

NATIONAL RETAIL PROPERTIES, INC.  
Form 10-Q  
August 04, 2009  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

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)*

(407) 265-7348

*(Registrant's telephone number, including area code)*

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

80,715,076 shares of Common Stock, \$0.01 par value, outstanding as July 30, 2009.

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## PART I. FINANCIAL INFORMATION

**Item 1. Financial Statements**

## NATIONAL RETAIL PROPERTIES, INC.

## and SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share data)

| <u>ASSETS</u>  | June 30,<br>2009<br>(unaudited) | December 31,<br>2008 |
|--|---------------------------------|----------------------|
| Real estate, Investment Portfolio:   |                                 |                      |
| Accounted for using the operating method, net of accumulated depreciation and amortization | \$ 2,348,773                    | \$ 2,357,894         |
| Accounted for using the direct financing method  | 30,572                          | 31,240               |
| Real estate, Inventory Portfolio, held for sale  | 98,364                          | 101,106              |
| Investment in unconsolidated affiliate   | 4,792                           | 4,927                |
| Mortgages, notes and accrued interest receivable, net of allowance                         | 49,774                          | 60,472               |
| Commercial mortgage residual interests   | 25,525                          | 22,000               |
| Cash and cash equivalents  | 1,573                           | 2,626                |
| Receivables, net of allowance of \$1,165 and \$4,003, respectively                         | 2,812                           | 3,612                |
| Accrued rental income, net of allowance of \$3,261 and \$4,144, respectively               | 24,487                          | 23,972               |
| Debt costs, net of accumulated amortization of \$14,436 and \$12,852, respectively         | 9,427                           | 11,342               |
| Other assets   | 42,060                          | 30,280               |
| <b>Total assets</b>  | <b>\$ 2,638,159</b>             | <b>\$ 2,649,471</b>  |

LIABILITIES AND EQUITY

|   |                  |                  |
|---|------------------|------------------|
| Liabilities:  |                  |                  |
| Line of credit payable  | \$ 22,000        | \$ 26,500        |
| Mortgages payable   | 25,798           | 26,290           |
| Notes payable convertible, net of unamortized discount of \$21,282 and \$25,413, respectively | 340,452          | 356,122          |
| Notes payable, net of unamortized discount of \$1,424 and \$1,521, respectively               | 618,576          | 618,479          |
| Accrued interest payable  | 7,475            | 7,608            |
| Other liabilities   | 37,440           | 45,526           |
| <b>Total liabilities</b>  | <b>1,051,741</b> | <b>1,080,525</b> |

## 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; 80,074,853 and 78,415,051 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively | 801       | 784       |
| Excess stock, \$0.01 par value. Authorized 205,000,000 shares; none issued or outstanding   | -         | -         |
| Capital in excess of par value  | 1,360,133 | 1,337,018 |
| Retained earnings   | 125,789   | 134,644   |
| Accumulated other comprehensive income  | 4,866     | 2,414     |

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|  |              |           |
|--|--------------|-----------|
| Total stockholders' equity of National Retail Properties, Inc. | 1,583,589    | 1,566,860 |
| Noncontrolling interests                                       | 2,829        | 2,086     |
| Total equity   | 1,586,418    | 1,568,946 |
| Total liabilities and equity                                   | \$ 2,638,159 | 2,649,471 |

See accompanying notes to condensed consolidated financial statements.

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## NATIONAL RETAIL PROPERTIES, INC.

## and SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(dollars in thousands, except per share data)

(unaudited)

