indirect investment interests in real estate assets acquired or developed primarily for the purpose of selling the real estate (Inventory Properties or Inventory Portfolio). As of December 31, 2010, NNN owned 17 Inventory Properties.

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.

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Employees

As of January 31, 2011, NNN employed 58 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 1/100th of a share of 7.375% Series C Cumulative Redeemable Preferred Stock, par value \$0.01 per share (Series C Preferred Stock), of NNN are traded on the NYSE under the ticker symbol NNNPRC.

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 for its tenants' lines of trade within each local market. Management believes that these types of properties, generally 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 real estate taxes, assessments and other government charges, insurance, utilities, repairs and maintenance and capital expenditures. Initial lease terms are generally 15 to 20 years.

In some cases, NNN's investment in real estate is in the form of mortgages, structured finance investments or other loans which may be secured by real estate, a borrower's pledge of ownership interests in the entity that owns the real estate or other assets. These investments 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.

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

NNN acquires and/or develops inventory real estate assets primarily for the purpose of resale.

NNN's management team considers certain key indicators to evaluate the financial condition and operating performance of NNN. The key indicators for NNN may include items such as: the composition of NNN's Investment Portfolio (including but not limited to tenant, geographic and line of trade diversification), the occupancy rate of NNN's Investment Portfolio, certain financial performance ratios, profitability measures, industry trends and performance of competitors compared to that of NNN.

The operating strategies employed by NNN have allowed it to increase the annual dividend (paid quarterly) per common share for 21 consecutive years.

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Investment in Real Estate or Interests in Real Estate

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

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 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 potential for, and current extent of, any environmental problems,

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,

the tenant's industry,

the terms of any existing leases, and

the rent to be paid by the tenant.

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 and Investment Properties 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 membership interests, or (v) securities of other REITs, other entities engaged in real estate activities or securities of 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 or held mortgages on properties that NNN has sold and has made structured finance investments and other loans related to properties acquired or sold.

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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 \$400,000,000 unsecured revolving credit facility (Credit Facility). As of December 31, 2010, \$161,000,000 was outstanding and \$239,000,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$647,000.

For the year ended December 31, 2010, NNN's ratio of total liabilities to total gross assets (before accumulated depreciation) was approximately 40 percent and the secured indebtedness to total gross assets was approximately two percent. The total debt to total market capitalization was approximately 34 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.

Investment Portfolio

As of December 31, 2010, NNN owned 1,195 Investment Properties with an aggregate gross leasable area of 12,972,000 square feet, located in 46 states. Approximately 97 percent of total properties in the Investment Portfolio were leased or operated by NNN as of December 31, 2010.

The following table summarizes NNN's Investment Properties as of December 31, 2010 (in thousands):

	Size ⁽¹⁾			Acquisition Cost ⁽²⁾		
	High	Low	Average	High	Low	Average
Land	2,223	5	101	\$ 8,882	\$ 5	\$ 974
Building	135	1	11	19,917	44	1,435

⁽¹⁾ Approximate square feet.

⁽²⁾ Costs vary depending upon size and local demographic factors.

In connection with the development of 28 Investment Properties, NNN has agreed to fund construction commitments (including construction, land costs and tenant improvements) of \$68,746,000. As of December 31, 2010, NNN had funded \$50,196,000 of these commitments, with \$18,550,000 remaining to be funded.

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As of December 31, 2010, NNN did not have any tenant that accounted for ten percent or more of its rental income.

Leases

Although there are variations in the specific terms of the leases, the following is a summary of the general structure of NNN's leases. Generally, the leases of the Investment Properties provide for initial terms of 15 to 20 years. As of December 31, 2010, the weighted average remaining lease term was approximately 12 years. The Investment Properties are generally leased under net leases pursuant to which the tenant typically will bear responsibility for substantially all property costs and expenses associated with ongoing maintenance and operation, including utilities, property taxes and insurance. In addition, the majority of NNN's leases provide that the tenant is responsible for roof and structural repairs. The leases of the Investment Properties provide for annual base rental payments (payable in monthly installments) ranging from \$6,000 to \$1,876,000 (average of \$199,000). Tenant leases 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 Investment 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. Some of the leases also provide that in the event NNN wishes to sell the Investment Property subject to that lease, NNN first must offer the lessee the right to purchase the Investment Property on the same terms and conditions as any offer which NNN intends to accept for the sale of the Investment Property.

The following table summarizes the lease expirations, assuming none of the tenants exercise renewal options, of NNN's Investment Portfolio for each of the next 10 years and then thereafter in the aggregate as of December 31, 2010:

	% of Annual Base Rent ⁽¹⁾	# of Properties	Gross Leasable Area ⁽²⁾		% of Annual Base Rent ⁽¹⁾	# of Properties	Gross Leasable Area ⁽²⁾
2011	1.5%	18	260,000	2017	3.9%	28	682,000
2012	3.1%	35	520,000	2018	2.6%	24	345,000
2013	4.4%	40	839,000	2019	4.0%	41	618,000
2014	4.4%	42	577,000	2020	4.0%	83	694,000
2015	4.5%	72	1,011,000	Thereafter	65.4%	745	6,167,000
2016	2.2%	19	407,000				

⁽¹⁾ Based on annualized base rent for all leases in place as of December 31, 2010.

⁽²⁾ Approximate square feet.

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

Top 10 Lines of Trade	% of Annual Base Rent ⁽¹⁾		
	2010	2009	2008
1. Convenience Stores	23.7%	26.7%	25.7%
2. Restaurants Full Service	10.1%	9.2%	8.7%
3. Automotive Parts	7.8%	6.8%	5.1%
4. Theaters	5.7%	6.3%	6.1%
5. Automotive Service	5.3%	5.7%	8.9%
6. Sporting Goods	4.5%	3.2%	3.3%
7. Restaurants Limited Service	4.1%	3.5%	3.3%
8. Drug Stores	4.0%	4.1%	4.0%
9. Books	3.8%	4.1%	4.0%
10. Grocery	2.7%	2.9%	2.6%
Other	28.3%	27.5%	28.3%
	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 Investment Properties are located as of December 31, 2010:

State	# of Properties	% of Annual Base Rent ⁽¹⁾
1. Texas	220	18.7%
2. Florida	93	10.0%
3. Illinois	47	6.7%
4. North Carolina	73	6.2%
5. Georgia	60	5.0%
6. Indiana	39	4.4%
7. Ohio	38	4.1%
8. Pennsylvania	84	3.9%
9. Tennessee	33	2.9%
10. Missouri	28	2.9%
Other	480	35.2%
	1,195	100.0%

⁽¹⁾ Based on annualized base rent for all leases in place as of December 31, 2010.

Mortgages and Notes Receivable

Mortgages are secured by real estate, real estate securities or other assets and include structured finance investments which are secured by the borrowers' pledge of their respective membership interests in the entities which own the respective real estate. Mortgages and notes receivable consisted of the following at December 31 (dollars in thousands):

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	2010	2009
Mortgages and notes receivable	\$ 29,750	\$ 41,707
Accrued interest receivables, net of reserves	644	269
Unamortized discount	(63)	-
	\$ 30,331	\$ 41,976

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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 \$15,915,000 and \$20,153,000 at December 31, 2010 and 2009, respectively.

For more information regarding NNN's Investment Portfolio, see Note 23 of NNN's Consolidated Financial Statements.

Inventory Portfolio

NNN's Inventory Portfolio, which is owned by the TRS, is held with the intent to sell the properties to purchasers who are looking for replacement like-kind exchange property or to other purchasers with different investment objectives. As of December 31, 2010, the Inventory Portfolio consisted of 10 completed development projects and seven land parcels.

The following table summarizes the completed Inventory Portfolio as of December 31, 2010 (in thousands):

	Size ⁽¹⁾			Acquisition Cost ⁽²⁾		
	High	Low	Average	High	Low	Average
Land	527	17	106	\$ 2,248	\$ 108	\$ 953
Building	42	4	12	7,159	341	1,849

⁽¹⁾ Approximate square feet.

⁽²⁾ Costs vary depending upon size and local demographic factors.

For more information regarding NNN's Inventory Portfolio, see Note 23 of NNN's Consolidated Financial Statements.

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 contamination may exist. Investments in real property create a potential for substantial environmental liability on the part of the owner of such property from the presence or discharge of hazardous substances on the property or the improper disposal of hazardous substances emanating from the property, regardless of fault. 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 15, 2011, NNN has 59 Investment Properties currently under some level of environmental remediation. In general, the seller, the tenant or an adjacent land owner is responsible for the cost of the environmental remediation for each of these Investment Properties.

Americans with Disabilities Act of 1990. The Investment and Inventory 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 15, 2011, NNN has not

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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 requirements regulate the use of NNN's Investment and Inventory 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.

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

Current 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 operating in the retail industry 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;

reduced values of NNN's properties which may limit NNN's ability to dispose of assets at attractive prices and may reduce the availability of buyer financing;

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; and

one or more lenders under the Credit Facility could fail and NNN may not be able to replace the financing commitment of any such lenders on favorable terms, or at all.

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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 2011 and 2017. The ability of NNN 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.

Loss of revenues from tenants would reduce NNN's cash flow.

NNN's five largest tenants accounted for an aggregate of approximately 29 percent of NNN's annual base rent as of December 31, 2010. The default, financial distress, bankruptcy or liquidation of one or more of NNN's tenants could cause substantial vacancies among NNN's Investment Portfolio. Vacancies reduce NNN's revenues, increase property expenses and could decrease the ultimate sale value of each such vacant property. Upon the expiration of the leases that are currently in place, 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 Investment Portfolio annual base rent is heavily concentrated in specific industry classifications, tenants and in specific geographic locations.

As of December 31, 2010, approximately,

53 percent of NNN's Investment Portfolio annual base rent is generated from five retail lines of trade, including convenience stores (24 percent) and full-service restaurants (10 percent),

29 percent of NNN's Investment Portfolio annual base rent is generated from five tenants, including The Pantry, Inc. (eight percent) and Susser Holdings Corp. (eight percent),

47 percent of NNN's Investment Portfolio annual base rent is generated from five states, including Texas (19 percent) and Florida (10 percent).

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,

economic downturns in the areas where NNN's properties are located,

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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 geographic shift in the market away from NNN s properties,

changes in tenant 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.

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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 or impose significant liability 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 lube, 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 needed. 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 15, 2011 NNN has 59 Investment Properties currently under some level of environmental remediation. In general, the seller, the tenant or an adjacent land owner is responsible for the cost of the environmental remediation for each of these Investment Properties.

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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 has an environmental insurance policy on certain of its convenience store and travel plaza properties which expires in August 2013. 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 (including its Inventory Properties) 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, 2010, the Residuals had a carrying value of \$15,915,000. The value of these Residuals is based on assumptions made by NNN to determine their value. These assumptions include discount rate, loan loss, prepayment speed and interest rate assumptions made by NNN to determine their 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.

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

If a borrower defaults on a mortgage, structured finance loan 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 assets of the borrower 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 secured by other 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, 2010, mortgages and notes receivables had an outstanding principal balance of \$29,750,000. 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 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, structured finance loans, 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 with numerous other REITs, commercial developers, real estate limited partnerships and other investors may impede NNN's ability to grow.

NNN may not be in a position or have the opportunity in the future to complete suitable property acquisitions or developments on advantageous terms due to competition for such properties with others engaged in real estate investment activities. 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.

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Operating losses from retail operations on certain Investment Properties may adversely impact NNN's results of operations.

In June 2009, NNN acquired the operations of the auto service business which was operated on certain Investment Properties. A third party manages and staffs these operations on behalf of NNN. The results of business operations from these properties are subject to the typical execution risks inherent with many retail operations including: merchandising, pricing, customer service, competition, consumer preferences and behavior, safety, compliance with various federal, state and local laws, ordinances and regulations, environmental contamination, unfavorable weather conditions, or other trends in the markets they serve. These factors could negatively impact NNN's results of operations from these certain Investment Properties.

Uninsured losses may adversely affect NNN's ability to pay outstanding indebtedness.

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 in accordance with industry standards. There are, however, types of losses (such as from hurricanes, wars or earthquakes) 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.

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 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.

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, 2010, NNN owned 37 vacant, un-leased Investment Properties, which accounted for approximately three percent of total Investment Properties held in NNN's Investment 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 Investment Properties at comparable rental rates and in a timely manner. As of January 31, 2011, approximately one percent of the total gross leasable area of NNN's Investment Portfolio was leased to four 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 lease with NNN.

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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, 2010, NNN had total mortgage debt outstanding of approximately \$24,269,000, total unsecured notes payable of \$948,416,000 and \$161,000,000 outstanding on the unsecured 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 appropriate 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.

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

As of December 31, 2010, NNN had approximately \$1,133,685,000 of outstanding indebtedness, of which approximately \$24,269,000 was secured indebtedness. NNN's unsecured debt contains 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 generally contains customary covenants, including, among others, provisions:

relating to 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

relating to 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, including its Credit Facility, require NNN, among other things, to:

limit certain leverage ratios,

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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.

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

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 including the weak economic environment,

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 may face other tax liabilities that reduce operating results and cash flow.

Even if NNN remains qualified for taxation as a REIT, NNN may be 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.

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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. For example, legislation enacted in 2003 and extended in 2006 generally reduced the federal income tax rate on most dividends paid by corporations to individual investors to a maximum of 15 percent (through 2012). REIT dividends, with limited exceptions, will not benefit from the rate reduction, because a REIT's income generally is not subject to corporate level tax. As such, this 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 capital 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, 2010, 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.

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.

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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.

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. [Removed and Reserved]

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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 500) for the five year period commencing December 31, 2005 and ending December 31, 2010. The graph assumes an investment of \$100 on December 31, 2005.

Comparison to Five-Year Cumulative Total Return

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For each calendar quarter 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.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2010					
High	\$ 23.73	\$ 24.59	\$ 25.94	\$ 28.11	\$ 28.11
Low	19.19	20.50	20.82	24.85	19.19
Close	22.83	21.44	25.11	26.50	26.50
Dividends paid per share	0.375	0.375	0.380	0.380	1.510
2009					
High	\$ 17.52	\$ 19.48	\$ 22.80	\$ 21.59	\$ 22.80
Low	12.26	14.95	15.85	18.87	12.26
Close	15.84	17.35	21.47	21.22	21.22
Dividends paid per share	0.375	0.375	0.375	0.375	1.500

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

	2010		2009	
Ordinary dividends	\$ 1.072446	71.0229%	\$ 1.495182	99.6788%
Qualified dividends	0.081661	5.4080%	-	-
Capital gain	0.000861	0.0570%	0.003051	0.2034%
Unrecaptured Section 1250 gain	0.000498	0.0330%	0.001767	0.1178%
Nontaxable distributions	0.354534	23.4791%	-	-
	\$ 1.510000	100.0000%	\$ 1.500000	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 2011, NNN paid dividends to its stockholders of \$31,678,000 or \$0.38 per share of common stock.

On January 31, 2011, there were 1,848 stockholders of record of common stock.

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Historical Financial Highlights

(dollars in thousands, except per share data)

	2010	2009	2008	2007	2006
Gross revenues ⁽¹⁾	\$ 237,062	\$ 243,932	\$ 247,352	\$ 208,629	\$ 180,877
Earnings from continuing operations	71,202	56,129	97,858	76,642	58,739
Earnings including noncontrolling interests	73,353	56,399	119,971	155,743	184,422
Net earnings attributable to NNN	72,997	54,810	117,153	154,599	181,800
Total assets	2,713,575	2,590,962	2,649,471	2,539,673	1,917,516
Total debt	1,133,685	987,346	1,027,391	1,049,154	890,127
Total stockholders' equity	1,527,483	1,564,240	1,566,860	1,417,647	1,109,479
Cash dividends declared to:					
Common stockholders	125,391	120,256	110,107	92,989	76,035
Series A preferred stockholders	-	-	-	-	4,376
Series B convertible preferred stockholders	-	-	-	-	419
Series C preferred stockholders	6,785	6,785	6,785	6,785	923
Weighted average common shares:					
Basic	82,715,645	79,846,258	74,249,137	66,152,437	57,428,063
Diluted	82,849,362	79,953,499	74,344,231	66,263,980	57,965,508
Per share information:					
Earnings from continuing operations:					
Basic	\$ 0.77	\$ 0.60	\$ 1.22	\$ 1.05	\$ 0.88
Diluted	0.77	0.60	1.22	1.05	0.88
Net earnings:					
Basic	0.80	0.60	1.48	2.23	3.05
Diluted	0.80	0.60	1.48	2.22	3.03
Cash dividends declared to:					
Common stockholders	1.51	1.50	1.48	1.40	1.32
Series A preferred stockholders	-	-	-	-	2.45625
Series B convertible preferred stockholders	-	-	-	-	41.875
Series C preferred depository stockholders	1.84375	1.84375	1.84375	1.84375	0.250955
Other data:					
Cash flows provided by (used in):					
Operating activities	\$ 187,914	\$ 149,502	\$ 237,459	\$ 130,147	\$ 1,676
Investing activities	(220,260)	(28,063)	(256,304)	(536,717)	(90,099)
Financing activities	19,169	(108,840)	(6,028)	432,394	81,864
Funds from operations diluted ⁽²⁾	108,328	89,506	132,996	110,589	86,749

- (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 Investment Properties that were sold and leasehold interest which expired, (ii) all Inventory Properties which generated revenues prior to disposition, and (iii) all Investment and Inventory Properties which generated revenue and were held for sale at December 31, 2010, 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 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 assets unique to the real estate industry, excluding gains (or including losses) on the disposition of certain assets and NNN's share of these items from NNN's

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unconsolidated partnerships and joint ventures.

FFO is generally considered by industry analysts to be the most 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

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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.

NNN has earnings from discontinued operations in both of its financial segments; investment assets and inventory assets. All property dispositions from NNN's investment segment are classified as discontinued operations. In addition, certain properties in NNN's inventory segment that have generated revenues before disposition are classified as discontinued operations. These inventory properties have not historically been classified as discontinued operations, therefore, prior period comparable consolidated financial statements have been restated to include these properties in its 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 their most directly comparable GAAP measure, net earnings for the years ended December 31:

	2010	2009	2008	2007	2006
Reconciliation of funds from operations:					
Net earnings attributable to NNN's stockholders	\$ 72,997	\$ 54,810	\$ 117,153	\$ 154,599	\$ 181,800
Real estate depreciation and amortization:					
Continuing operations	43,464	42,838	40,336	28,632	19,099
Discontinued operations	186	1,438	1,454	1,750	3,320
Partnership/joint venture real estate depreciation	178	178	177	31	463
Partnership gain on sale of asset	-	-	-	-	(262)
Gain on disposition of equity investment	-	-	-	-	(11,373)
Gain on disposition of investment assets	(1,134)	(2,392)	(9,980)	(56,625)	(91,332)
Gain on disposition of inventory assets	(578)	(581)	(9,359)	(11,013)	(9,667)
FFO	115,113	96,291	139,781	117,374	92,048
Series A preferred stock dividends ⁽¹⁾	-	-	-	-	(4,376)
Series B convertible preferred stock dividends ⁽¹⁾	-	-	-	-	(419)
Series C preferred stock dividends	(6,785)	(6,785)	(6,785)	(6,785)	(923)
FFO available to common stockholders - basic	108,328	89,506	132,996	110,589	86,330
Series B convertible preferred stock dividends, if dilutive	-	-	-	-	419
FFO available to common stockholders - diluted	\$ 108,328	\$ 89,506	\$ 132,996	\$ 110,589	\$ 86,749

⁽¹⁾ The Series A and Series B preferred stock are no longer outstanding.

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.

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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 operations are divided into two primary business segments: (i) investment assets, including real estate assets, mortgages and notes receivable, and commercial mortgage residual interests (collectively, Investment Assets), and (ii) inventory real estate assets (Inventory Assets). NNN acquires, owns, invests in and develops properties that are leased primarily to retail tenants under long-term net leases and primarily held for investment (Investment Properties or Investment Portfolio). The Inventory Assets typically represent direct and indirect investment interests in real estate assets acquired or developed primarily for the purpose of selling the real estate (Inventory Properties or Inventory Portfolio).

As of December 31, 2010, NNN owned 1,195 Investment Properties (including 11 properties with retail operations that NNN operates), with an aggregate gross leasable area of approximately 12,972,000 square feet, located in 46 states. Approximately 97 percent of total properties in NNN's Investment Portfolio was leased or operated as of December 31, 2010. As of December 31, 2010, NNN owned 17 Inventory Properties.

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

NNN continues to maintain its diversification by tenant, geography and tenant's line of trade. NNN's highest lines of trade concentrations are the convenience store and restaurant (including full and limited service) sectors. These sectors represent a large part of the freestanding retail property marketplace and NNN's management believes these sectors present attractive investment opportunities. NNN's Investment Portfolio is geographically concentrated in the south and southeast United States, which are regions of historically above-average population growth. Given these concentrations, any financial hardship within these sectors or geographic locations, respectively, could have a material adverse effect on the financial condition and operating performance of NNN.

As of year end December 31, 2010, 2009 and 2008, Investment Properties have remained at least 96 percent leased. The Investment Portfolio's average remaining lease term of 12 years 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.

The weak economic environment during the past three years has made it more difficult and more expensive to obtain debt and equity capital, and has reduced the pace of investments in new acquisitions or developments as well as the volume of dispositions. Additionally, the weak economic and retail environment has resulted in more retailers filing for bankruptcy and has made it more difficult to lease properties, which may have an adverse impact on NNN's occupancy.

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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 and judgments 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 judgments; 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 judgments and estimates used in the preparation of NNN's consolidated financial statements.

Real Estate Investment Portfolio. NNN records the acquisition of real estate at cost, including acquisition and closing costs. The cost of properties developed 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 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 value of tenant relationships, based in each case on their relative fair values.

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 and repairs. The leases are accounted for using either the operating or the direct financing method. Such methods are described below:

Operating method 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 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.

Real Estate Inventory Portfolio. The TRS acquires and/or develops and owns properties primarily for the purpose of selling the real estate. The properties that are classified as held for sale at any given time may consist of properties that have been acquired in the marketplace with the intent to sell and properties that have been, or are currently being, constructed by the TRS. The TRS records the acquisition of the real estate at cost, including the acquisition and closing costs. The cost of the real estate developed by the TRS also includes direct and indirect costs of construction, interest and other miscellaneous costs incurred during the development period until the project is substantially complete and available for occupancy. Real estate held for sale is not depreciated and is recorded at the lower of cost or fair value.

Impairment Real Estate. Based upon the events or changes in certain circumstances, management periodically assesses its Investment Properties for possible impairment indicating that the carrying value

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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 condition 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.

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. The commercial mortgage residual interests were acquired in connection with the acquisition of Orange Avenue Mortgage Investments, Inc. (OAMI). 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. In 2010, NNN acquired the 21.1% non-controlling interest in its majority owned and controlled subsidiary, OAMI, for \$1,603,000 pursuant to which OAMI became a wholly owned subsidiary of NNN. NNN accounted for the transaction as an equity transaction in accordance with the FASB guidance on consolidation.

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 at the time of acquisition 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.

New Accounting Pronouncements. Refer to Note 1 to the December 31, 2010, 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, the collectibility of receivables from tenants, including accrued rental income and capitalized overhead relating to development projects. Actual results could differ from those estimates.

Results of Operations**Property Analysis - Investment Portfolio**

General. The following table summarizes NNN's Investment Portfolio as of December 31:

	2010	2009	2008
Investment Properties Owned:			
Number	1,195	1,015	1,005
Total gross leasable area (square feet)	12,972,000	11,373,000	11,251,000
Investment Properties:			
Leased	1,147	966	972
Operated	11	12	-
Percent of Investment Properties leased and operated	97%	96%	97%
Weighted average remaining lease term (years)	12	12	13
Total gross leasable area (square feet) leased and operated	12,215,000	10,508,000	10,728,000

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The following table summarizes the lease expirations, assuming none of the tenants exercise renewal options, of NNN's Investment Portfolio for each of the next 10 years and then thereafter in the aggregate as of December 31, 2010:

	% of Annual Base Rent ⁽¹⁾	# of Properties	Gross Leasable Area ⁽²⁾		% of Annual Base Rent ⁽¹⁾	# of Properties	Gross Leasable Area ⁽²⁾
2011	1.5%	18	260,000	2017	3.9%	28	682,000
2012	3.1%	35	520,000	2018	2.6%	24	345,000
2013	4.4%	40	839,000	2019	4.0%	41	618,000
2014	4.4%	42	577,000	2020	4.0%	83	694,000
2015	4.5%	72	1,011,000	Thereafter	65.4%	745	6,167,000
2016	2.2%	19	407,000				

⁽¹⁾ Based on the annualized base rent for all leases in place as of December 31, 2010.

⁽²⁾ Approximate square feet.

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

Lines of Trade	2010	2009	2008
1. Convenience Stores	23.7%	26.7%	25.7%
2. Restaurants Full Service	10.1%	9.2%	8.7%
3. Automotive Parts	7.8%	6.8%	5.1%
4. Theaters	5.7%	6.3%	6.1%
5. Automotive Service	5.3%	5.7%	8.9%
6. Sporting Goods	4.5%	3.2%	3.3%
7. Restaurants Limited Service	4.1%	3.5%	3.3%
8. Drug Stores	4.0%	4.1%	4.0%
9. Books	3.8%	4.1%	4.0%
10. Grocery	2.7%	2.9%	2.6%
Other	28.3%	27.5%	28.3%
	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 Investment Properties are located in as of December 31, 2010:

State	# of Properties	% of Annual Base Rent ⁽¹⁾
1. Texas	220	18.7%
2. Florida	93	10.0%
3. Illinois	47	6.7%
4. North Carolina	73	6.2%
5. Georgia	60	5.0%
6. Indiana	39	4.4%
7. Ohio	38	4.1%
8. Pennsylvania	84	3.9%
9. Tennessee	33	2.9%

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10.	Missouri	28	2.9%
	Other	480	35.2%
		1,195	100.0%

⁽¹⁾ Based on annualized base rent for all leases in place as of December 31, 2010.

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

	2010	2009	2008
Acquisitions:			
Number of Investment Properties	194	8	109
Gross leasable area (square feet)	1,700,000	290,000	868,000
Total dollars invested ⁽¹⁾	\$ 256,077	\$ 36,335	\$ 355,107

⁽¹⁾ Includes dollars invested on projects under construction for each respective year.

Property Dispositions. The following table summarizes the Investment Properties sold by NNN for each of the years ended December 31 (dollars in thousands):

	2010	2009	2008
Number of properties	14	9	19
Gross leasable area (square feet)	100,000	234,000	290,000
Net sales proceeds	\$ 15,980	\$ 15,621	\$ 59,796
Net gain	\$ 1,134	\$ 2,392	\$ 9,980

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

Property Analysis – Inventory Portfolio

General. The following table summarizes the number of properties held for sale in NNN's Inventory Portfolio as of December 31:

	2010	2009	2008
Completed Inventory Properties	10	13	24
Properties under construction	-	-	1
Land parcels	7	6	7
Total Inventory Properties	17	19	32

NNN transferred 11 properties from the Inventory Portfolio to the Investment Portfolio in December 2009.

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

	2010	2009	2008
Number of properties acquired	-	2	7
Total dollars invested ⁽¹⁾	\$ 493	\$ 2,633	\$ 29,539

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

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Property Dispositions. The following table summarizes the number of Inventory Properties sold and the corresponding gain recognized from the disposition of real estate held for sale included in earnings from continuing and discontinued operations for each of the years ended December 31 (dollars in thousands):

	2010		2009		2008	
	# of Properties	Gain	# of Properties	Gain	# of Properties	Gain
Continuing operations	2	\$ 641	2	\$ 37	1	\$ 21
Noncontrolling interest		(320)		(14)		(10)
Total continuing operations attributable to NNN		321		23		11
Discontinued operations	2	300	2	558	24	12,644
Noncontrolling interest		(43)		-		(3,297)
Total discontinued operations attributable to NNN		257		558		9,347
	4	\$ 578	4	\$ 581	25	\$ 9,358

Revenue from Continuing Operations Analysis

General. During the year ended December 31, 2010, NNN's rental income increased primarily due to the acquisition of Investment Properties (See Results of Operations Property Analysis Investment Portfolio Property Acquisitions). NNN anticipates increases in rental income will continue to come from additional property acquisitions and increases in rents pursuant to lease terms.

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

	2010	2009	2008	Percent of Total			2010	2009
				2010	2009	2008	Versus 2009	Versus 2008
							Percent Increase	Percent Increase
							(Decrease)	(Decrease)
Rental Income ⁽¹⁾	\$ 215,132	\$ 213,666	\$ 209,541	93.9%	92.6%	92.3%	0.7%	2.0%
Real estate expense reimbursement from tenants	7,438	8,361	6,980	3.3%	3.6%	3.1%	(11.0)%	19.8%
Interest and other income from real estate transactions	3,026	4,535	5,807	1.3%	2.0%	2.6%	(33.3)%	(21.9)%
Interest income on commercial mortgage residual interests	3,460	4,252	4,636	1.5%	1.8%	2.0%	(18.6)%	(8.3)%
Total revenues from continuing operations	\$ 229,056	\$ 230,814	\$ 226,964	100.0%	100.0%	100.0%	(0.8)%	1.7%

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

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Revenue from Operations by Source of Income. NNN has identified two primary operating segments, and thus, sources of revenue: (i) earnings from NNN's Investment Assets, and (ii) earnings from NNN's Inventory Assets. NNN revenues from continuing operations come primarily from Investment Assets. The revenues generated from NNN's Inventory Assets are typically classified as discontinued operations.

Comparison of Year Ended December 31, 2010 to Year Ended December 31, 2009.

Rental Income. Rental Income remained relatively stable in amount and as a percent of the total revenues from continuing operations for the year ended December 31, 2010 as compared to 2009.

Real Estate Expense Reimbursement from Tenants. Real estate expense reimbursements from tenants decreased for the year ended December 31, 2010, as compared to 2009 but remained fairly consistent as a percentage of total revenues from continuing operations. The decrease is primarily attributable to the increase in reimbursed tax assessments in 2009 as compared to 2010.

Interest and Other Income from Real Estate Transactions. Interest and other income from real estate transactions decreased for the year ended December 31, 2010, as compared to 2009, primarily due to a lower weighted average principal balance and a lower weighted average interest rate on NNN's mortgages receivable and structured finance investments during the year ended December 31, 2010. For the years ended December 31, 2010 and 2009, the weighted average outstanding principal balance and interest rates on NNN's mortgages receivable and structured finance investments was \$31,925,000 at 9.04% and \$38,968,000 at 9.50%, respectively. The decrease was also due to two defaulted loans at December 31, 2010.

Interest Income on Commercial Mortgage Residual Interests. Interest income on commercial mortgage residual interests (Residuals) decreased for the year ended December 31, 2010, as compared to December 31, 2009, but remained fairly stable as a percent of total revenue from continuing operations. The decrease in interest income on Residuals is primarily the result of declining loan balances from prepayments and scheduled loan amortization.

Comparison of Year Ended December 31, 2009 to Year Ended December 31, 2008.

Rental Income. Rental Income increased for the year ended December 31, 2009, as compared to 2008, due to a full year of Rental Income from the 109 Investment Properties with an aggregate gross leasable area of 868,000 square feet which were acquired during 2008. Additionally, eight Investment Properties were acquired in 2009 with an aggregate gross leasable area of 290,000 square feet. In addition, NNN recorded \$5,072,000 as compared to \$2,671,000 in lease termination fees and rent settlement fees during the years ended December 31, 2009 and 2008, respectively.

Real Estate Expense Reimbursement from Tenants. Real estate expense reimbursements from tenants increased for the year ended December 31, 2009, as compared to 2008. The increase is attributable to the reimbursements from certain properties acquired in 2008 as well as reimbursements resulting from the re-leasing of existing vacancies.

Interest and Other Income from Real Estate Transactions. Interest and other income from real estate transactions decreased for the year ended December 31, 2009, as compared to 2008, primarily due to a lower weighted average principal balance on NNN's mortgages receivable and structured finance investments during the year ended December 31, 2009. For the years ended December 31, 2009 and 2008, the weighted average outstanding principal balance on NNN's mortgages receivable and structured finance investments was \$38,968,000 and \$57,475,000, respectively.

Interest Income on Commercial Mortgage Residual Interests. Interest income on Residuals decreased for the year ended December 31, 2009, as compared to December 31, 2008 but remained stable as a percent of total revenue from continuing operations. The decrease in interest income on Residuals is primarily the

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result of the increase in the loan delinquencies and asset amortization, which is partially offset by a decrease in loan prepayments.

Analysis of Expenses from Continuing Operations

General. During 2010, operating expenses from continuing operations decreased primarily due to lower impairment losses and other charges recorded during the year ended December 31, 2010, as compared to the same period in 2009. The following summarizes NNN's expenses from continuing operations (dollars in thousands):

	2010	2009	2008
General and administrative	\$ 22,778	\$ 21,773	\$ 24,875
Real estate	13,534	13,642	10,152
Depreciation and amortization	48,328	46,539	43,668
Impairment losses and other charges	7,458	36,080	1,234
Impairment commercial mortgage residual interests valuation	3,995	498	758
Restructuring costs	-	731	-
Total operating expenses	\$ 96,093	\$ 119,263	\$ 80,687
Interest and other income	\$ (1,513)	\$ (1,371)	\$ (3,748)
Interest expense	65,179	62,151	63,964
Loss on interest rate hedge	-	-	804
Total other expenses (revenues)	\$ 63,666	\$ 60,780	\$ 61,020

	Percentage of Total Operating Expenses			Percentage of Revenues from Continuing Operations			2010 Versus 2009 Percent Increase (Decrease)	2009 Versus 2008 Percent Increase (Decrease)
	2010	2009	2008	2010	2009	2008	(Decrease)	(Decrease)
General and administrative	23.7%	18.3%	30.8%	9.9%	9.4%	11.0%	4.6%	(12.5)%
Real estate	14.1%	11.4%	12.6%	5.9%	5.9%	4.5%	(0.8)%	34.4%
Depreciation and amortization	50.2%	39.0%	54.1%	21.1%	20.2%	19.2%	3.8%	6.6%
Impairment losses and other charges	7.8%	30.3%	1.5%	3.3%	15.6%	0.5%	(79.3)%	2,823.8%
Impairment commercial mortgage residual interests valuation adjustment	4.2%	0.4%	1.0%	1.7%	0.2%	0.3%	702.2%	(34.3)%
Restructuring costs	-	0.6%	-	-	0.3%	-	(100.0)%	N/C ⁽¹⁾
Total operating expenses	100.0%	100.0%	100.0%	41.9%	51.6%	35.5%	(19.4)%	47.8%
Interest and other income	(2.4)%	(2.3)%	(6.1)%	(0.7)%	(0.6)%	(1.7)%	10.4%	(63.4)%
Interest expense	102.4%	102.3%	104.8%	28.5%	26.9%	28.2%	4.9%	(2.8)%
Loss on interest rate hedge	-	-	1.3%	-	-	0.4%	-	(100.0)%
Total other expenses (revenues)	100.0%	100.0%	100.0%	27.8%	26.3%	26.9%	4.7%	(0.4)%

⁽¹⁾ Not calculable (N/C)

Comparison of Year Ended December 31, 2010 to Year Ended December 31, 2009.