|  | Quarter Ended June 30, |               | Six Months Ended June 30, |               |
|--|------------------------|---------------|---------------------------|---------------|
|  | 2009                   | 2008          | 2009                      | 2008          |
| <b>Revenues:</b>   |                        |               |                           |               |
| Rental income from operating leases  | \$ 53,727              | \$ 51,418     | \$ 106,555                | \$ 100,482    |
| Earned income from direct financing leases   | 746                    | 780           | 1,500                     | 1,569         |
| Percentage rent  | 119                    | 170           | 266                       | 211           |
| Real estate expense reimbursement from tenants   | 2,109                  | 1,423         | 4,456                     | 2,977         |
| Interest and other income from real estate transactions  | 980                    | 1,407         | 1,814                     | 2,642         |
| Interest income on commercial mortgage residual interests  | 1,000                  | 1,171         | 2,054                     | 2,527         |
|  | 58,681                 | 56,369        | 116,645                   | 110,408       |
| <b>Disposition of real estate, Inventory Portfolio:</b>  |                        |               |                           |               |
| Gross proceeds   | -                      | -             | -                         | 4,900         |
| Costs  | -                      | -             | -                         | (4,879)       |
| Gain   | -                      | -             | -                         | 21            |
| <b>Operating expenses:</b>   |                        |               |                           |               |
| General and administrative   | 5,784                  | 6,041         | 11,090                    | 13,601        |
| Real estate  | 3,241                  | 2,247         | 6,828                     | 4,627         |
| Depreciation and amortization  | 12,146                 | 10,787        | 23,965                    | 20,770        |
| Impairment real estate   | 1,064                  | -             | 1,064                     | -             |
| Impairment commercial mortgage residual interests valuation  | -                      | -             | -                         | 758           |
| Restructuring costs  | -                      | -             | 731                       | -             |
|  | 22,235                 | 19,075        | 43,678                    | 39,756        |
| <b>Earnings from operations</b>  | <b>36,446</b>          | <b>37,294</b> | <b>72,967</b>             | <b>70,673</b> |
| <b>Other expenses (revenues):</b>  |                        |               |                           |               |
| Interest and other income  | (416)                  | (1,008)       | (763)                     | (2,229)       |
| Interest expense   | 15,436                 | 16,281        | 30,866                    | 32,467        |
| Loss on interest rate hedge  | -                      | -             | -                         | 804           |
|  | 15,020                 | 15,273        | 30,103                    | 31,042        |
| <b>Earnings from continuing operations before income tax benefit, equity in earnings of unconsolidated affiliate, gain on note receivable foreclosure and gain on extinguishment of debt</b> | <b>21,426</b>          | <b>22,021</b> | <b>42,864</b>             | <b>39,631</b> |
| Income tax benefit   | 546                    | 1,767         | 1,082                     | 4,418         |
| Equity in earnings of unconsolidated affiliate   | 107                    | 101           | 210                       | 180           |

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|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Gain on note receivable foreclosure                           | 1,048     | -         | 1,048     | -         |
| Gain on extinguishment of debt                                | 1,014     | -         | 3,432     | -         |
| Earnings from continuing operations                           | 24,141    | 23,889    | 48,636    | 44,229    |
| Earnings from discontinued operations (Note 14):              |           |           |           |           |
| Real estate, Investment Portfolio                             | 2,762     | 4,178     | 4,809     | 10,120    |
| Real estate, Inventory Portfolio, net of income tax expense   | 226       | 1,044     | 458       | 9,666     |
|   | 2,988     | 5,222     | 5,267     | 19,786    |
| Earnings including noncontrolling interests                   | 27,129    | 29,111    | 53,903    | 64,015    |
| Loss (earnings) attributable to noncontrolling interests:     |           |           |           |           |
| Continuing operations   | (171)     | (252)     | (351)     | 759       |
| Discontinued operations                                       | (4)       | 407       | 205       | (3,269)   |
|   | (175)     | 155       | (146)     | (2,510)   |
| Net earnings attributable to National Retail Properties, Inc. | \$ 26,954 | \$ 29,266 | \$ 53,757 | \$ 61,505 |

See accompanying notes to condensed consolidated financial statements.

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## NATIONAL RETAIL PROPERTIES, INC.

## and SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS CONTINUED

(dollars in thousands, except per share data)

(unaudited)

|   | Quarter Ended June 30, |            | Six Months Ended June 30, |            |
|---|------------------------|------------|---------------------------|------------|
|   | 2009                   | 2008       | 2009                      | 2008       |
| Net earnings attributable to National Retail Properties, Inc.   | \$ 26,954              | \$ 29,266  | \$ 53,757                 | \$ 61,505  |
| Series C preferred stock dividends                              | (1,696)                | (1,696)    | (3,392)                   | (3,392)    |
| Net earnings available to common stockholders basic and diluted | \$ 25,258              | \$ 27,570  | \$ 50,365                 | \$ 58,113  |
| Net earnings per share of common stock:                         |                        |            |                           |            |
| Basic:  |                        |            |                           |            |
| Continuing operations   | \$ 0.28                | \$ 0.30    | \$ 0.57                   | \$ 0.57    |
| Discontinued operations   | 0.04                   | 0.08       | 0.07                      | 0.23       |
| Net earnings  | \$ 0.32                | \$ 0.38    | \$ 0.64                   | \$ 0.80    |
| Diluted:  |                        |            |                           |            |
| Continuing operations   | \$ 0.28                | \$ 0.30    | \$ 0.57                   | \$ 0.57    |
| Discontinued operations   | 0.04                   | 0.08       | 0.07                      | 0.23       |
| Net earnings  | \$ 0.32                | \$ 0.38    | \$ 0.64                   | \$ 0.80    |
| Weighted average number of common shares outstanding:           |                        |            |                           |            |
| Basic   | 79,163,140             | 73,070,034 | 78,667,255                | 72,692,410 |
| Diluted   | 79,265,374             | 73,169,102 | 78,762,897                | 72,790,565 |

See accompanying notes to condensed consolidated financial statements



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## NATIONAL RETAIL PROPERTIES, INC.

## and SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

(unaudited)

|  | Six Months Ended June 30, |           |
|--|---------------------------|-----------|
|  | 2009                      | 2008      |
| Cash flows from operating activities:  |                           |           |
| Earnings including noncontrolling interests  | \$ 53,903                 | \$ 64,015 |
| Adjustments to reconcile net earnings to net cash provided by operating activities:                                  |                           |           |
| Stock compensation expense   | 2,136                     | 1,471     |
| Depreciation and amortization  | 24,201                    | 21,247    |
| Impairment real estate   | 1,064                     | 167       |
| Impairment commercial mortgage residual interests valuation  | -                         | 758       |
| Amortization of notes payable discount   | 2,977                     | 2,530     |
| Amortization of deferred interest rate hedges  | (79)                      | (85)      |
| Equity in earnings of unconsolidated affiliate   | (210)                     | (180)     |
| Distributions received from unconsolidated affiliate   | 325                       | 230       |
| Gain on disposition of real estate, Investment Portfolio   | (1,632)                   | (6,586)   |
| Gain on extinguishment of debt   | (3,432)                   | -         |
| Gain on note receivable foreclosure  | (1,048)                   | -         |
| Gain on disposition of real estate, Inventory Portfolio  | (558)                     | (9,857)   |
| Deferred income taxes  | (926)                     | (2,497)   |
| Change in operating assets and liabilities, net of assets acquired and liabilities assumed in business combinations: |                           |           |
| Additions to real estate, Inventory Portfolio  | (2,012)                   | (29,158)  |
| Proceeds from disposition of real estate, Inventory Portfolio  | 5,358                     | 76,513    |
| Decrease in real estate leased to others using the direct financing method   | 668                       | 594       |
| Decrease (increase) in work in process   | (1,191)                   | 1,403     |
| Increase in mortgages, notes and accrued interest receivable   | (169)                     | (285)     |
| Decrease (increase) in receivables   | 820                       | (361)     |
| Increase in mortgage residual interests  | (229)                     | -         |
| Increase in accrued rental income  | (801)                     | (1,086)   |
| Increase (decrease) in other assets  | (3)                       | 121       |
| Increase in accrued interest payable   | (133)                     | (3,209)   |
| Increase in other liabilities  | (1,348)                   | (3,729)   |
| Increase (decrease) in current tax liability   | 45                        | (117)     |
| Net cash provided by operating activities  | 77,726                    | 111,899   |
| Cash flows from investing activities:  |                           |           |
| Proceeds from the disposition of real estate, Investment Portfolio   | 8,549                     | 36,979    |
| Additions to real estate, Investment Portfolio:  |                           |           |
| Accounted for using the operating method   | (25,577)                  | (256,773) |
| Investment in unconsolidated affiliate   | -                         | (846)     |
| Increase in mortgages and notes receivable   | (709)                     | (29,525)  |
| Principal payments on mortgages and notes  | 991                       | 34,606    |
| Cash received from commercial mortgage residual interests  | -                         | 3,097     |
| Payment of lease costs   | (359)                     | (541)     |

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|                                       |          |           |
|---------------------------------------|----------|-----------|
| Other                                 | (83)     | (256)     |
| Net cash used in investing activities | (17,188) | (213,259) |

See accompanying notes to condensed consolidated financial statements.

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## NATIONAL RETAIL PROPERTIES, INC.

## and SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS CONTINUED

(dollars in thousands)

(unaudited)