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General and Administrative Expenses. General and administrative expenses increased for the year ended December 31, 2010, as compared to the same period in 2009 and increased 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, 2010, is primarily attributable to an increase in noncash long-term incentive compensation. This increase is partially offset by a decrease in lost pursuit costs and capitalized overhead.

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Real Estate. Real estate expenses increased as a percentage of total operating expenses, but remained stable as a percentage of revenues from continuing operations for the year ended December 31, 2010, as compared to the same period in 2009.

Depreciation and Amortization. Depreciation and amortization expenses increased as a percentage of total operating expenses but remained fairly stable as a percentage of revenues from continuing operations for the year ended December 31, 2010, as compared to the year ended December 31, 2009. The dollar increase is primarily a result of an increase in the amortization of loan costs associated with a credit agreement NNN entered into in November 2009.

Impairment Losses and Other Charges. Based upon the events or changes in certain circumstances, management periodically assesses its Investment 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 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 return. Generally, NNN determines a possible impairment by comparing the estimated future cash flows to the current net book value. Impairments are measured as the amount by which the current book value of the asset exceeds the fair value of the asset. The decrease in impairment losses and other charges is primarily due to real estate impairments of \$28,884,000 recorded in 2009, as compared to zero in 2010.

Impairment Commercial Mortgage Residual Interests Valuation. In connection with the independent valuations of the Residuals fair value, during the years ended December 31, 2010 and 2009, NNN recorded an other than temporary valuation adjustment of \$3,995,000 and \$498,000, respectively, as a reduction of earnings from operations.

Restructuring Costs. During the year ended December 31, 2009, NNN recorded restructuring costs of \$731,000 in connection with a workforce reduction. No such costs were incurred during 2010.

Interest Expense. Interest expense increased for the year ended December 31, 2010, as compared to the same period in 2009, 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 repurchase of \$11,000,000 of convertible notes payable due June 2028 with an effective interest rate of 7.192% in 2009,
- (ii) the repurchase of \$8,800,000 of convertible notes payable due September 2026 with an effective interest rate of 5.840% in 2009,
- (iii) the payoff of the \$20,000,000 8.5% notes payable in September 2010,
- (iv) the increase of \$7,037,000 in the weighted average debt outstanding on the Credit Facility for year ended December 31, 2010, as compared to the same period in 2009,
- (v) the increase in the weighted average interest rate on the Credit Facility from 1.19% during the year ended December 31, 2009, to 3.80% during the year ended December 31, 2010,
- (vi) the decrease of \$626,000 in capitalized interest expense for the year ended December 31, 2010, as compared to the same period in 2009, and
- (vii) the increase of \$850,000 in amortization of loan commitment fees related to the Credit Facility entered into November 2009.

Table of Contents***Comparison of Year End December 31, 2009 to Year Ended December 31, 2008.***

General and Administrative Expenses. General and administrative expenses decreased for the year ended December 31, 2009, as compared to the same period in 2008 and decreased both as a percentage of total operating expenses and as a percentage of revenues from continuing operations. The decrease in general and administrative expenses for the year ended December 31, 2009, is primarily attributable to a decrease in compensation of personnel and a decrease in lost pursuit costs.

Real Estate. Real estate expenses remained fairly stable as a percentage of total operating expenses, but increased as a percentage of revenues from continuing operations for the year ended December 31, 2009, as compared to the same period in 2008. The increase in real estate expenses for the year ended December 31, 2009, is primarily attributable to an increase in tenant reimbursable real estate expenses from 2008 acquisitions as well as an increase in expenses related to un-leased properties.

Depreciation and Amortization. Depreciation and amortization expenses decreased as a percentage of total operating expenses and increased as a percentage of revenues from continuing operations for the year ended December 31, 2009, as compared to the year ended December 31, 2008. The dollar increase is primarily a result of depreciation recognized on the 109 Investment Properties with an aggregate gross leasable area of 868,000 square feet acquired in 2008. This increase is partially offset by the additional amortization in connection with the termination of certain leases during 2008.

Impairment Losses and Other Charges. Based upon the events or changes in certain circumstances, management periodically assesses its Investment 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 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 return. Generally, NNN calculates a possible impairment by comparing the estimated future cash flows to the current net book value. Impairments are measured as the amount by which the current book value of the asset exceeds the fair value of the asset. As a result of the Company's review of long-lived assets for impairments, for the years ended December 31, 2009, and 2008, NNN recorded real estate impairments totaling \$28,884,000 and \$1,234,000, respectively. In addition, during the year ended December 31, 2009, NNN recognized a loss on a note receivable foreclosure of \$7,196,000.

Impairment Commercial Mortgage Residual Interests Valuation. In connection with the independent valuations of the Residuals' fair value, during the years ended December 31, 2009 and 2008, NNN recorded an other than temporary valuation adjustment of \$498,000 and \$758,000 respectively, as a reduction of earnings from operations.

Restructuring Costs. During the year ended December 31, 2009, NNN recorded restructuring costs of \$731,000 in connection with a workforce reduction. No such costs were incurred during 2008.

Interest Expense. Interest expense decreased for the year ended December 31, 2009, as compared to the same period in 2008, and decreased as a percentage of total operating expenses and as a percentage of revenues from continuing operations. The decrease in interest expense is primarily attributable to a decrease of \$99,907,000 in weighted average long-term debt outstanding.

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

- (i) repurchase of \$11,000,000 of convertible notes payable due June 2028 with an effective interest rate of 7.192% in 2009,
- (ii) repurchase of \$8,800,000 of convertible notes payable due September 2026 with an effective interest rate of 5.840% in 2009,
- (iii) issuance of \$234,035,000 of convertible notes payable due June 2028, with an effective interest rate of 7.192% in March 2008,

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- (iv) payoff of the \$100,000,000 7.125% notes payable in March 2008,
- (v) payoff of the \$12,000,000 10.00% secured note payable in February 2008,
- (vi) the decrease of \$78,860,000 in the weighted average debt outstanding on the Credit Facility for year ended December 31, 2009, as compared to 2008, and
- (vii) the decrease in weighted average interest rate on the Credit Facility from 3.83% during the year ended December 31, 2008, to 1.19% during the year ended December 31, 2009.

Discontinued Operations**Earnings (Loss)**

NNN classified as discontinued operations the revenues and expenses related to its Investment Properties that were sold, its leasehold interests that expired or were terminated and any Investment Properties that were held for sale at December 31, 2010. NNN also classified as discontinued operations the revenues and expenses of its Inventory Properties that generated rental revenues. NNN records discontinued operations by NNN's identified segments: (i) Investment Assets, and (ii) Inventory Assets. The following table summarizes the earnings from discontinued operations for the years ended December 31 (dollars in thousands):

	2010			2009			2008		
	# of Sold Properties	Gain	Earnings/ (Loss)	# of Sold Properties	Gain	Earnings/ (Loss)	# of Sold Properties	Gain	Earnings/ (Loss)
Investment Assets	14	\$ 1,134	\$ 1,859	9	\$ 2,392	\$ 1,776	19	\$ 9,980	\$ 12,914
Inventory Assets	2	300	292	2	558	(1,506)	24	12,644	9,199
Noncontrolling interests	-	-	11	-	-	(166)	-	-	(2,722)
	16	\$ 1,434	\$ 2,162	11	\$ 2,950	\$ 104	43	\$ 22,624	\$ 19,391

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

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. Generally, NNN calculates a possible impairment by comparing the estimated future cash flows to the current net book value. Impairments are measured as the amount by which the current book value of the asset exceeds the fair value of the asset. During the years ended December 31, 2009, and 2008, NNN recognized real estate impairments on discontinued operations of \$5,630,000, and \$4,426,000, respectively. During the year ended December 31, 2010, NNN did not recognize any real estate impairments on discontinued operations.

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 may not keep up with the rate of inflation.

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The Investment Properties are leased to tenants under long-term, net leases which typically require the tenant to pay certain operating expenses of a property, thus, NNN's exposure to inflation is reduced. 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 these requirements (other than amounts required for additional property investments, mortgages and notes receivable) through cash provided from operations and NNN's Credit Facility. NNN utilizes the Credit Facility to meet its short-term working capital requirements. As of December 31, 2010, \$161,000,000 was outstanding and \$239,000,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$647,000. NNN anticipates that any additional investments in properties, mortgages and notes receivables during the next 12 months 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):

	2010	2009	2008
Cash and cash equivalents:			
Provided by operating activities	\$ 187,914	\$ 149,502	\$ 237,459
Used in investing activities	(220,260)	(28,063)	(256,304)
Provided by (used in) financing activities	19,169	(108,840)	(6,028)
Increase (decrease)	(13,177)	12,599	(24,873)
Net cash at beginning of period	15,225	2,626	27,499
Net cash at end of period	\$ 2,048	\$ 15,225	\$ 2,626

Cash provided by operating activities represents cash received primarily from rental income from tenants, proceeds from the disposition of Inventory Properties and interest income less cash used for general and administrative expenses, interest expense and acquisition of its Inventory Properties. NNN's cash flow from operating activities, net of cash used in and provided by the acquisition and disposition of its Inventory 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 Inventory Properties. The change in cash provided by operations for the years ended December 31, 2010, 2009 and 2008, 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 the acquisitions and dispositions of Investment Properties.

NNN's financing activities for the year ended December 31, 2010, included the following significant transactions:

\$125,391,000 in dividends paid to common stockholders,

\$6,785,000 in dividends paid to holders of the depositary shares of NNN's Series C Preferred Stock,

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\$17,631,000 in net proceeds from the issuance of 793,759 shares of common stock in connection with the Dividend Reinvestment and Stock Purchase Plan (DRIP), and

\$161,000,000 in net proceeds from NNN's Credit Facility,

\$6,453,000 in repayments of mortgages, and

\$20,000,000 in repayment of 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 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 Investment Properties with cash from its Credit Facility. As of December 31, 2010, \$161,000,000 was outstanding and \$239,000,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$647,000.

For the year ended December 31, 2010, NNN's ratio of total liabilities to total gross assets (before accumulated depreciation) was approximately 40 percent and the secured indebtedness to total gross assets was approximately two percent. The total debt to total market capitalization was approximately 34 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, 2010. The table presents principal cash flows by year-end of the expected maturity for debt obligations and commercial commitments outstanding as of December 31, 2010.

	Total	Expected Maturity Date (dollars in thousands)					
		2011	2012	2013	2014	2015	Thereafter
Long-term debt ⁽¹⁾	\$ 986,004	\$ 139,798 ⁽³⁾	\$ 69,290	\$ 223,898 ⁽³⁾	\$ 150,881	\$ 150,917	\$ 251,220
Credit Facility	161,000	-	161,000	-	-	-	-
Operating lease	3,666	917	945	973	831	-	-
Total contractual cash obligations ⁽²⁾	\$ 1,150,670	\$ 140,715	\$ 231,235	\$ 224,871	\$ 151,712	\$ 150,917	\$ 251,220

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

⁽²⁾ Excludes \$7,342 of accrued interest payable.

⁽³⁾ Maturity dates are based on put option dates under NNN's convertible notes.

In addition to the contractual obligations outlined above, in connection with the development of 28 Investment Properties, NNN has agreed to fund construction commitments (including construction, land costs and tenant improvements) of \$68,746,000. As of December 31, 2010, NNN had funded \$50,196,000 of this commitment, with \$18,550,000 remaining to be funded. As of December 31, 2010, NNN did not have any funding commitments relating to the development of Inventory Properties.

As of December 31, 2010, NNN had outstanding letters of credit totaling \$647,000 under its Credit Facility.

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As of December 31, 2010, 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 Investment Properties are leased under long-term net leases. Therefore, management anticipates that capital demands to meet obligations with respect to these Investment Properties will be modest for the foreseeable future and can be met with funds from operations and working capital. Certain of NNN's Investment Properties are subject to leases under which NNN retains responsibility for certain costs and expenses associated with the Investment Property. Management anticipates the costs associated with NNN's vacant Investment Properties or those Investment 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 Investment Properties at comparable rental rates and in a timely manner. As of December 31, 2010, NNN owned 37 vacant, un-leased Investment Properties which accounted for approximately three percent of total Investment Properties held in NNN's Investment Portfolio. Additionally, as of January 31, 2011, approximately one percent of the total gross leasable area of NNN's Investment Portfolio was leased to four tenants that filed a voluntary petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. As a result, these tenants have the right to reject or affirm their leases with NNN.

In February 2011, one of NNN's tenants, Borders Group, Inc. (Borders), which leased five Investment Properties from NNN, filed a petition of reorganization under Chapter 11 of the U.S. Bankruptcy Code. In February 2011, Borders moved to reject three leases with NNN and retains the right to reject the remaining two leases with NNN.

In February 2011, one of NNN's tenants, Robb & Stucky, LTD, which leases 1 Investment Property from NNN, filed a petition of reorganization under Chapter 11 of the U.S. Bankruptcy Code and retains the right to reject its lease with NNN.

On April 20, 2009, one of NNN's tenants, Titlemax Holdings, LLC and its affiliated companies (Titlemax), which leased 30 Investment Properties from NNN, filed a petition of reorganization under Chapter 11 of the U.S. Bankruptcy Code. In January 2010, Titlemax assumed all of its leases with NNN. In April 2010, Titlemax's plan of reorganization was approved by the U.S. Bankruptcy Court and Titlemax exited bankruptcy. Titlemax's Chapter 11 filing did not have an effect on NNN's operations or financial position.

In June 2010, one of NNN's tenants, Majestic Liquor Stores, Inc. (Majestic), which leased 13 Investment Properties from NNN, filed a petition of reorganization under Chapter 11 of the U.S. Bankruptcy Code. In addition, in June 2010, the principals of Majestic, (the Majestic Principals), which are the borrowers on a loan from NNN secured by one Majestic property, filed a petition of reorganization under Chapter 11 of the U.S. Bankruptcy Code. In June 2010, Majestic elected to reject the leases of four properties owned by NNN and the one property securing the loan to the Majestic Principals. In November 2010 NNN foreclosed on the property securing the loan to the Majestic Principals. In addition, during the year ended December 31, 2010, NNN recorded a \$5,625,000 charge in connection with the loan to the Majestic Principals. In December 2010, Majestic assumed all 9 of the remaining leases with NNN. Also in December 2010

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Majestic and Majestic Principals plan of reorganization was approved by the U.S. Bankruptcy court and Majestic and the Majestic Principals exited bankruptcy.

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. During the years ended December 31, 2010, 2009 and 2008, NNN declared and paid dividends to its common stockholders of \$125,391,000, \$120,256,000 and \$110,107,000, respectively, or \$1.51, \$1.50 and \$1.48 per share, respectively, of common stock.

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

	2010		2009		2008	
Ordinary dividends	\$ 1.072446	71.0229%	\$ 1.495182	99.6788%	\$ 1.480000	100.0000%
Qualified dividends	0.081661	5.4080%	-	-	-	-
Capital gain	0.000861	0.0570%	0.003051	0.2034%	-	-
Unrecaptured Section 1250 Gain	0.000498	0.0330%	0.001767	0.1178%	-	-
Nontaxable distributions	0.354534	23.4791%	-	-	-	-
	\$ 1.510000	100.0000%	\$ 1.500000	100.0000%	\$ 1.480000	100.0000%

In February 2011, NNN paid dividends to its common stockholders of \$31,678,000, or \$0.38 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.

NNN declared and paid dividends to its Series C Preferred stockholders of \$6,785,000 or \$1.84375 per depository share during each of the years ended December 31, 2010, 2009 and 2008. The Series C 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:

	2010		2009		2008	
Ordinary dividends	\$ 1.703170	92.3753%	\$ 1.837828	99.6788%	\$ 1.843750	100.0000%
Qualified dividends	0.140580	7.6247%	-	-	-	-
Capital gain	-	-	0.003750	0.2034%	-	-
Unrecaptured Section 1250 Gain	-	-	0.002172	0.1178%	-	-
	\$ 1.843750	100.0000%	\$ 1.843750	100.0000%	\$ 1.843750	100.0000%

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

Debt

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

	2010	Percentage of Total	2009	Percentage of Total
Line of credit payable	\$ 161,000	14.2%	\$ -	-
Mortgages payable	24,269	2.2%	25,290	2.6%
Notes payable convertible	349,534	30.8%	343,380	34.8%
Notes payable	598,882	52.8%	618,676	62.6%
Total outstanding debt	\$ 1,133,685	100.0%	\$ 987,346	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. NNN's \$400,000,000 revolving Credit Facility had a weighted average outstanding balance of \$17,861,000 and a weighted average interest rate of 3.8% during the year ended December 31, 2010. In November 2009, NNN entered into a credit agreement for a new \$400,000,000 credit facility, replacing the former revolving credit facility (as the context requires, the previous and new revolving credit facility, the "Credit Facility"). The Credit Facility matures November 2012, with an option to extend maturity to November 2013. The Credit Facility bears interest at LIBOR plus 280 basis points with a 1.0% LIBOR floor; however, such interest rate may change pursuant to a tiered interest rate structure based on NNN's debt credit rating. The Credit Facility also includes an accordion feature for NNN to increase, at its option, the facility size up to \$500,000,000. As of December 31, 2010, \$161,000,000 was outstanding, and \$239,000,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$647,000.