|  | Six Months Ended June 30,<br>2009 | 2008            |
|--|-----------------------------------|-----------------|
| Cash flows from financing activities:  |                                   |                 |
| Proceeds from line of credit payable   | \$ 104,000                        | \$ 379,900      |
| Repayment of line of credit payable  | (108,500)                         | (382,500)       |
| Repayment of mortgages payable   | (492)                             | (584)           |
| Proceeds from notes payable convertible  | -                                 | 234,035         |
| Repurchase of notes payable convertible debt component   | (14,785)                          | -               |
| Repurchase of notes payable convertible equity component   | (796)                             | -               |
| Repayment of notes payable   | -                                 | (100,000)       |
| Repayment of note payable secured  | -                                 | (12,000)        |
| Payment of debt costs  | -                                 | (5,186)         |
| Proceeds from issuance of common stock   | 21,794                            | 26,683          |
| Payment of Series C Preferred Stock dividends  | (3,392)                           | (3,392)         |
| Payment of common stock dividends  | (59,220)                          | (53,152)        |
| Noncontrolling interest contributions  | 152                               | 41              |
| Noncontrolling interest distributions  | (320)                             | (5,111)         |
| Stock issuance costs   | (32)                              | -               |
| <b>Net cash provided by (used in) financing activities</b>   | <b>(61,591)</b>                   | <b>78,734</b>   |
| Net decrease in cash and cash equivalents  | (1,053)                           | (22,626)        |
| Cash and cash equivalents at beginning of period   | 2,626                             | 27,499          |
| <b>Cash and cash equivalents at end of period</b>  | <b>\$ 1,573</b>                   | <b>\$ 4,873</b> |
| Supplemental disclosure of cash flow information:  |                                   |                 |
| Interest paid, net of amount capitalized   | \$ 30,845                         | \$ 36,979       |
| Taxes paid   | \$ 206                            | \$ 2,103        |
| Supplemental disclosure of non-cash investing and financing activities:  |                                   |                 |
| Issued 262,546 and 225,467 shares of restricted and unrestricted common stock in 2009 and 2008, respectively, pursuant to NNN's performance incentive plan | \$ 4,290                          | \$ 3,795        |
| Issued 3,601 and 6,500 shares of common stock in 2009 and 2008, respectively, to directors pursuant to NNN's performance incentive plan                    | \$ 59                             | \$ 144          |
| Issued 22,143 and 8,973 shares of common stock in 2009 and 2008, respectively, pursuant to NNN's Deferred Director Fee Plan                                | \$ 304                            | \$ 169          |
| Change in other comprehensive income   | \$ 3,217                          | \$ 1,476        |

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|   |             |           |
|---|-------------|-----------|
| Note and mortgage receivable accepted in connection with real estate transactions | \$ 1,550    | \$ 24,245 |
| Real estate acquired in connection with foreclosure                               | \$ -        | \$ 2,497  |
| Assets received in note receivable foreclosure                                    | \$ 13,140   | \$ -      |
| Note receivable foreclosure   | \$ (12,092) | \$ -      |

See accompanying notes to condensed consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

(unaudited)

**Note 1 Organization and Summary of Significant Accounting Policies:**

**Organization and Nature of Business** National Retail Properties, Inc., a Maryland corporation, is a fully integrated real estate investment trust ( REIT ) formed in 1984. The term NNN or the Company refers to National Retail Properties, Inc. and all of its consolidated subsidiaries. NNN has elected to treat certain subsidiaries as taxable REIT subsidiaries. These 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 ( Investment Properties or Investment Portfolio ). As of June 30, 2009, NNN owned 999 Investment Properties (including 12 properties that NNN operates), with an aggregate gross leasable area of 11,375,000 square feet, located in 44 states. In addition, as of June 30, 2009, NNN's Investment Assets included \$49,774,000 in mortgages, notes and interest receivable and \$25,525,000 in commercial mortgage residual interests. The Inventory Assets are operated through the TRS. The TRS, directly and indirectly, through investment interests, acquires and/or develops real estate primarily for the purpose of selling the real estate ( Inventory Properties or Inventory Portfolio ). As of June 30, 2009, the TRS owned 30 Inventory Properties.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America. The unaudited condensed consolidated financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. Operating results for the quarter and six months ended June 30, 2009 may not be indicative of the results that may be expected for the year ending December 31, 2009. Amounts as of December 31, 2008, included in the condensed consolidated financial statements, have been derived from the audited consolidated financial statements as of that date, as restated in NNN's Current Report on Form 8-K dated June 24, 2009, as required in connection with the adoption of (i) Financial Accounting Standards Board ( FASB ) Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement ) ( FSP APB 14-1 ), (ii) Statement of Financial Accounting Standards ( SFAS ) No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51 ( SFAS 160 ), and (iii) FSP No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities ( FSP 03-6-1 ). The unaudited condensed consolidated financial statements, included herein, should be read in conjunction with the consolidated financial statements and notes thereto as well as Management's Discussion and Analysis of Financial Condition and Results of Operations in NNN's Current Report on Form 8-K dated June 24, 2009.

**Principles of Consolidation** NNN's condensed consolidated financial statements include the accounts of each of the respective majority owned and controlled affiliates, including transactions whereby NNN has been determined to be the primary beneficiary in accordance with the

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provisions of FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities ( FIN 46R ). All significant intercompany account balances and transactions have been eliminated.

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

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

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

**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 SFAS No. 142, Goodwill and Other Intangible Assets ( SFAS 142 ), NNN will perform impairment testing on goodwill annually at the end of each third quarter. The impairment test compares the fair value of goodwill to its carrying amount.

**Other Comprehensive Income** The components for the change in other comprehensive income during the six months ended June 30, 2009, consisted of the following (dollars in thousands):

|  |          |
|--|----------|
| Balance at beginning of period                         | \$ 2,414 |
| Amortization of interest rate hedges                   | (79)     |
| Unrealized gain commercial mortgage residual interests | 3,296    |
| Noncontrolling interests                               | (765)    |
| Balance at end of period                               | \$ 4,866 |

NNN's total comprehensive income (dollars in thousands):

|   | Quarter Ended June 30, |           | Six Months Ended June 30, |           |
|---|------------------------|-----------|---------------------------|-----------|
|   | 2009                   | 2008      | 2009                      | 2008      |
| Net earnings  | \$ 26,954              | \$ 29,266 | \$ 53,757                 | \$ 61,505 |
| Other comprehensive income  | 2,141                  | 282       | 3,217                     | 1,476     |
| Comprehensive income including noncontrolling interests               | 29,095                 | 29,548    | 56,974                    | 62,981    |
| Comprehensive income attributable to noncontrolling interests         | (596)                  | (114)     | (765)                     | (142)     |
| Comprehensive income attributable to National Retail Properties, Inc. | \$ 28,499              | \$ 29,434 | \$ 56,209                 | \$ 62,839 |

**Earnings Per Share** Earnings per share have been computed pursuant to the provisions of SFAS 128, Earnings Per Share. Effective January 1, 2009, NNN adopted FSP 03-6-1, which 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



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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:

|  | Quarter Ended June 30, |               | Six Months Ended June 30, |               |
|--|------------------------|---------------|---------------------------|---------------|
|  | 2009                   | 2008          | 2009                      | 2008          |
| <b>Basic and Diluted Earnings:</b>   |                        |               |                           |               |
| Net earnings attributable to National Retail Properties, Inc.                    | \$ 26,953,683          | \$ 53,757,426 | \$ 29,265,671             | \$ 61,504,959 |
| Less: Series C preferred stock dividends   | (1,696,250)            | (3,392,500)   | (1,696,250)               | (3,392,500)   |
| Net earnings available to the Company's common stockholders                      | 25,257,433             | 50,364,926    | 27,569,421                | 58,112,459    |
| Less: Earnings attributable to unvested restricted shares                        | (155,744)              | (277,517)     | (131,885)                 | (269,634)     |
| Net earnings used in basic earnings per share                                    | 25,101,689             | 50,087,409    | 27,437,536                | 57,842,825    |
| Reallocated undistributed income   | (37)                   | (59)          | 1                         | 28            |
| Net earnings used in diluted earnings per share                                  | \$ 25,101,652          | \$ 50,087,350 | \$ 27,437,537             | \$ 57,842,853 |
| <b>Basic and Diluted Weighted Average Shares Outstanding:</b>                    |                        |               |                           |               |
| Weighted average number of shares outstanding                                    | 79,831,150             | 79,278,694    | 73,596,428                | 73,168,054    |
| Less: unvested restricted stock  | (668,010)              | (611,439)     | (526,394)                 | (475,644)     |
| Weighted average number of shares outstanding used in basic earnings per share   | 79,163,140             | 78,667,255    | 73,070,034                | 72,692,410    |
| <b>Effects of dilutive securities:</b>   |                        |               |                           |               |
| Common stock options   | 8,773                  | 7,578         | 43,930                    | 45,359        |
| Directors' deferred fee plan   | 93,461                 | 88,064        | 55,138                    | 52,796        |
| Weighted average number of shares outstanding used in diluted earnings per share | 79,265,374             | 78,762,897    | 73,169,102                | 72,790,565    |

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

**New Accounting Standards** In January 2009, FASB issued FSP EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20 ( FSP EITF 99-20-1 ). FSP EITF 99-20-1 is effective for interim and annual periods ending after December 15, 2008. Retroactive application is not permitted. The adoption of FSP EITF 99-20-1 did not have a significant impact on NNN's financial position or results of operations.

Effective January 1, 2009, NNN implemented SFAS 160, which requires noncontrolling interests, previously called minority interest, to be presented as a component of equity. In addition, SFAS 160 requires disclosure on the face of the consolidated statement of earnings of the amounts of consolidated net income attributable to the parent and to the noncontrolling interests. SFAS 160 was applied prospectively with the exception of presentation and disclosure requirements, which were applied retrospectively for all periods presented. The adoption of SFAS 160 did not have a material impact on NNN's financial position or results of operations.