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, 2010, 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.

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

Entered	Balance	Interest Rate	Maturity ⁽³⁾	Carrying Value of Encumbered Asset(s) ⁽¹⁾	Outstanding Principal Balance at December 31,	
					2010	2009
December 2001 ⁽²⁾	623	9.00%	April 2014	\$ 734	\$ 215	\$ 267
December 2001 ⁽²⁾	698	9.00%	April 2019	1,186	364	392
December 2001 ⁽²⁾	485	9.00%	April 2019	1,152	187	201
June 2002	21,000	6.90%	July 2012	24,051	18,841	19,170
February 2004 ⁽²⁾	6,952	6.90%	January 2017	11,522	4,038	4,554
March 2005 ⁽²⁾	1,015	8.14%	September 2016	1,322	624	706
				\$ 39,967	\$ 24,269	\$ 25,290

- (1) Each loan is secured by a first mortgage lien on certain of NNN's properties. The carrying values of the assets are as of December 31, 2010.
- (2) Date entered represents the date that NNN acquired real estate subject to a mortgage securing a loan. The corresponding original principal balance represents the outstanding principal balance at the time of acquisition.
- (3) Monthly payments include interest and principal, if any; the balance is due at maturity.

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

Terms	2026 Notes ⁽¹⁾⁽²⁾⁽⁴⁾	2028 Notes ⁽²⁾⁽⁵⁾⁽⁶⁾
Issue Date	September 2006	March 2008
Net Proceeds	\$ 168,650	\$ 228,576
Stated Interest Rate ⁽⁸⁾	3.950%	5.125%
Debt Issuance Costs	\$ 3,850 ⁽³⁾	\$ 5,459 ⁽⁷⁾
Earliest Conversion Date	September 2025	June 2027
Earliest Put Option Date	September 2011	June 2013
Maturity Date	September 2026	June 2028
Original Principal	\$ 172,500	\$ 234,035
Repurchases	(33,800)	(11,000)
Outstanding principal balance at December 31, 2010	\$ 138,700	\$ 223,035

- (1) NNN repurchased \$8,800 and \$25,000 in 2009 and 2008, respectively, for a purchase price of \$6,994 and \$19,188, respectively, resulting in a gain of \$1,565 and \$4,961, respectively.
- (2) Debt issuance costs include underwriting discounts and commissions, legal and accounting fees, rating agency fees and printing expenses. These costs have been deferred and are being amortized over the period to the earliest put option date of the holders using the effective interest method.
- (3) Includes \$463 of note costs which were written off in connection with the repurchase of \$33,800 of the 2026 Notes.
- (4) The conversion rate per \$1 principal amount was 41.9803 shares of NNN's common stock, which is equivalent to a conversion price of \$23.8207 per share of common stock.
- (5)

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The conversion rate per \$1 principal amount was 39.3620 shares of NNN's common stock, which is equivalent to a conversion price of \$25.4052 per share of common stock.

- (6) NNN repurchased \$11,000 in 2009 for a purchase price of \$8,588 resulting in a gain of \$1,867.
- (7) Includes \$219 of note costs which were written off in connection with the repurchase of \$11,000 of the 2028 Notes, respectively.
- (8) With the adoption of the new accounting guidance on convertible debt securities, the effective interest rate for the 2026 Notes and the 2028 Notes are 5.840% and 7.192%, respectively.

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

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The carrying amounts of the Company's debt and equity balances are summarized in the table below as of December 31, (dollars in thousands):

	2010	2009
Carrying value of equity component	\$ (33,873)	\$ (33,873)
Principal amount of convertible debt	361,735	361,735
Remaining unamortized debt discount	(12,201)	(18,355)
Net carrying value of convertible debt	\$ 315,661	\$ 309,507

As of December 31, 2010, the remaining amortization periods for the debt discount were approximately nine months and 18 months for the 2026 Notes and the 2028 Notes, respectively.

The adjusted effective interest rates for the liability components of the 2026 Notes and the 2028 Notes were 5.840% and 7.192%, respectively. The Company recorded noncash interest-related charges of \$6,154,000, \$5,809,000 and \$5,481,000 for the years ended December 31, 2010, 2009 and 2008, respectively. The Company recorded contractual interest expense of \$16,909,000, \$17,046,000 and \$16,548,000 for the years ended December 31, 2010, 2009 and 2008, respectively, relating to the 2026 Notes and 2028 Notes.

The if-converted values that exceed the principal amount as of December 31, 2010, are \$15,601,000 and \$9,611,000 for the 2026 Notes and the 2028 Notes, respectively. As of December 31, 2009, the if-converted amount did not exceed the value of the principal amount.

Notes Payable. Each of NNN's outstanding series of non-convertible notes are summarized in the table below (dollars in thousands):

Notes	Issue Date	Principal	Discount ⁽³⁾	Net Price	Stated Rate	Effective Rate ⁽⁴⁾	Maturity Date
2012 ⁽¹⁾	June 2002	\$ 50,000	287	\$ 49,713	7.750%	7.833%	June 2012
2014 ⁽¹⁾⁽²⁾⁽⁵⁾	June 2004	150,000	440	149,560	6.250%	5.910%	June 2014
2015 ⁽¹⁾	November 2005	150,000	390	149,610	6.150%	6.185%	December 2015
2017 ⁽¹⁾⁽⁶⁾	September 2007	250,000	877	249,123	6.875%	6.924%	October 2017

(1) The proceeds from the note issuance were used to pay down outstanding indebtedness of NNN's Credit Facility.

(2) The proceeds from the note issuance were used to repay the obligation of the 2004 Notes.

(3) The note discounts are amortized to interest expense over the respective term of each debt obligation using the effective interest method.

(4) Includes the effects of the discount, treasury lock gain and swap gain (as applicable).

(5) NNN entered into a forward starting interest rate swap agreement which fixed a swap rate of 4.61% on a notional amount of \$94,000. Upon issuance of the 2014 Notes, NNN terminated the forward starting interest rate swap agreement resulting in a gain of \$4,148. The gain has been deferred and is being amortized as an adjustment to interest expense over the term of the 2014 Notes using the effective interest method.

(6) NNN entered into an interest rate hedge with a notional amount of \$100,000. Upon issuance of the 2017 Notes, NNN terminated the interest rate hedge agreement resulting in a liability of \$3,260, of which \$3,228 was recorded to other comprehensive income. The liability has been deferred and is being amortized as an adjustment to interest expense over the term of the 2017 Notes using the effective interest method.

Each series of notes represent senior, unsecured obligations of NNN and are subordinated to all secured indebtedness of NNN. The notes are redeemable at the option of NNN, in whole or in part, at a redemption price equal to the sum of (i) the principal amount of the notes being redeemed plus accrued and unpaid interest thereon through the redemption date, and (ii) the make-whole amount, if any, as defined in the applicable supplemental indenture relating to the notes.

In connection with the note and convertible note offerings, NNN incurred debt issuance costs totaling \$5,226,000 consisting primarily of underwriting discounts and commissions, legal and accounting fees, rating agency fees and printing expenses. Debt issuance costs for all note issuances have been deferred and are being amortized over the term of the respective notes using the effective interest method.

In accordance with the terms of the indentures, pursuant to which NNN's notes and convertible notes have been issued, NNN is required to meet certain restrictive financial covenants, which, among other things, require NNN to maintain (i) certain leverage ratios, and (ii) certain interest coverage. At December 31, 2010, NNN was in compliance with those covenants.

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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.

In September 2010, NNN repaid the 8.500% \$20,000,000 notes that were due in September 2010.

Debt and Equity Securities

NNN has used, and expects to use in the future, issuances of debt and equity securities primarily to pay down its outstanding indebtedness and to finance investment acquisitions. NNN has maintained investment grade debt ratings from Standard and Poor's, Moody's Investor Service and Fitch Ratings on its senior, unsecured debt since 1998. In June 2008, NNN's debt rating was upgraded by Moody's Investor Service. In February 2009, NNN filed a shelf registration statement with the Securities and Exchange Commission (the Commission) which was automatically effective and permits the issuance by NNN of an indeterminate amount of debt and equity securities.

A description of NNN's outstanding series of publicly held notes is found under Debt Notes Payable Convertible and Debt Notes Payable above.

7.375% Series C Cumulative Redeemable Preferred Stock. In October 2006, NNN issued 3,680,000 depositary shares, each representing 1/100th of a share of 7.375% Series C Cumulative Redeemable Preferred Stock (Series C Preferred Stock), and received gross proceeds of \$92,000,000. In connection with this offering, NNN incurred stock issuance costs of approximately \$3,098,000, consisting primarily of underwriting commissions and fees, legal and accounting fees and printing expenses.

Holders of the depositary shares are entitled to receive, when and as authorized by the Board of Directors, cumulative preferential cash dividends at the rate of 7.375% of the \$25.00 liquidation preference per depositary share per annum (equivalent to a fixed annual amount of \$1.84375 per depositary share). The Series C Preferred Stock underlying the depositary shares ranks senior to NNN's common stock with respect to dividend rights and rights upon liquidation, dissolution or winding up of NNN. The Series C Preferred Stock has no maturity date and will remain outstanding unless redeemed. NNN may redeem the Series C Preferred Stock underlying the depositary shares on or after October 12, 2011, for cash, at a redemption price of \$2,500.00 per share (or \$25.00 per depositary share), plus all accumulated, accrued and unpaid dividends.

Common Stock Issuances. In October 2008, NNN issued 3,450,000 shares of common stock in a registered, underwritten public offering at a price of \$23.05 per share and received net proceeds of \$75,958,000. In connection with this offering, NNN incurred stock issuance costs totaling approximately \$3,565,000 consisting primarily of underwriters' fees and commissions, legal and accounting fees. NNN used the net proceeds to repay borrowings under the Credit Facility and to acquire Investment Properties.

Dividend Reinvestment and Stock Purchase Plan. In June 2009, NNN filed a shelf registration statement which was automatically effective, with the Commission for its DRIP, which permits the issuance by NNN of 16,000,000 shares of common stock. NNN's DRIP provides an economical and convenient way for current stockholders and other interested new investors to invest in NNN's common stock. The following outlines the common stock issuances pursuant to NNN's DRIP for each of the years ended December 31:

	2010	2009	2008
Shares of common stock	793,759	3,766,452	2,146,640
Net proceeds	\$ 17,623,000	\$ 67,354,000	\$ 47,372,000

The proceeds from the issuances were used to pay down outstanding indebtedness under NNN's Credit Facility.

Table of Contents**Mortgages and Notes Receivable.**

Mortgages 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):

	2010	2009
Mortgages and notes receivable	\$ 29,750	\$ 41,707
Accrued interest receivable, net of reserves	644	269
Unamortized discount	(63)	-
	\$ 30,331	\$ 41,976

Commercial Mortgage Residual Interests.

In connection with the independent valuations of the Residuals fair value, NNN adjusted the carrying value of the Residuals to reflect such fair value as of December 31, 2010. Due to changes in market conditions relating to residual assets, the independent valuation changed several valuation assumptions. The following table summarizes the changes to the key assumptions used in determining the value of the Residuals as of December 31:

	2010	2009
Discount rate	25%	25%
Average life equivalent CPR speeds range	4.35% to 20.37% CPR	14.5% to 20.7% CPR
Foreclosures:		
Frequency curve default model	0.1% - 15.0% range	6% average rate
Loss severity of loans in foreclosure	20%	20%
Yield:		
LIBOR	Forward 3-month curve	Forward 3-month curve
Prime	Forward curve	Forward curve

The following table summarizes the recognition of unrealized gains and/or losses recorded as other comprehensive income as well as other than temporary valuation impairment as of December 31 (dollars in thousands):

	2010	2009	2008
Unrealized gains	\$ 1,273	\$ -	\$ 2,009
Unrealized losses	-	1,640	-
Other than temporary valuation impairment	3,995	498	758

Business Combination.

In connection with the default of a note receivable and certain lease agreements between NNN and one of its tenants, in June 2009, NNN acquired the operations of the auto service business which was operated on 12 Investment Properties. The note foreclosure resulted in a loss of \$7,816,000. NNN recorded the value of the assets received at fair value. No liabilities were assumed. The fair value of the assets resulted in goodwill of \$3,400,000. In connection with the review of goodwill for impairment, NNN recognized a noncash impairment charge of \$1,900,000.

Table of Contents**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

NNN is exposed to interest rate risk primarily as a result of its variable rate Credit Facility and its fixed rate debt which is used to finance NNN's development and acquisition activities, as well as for general corporate purposes. NNN's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve its objectives, NNN borrows at both fixed and variable rates on its long-term debt. As of December 31, 2010, NNN had no outstanding derivatives.

The information in the table below summarizes NNN's market risks associated with its debt obligations outstanding as of December 31, 2010 and 2009. The table presents principal payments and related interest rates by year for debt obligations outstanding as of December 31, 2010. The variable interest rates shown represent weighted average rate for the Credit Facility for the year ended December 31, 2010. The table incorporates only those debt obligations that existed as of December 31, 2010, and it does not consider those debt obligations or positions which could arise after this date. Moreover, because firm commitments are not presented in the table below, the information presented therein has limited predictive value. As a result, NNN's ultimate realized gain or loss with respect to interest rate fluctuations will depend on the exposures that arise during the period, NNN's hedging strategies at that time and interest rates. If interest rates on NNN's variable rate debt increased by one percent, NNN's interest expense would have increased by less than one percent for the year ended December 31, 2010.

	Debt Obligations (dollars in thousands)					
	Variable Rate Debt			Fixed Rate Debt		
	Credit Facility		Mortgages	Unsecured Debt ⁽¹⁾		Effective Interest Rate
Debt Obligation	Weighted Average Interest Rate	Debt Obligation		Weighted Average Interest Rate	Debt Obligation	
2011	\$ -	-	\$ 1,098	7.20%	\$ 136,857	5.84%
2012	161,000	3.80%	19,290	6.92%	49,945	7.83%
2013	-	-	863	7.35%	212,677	7.19%
2014	-	-	881	7.27%	149,817	5.91%
2015	-	-	917	7.22%	149,777	6.19%
Thereafter	-	-	1,220	7.47%	249,343	6.92%
Total	\$ 161,000	3.80%	\$ 24,269	7.00%	\$ 948,416	6.60%
Fair Value:						
December 31, 2010	\$ 161,000		\$ 24,269		\$ 1,044,621	
December 31, 2009	\$ -		\$ 25,290		\$ 987,275	

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

NNN is also exposed to market risks related to NNN's Residuals. Factors that may impact the market value of the Residuals include delinquencies, loan losses, prepayment speeds and interest rates. The Residuals, which are reported at market value based upon an independent valuation, had a carrying value of \$15,915,000 and \$20,153,000 as of December 31, 2010 and 2009, respectively. Unrealized gains and losses are reported as other comprehensive income in stockholders' equity. Losses are considered other than temporary and reported as a valuation impairment in earnings from operations if and when there has been a change in the timing or amount of estimated cash flows that leads to a loss in value.