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The following table presents a reconciliation of the changes in equity during the six months ended June 30, 2009 (dollars in thousands):

|  | NNN s<br>Interest | Noncontrolling<br>Interest | Total        |
|--|-------------------|----------------------------|--------------|
| Balance at beginning of period               | \$ 1,566,860      | \$ 2,086                   | \$ 1,568,946 |
| Earnings from continuing operations          | 48,285            | 351                        | 48,636       |
| Earnings (loss) from discontinued operations | 5,472             | (205)                      | 5,267        |
| Other comprehensive income                   | 2,452             | 765                        | 3,217        |
| Issuance of common shares, net of costs      | 25,648            | -                          | 25,648       |
| Dividends to shareholders                    | (62,612)          | -                          | (62,612)     |
| Contributions from noncontrolling interests  | -                 | 152                        | 152          |
| Distributions to noncontrolling interests    | -                 | (320)                      | (320)        |
| Unearned compensation                        | (2,516)           | -                          | (2,516)      |
| Balance at end of period                     | \$ 1,583,589      | \$ 2,829                   | \$ 1,586,418 |

In April 2009, the FASB issued the following three FSPs intended to provide additional accounting guidance and enhanced disclosures regarding fair value measurements and impairments of debt securities:

FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, requiring publicly traded companies to disclose the fair value of financial instruments in interim financial statements;

FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, providing guidance for determining fair value when there is no active market or where price inputs being used represent distressed sales; and

FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, providing guidance for measurement and recognition of impaired debt securities along with expanded disclosures with respect to impaired debt securities.

These FSPs are effective for interim and annual periods ending after June 15, 2009. The adoption of these FSPs did not have a material effect on NNN s financial position or results of operations.

In April 2009, FASB issued FSP FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* ( FSP FAS 141(R)-1 ). This FSP amends and clarifies SFAS No. 141(R), *Business Combinations* ( SFAS 141(R) ), by addressing application issues on initial recognition and measurement, subsequent measurement and accounting and disclosure of assets and liabilities arising from contingencies in a business combination. FSP FAS 141(R)-1 is effective for fiscal years beginning on or after December 15, 2008. The adoption of FSP FAS 141(R)-1 did not have a significant impact on NNN s financial position or result of operations.

In May 2009, FASB issued SFAS No. 165, *Subsequent Events* ( SFAS 165 ), to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 provides, among other things, that companies should recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including estimates inherent in the process of preparing financial statements. SFAS 165 is effective for interim or annual reporting periods ending after June 15, 2009. The adoption of SFAS 165 did not have a significant impact on NNN s financial position or result of operations.

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In June 2009, FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets ( SFAS 166 ), and SFAS 167, Amendments to SFAS Interpretation No. 46(R) ( SFAS 167 ), both of which change the way companies account for securitizations and special purpose entities. SFAS 166 and SFAS 167 will be effective for fiscal years beginning after November 15, 2009. NNN is currently evaluating the provisions of SFAS 166 and SFAS 167 to determine the potential impact, if any, the adoption will have on NNN's financial position or results of operation.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles ( SFAS 168 ). SFAS 168 replaces FASB Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles, and establishes the FASB Accounting Standards Codification (the Codification ) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles ( GAAP ). SFAS 168 is effective for interim and annual periods ending after September 15, 2009.

**Adoption of New Accounting Standards with Change in Accounting Principle** Effective January 1, 2009, NNN adopted FSP APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). The standard requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) to be separately accounted for in a manner that reflects the issuer's non-convertible debt borrowing rate. FSP APB 14-1 requires the debt component to be recorded based upon the estimated fair value of similar non-convertible debt. The resulting debt discount is to be amortized over the period during which the debt is expected to be outstanding as additional non-cash interest expense.

FSP APB 14-1 requires application of the standard on a retrospective basis. Effective January 1, 2009, the Company also adopted FSP 03-6-1 (See Note 1 Earnings Per Share), which also required retrospective application. The adoption of FSP APB 14-1 and FSP 03-6-1 resulted in the following non-cash adjustments to the amounts and per share amounts as originally reported in NNN's Form 10-Q for the quarterly period ended June 30, 2008, and as restated or adjusted in this Form 10-Q.