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Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of National Retail Properties, Inc. and Subsidiaries

We have audited National Retail Properties, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). National Retail Properties, Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, National Retail Properties, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of National Retail Properties, Inc. and Subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010 and our report dated February 24, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Miami, Florida

February 24, 2011

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of National Retail Properties, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of National Retail Properties, Inc. and Subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. Our audits also included the financial statement schedules listed in the index at Item 15(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of National Retail Properties, Inc. and Subsidiaries at December 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statements schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), National Retail Property Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Miami, Florida

February 24, 2011

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share data)

ASSETS	December 31, 2010	December 31, 2009
Real estate, Investment Portfolio:		
Accounted for using the operating method, net of accumulated depreciation and amortization	\$ 2,519,950	\$ 2,328,576
Accounted for using the direct financing method	29,773	31,317
Real estate, Inventory Portfolio, held for sale	32,076	72,423
Investment in unconsolidated affiliate	4,515	4,703
Mortgages, notes and accrued interest receivable, net of allowance	30,331	41,976
Commercial mortgage residual interests	15,915	20,153
Cash and cash equivalents	2,048	15,225
Receivables, net of allowance of \$1,750 and \$583, respectively	3,403	1,946
Accrued rental income, net of allowance of \$3,609 and \$2,875, respectively	25,535	25,745
Debt costs, net of accumulated amortization of \$11,198 and \$6,870, respectively	9,366	13,884
Other assets	40,663	35,014
Total assets	\$ 2,713,575	\$ 2,590,962
<u>LIABILITIES AND EQUITY</u>		
Liabilities:		
Line of credit payable	\$ 161,000	\$ -
Mortgages payable	24,269	25,290
Notes payable convertible, net of unamortized discount of \$12,201 and \$18,355, respectively	349,534	343,380
Notes payable, net of unamortized discount of \$1,118 and \$1,324, respectively	598,882	618,676
Accrued interest payable	7,342	7,471
Other liabilities	43,774	29,283
Total liabilities	1,184,801	1,024,100
Commitments and contingencies (Note 26)		
Equity:		
Stockholders equity:		
Preferred stock, \$0.01 par value. Authorized 15,000,000 shares		
Series C, 3,680,000 depositary shares issued and outstanding, at stated liquidation value of \$25 per share	92,000	92,000
Common stock, \$0.01 par value. Authorized 190,000,000 shares; 83,613,289 and 82,427,560 shares issued and outstanding, respectively	838	825
Excess stock, \$0.01 par value. Authorized 205,000,000 shares; none issued or outstanding	-	-
Capital in excess of par value	1,429,750	1,408,491
Retained earnings	3,234	62,413
Accumulated other comprehensive income	1,661	511
Total stockholders equity of NNN	1,527,483	1,564,240
Noncontrolling interests	1,291	2,622

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Total equity	1,528,774	1,566,862
Total liabilities and equity	\$ 2,713,575	\$ 2,590,962

See accompanying notes to consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(dollars in thousands, except per share data)

	Year Ended December 31,		
	2010	2009	2008
Revenues:			
Rental income from operating leases	\$ 211,172	\$ 209,256	\$ 205,334
Earned income from direct financing leases	3,001	3,070	3,103
Percentage rent	959	1,340	1,104
Real estate expense reimbursement from tenants	7,438	8,361	6,980
Interest and other income from real estate transactions	3,026	4,535	5,807
Interest income on commercial mortgage residual interests	3,460	4,252	4,636
	229,056	230,814	226,964
Disposition of real estate, Inventory Portfolio:			
Gross proceeds	5,600	953	4,900
Costs	(4,959)	(916)	(4,879)
Gain	641	37	21
Retail operations:			
Revenues	32,958	15,595	-
Operating expenses	(31,647)	(15,176)	-
Net	1,311	419	-
Operating expenses:			
General and administrative	22,778	21,773	24,875
Real estate	13,534	13,642	10,152
Depreciation and amortization	48,328	46,539	43,668
Impairment losses and other charges	7,458	36,080	1,234
Impairment commercial mortgage residual interests valuation adjustment	3,995	498	758
Restructuring costs	-	731	-
	96,093	119,263	80,687
Earnings from operations	134,915	112,007	146,298
Other expenses (revenues):			
Interest and other income	(1,513)	(1,371)	(3,748)
Interest expense	65,179	62,151	63,964
Loss on interest rate hedge	-	-	804
	63,666	60,780	61,020

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Earnings from continuing operations before income tax benefit (expense), equity in earnings of unconsolidated affiliate and gain on extinguishment of debt	71,249	51,227	85,278
Income tax benefit (expense)	(475)	1,049	7,255
Equity in earnings of unconsolidated affiliate	428	421	364
Gain on extinguishment of debt	-	3,432	4,961
Earnings from continuing operations	71,202	56,129	97,858
Earnings (loss) from discontinued operations (Note 18):			
Real estate, Investment Portfolio, net of income tax expense	1,859	1,776	12,914
Real estate, Inventory Portfolio, net of income tax expense	292	(1,506)	9,199
	2,151	270	22,113

See accompanying notes to consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS CONTINUED

(dollars in thousands, except per share data)

	Year Ended December 31,		
	2010	2009	2008
Earnings including noncontrolling interests	\$ 73,353	\$ 56,399	\$ 119,971
Loss (earnings) attributable to noncontrolling interests:			
Continuing operations	(367)	(1,423)	(96)
Discontinued operations	11	(166)	(2,722)
	(356)	(1,589)	(2,818)
Net earnings attributable to NNN	72,997	54,810	117,153
Other comprehensive income (loss)	1,150	(1,903)	1,688
Total comprehensive income	\$ 74,147	\$ 52,907	\$ 118,841
Net earnings attributable to NNN	\$ 72,997	\$ 54,810	\$ 117,153
Series C preferred stock dividends	(6,785)	(6,785)	(6,785)
Net earnings attributable to common stockholders	\$ 66,212	\$ 48,025	\$ 110,368
Net earnings per share of common stock:			
Basic:			
Continuing operations	\$ 0.77	\$ 0.60	\$ 1.22
Discontinued operations	0.03	-	0.26
Net earnings	\$ 0.80	\$ 0.60	\$ 1.48
Diluted:			
Continuing operations	\$ 0.77	\$ 0.60	\$ 1.22
Discontinued operations	0.03	-	0.26
Net earnings	\$ 0.80	\$ 0.60	\$ 1.48
Weighted average number of common shares outstanding:			
Basic	82,715,645	79,846,258	74,249,137
Diluted	82,849,362	79,953,499	74,344,231

See accompanying notes to consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

Years Ended December 31, 2010, 2009 and 2008

(dollars in thousands, except per share data)

	Series C Preferred Stock	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders Equity	Noncontrolling Interests	Total Equity
Balances at December 31, 2007	\$ 92,000	\$ 725	\$ 1,189,564	\$ 134,383	\$ 975	\$ 1,417,647	\$ 2,956	\$ 1,420,603
Net earnings	-	-	-	117,153	-	117,153	2,818	119,971
Dividends declared and paid: \$1.84375 per depository share of Series C preferred stock	-	-	-	(6,785)	-	(6,785)	-	(6,785)
\$1.48 per share of common stock	-	4	8,472	(110,107)	-	(101,631)	-	(101,631)
Issuance of common stock: 3,523,285 shares	-	35	80,633	-	-	80,668	-	80,668
1,753,201 shares discounted stock purchase program	-	18	38,878	-	-	38,896	-	38,896
Issuance of 217,397 shares of restricted common stock	-	2	(2)	-	-	-	-	-
Stock issuance costs	-	-	(3,582)	-	-	(3,582)	-	(3,582)
Equity component of convertible debt	-	-	20,467	-	-	20,467	-	20,467
Amortization of deferred compensation	-	-	2,588	-	-	2,588	-	2,588
Interest rate hedge termination	-	-	-	-	(162)	(162)	-	(162)
Amortization of interest rate hedges	-	-	-	-	(109)	(109)	-	(109)
Unrealized gain	-	-	-	-	1,760	1,760	249	2,009

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commercial mortgage residual interests										
Stock value adjustment	-	-	-	-	(50)	(50)	-	(50)		
Contributions from noncontrolling interests	-	-	-	-	-	-	41	41		
Distributions to noncontrolling interests	-	-	-	-	-	-	(5,483)	(5,483)		
Other	-	-	-	-	-	-	1,505	1,505		
Balances at December 31, 2008	\$ 92,000	\$ 784	\$ 1,337,018	\$ 134,644	\$ 2,414	\$ 1,566,860	\$ 2,086	\$ 1,568,946		

See accompanying notes to consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY CONTINUED

Years Ended December 31, 2010, 2009 and 2008

(dollars in thousands, except per share data)

	Series C Preferred Stock	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders Equity	Noncontrolling Interests	Total Equity
Balances at December 31, 2008	\$ 92,000	\$ 784	\$ 1,337,018	\$ 134,644	\$ 2,414	\$ 1,566,860	\$ 2,086	\$ 1,568,946
Net earnings	-	-	-	54,810	-	54,810	1,589	56,399
Dividends declared and paid: \$1.84375 per depository share of Series C preferred stock	-	-	-	(6,785)	-	(6,785)	-	(6,785)
\$1.50 per share of common stock	-	1	1,797	(120,256)	-	(118,458)	-	(118,458)
Issuance of common stock: 99,738 shares	-	1	1,435	-	-	1,436	-	1,436
3,664,182 shares discounted stock purchase program	-	36	65,519	-	-	65,555	-	65,555
Issuance of 262,546 shares of restricted common stock	-	3	(3)	-	-	-	-	-
Stock issuance costs	-	-	(113)	-	-	(113)	-	(113)
Equity component of extinguishment of convertible debt	-	-	(795)	-	-	(795)	-	(795)
Amortization of deferred compensation	-	-	3,443	-	-	3,443	-	3,443
Amortization of interest rate hedges	-	-	-	-	(159)	(159)	-	(159)
Unrealized loss commercial mortgage residual interests	-	-	-	-	(1,744)	(1,744)	104	(1,640)
	-	-	-	-	-	-	152	152

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Contributions from noncontrolling interests									
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(552)	(552)
Other	-	-	190	-	-	190	-	(757)	(567)
Balances at December 31, 2009	\$ 92,000	\$ 825	\$ 1,408,491	\$ 62,413	\$ 511	\$ 1,564,240	\$ 2,622	\$ 1,566,862	

See accompanying notes to consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY CONTINUED

Years Ended December 31, 2010, 2009 and 2008

(dollars in thousands, except per share data)

	Series C Preferred Stock	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders Equity	Noncontrolling Interests	Total Equity
Balances at December 31, 2009	\$ 92,000	\$ 825	\$ 1,408,491	\$ 62,413	\$ 511	\$ 1,564,240	\$ 2,622	\$ 1,566,862
Net earnings	-	-	-	72,997	-	72,997	356	73,353
Dividends declared and paid:								
\$1.84375 per depository share of Series C preferred stock	-	-	-	(6,785)	-	(6,785)	-	(6,785)
\$1.51 per share of common stock	-	3	7,350	(125,391)	-	(118,038)	-	(118,038)
Issuance of common stock:								
39,872 shares	-	1	697	-	-	698	-	698
491,705 shares discounted stock purchase program	-	5	10,272	-	-	10,277	-	10,277
Issuance of 377,164 shares of restricted common stock	-	4	(4)	-	-	-	-	-
Stock issuance costs	-	-	(1)	-	-	(1)	-	(1)
Performance incentive plan	-	-	(1,634)	-	-	(1,634)	-	(1,634)
Amortization of deferred compensation	-	-	5,119	-	-	5,119	-	5,119
Amortization of interest rate hedges	-	-	-	-	(165)	(165)	-	(165)
Unrealized gain commercial mortgage residual interests	-	-	-	-	1,272	1,272	(26)	1,246
Contributions from noncontrolling interests	-	-	-	-	-	-	43	43

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Distributions to noncontrolling interests	-	-	-	-	-	-	(861)	(861)
Purchase of noncontrolling interest	-	-	(404)	-	-	(404)	(1,199)	(1,603)
Other	-	-	(136)	-	43	(93)	356	263
Balances at December 31, 2010	\$ 92,000	\$ 838	\$ 1,429,750	\$ 3,234	\$ 1,661	\$ 1,527,483	\$ 1,291	\$ 1,528,774

See accompanying notes to consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	Year Ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Earnings including noncontrolling interests	\$ 73,353	\$ 56,399	\$ 119,971
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Performance incentive plan expense	5,756	4,172	3,299
Stock options expense tax effect	122	190	-
Depreciation and amortization	49,084	48,485	45,347
Impairment losses and other charges	7,458	41,710	5,660
Impairment commercial mortgage residual interests valuation	3,995	498	758
Amortization of notes payable discount	6,360	6,006	5,670
Amortization of deferred interest rate hedges	(166)	(159)	(162)
Equity in earnings of unconsolidated affiliates	(428)	(421)	(364)
Distributions received from unconsolidated affiliates	578	607	439
Gain on disposition of real estate, Investment Portfolio	(1,134)	(2,392)	(9,980)
Gain on extinguishment of debt	-	(3,432)	(4,961)
Gain on disposition of real estate, Inventory Portfolio	(941)	(595)	(12,665)
Deferred income taxes	(2,544)	(16,649)	(5,593)
Income tax valuation allowance	3,121	14,900	-
Change in operating assets and liabilities, net of assets acquired and liabilities assumed in business combinations:			
Additions to real estate, Inventory Portfolio	(478)	(2,457)	(33,745)
Proceeds from disposition of real estate, Inventory Portfolio	42,817	6,276	128,785
Decrease in real estate leased to others using the direct financing method	1,544	1,378	1,195
Decrease (increase) in work in process	(755)	(786)	47
Increase in mortgages, notes and accrued interest receivable	(467)	(10)	(217)
Decrease (increase) in receivables	(219)	941	243
Decrease (increase) in commercial mortgage residual interests	1,516	(291)	-
Decrease (increase) in accrued rental income	124	(2,061)	(978)
Decrease (increase) in other assets	(53)	(172)	951
Decrease in accrued interest payable	(129)	(137)	(3,635)
Decrease in other liabilities	(431)	(2,930)	(1,463)
Increase (decrease) in current tax liability	(169)	432	(1,143)
Net cash provided by operating activities	187,914	149,502	237,459
Cash flows from investing activities:			
Proceeds from the disposition of real estate, Investment Portfolio	10,312	14,588	60,027
Additions to real estate, Investment Portfolio:			
Accounted for using the operating method	(230,928)	(44,433)	(352,618)
Investment in unconsolidated affiliate	-	-	(901)
Increase in mortgages and notes receivable	(8,564)	(959)	(29,934)
Principal payments on mortgages and notes receivable	13,818	4,009	64,589
Cash received from commercial mortgage residual interests	-	-	3,591
Payment of lease costs	(1,324)	(451)	(922)
Other	(3,574)	(817)	(136)

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Net cash used in investing activities	(220,260)	(28,063)	(256,304)
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See accompanying notes to consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

(dollars in thousands)

	Year Ended December 31,		
	2010	2009	2008
Cash flows from financing activities:			
Proceeds from line of credit payable	\$ 278,900	\$ 132,400	\$ 516,000
Repayment of line of credit payable	(117,900)	(158,900)	(619,300)
Repayment of mortgages payable	(6,453)	(1,000)	(1,190)
Proceeds from notes payable convertible	-	-	234,035
Repurchase of notes payable convertible debt component	-	(14,785)	(18,420)
Repurchase of notes payable convertible equity component	-	(795)	(768)
Repayment of notes payable secured	-	-	(12,000)
Repayment of notes payable	(20,000)	-	(100,000)
Payment of debt costs	(75)	(6,275)	(5,813)
Proceeds from issuance of common stock	17,692	68,060	127,328
Payment of Series C preferred stock dividends	(6,785)	(6,785)	(6,785)
Payment of common stock dividends	(125,391)	(120,256)	(110,107)
Noncontrolling interest distributions	(861)	(552)	(5,483)
Noncontrolling interest contributions	43	152	41
Stock issuance costs	(1)	(104)	(3,566)
Net cash provided by (used in) financing activities	19,169	(108,840)	(6,028)
Net increase (decrease) in cash and cash equivalents	(13,177)	12,599	(24,873)
Cash and cash equivalents at beginning of year	15,225	2,626	27,499
Cash and cash equivalents at end of year	\$ 2,048	\$ 15,225	\$ 2,626
Supplemental disclosure of cash flow information:			
Interest paid, net of amount capitalized	\$ 62,386	\$ 61,475	\$ 69,395
Taxes paid (received)	\$ 472	\$ (63)	\$ 3,441
Supplemental disclosure of noncash investing and financing activities:			
Issued 392,474, 262,546 and 225,517 shares of restricted and unrestricted common stock in 2010, 2009 and 2008, respectively, pursuant to NNN's performance incentive plan	\$ 6,889	\$ 4,290	\$ 3,796
Issued 10,092, 6,594 and 12,766 shares of common stock in 2010, 2009 and 2008, respectively, to directors pursuant to NNN's performance incentive plan	\$ 236	\$ 118	\$ 262
Issued 25,066, 41,604 and 26,879 shares of common stock in 2010, 2009 and 2008, respectively, pursuant to NNN's Deferred Director Fee Plan	\$ 401	\$ 611	\$ 449
Surrender of 2,520 shares of restricted common stock in 2008	\$ -	\$ -	\$ 58
Change in other comprehensive income	\$ 1,150	\$ (1,903)	\$ 1,439

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Change in lease classification (direct financing lease to operating lease)	\$	-	\$	-	\$	300
Transfer of real estate from Inventory Portfolio to Investment Portfolio	\$	-	\$	16,058	\$	29,948
Note and mortgage receivable accepted in connection with real estate transactions	\$	5,950	\$	1,550	\$	24,245
Mortgages payable assumed in connection with real estate transactions	\$	5,432	\$	-	\$	-
Real estate acquired in connection with mortgage receivable foreclosure	\$	6,250	\$	4,240	\$	2,497
Assets received in note receivable foreclosure	\$	-	\$	5,527	\$	-
Note receivable foreclosures	\$	-	\$	(17,013)	\$	-

See accompanying notes to consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2010, 2009 and 2008

Note 1 Organization and Summary of Significant Accounting Policies:

Organization and Nature of Business National Retail Properties, Inc., a Maryland corporation, is a fully integrated real estate investment trust (REIT) formed in 1984. The term NNN or the Company refers to National Retail Properties, Inc. and all of its consolidated subsidiaries. NNN has elected to treat certain subsidiaries as taxable REIT subsidiaries. These taxable subsidiaries and their majority owned and controlled subsidiaries are collectively referred to as the TRS.

NNN's operations are divided into two primary business segments: (i) investment assets, including real estate assets, mortgages and notes receivable and commercial mortgage residual interests (collectively, Investment Assets), and (ii) inventory real estate assets (Inventory Assets). NNN acquires, owns, invests in, manages and develops properties that are leased primarily to retail tenants under long-term net leases and primarily held for investment (Investment Properties or Investment Portfolio).

	December 31, 2010
Investment Portfolio:	
Total properties (including retail operations)	1,195
Gross leasable area (square feet)	12,972,000
States	46

The Inventory Assets typically represent direct and indirect investment interests in real estate assets acquired or developed primarily for the purpose of selling the real estate (Inventory Properties or Inventory Portfolio). As of December 31, 2010, NNN owned 17 Inventory Properties.

Principles of Consolidation NNN's consolidated financial statements include the accounts of each of the respective majority owned and controlled affiliates, including transactions whereby NNN has been determined to be the primary beneficiary in accordance with the Financial Accounting Standards Board (FASB) guidance included in *Consolidation*. All significant intercompany account balances and transactions have been eliminated. NNN applies the equity method of accounting to investments in partnerships and joint ventures that are not subject to control by NNN due to the significance of rights held by other parties.

The TRS develops real estate through various joint venture development affiliate agreements. NNN consolidates the joint venture development entities listed in the table below based upon either NNN being the primary beneficiary of the respective variable interest entity or NNN having a controlling interest over the respective entity. NNN eliminates significant intercompany

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balances and transactions and records a noncontrolling interest for its other partners' ownership percentage. The following table summarizes each of the investments as of December 31, 2010:

Date of Agreement	Entity Name	TRS Ownership %
November 2002	WG Grand Prairie TX, LLC	60%
February 2003	Gator Pearson, LLC	50%
February 2006	CNLRs BEP, L.P.	50%
September 2006	NNN Harrison Crossing, L.P.	50%

In September 2007, NNN entered into a joint venture, NNN Retail Properties Fund I LLC (the "NNN Crow JV") with an affiliate of Crow Holdings Realty Partners IV, LP.

Real Estate Investment Portfolio NNN records the acquisition of real estate at cost, including acquisition and closing costs. The cost of properties developed 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 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 value of tenant relationships, based in each case on their relative fair values.

The fair value of the tangible assets of an acquired leased property is determined by valuing the property as if it were vacant, and the as-if-vacant value is then allocated to land, building and tenant improvements based on the determination of the fair values of these assets. The as-if-vacant fair value of a property is provided to management by a qualified appraiser.

In allocating the fair value of the identified intangible assets and liabilities of an acquired property, above-market and below-market in-place lease values are recorded as other assets or liabilities based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases, and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining term of the lease, including the probability of renewal periods. The capitalized above-market lease values are amortized as a reduction of rental income over the remaining terms of the respective leases unless the Company believes that it is likely that the tenant would renew the option whereby the Company would amortize the value attributable to the renewal over the renewal period. The capitalized below-market lease values are amortized as an increase to rental income over the initial term.

The aggregate value of other acquired intangible assets, consisting of in-place leases, is measured by the excess of (i) the purchase price paid for a property after adjusting existing in-place leases to market rental rates over (ii) the estimated fair value of the property as-if-vacant, determined as set forth above. The value of in-place leases exclusive of the value of above-market and below-market in-place leases is amortized to expense over the remaining non-cancelable periods of the respective leases. If a lease were to be terminated prior to its stated expiration, all unamortized amounts relating to that lease would be written off.

The value of tenant relationships is reviewed on individual transactions to determine if future value was derived from the acquisition.

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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, including property taxes, insurance, maintenance and repairs. The leases are accounted for using either the operating or the direct financing method. Such methods are described below:

Operating method 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 rentals vary 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 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.

Real Estate Inventory Portfolio The TRS acquires and/or develops and owns properties primarily for the purpose of selling the real estate. The properties that are classified as held for sale at any given time may consist of properties that have been acquired in the marketplace with the intent to sell and properties that have been, or are currently being, constructed by the TRS. The TRS records the acquisition of the real estate at cost, including the acquisition and closing costs. The cost of the real estate developed by the TRS includes direct and indirect costs of construction, interest and other miscellaneous costs incurred during the development period until the project is substantially complete and available for occupancy. Real estate held for sale is not depreciated and is recorded at the lower of cost or fair value. In accordance with the FASB guidance included in *Real Estate*, the TRS classifies its real estate held for sale as discontinued operations for each property in which rental revenues are generated.

Impairment Real Estate Based upon events or changes in certain circumstances, management periodically assesses its Investment 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 condition and the ability of NNN to re-lease or sell properties that are currently 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 Dispositions When real estate is disposed of, the related cost, accumulated depreciation or amortization and any accrued rental income for operating leases and the net investment for direct financing leases are removed from the accounts and gains and losses from the dispositions are reflected in income. Gains from the disposition of real estate are generally recognized using the full accrual method in accordance with the FASB guidance included in *Real Estate Sales*, provided that various criteria relating to the terms of the sale and any subsequent involvement by NNN with the real estate sold are met. Lease termination fees are recognized when the related leases are cancelled and NNN no longer has a continuing obligation to provide services to the former tenants.

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Valuation of Mortgages, Notes and Accrued Interest The allowance related to the mortgages, notes and accrued interest is NNN's best estimate of the amount of probable credit losses. The allowance is determined on an individual note basis in reviewing any payment past due for over 90 days. Any outstanding amounts are written off against the allowance when all possible means of collection have been exhausted.

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

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. The commercial mortgage residual interests were acquired in connection with the acquisition of Orange Avenue Mortgage Investments, Inc. (OAMI). 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.

In 2010, NNN acquired the 21.1% non-controlling interest in its majority owned and controlled subsidiary, OAMI, for \$1,603,000, pursuant to which OAMI became a wholly owned subsidiary of NNN. NNN accounted for the transaction as an equity transaction in accordance with the FASB guidance on consolidation.

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

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

Valuation of Receivables NNN estimates of the collectibility of its accounts receivable related to rents, expense reimbursements and other revenues. NNN analyzes accounts receivable and historical bad debt levels, customer credit-worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. In addition, tenants in bankruptcy are analyzed and estimates are made in connection with the expected recovery of pre-petition and post-petition claims.

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

Debt Costs Debt costs incurred in connection with NNN's \$400,000,000 line of credit and mortgages payable have been deferred and are being amortized over the term of the respective loan commitment using the straight-line method, which approximates the effective interest method. Debt costs incurred in connection with the issuance of NNN's notes payable have been deferred and are being amortized over the term of the respective debt obligation using the effective interest method.

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Revenue Recognition Rental revenues for non-development real estate assets are recognized when earned in accordance with the FASB guidance included in *Leases*, based on the terms of the lease at the time of acquisition 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.

Earnings Per Share Earnings per share have been computed pursuant to the FASB guidance included in *Earnings Per Share*. Effective January 1, 2009, the guidance requires classification of the Company's unvested restricted share units which contain rights to receive nonforfeitable dividends, as participating securities requiring the two-class method of computing earnings per share. Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings to common stockholders and undistributed earnings allocated to common stockholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both common shares and participating securities based on the weighted average shares outstanding during the period. The following table is a reconciliation of the numerator and denominator used in the computation of basic and diluted earnings per common share using the two-class method for the years ended December 31 (dollars in thousands):

	2010	2009	2008
Basic and Diluted Earnings:			
Net earnings attributable to NNN	\$ 72,997	\$ 54,810	\$ 117,153
Less: Series C preferred stock dividends	(6,785)	(6,785)	(6,785)
Net earnings available to NNN's common stockholders	66,212	48,025	110,368
Less: Earnings attributable to unvested restricted shares	(299)	(290)	(485)
Net earnings used in basic earnings per share	65,913	47,735	109,883
Reallocated undistributed income (loss)	-	(1)	-
Net earnings used in diluted earnings per share	\$ 65,913	\$ 47,734	\$ 109,883
Basic and Diluted Weighted Average Shares Outstanding:			
Weighted average number of shares outstanding	83,320,921	80,486,215	74,732,844
Less: Unvested restricted stock	(605,276)	(639,957)	(483,707)
Weighted average number of shares outstanding used in basic earnings per share	82,715,645	79,846,258	74,249,137
Effects of dilutive securities:			
Common stock options	3,814	9,037	35,900
Directors' deferred fee plan	129,903	98,204	59,194
Weighted average number of shares outstanding used in diluted earnings per share	82,849,362	79,953,499	74,344,231

The potential dilutive shares related to convertible notes payable were not included in computing earnings per common share because their effects would be antidilutive.

Stock-Based Compensation On January 1, 2006, NNN adopted the FASB guidance included in *Equity Based Payments to Non-Employees*, under the modified prospective method. Under the modified prospective method, compensation cost is recognized for all awards granted after the adoption of this standard and for the unvested portion of previously granted awards that are outstanding as of that date. In accordance with the FASB guidance, NNN estimates the fair value of restricted stock and stock option grants at the date of grant and amortizes those amounts into expense on a straight line basis or amount vested, if greater, over the appropriate vesting period.

Income Taxes NNN has made an election to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code), and related regulations. NNN generally will not be subject to federal income taxes on amounts distributed to stockholders,

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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, 2010, 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.

NNN and its taxable REIT subsidiaries have made timely TRS elections pursuant to the provisions of the REIT Modernization Act. A taxable REIT subsidiary is able to engage in activities resulting in income that previously would have been disqualified from being eligible REIT income under the federal income tax regulations. As a result, certain activities of NNN which occur within its TRS entities are subject to federal and state income taxes (See Note 17). All provisions for federal income taxes in the accompanying consolidated financial statements are attributable to NNN's taxable REIT subsidiaries and to OAMI's built-in-gain tax liability.

Income taxes are accounted for under the asset and liability method as required by the FASB guidance included in *Income Taxes*. Deferred tax assets and liabilities are recognized for the temporary differences based on estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Fair Value Measurement NNN's estimates of fair value of financial and non-financial assets and liabilities based on the framework established in the fair value accounting guidance. The framework specifies a hierarchy of valuation inputs which was established to increase consistency, clarity and comparability in fair value measurements and related disclosures. The guidance describes a fair value hierarchy based upon three levels of inputs that may be used to measure fair value, two of which are considered observable and one that is considered unobservable. The following describes the three levels:

Level 1 Valuation is based upon quoted prices in active markets for identical assets or liabilities.

Level 2 Valuation is based upon inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include option pricing models, discounted cash flow models and similar techniques.

New Accounting Pronouncements In June 2009, FASB issued revised guidance on the accounting for variable interest entities. The revised guidance reflects the elimination of the concept of a qualifying special-purpose entity. The guidance also replaces the quantitative-based risks and rewards calculation of the previous guidance for determining which company, if any, has a controlling financial interest in a variable interest entity with an approach that is primarily qualitative. The new guidance requires ongoing assessments of whether an enterprise is the primary beneficiary of the variable interest entity as well as additional disclosures. The guidance is effective for financial statements issued for fiscal years beginning after November 15, 2009.

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The adoption of the standard did not have a significant impact on NNN's financial position or results of operations.

In January 2010, the FASB issued *Fair Value Measurements and Disclosures, Improving Disclosures about Fair Value Measurements*. This update requires new disclosures for transfers in and out of Level 1 and 2, as well as disclosure about the valuation techniques and inputs used to measure fair value for Level 1 and 2. In addition, activity in Level 3 should present separately information about purchases, sales, issuances and settlements on a gross basis (rather than as one net number). A reporting entity should provide fair value measurements disclosures for each class of assets and liabilities. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of the standard did not have a significant impact on NNN's financial position or results of operations.

In February 2010, the FASB issued *Subsequent Events, Amendments to Certain Recognition and Disclosure Requirements*. An entity that files Exchange Act reports with the Securities and Exchange Commission (Commission) is required to evaluate subsequent events through the date that the financial statements are issued. An entity that is an SEC filer is not required to disclose the date through which subsequent events have been evaluated. This change alleviates potential conflicts between Subtopic 855-10 and requirements of the Commission. The scope of the reissuance disclosure requirements is refined to include revised financial statements only. Revised financial statements include financial statements revised either as a result of correction of an error or retrospective application of accounting principles generally accepted in the United States of America. All of the amendments in this are effective upon issuance of the final update, except for the use of the issued date for conduit debt obligors. That amendment is effective for interim or annual periods ending after June 15, 2010. The adoption of the standard did not have an impact on NNN's financial position or results of operations.

Use of Estimates Management of NNN has made a number of estimates and assumptions relating to the reporting of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Significant estimates include provision for impairment and allowances for certain assets, accruals, useful lives of assets and capitalization of costs. Actual results could differ from those estimates.

Reclassification Certain items in the prior year's consolidated financial statements and notes to consolidated financial statements have been reclassified to conform to the 2010 presentation.

Note 2 Real Estate Investment Portfolio:

Leases The following outlines key information for NNN's Investment Property leases at December 31, 2010:

Lease classification:	
Operating	1,159
Direct financing	16
Building portion direct financing / land portion operating	7
Weighted average remaining lease term	12 Years

The leases generally provide for limited increases in rent as a result of fixed increases, increases in the consumer price index, and/or increases in the tenant's sales volume. Generally, the tenant is also required to pay all property taxes and assessments, substantially maintain the interior and exterior of the building and carry property and liability insurance coverage. Certain of NNN's

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Investment Properties are subject to leases under which NNN retains responsibility for certain costs and expenses of the property. Generally, the leases of the Investment Properties provide the tenant with one or more multi-year renewal options subject to generally the same terms and conditions, including rent increases, consistent with the initial lease term.

Investment Portfolio Accounted for Using the Operating Method Real estate subject to operating leases consisted of the following as of December 31 (dollars in thousands):

	2010	2009
Land and improvements	\$ 1,122,243	\$ 1,054,889
Buildings and improvements	1,592,752	1,450,348
Leasehold interests	1,290	1,290
	2,716,285	2,506,527
Less accumulated depreciation and amortization	(222,921)	(183,948)
	2,493,364	2,322,579
Work in progress	26,586	5,997
	\$ 2,519,950	\$ 2,328,576

Some leases provide for scheduled rent increases throughout the lease term. Such amounts are recognized on a straight-line basis over the terms of the leases. For the years ended December 31, 2010, 2009 and 2008, NNN recognized collectively in continuing and discontinued operations, \$(93,000), \$2,102,000 and \$1,020,000, respectively, of such income, net of reserves. At December 31, 2010 and 2009, the balance of accrued rental income, net of allowances of \$3,609,000 and \$2,875,000, respectively, was \$25,535,000 and \$25,745,000, respectively.

As of December 31, 2010, in connection with the development of Investment Properties, NNN has the following funding commitments (dollars in thousands):

	# of Properties	Total Commitment ⁽¹⁾	Amount Funded	Remaining Commitment
Investment Portfolio	28	\$ 68,746	\$ 50,196	\$ 18,550

⁽¹⁾ Includes land and construction costs.

The following is a schedule of future minimum lease payments to be received on noncancellable operating leases at December 31, 2010 (dollars in thousands):

2011	\$ 225,328
2012	222,547
2013	214,526
2014	204,970
2015	196,748
Thereafter	1,641,387
	\$ 2,705,506

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Since lease renewal periods are exercisable at the option of the tenant, the above table only presents future minimum lease payments due during the initial lease terms. In addition, this table does not include amounts for potential variable rent increases that are based on the CPI or future contingent rents which may be received on the leases based on a percentage of the tenant's gross sales.

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Investment Portfolio Accounted for Using the Direct Financing Method The following lists the components of net investment in direct financing leases at December 31 (dollars in thousands):

	2010	2009
Minimum lease payments to be received	\$ 37,699	\$ 42,244
Estimated unguaranteed residual values	12,297	12,297
Less unearned income	(20,223)	(23,224)
Net investment in direct financing leases	\$ 29,773	\$ 31,317

The following is a schedule of future minimum lease payments to be received on direct financing leases held for investment at December 31, 2010 (dollars in thousands):

2011	\$ 4,531
2012	4,558
2013	4,508
2014	3,750
2015	3,457
Thereafter	16,895
	\$ 37,699

The above table does not include future minimum lease payments for renewal periods, potential variable CPI rent increases or contingent rental payments that may become due in future periods (see Real Estate Investment Portfolio Accounted for Using the Operating Method).

Note 3 Real Estate Inventory Portfolio:

As of December 31, 2010, the TRS owned 17 Inventory Properties: 10 completed inventory and seven land parcels. As of December 31, 2009, the TRS owned 19 Inventory Properties: 13 completed inventory and six land parcels. The real estate Inventory Portfolio consisted of the following at December 31 (dollars in thousands):

	2010	2009
Inventory:		
Land	\$ 19,734	\$ 37,088
Building	18,487	47,684
	38,221	84,772
Less impairment	(6,145)	(12,349)
	\$ 32,076	\$ 72,423

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The following table summarizes the number of Inventory Properties sold and the corresponding gain recognized on the disposition of Inventory Properties included in continuing and discontinued operations for the years ended December 31 (dollars in thousands):

	2010		2009		2008	
	#	Gain	#	Gain	#	Gain
	of	Properties	of	Properties	of	Properties
Continuing operations	2	\$ 641	2	\$ 37	1	\$ 21
Noncontrolling interest		(320)		(14)		(10)
Total continuing operations attributable to NNN		321		23		11
Discontinued operations	2	300	2	558	24	12,644
Noncontrolling interest		(43)		-		(3,297)
Total discontinued operations attributable to NNN		257		558		9,347
	4	\$ 578	4	\$ 581	25	\$ 9,358

Note 4 Impairments Real Estate:

Management 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. Impairments are measured as the amount by which the current book value of the asset exceeds the estimated fair value of the asset. As a result of the Company's review of long lived assets, including identifiable intangible assets, NNN recognized the following real estate impairments for the years ended December 31 (dollars in thousands):

	2010	2009	2008
Continuing operations	\$ -	\$ 28,884	\$ 1,234
Discontinued operations	-	5,630	4,426
	\$ -	\$ 34,514	\$ 5,660

The valuation of impaired assets is determined using widely accepted valuation techniques including discounted cash flow analysis, income capitalization, analysis of recent comparable sales transactions, actual sales negotiations and bona fide purchase offers received from third parties. NNN may consider a single valuation technique or multiple valuation techniques, as appropriate, when measuring the fair value of its real estate.

Note 5 Business Combinations:

In connection with the default of a note receivable and certain lease agreements between NNN and one of its tenants, in June 2009, NNN acquired the operations of the auto service business which was operated on 12 Investment Properties. The note foreclosure resulted in a loss of \$7,816,000. NNN recorded the value of the assets received at fair value. No liabilities were assumed. The fair value of the assets resulted in goodwill of \$3,400,000. In connection with the annual review of goodwill for impairment, NNN recognized a noncash impairment charge of \$1,900,000 included in Impairment losses and other charges in the Consolidated Statement of Earnings during the year ended December 31, 2010.