|  | Quarter Ended<br>June 30,<br>2008 | Six Months Ended<br>June 30, 2008 |
|--|-----------------------------------|-----------------------------------|
| Net earnings, as reported  | \$ 30,888                         | \$ 63,941                         |
| Additional non-cash interest expense                                       | (1,616)                           | (2,435)                           |
| Decrease in note cost amortization   | (6)                               | (1)                               |
| Net earnings attributable to National Retail Properties, Inc., as restated | \$ 29,266                         | \$ 61,505                         |

|  | Quarter Ended<br>June 30, 2008 |                | Six Months Ended<br>June 30, 2008 |                |
|--|--------------------------------|----------------|-----------------------------------|----------------|
|  | As Originally<br>Reported      | As<br>Adjusted | As Originally<br>Reported         | As<br>Adjusted |
| <b>Net earnings per share of common stock:</b> |                                |                |                                   |                |
| <b>Basic:</b>                                  |                                |                |                                   |                |
| Continuing operations                          | \$ 0.33                        | \$ 0.30        | \$ 0.62                           | \$ 0.57        |
| Discontinued operations                        | 0.07                           | 0.08           | 0.21                              | 0.23           |
| Net earnings                                   | \$ 0.40                        | \$ 0.38        | \$ 0.83                           | \$ 0.80        |
| <b>Diluted:</b>                                |                                |                |                                   |                |
| Continuing operations                          | \$ 0.33                        | \$ 0.30        | \$ 0.62                           | \$ 0.57        |
| Discontinued operations                        | 0.07                           | 0.08           | 0.21                              | 0.23           |
| Net earnings                                   | \$ 0.40                        | \$ 0.38        | \$ 0.83                           | \$ 0.80        |



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**Use of Estimates** Management of NNN has made a number of estimates and assumptions relating to the reporting of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Significant estimates include provision for impairment and allowances for certain assets, accruals, useful lives of assets and capitalization of costs. Actual results could differ from 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 2009 presentation. These reclassifications had no effect on stockholders' equity or net earnings.

**Note 2 Real Estate Investment Portfolio:**

**Leases** As of June 30, 2009, 968 of the Investment Property leases have been classified as operating leases, and 20 leases have been classified as direct financing leases. For the Investment Property leases classified as direct financing leases, the building portions of the property leases are accounted for as direct financing leases while the land portions of six of these leases are accounted for as operating leases. Substantially all leases have initial terms of 10 to 20 years (expiring between 2009 and 2029) and provide for minimum rentals. In addition, the leases generally provide for limited increases in rent as a result of fixed increases, increases in the consumer price index, and/or increases in the tenant's sales volume. Generally, the tenant is also required to pay all property taxes and assessments, substantially maintain the interior and exterior of the building and carry property and liability insurance coverage. Certain of NNN's Investment Properties are subject to leases under which NNN retains responsibility for certain costs and expenses of the property. As of June 30, 2009, the weighted average remaining lease term was approximately 13 years. 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 as in the initial lease term.

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

|  | June 30,<br>2009 | December 31,<br>2008 |
|--|------------------|----------------------|
| Land and improvements                          | \$ 1,054,074     | \$ 1,057,757         |
| Buildings and improvements                     | 1,424,104        | 1,406,121            |
| Leasehold interests                            | 1,290            | 2,532                |
|  | 2,479,468        | 2,466,410            |
| Less accumulated depreciation and amortization | (164,278)        | (146,296)            |
|  | 2,315,190        | 2,320,114            |
| Work in progress                               | 37,652           | 40,785               |
|  | 2,352,842        | 2,360,899            |
| Less impairment                                | (4,069)          | (3,005)              |
|  | \$ 2,348,773     | \$ 2,357,894         |

As of June 30, 2009, NNN has remaining funding commitments of \$10,775,000 relating to the development of tenant improvements on 11 Investment Properties.

**Table of Contents****Note 3 Real Estate Inventory Portfolio:**

As of June 30, 2009, the TRS owned 30 Inventory Properties: 23 completed inventory, one under construction and six land parcels. As of December 31, 2008, the TRS owned 32 Inventory Properties: 24 completed inventory, one under construction and seven land parcels. The Inventory Portfolio consisted of the following (dollars in thousands):

|                               | June 30,<br>2009 | December 31,<br>2008 |
|-------------------------------|------------------|----------------------|
| <b>Inventory Properties:</b>  |                  |                      |
| Land                          | \$ 24,179        | \$ 25,901            |
| Building                      | 56,614           | 59,480               |
|                               | 80,793           | 85,381               |
| <b>Construction projects:</b> |                  |                      |
| Land                          | 19,345           | 19,031               |
| Work in process               | 3,001            | 1,469                |
|                               | 22,346           | 20,500               |
| Less impairment               | (4,775)          | (4,775)              |
|                               | \$ 98,364        | \$ 101,106           |

As of June 30, 2009, NNN has remaining funding commitments of \$986,000 relating to the development of one Inventory Property.