Table of Contents**Note 6 Mortgages, Notes and Accrued Interest Receivable:**

Mortgages are secured by real estate, real estate securities or other assets. Structured finance investments are secured by the borrowers' pledge of their respective membership interests in the entities which own the respective real estate. Mortgages and notes receivable consisted of the following at December 31 (dollars in thousands):

	2010	2009
Mortgages and notes receivable	\$ 29,750	\$ 41,707
Accrued interest receivables, net of reserves	644	269
Unamortized discount	(63)	-
	\$ 30,331	\$ 41,976

In connection with the evaluation of the collectibility of its mortgages and notes receivable, during the year ended December 31, 2010, NNN recorded a valuation reserve of \$5,625,000.

Note 7 Commercial Mortgage Residual Interests:

OAMI holds the commercial mortgage residual interests (Residuals) from seven securitizations. The following table summarizes the investment interests in each of the transactions:

Securitization	Investment Interest		
	Company ⁽¹⁾	OAMI ⁽²⁾	3 rd Party
BYL 99-1	-	59.0%	41.0%
CCMH I, LLC	42.7%	57.3%	-
CCMH II, LLC	44.0%	56.0%	-
CCMH III, LLC	36.7%	63.3%	-
CCMH IV, LLC	38.3%	61.7%	-
CCMH V, LLC	38.4%	61.6%	-
CCMH VI, LLC	-	100.0%	-

⁽¹⁾ NNN owned these investment interests prior to its acquisition of the equity interest in OAMI.

⁽²⁾ Effective July 1, 2010, NNN owns 100 percent of OAMI's investment interest.

Each of the Residuals is recorded at fair value based upon an independent valuation. Unrealized gains and losses are reported as other comprehensive income in stockholders' equity and other than temporary losses as a result of a change in the timing or amount of estimated cash flows are recorded as an other than temporary valuation impairment. Due to changes in market conditions relating to residual assets, the independent valuation adjusted several valuation assumptions related to prepayment speeds and default curves during 2010.

The following table summarizes the recognition of unrealized gains and/or losses recorded as other comprehensive income as well as other than temporary valuation impairment as of December 31 (dollars in thousands):

	2010	2009	2008
Unrealized gains	\$ 1,272	\$ -	\$ 2,009
Unrealized losses	-	1,640	-

Other than temporary valuation impairment	3,995	498	758
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The following table summarizes the changes to the key assumptions used in determining the value of the Residuals as of December 31:

	2010	2009
Discount rate	25%	25%
Average life equivalent CPR speeds range	4.35% to 20.37% CPR	14.5% to 20.7% CPR
Foreclosures:		
Frequency curve default model	0.1% - 15.0% range	6% average rate
Loss severity of loans in foreclosure	20%	20%
Yield:		
LIBOR	Forward 3-month curve	Forward 3-month curve
Prime	Forward curve	Forward curve

The following table shows the effects on the key assumptions affecting the fair value of the Residuals at December 31, 2010 (dollars in thousands):

	Residuals
Carrying amount of retained interests	\$ 15,915
Discount rate assumption:	
Fair value at 27% discount rate	\$ 15,261
Fair value at 30% discount rate	\$ 14,357
Prepayment speed assumption:	
Fair value of 1% increases above the CPR Index	\$ 15,910
Fair value of 2% increases above the CPR Index	\$ 15,909
Expected credit losses:	
Fair value 2% adverse change	\$ 15,658
Fair value 3% adverse change	\$ 15,503
Yield Assumptions:	
Fair value of Prime/LIBOR spread contracting 25 basis points	\$ 16,262
Fair value of Prime/LIBOR spread contracting 50 basis points	\$ 16,623

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation of a particular assumption on the fair value of the retained interest is calculated without changing any other assumptions; in reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

Note 8 Line of Credit Payable:

NNN's \$400,000,000 revolving credit facility had a weighted average outstanding balance of \$17,861,000 and a weighted average interest rate of 3.8% during the year ended December 31, 2010. In November 2009, NNN entered into a credit agreement for a new \$400,000,000 revolving credit facility, replacing the existing revolving credit facility (as the context requires, the previous and new revolving credit facility, the Credit Facility). The Credit Facility matures November 2012, with an option to extend maturity to November 2013. The Credit Facility bears interest at LIBOR plus 280 basis points with a 1.0% LIBOR floor; however, such interest rate may change pursuant to a tiered interest rate structure based on NNN's debt rating. The Credit Facility also includes an accordion feature for NNN to increase, at its option, the facility size up to \$500,000,000. As of December 31, 2010, \$161,000,000 was outstanding, and \$239,000,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$647,000.

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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) maximum leverage ratios, (ii) debt service coverage, (iii) cash flow coverage and (iv) investment and dividend limitations. At December 31, 2010, NNN was in compliance with those covenants.

Note 9 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, 2010	2009
December 2001 ⁽²⁾	\$ 623	9.00%	April 2014	\$ 734	\$ 215	\$ 267
December 2001 ⁽²⁾	698	9.00%	April 2019	1,186	364	392
December 2001 ⁽²⁾	485	9.00%	April 2019	1,152	187	201
June 2002	21,000	6.90%	July 2012	24,051	18,841	19,170
February 2004 ⁽²⁾	6,952	6.90%	January 2017	11,522	4,038	4,554
March 2005 ⁽²⁾	1,015	8.14%	September 2016	1,322	624	706
				\$ 39,967	\$ 24,269	\$ 25,290

⁽¹⁾ Each loan is secured by a first mortgage lien on certain of NNN's properties. The carrying values of the assets are as of December 31, 2010.

⁽²⁾ Date entered represents the date that NNN acquired real estate subject to a mortgage securing a loan. The corresponding original principal balance represents the outstanding principal balance at the time of acquisition.

⁽³⁾ Monthly payments include interest and principal, if any; the balance is due at maturity.

The following is a schedule of the annual maturities of NNN's mortgages payable at December 31, 2010 (dollars in thousands):

2011	\$ 1,098
2012	19,290
2013	863
2014	881
2015	917
Thereafter	1,220
	\$ 24,269

Table of Contents**Note 10 Notes Payable Convertible:**

Each of NNN's outstanding series of convertible notes are summarized in the table below (dollars in thousands, except conversion price):

Terms	2026 Notes ⁽¹⁾⁽²⁾⁽⁴⁾	2028 Notes ⁽²⁾⁽⁵⁾⁽⁶⁾
Issue Date	September 2006	March 2008
Net Proceeds	\$ 168,650	\$ 228,576
Stated Interest Rate	3.950%	5.125%
Debt Issuance Costs	\$ 3,850 ⁽³⁾	\$ 5,457 ⁽⁷⁾
Earliest Conversion Date	September 2025	June 2027
Earliest Put Option Date	September 2011	June 2013
Maturity Date	September 2026	June 2028
Original Principal	\$ 172,500	\$ 234,035
Repurchases	(33,800)	(11,000)
Outstanding principal balance at December 31, 2010	\$ 138,700	\$ 223,035

- (1) NNN repurchased \$8,800 and \$25,000 in 2009 and 2008, respectively, for a purchase price of \$6,994 and \$19,188, respectively, resulting in a gain of \$1,565 and \$4,961, respectively.
- (2) Debt issuance costs include underwriting discounts and commissions, legal and accounting fees, rating agency fees and printing expenses. These costs have been deferred and are being amortized over the period to the earliest put option date of the holders using the effective interest method.
- (3) Includes \$463 of note costs which were written off in connection with the repurchase of \$33,800 of the 2026 Notes.
- (4) The conversion rate per \$1 principal amount was 41.9803 shares of NNN's common stock, which is equivalent to a conversion price of \$23.8207 per share of common stock.
- (5) The conversion rate per \$1 principal amount was 39.3620 shares of NNN's common stock, which is equivalent to a conversion price of \$25.4052 per share of common stock.
- (6) NNN repurchased \$11,000 in 2009 for a purchase price of \$8,588 resulting in a gain of \$1,867.
- (7) Includes \$219 of note costs which were written off in connection with the repurchase of \$11,000 of the 2028 Notes, respectively.
- (8) With the adoption of the new accounting guidance on convertible debt securities, the effective interest rate for the 2026 Notes and the 2028 Notes are 5.840% and 7.192%, respectively.

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

The carrying amounts of the Company's debt and equity balances are summarized in the table below as of December 31 (dollars in thousands):

	2010	2009
Carrying value of equity component	\$ (33,873)	\$ (33,873)
Principal amount of convertible debt	361,735	361,735
Remaining unamortized debt discount	(12,201)	(18,355)
Net carrying value of convertible debt	\$ 315,661	\$ 309,507

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As of December 31, 2010, the remaining amortization periods for the debt discount were approximately nine months and 18 months for the 2026 Notes and the 2028 Notes, respectively.

The adjusted effective interest rates for the liability components of the 2026 Notes and the 2028 Notes were 5.840% and 7.192%, respectively. The Company recorded noncash interest charges of \$6,154,000, \$5,809,000 and \$5,481,000 for the years ended December 31, 2010, 2009 and 2008, respectively. The Company recorded contractual interest expense of \$16,909,000,

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\$17,046,000 and \$16,548,000 for the years ended December 31, 2010, 2009 and 2008, respectively, relating to the 2026 Notes and 2028 Notes.

The if-converted values which exceed the principal amount as of December 31, 2010, are \$15,601,000 and \$9,611,000 for the 2026 Notes and the 2028 Notes, respectively. As of December 31, 2009, the if-converted amount did not exceed the value of the principal amount.

Note 11 Notes Payable:

Each of NNN's outstanding series of non-convertible notes are summarized in the table below (dollars in thousands):

Notes	Issue Date	Principal	Discount ⁽³⁾	Net Price	Stated Rate	Effective Rate ⁽⁴⁾	Maturity Date
2012 ⁽¹⁾	June 2002	\$ 50,000	\$ 287	\$ 49,713	7.750%	7.833%	June 2012
2014 ⁽¹⁾⁽²⁾⁽⁵⁾	June 2004	150,000	440	149,560	6.250%	5.910%	June 2014
2015 ⁽¹⁾	November 2005	150,000	390	149,610	6.150%	6.185%	December 2015
2017 ⁽¹⁾⁽⁶⁾	September 2007	250,000	877	249,123	6.875%	6.924%	October 2017

⁽¹⁾ The proceeds from the note issuance were used to pay down outstanding indebtedness of NNN's Credit Facility.

⁽²⁾ The proceeds from the note issuance were used to repay the obligation of the 2004 Notes.

⁽³⁾ The note discounts are amortized to interest expense over the respective term of each debt obligation using the effective interest method.

⁽⁴⁾ Includes the effects of the discount, treasury lock gain and swap gain (as applicable).

⁽⁵⁾ NNN entered into a forward starting interest rate swap agreement which fixed a swap rate of 4.61% on a notional amount of \$94,000. Upon issuance of the 2014 Notes, NNN terminated the forward starting interest rate swap agreement resulting in a gain of \$4,148. The gain has been deferred and is being amortized as an adjustment to interest expense over the term of the 2014 Notes using the effective interest method.

⁽⁶⁾ NNN entered into an interest rate hedge with a notional amount of \$100,000. Upon issuance of the 2017 Notes, NNN terminated the interest rate hedge agreement resulting in a liability of \$3,260, of which \$3,228 was recorded to other comprehensive income. The liability has been deferred and is being amortized as an adjustment to interest expense over the term of the 2017 Notes using the effective interest method.

Each series of the notes represent senior, unsecured obligations of NNN and are subordinated to all secured indebtedness of NNN. Each of the notes are redeemable at the option of NNN, in whole or in part, at a redemption price equal to the sum of (i) the principal amount of the notes being redeemed plus accrued and unpaid interest thereon through the redemption date and (ii) the make-whole amount, if any, as defined in the applicable supplemental indenture relating to the notes.

In connection with the debt offerings, NNN incurred debt issuance costs totaling \$5,226,000 consisting primarily of underwriting discounts and commissions, legal and accounting fees, rating agency fees and printing expenses. Debt issuance costs for all note issuances have been deferred and are being amortized over the term of the respective notes using the effective interest method.

In September 2010, NNN repaid the \$20,000,000 8.5% notes payable that were due in September 2010.

In accordance with the terms of the indenture, pursuant to which NNN's notes have been issued, NNN is required to meet certain restrictive financial covenants, which, among other things, require NNN to maintain (i) certain leverage ratios and (ii) certain interest coverage. At December 31, 2010, NNN was in compliance with those covenants.

Table of Contents**Note 12 Preferred Stock:**

7.375% Series C Cumulative Redeemable Preferred Stock. In October 2006, NNN filed a prospectus supplement to the prospectus contained in its February 2006 shelf registration statement and issued 3,680,000 depositary shares, each representing 1/100th of a share of 7.375% Series C Cumulative Redeemable Preferred Stock (Series C Preferred Stock), and received gross proceeds of \$92,000,000. In connection with this offering, NNN incurred stock issuance costs of approximately \$3,098,000, consisting primarily of underwriting commissions and fees, legal and accounting fees and printing expenses.

Holders of the depositary shares are entitled to receive, when and as authorized by the Board of Directors, cumulative preferential cash dividends at the rate of 7.375% of the \$25.00 liquidation preference per depositary share per annum (equivalent to a fixed annual amount of \$1.84375 per depositary share). The Series C Preferred Stock underlying the depositary shares ranks senior to NNN's common stock with respect to dividend rights and rights upon liquidation, dissolution or winding up of NNN. The Series C Preferred Stock has no maturity date and will remain outstanding unless redeemed. NNN may redeem the Series C Preferred Stock underlying the depositary shares on or after October 12, 2011, for cash, at a redemption price of \$2,500.00 per share (or \$25.00 per depositary share), plus all accumulated, accrued and unpaid dividends.

Note 13 Common Stock:

In October 2008, NNN filed a prospectus supplement to the prospectus contained in its February 2006 shelf registration statement and issued 3,450,000 shares (including 450,000 shares in connection with the underwriters' over allotment) of common stock at a price of \$23.05 per share and received net proceeds of \$75,958,000. In connection with this offering, NNN incurred stock issuance costs totaling approximately \$3,565,000, consisting primarily of underwriters' fees and commissions, and legal and accounting fees and printing expenses.

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

Dividend Reinvestment and Stock Purchase Plan. In June 2009, NNN filed a shelf registration statement with the Commission for its Dividend Reinvestment and Stock Purchase Plan (DRIP) which permits the issuance by NNN of 16,000,000 shares of common stock. The following outlines the common stock issuances pursuant to the DRIP for the years ended December 31:

	2010	2009	2008
Shares of common stock	793,759	3,766,452	2,146,640
Net proceeds	\$ 17,623,000	\$ 67,354,000	\$ 47,372,000

Note 14 Employee Benefit Plan:

Effective January 1, 1998, NNN adopted a defined contribution retirement plan (the Retirement Plan) covering substantially all of the employees of NNN. The Retirement Plan permits participants to defer up to a maximum of 60 percent of their compensation, as defined in the Retirement Plan, subject to limits established by the Code. NNN matches 60 percent of the participants' contributions up to a maximum of eight percent of a participant's annual compensation. NNN's contributions to the Retirement Plan for the years ended December 31, 2010, 2009 and 2008 totaled \$297,000, \$302,000 and \$385,000, respectively.

Table of Contents**Note 15 Dividends:**

The following presents the characterization for tax purposes of common stock dividends paid to stockholders for the years ended December 31:

	2010	2009	2008
Ordinary dividends	\$ 1.072446	\$ 1.495182	\$ 1.480000
Qualified dividends	0.081661	-	-
Capital gain	0.000861	0.003051	-
Unrecaptured Section 1250 Gain	0.000498	0.001767	-
Nontaxable distributions	0.354534	-	-
	\$ 1.510000	\$ 1.500000	\$ 1.480000

During the years ended December 31, 2010, 2009 and 2008, NNN declared and paid dividends to its common shareholders of \$125,391,000, \$120,256,000 and \$110,107,000, respectively, or \$1.51, \$1.50 and \$1.48 per share, respectively, of common stock.

On January 14, 2011, NNN declared a dividend of \$0.38 per share, which is payable February 15, 2011 to its common stockholders of record as of January 31, 2011.

The following presents the characterization for tax purposes of preferred stock dividends per share paid to stockholders for the year ended December 31:

	2010	2009	2008
Ordinary dividends	\$ 1.703170	\$ 1.837828	\$ 1.843750
Qualified dividends	0.140580	-	-
Capital gain	-	0.003750	-
Unrecaptured Section 1250 Gain	-	0.002172	-
	\$ 1.843750	\$ 1.843750	\$ 1.843750

NNN declared and paid dividends to its Series C Preferred stockholders of \$6,785,000 or \$1.84375 per depository share during each of the years ended December 31, 2010, 2009 and 2008. The Series C Preferred Stock has no maturity date and will remain outstanding unless redeemed.

Note 16 Restructuring Costs:

During the year ended December 31, 2009, NNN recorded restructuring costs of \$731,000, related to the reduction of its workforce in January 2009.

Note 17 Income Taxes:

NNN treats some depreciation expense and certain other items differently for tax than for financial reporting purposes. The principal differences between NNN's effective tax rates for the years ended December 31, 2010, 2009 and 2008, and the statutory rates relate to state taxes and nondeductible expenses.

For income tax purposes, NNN has taxable REIT subsidiaries in which certain real estate activities are conducted. In 2010, NNN acquired the 21.1% non-controlling interest in its majority owned and controlled subsidiary, OAMI, pursuant to which OAMI became a wholly owned subsidiary of NNN. OAMI has remaining tax liabilities relating to the built-in gain of its assets.

In June 2009, NNN incurred a new deferred income tax item as a result of NNN acquiring the operations of 12 auto service businesses. See Note 5 Business Combinations. The new deferred tax item is goodwill. The amount of the tax deductible goodwill is approximately \$11,216,000. It is

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amortized for tax purposes using a straight-line method, over 15 years, beginning with the month incurred.

The components of the net income tax asset consist of the following at December 31 (dollars in thousands):

	2010	2009
Temporary differences:		
Built-in gain	\$ (4,068)	\$ (4,731)
Depreciation	(772)	(385)
Cost basis	256	1,796
Deferred income	230	464
Other	56	(268)
Reserves	13,160	10,892
Goodwill	3,239	2,801
Excess interest expense carryforward	5,678	5,678
Net operating loss carryforward	5,398	4,484
Net deferred income tax asset	23,177	20,731
Valuation allowance	(18,021)	(14,900)
Total deferred income tax asset	\$ 5,156	\$ 5,831

In assessing the ability to realize a deferred tax asset, management considers whether it is more likely than not that some portion or the entire deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The net operating loss carryforwards were generated by NNN's taxable REIT subsidiaries. The net operating loss carryforwards begin to expire in 2027. Based upon the level of historical taxable income, projections for future taxable income, and tax strategies available to NNN over the periods in which the deferred tax assets are deductible, management believes, with the exception of certain impairments and losses, it is more likely than not that NNN will realize all of the benefits of these deductible differences that existed as of December 31, 2010. NNN believes it is more likely than not that the benefit from certain impairment charges and losses will not be realized. In recognition of this risk, NNN has provided a valuation allowance of \$18,021,000 on the deferred tax assets relating to the impairments and losses. The income tax benefit consists of the following components for the years ended December 31 (as adjusted) (dollars in thousands):

	2010	2009	2008
Net earnings before income taxes	\$ 74,097	\$ 53,930	\$ 113,859
Provision for income tax benefit (expense):			
Current:			
Federal	(254)	(419)	(1,936)
State and local	(48)	(79)	(364)
Deferred:			
Federal	(744)	1,110	4,539
State and local	(54)	268	1,055
Total benefit (expense) for income taxes	(1,100)	880	3,294
Net earnings attributable to NNN's stockholders	\$ 72,997	\$ 54,810	\$ 117,153

In June 2006, the FASB issued additional guidance, which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements included in *Income Taxes*. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax

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return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

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

NNN has had no increases or decreases in unrecognized tax benefits for current or prior years since the date of adoption. Further, no interest or penalties have been included since no reserves were recorded and no significant increases or decreases are expected to occur within the next 12 months. When applicable, such interest and penalties will be recorded in non-operating expenses. The periods that remain open under federal statute are 2007 through 2010. NNN also files in many states with varying open years under statute.

Note 18 Earnings from Discontinued Operations:

Real Estate Investment Portfolio NNN classified the revenues and expenses related to (i) all Investment Properties that were sold and leasehold interests which expired, and (ii) all Investment Properties that were held for sale as of December 31, 2010, as discontinued operations. The following is a summary of the earnings from discontinued operations from the Investment Portfolio for each of the years ended December 31 (dollars in thousands):

	2010	2009	2008
Revenues:			
Rental income from operating leases	\$ 1,181	\$ 4,786	\$ 5,655
Earned income from direct financing leases	-	-	100
Percentage rent	-	-	25
Real estate expense reimbursement from tenants	48	208	208
Interest and other income from real estate transactions	21	118	429
Interest and other income from non-real estate transactions	-	5	2
	1,250	5,117	6,419
Operating expenses:			
General and administrative	16	7	(71)
Real estate	309	784	374
Depreciation and amortization	186	1,438	1,454
Impairment losses and other charges	-	3,536	1,730
	511	5,765	3,487
Earnings (loss) before gain on disposition of real estate and income tax benefit (expense)			
tax benefit (expense)	739	(648)	2,932
Gain on disposition of real estate	1,134	2,392	9,980
Income tax benefit (expense)	(14)	32	2
Earnings from discontinued operations attributable to NNN	\$ 1,859	\$ 1,776	\$ 12,914

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Real Estate Inventory Portfolio NNN has classified as discontinued operations the revenues and expenses related to (i) Inventory Properties which generated rental revenues prior to disposition, and (ii) Inventory Properties which generated rental revenues and were held for sale as of December 31, 2010. The following is a summary of the earnings from discontinued operations from the Inventory Portfolio for each of the years ended December 31 (dollars in thousands):

	2010	2009	2008
Revenues:			
Rental income from operating leases	\$ 3,369	\$ 4,975	\$ 8,646
Percentage rent	-	-	139
Real estate expense reimbursement from tenants	1,358	1,513	867
Interest and other from real estate transactions	513	141	561
	5,240	6,629	10,213
Disposition of real estate:			
Gross proceeds	37,470	5,402	151,713
Costs	(37,170)	(4,844)	(139,069)
Gain	300	558	12,644
Operating expenses:			
General and administrative	71	116	22
Real estate	1,755	2,169	1,468
Depreciation and amortization	159	323	226
Impairment losses and other charges	-	2,094	2,696
	1,985	4,702	4,412
Other expenses (revenues):			
Interest and other income	(3)	-	(8)
Interest expense	2,655	3,790	5,291
	2,652	3,790	5,283
Earnings (loss) before income tax expense	903	(1,305)	13,162
Income tax expense	(611)	(201)	(3,963)
Earnings (loss) from discontinued operations including noncontrolling interests	292	(1,506)	9,199
Loss (earnings) attributable to noncontrolling interests	11	(166)	(2,722)
Earnings (loss) from discontinued operations attributable to NNN	\$ 303	\$ (1,672)	\$ 6,477

Note 19 Derivatives:

In accordance with the guidance on derivatives and hedging, NNN records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

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NNN's objective in using derivatives is to add stability to interest expense and to manage its exposure to interest rate movements or other identified risks. To accomplish this objective, NNN primarily uses treasury locks, forward swaps (forward hedges) and interest rate swaps as part of its cash flow hedging strategy. Treasury locks and forward starting swaps are used to hedge forecasted debt issuances. Treasury locks designated as cash flow hedges lock in the yield/price of a treasury security. Forward swaps also lock the associated swap spread. Interest rate swaps

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designated as cash flow hedges hedging the variable cash flows associated with floating rate debt involve the receipt of variable rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings.

NNN discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, the derivative is re-designated as a hedging instrument or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

When hedge accounting is discontinued, NNN continues to carry the derivative at its fair value on the balance sheet, and recognizes any changes in its fair value in earnings or may choose to cash settle the derivative at that time.

In February 2008, NNN terminated its interest rate hedge with a notional amount of \$100,000,000 that was hedging the risk of changes in forecasted interest payments on a forecasted issuance of long-term debt. The fair value of the interest rate hedge when terminated was a liability of \$804,000, which NNN recorded as a loss on interest rate hedge.

In September 2007, NNN terminated two interest rate hedges with a combined notional amount of \$100,000,000 that were hedging the risk of changes in forecasted interest payments on a forecasted issuance of long-term debt. The fair value of the interest rate hedges when terminated was a liability of \$3,260,000, of which \$3,228,000 was deferred in other comprehensive income.

In June 2004, NNN terminated its forward-starting interest rate swaps with a notional amount of \$94,000,000 that was hedging the risk of changes in forecasted interest payments on a forecasted issuance of long-term debt. The fair value of the interest rate swaps when terminated was an asset of \$4,148,000, which was deferred in other comprehensive income.

As of December 31, 2010, \$715,000 remains in other comprehensive income related to the effective portion of NNN's previous interest rate hedges. During the year ended December 31, 2010, 2009 and 2008, NNN reclassified \$165,000, \$159,000 and \$162,000, respectively, out of other comprehensive income as a reduction to interest expense. Over the next 12 months, NNN estimates that an additional \$172,000 will be reclassified as a reduction in interest expense. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on NNN's long-term debt.

NNN does not use derivatives for trading or speculative purposes or currently have any derivatives that are not designated as hedges. NNN had no derivative financial instruments outstanding at December 31, 2010.

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In June 2007, NNN filed a registration statement on Form S-8 with the Commission which permits the issuance of up to 5,900,000 shares of common stock pursuant to NNN's 2007 Performance Incentive Plan (the 2007 Plan). The 2007 Plan replaced NNN's previous Performance Incentive Plan. The 2007 Plan allows NNN to award or grant to key employees, directors and persons performing consulting or advisory services for NNN or its affiliates, stock options, stock awards, stock appreciation rights, Phantom Stock Awards, Performance Awards and Leveraged Stock Purchase Awards, each as defined in the 2007 Plan.

The following summarizes NNN's stock-based compensation activity for each of the years ended December 31:

	Number of Shares		
	2010	2009	2008
Outstanding, January 1	12,154	77,004	118,804
Options granted	-	-	-
Options exercised	(4,654)	(51,500)	(28,000)
Options surrendered	-	(13,350)	(13,800)
Outstanding, December 31	7,500	12,154	77,004
Exercisable, December 31	7,500	12,154	77,004

The following represents the weighted average option exercise price information for each of the years ended December 31:

	2010	2009	2008
Outstanding, January 1	\$ 13.72	\$ 14.00	\$ 13.64
Granted during the year	-	-	-
Exercised during the year	13.08	13.72	11.17
Outstanding, December 31	14.11	13.72	14.00
Exercisable, December 31	14.11	13.72	14.00

The following summarizes the outstanding options and the exercisable options at December 31, 2010:

	Total
Outstanding options:	
Number of shares	7,500
Weighted-average exercise price	\$ 14.11
Weighted-average remaining contractual life in years	1.8
Exercisable options:	
Number of shares	7,500
Weighted-average exercise price	\$ 14.11

One-third of the option grant to each individual becomes exercisable at the end of each of the first three years of service following the date of the grant and the options' maximum term is 10 years. At December 31, 2010, the intrinsic value of options outstanding was \$93,000. All options outstanding at December 31, 2010, were exercisable. During the years ended December 31, 2010, 2009 and 2008, NNN received proceeds totaling \$61,000, \$707,000 and \$313,000, respectively, in connection with the exercise of options. NNN issued new common stock to satisfy share option exercises. The total intrinsic value of options exercised during the years ended December 31, 2010, 2009 and 2008, was \$43,000, \$240,000 and \$327,000, respectively.

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Pursuant to the 2007 Plan, NNN has granted and issued shares of restricted stock to certain officers, directors and key associates of NNN. The following summarizes the activity for the year ended December 31, 2010, of such grants.

	Number of Shares	Weighted Average Share Price
Non-vested restricted shares, January 1	668,010	\$ 16.95
Restricted shares granted	392,474	21.38
Restricted shares vested	(142,637)	19.80
Restricted shares forfeited	(15,310)	11.23
Non-vested restricted shares, December 31	902,537	\$ 18.52

During the year ended December 31, 2010 and 2008, a total of 15,310 and 2,520, respectively, of restricted shares were forfeited. No shares were forfeited in 2009.

Compensation expense for the restricted stock which is not contingent upon NNN's performance goals is determined based upon the fair value at the date of grant, assuming a 1.3% forfeiture rate, and is recognized as the greater of the amount amortized over a straight lined basis or the amount vested over the vesting periods. Vesting periods for officers and key associates of NNN range from four to seven years and generally vest yearly on a straight line basis.

During the year ended December 31, 2008, NNN granted 81,330 performance based shares with a weighted average grant price of \$8.00 to certain executive officers of NNN. The compensation expense for the grant is based upon fair market value of the grant calculated by a third party using a lattice model with the following assumptions: (i) risk free rate of 3.48%, (ii) a dividend rate of 6.50%, (iii) a term of five years, and (iv) a volatility of 19.89%. Volatility is based upon the historical volatility of NNN's stock and other factors. The vesting of these shares is contingent upon the achievement of certain performance goals by January 1, 2013.

During the year ended December 31, 2010, NNN granted 91,000 performance based shares subject to its earnings based growth after a three year period relative to its peers. The shares were granted to certain executive officers and had weighted average grant price of \$23.12 per share. Once the performance criteria are met and the actual number of shares earned is determined, the shares vest immediately. NNN considers the likelihood of meeting the performance criteria based upon management's estimates and analysis of future earnings based growth relative to its peers from which it determines the amounts to be recognized. Compensation expense is recognized over the requisite service period.

The following summarizes other grants made during the year ended December 31, 2010, pursuant to the 2007 Plan.

	Shares	Weighted Average Share Price
Other share grants under the 2007 Plan:		
Directors' fees	10,092	\$ 23.38
Deferred Directors' fees	25,066	23.54
	35,158	\$ 23.50
Shares available under the 2007 Plan for grant, end of period	4,860,190	

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The total compensation cost for share-based payments for the years ended December 31, 2010, 2009 and 2008, totaled \$5,310,000, \$4,172,000 and \$3,341,000, respectively, of such compensation expense. At December 31, 2010, NNN had \$9,366,000 of unrecognized compensation cost related to non-vested share-based compensation arrangements under the 2007 Plan. This cost is expected to be recognized over a weighted average period of 2.5 years.

Note 21 Fair Value of Financial Instruments:

NNN believes the carrying value of its Credit Facility approximates fair value based upon its nature, terms and variable interest rate. NNN believes that the carrying value of its cash and cash equivalents, mortgages, notes and other receivables, mortgages payable and other liabilities at December 31, 2010 and 2009, approximate fair value based upon current market prices of similar issues. At December 31, 2010 and 2009, the carrying value and fair value of NNN's notes payable and convertible notes payable, collectively, was \$1,044,621,000 and \$987,275,000, respectively, based upon the quoted market price.

Note 22 Quarterly Financial Data (unaudited):

The following table outlines NNN's quarterly financial data (dollars in thousands, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2010				
Revenues as originally reported	\$ 56,626	\$ 56,496	\$ 56,656	\$ 59,440
Reclassified to discontinued operations	(101)	(54)	(7)	-
Adjusted revenue	\$ 56,525	\$ 56,442	\$ 56,649	\$ 59,440
Net earnings attributable to NNN's stockholders	\$ 16,365	\$ 21,207	\$ 21,210	\$ 14,215
Net earnings per share ⁽¹⁾ :				
Basic	\$ 0.18	\$ 0.23	\$ 0.23	\$ 0.15
Diluted	0.18	0.23	0.23	0.15
2009				
Revenues as originally reported	\$ 57,963	\$ 58,681	\$ 57,035	\$ 57,750
Reclassified to discontinued operations	114	(546)	59	(242)
Adjusted revenue	\$ 58,077	\$ 58,135	\$ 57,094	\$ 57,508
Net earnings (loss) attributable to NNN's stockholders	\$ 26,804	\$ 18,090	\$ 22,443	\$ (12,527)
Net earnings (loss) per share ⁽¹⁾ :				
Basic	\$ 0.32	\$ 0.21	\$ 0.26	\$ (0.18)
Diluted	0.32	0.20	0.26	(0.17)

⁽¹⁾ Calculated independently for each period and consequently, the sum of the quarters may differ from the annual amount.

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NNN has identified two primary financial segments: (i) Investment Assets, and (ii) Inventory Assets. The following tables represent the segment data and reconciliation to NNN's consolidated totals for the years ended December 31, 2010, 2009 and 2008 (as adjusted) (dollars in thousands):

2010	Investment Assets	Inventory Assets	Eliminations (Intercompany)	Consolidated Totals
External revenues	\$ 223,870	\$ (40)	\$ -	\$ 223,830
Intersegment revenues	671	534	(1,205)	-
Interest revenue	3,231	48	-	3,279
Interest revenue on Residuals	3,460	-	-	3,460
Gain on the disposition of real estate, Inventory Portfolio	-	426	215	641
Retail operations, net	1,311	-	-	1,311
Interest expense	67,834	(1,450)	(1,205)	65,179
Depreciation and amortization	48,320	8	-	48,328
Operating expenses	31,983	4,329	-	36,312
Impairment losses and other charges	7,458	260	(260)	7,458
Impairment commercial mortgage residual interests valuation adjustment	3,995	-	-	3,995
Equity in earnings of unconsolidated affiliate	(372)	-	800	428
Income tax benefit (expense)	(1,434)	959	-	(475)
Earnings (loss) from continuing operations	71,147	(1,220)	1,275	71,202
Earnings from discontinued operations, net of income tax expense	1,859	292	-	2,151
Earnings (loss) including noncontrolling interests	73,006	(928)	1,275	73,353
Earnings attributable to noncontrolling interests from continuing operations	(9)	(358)	-	(367)
Earnings attributable to noncontrolling interests from discontinued operations	-	11	-	11
Net earnings (loss) attributable to NNN	\$ 72,997	\$ (1,275)	\$ 1,275	\$ 72,997
Assets	\$ 2,846,036	\$ 38,997	\$ (171,458)	\$ 2,713,575
Additions to long-lived assets:				
Real estate	\$ 230,928	\$ 478	\$ -	\$ 231,406

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2009	Investment Assets	Inventory Assets	Eliminations (Intercompany)	Consolidated Totals
External revenues	\$ 223,262	\$ 194	\$ -	\$ 223,456
Intersegment revenues	3,035	1,042	(4,077)	-
Interest revenue	4,447	30	-	4,477
Interest revenue Residuals	4,252	-	-	4,252
Gain on the disposition of real estate, Inventory Portfolio	-	5	32	37
Retail operations, net	419	-	-	419
Interest expense	66,018			