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 (dollars in thousands):

|   | Quarter Ended June 30, |       |                    |        | Six Months Ended June 30, |        |                    |          |
|---|------------------------|-------|--------------------|--------|---------------------------|--------|--------------------|----------|
|   | 2009                   |       | 2008               |        | 2009                      |        | 2008               |          |
|   | # of<br>Properties     | Gain  | # of<br>Properties | Gain   | # of<br>Properties        | Gain   | # of<br>Properties | Gain     |
| Continuing operations   | -                      | \$ -  | -                  | \$ -   | -                         | \$ -   | 1                  | \$ 21    |
| Noncontrolling interest   |                        |       |                    |        |                           |        |                    | (10)     |
| <b>Total continuing operations attributable to National Retail Properties, Inc.</b>   |                        | -     |                    | -      |                           | -      |                    | 11       |
| Discontinued operations   | 1                      | 12    | 7                  | 707    | 2                         | 527    | 14                 | 9,577    |
| Intersegment eliminations   |                        | -     |                    | -      |                           | 31     |                    | 258      |
| Noncontrolling interest   |                        |       |                    | 210    |                           |        |                    | (3,296)  |
| <b>Total discontinued operations attributable to National Retail Properties, Inc.</b> |                        | 12    |                    | 917    |                           | 558    |                    | 6,539    |
|   | 1                      | \$ 12 | 7                  | \$ 917 | 2                         | \$ 558 | 15                 | \$ 6,550 |



**Table of Contents****Note 4 Impairments Real Estate:**

Management periodically assesses its real estate for possible impairment whenever 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 changes in real estate market conditions, the ability of NNN to re-lease properties that are vacant, and the ability to sell properties at an attractive return. 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 impairments (dollars in thousands):

|                                 | Quarter Ended June 30, |        | Six Months Ended June 30, |        |
|---------------------------------|------------------------|--------|---------------------------|--------|
|                                 | 2009                   | 2008   | 2009                      | 2008   |
| <b>Continuing operations:</b>   |                        |        |                           |        |
| Real estate                     | \$ 1,064               | \$ -   | \$ 1,064                  | \$ -   |
| <b>Discontinued operations:</b> |                        |        |                           |        |
| Real estate                     | -                      | 153    | -                         | 167    |
|                                 | \$ 1,064               | \$ 153 | \$ 1,064                  | \$ 167 |

**Note 5 Business Combinations:**

In connection with the default of a note receivable and certain lease agreements between NNN and one of NNN's tenants, in June of 2009, NNN acquired the operations of the 12 auto service businesses which were operated on the respective Investment Properties. The note foreclosure resulted in a gain of \$1,048,000 based upon the preliminary fair value of the assets. NNN recorded the value of the assets received at fair value. No liabilities were assumed. The preliminary fair value of the assets resulted in goodwill of \$12,405,000. The preliminary fair value of the assets acquired will be adjusted when the final valuation is received.

**Note 6 Mortgages, Notes and Accrued Interest Receivable:**

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

|                                 | June 30,<br>2009 | December 31,<br>2008 |
|---------------------------------|------------------|----------------------|
| Mortgages and notes receivable  | \$ 44,671        | \$ 55,495            |
| Structured finance investments  | 4,514            | 4,514                |
| Accrued interest receivables    | 547              | 387                  |
| Unamortized premium             | 42               | 84                   |
|                                 | 49,774           | 60,480               |
| Less loan origination fees, net | -                | (8)                  |
|                                 | \$ 49,774        | \$ 60,472            |

**Note 7 Commercial Mortgage Residual Interests:**

NNN owns a 78.9 percent equity interest in Orange Avenue Mortgage Investments, Inc. ( OAMI ). OAMI holds the commercial mortgage residual interests ( Residuals ) from seven securitizations. Each of the Residuals is recorded at fair value based upon an independent valuation. Unrealized gains and losses are reported as other comprehensive income in stockholders' equity and other than temporary losses as a result of a

change in the timing or amount of estimated cash flows are recorded as an other than temporary valuation impairment.



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Due to changes in 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 June 30, 2009:

|  | June 30, 2009         | December 31, 2008     |
|--|-----------------------|-----------------------|
| Discount rate                            | 25%                   | 25%                   |
| Average life equivalent CPR speeds range | 2.6% - 23.2% CPR      | 3.7% to 39.4% CPR     |
| Foreclosures:                            |                       |                       |
| Frequency curve default model            | 2.75% maximum rate    | 1.1% maximum rate     |
| Loss severity of loans in foreclosure    | 20%                   | 10%                   |
| 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 (dollars in thousands):

|   | Quarter Ended June 30, |        | Six Months Ended June 30, |          |
|---|------------------------|--------|---------------------------|----------|
|   | 2009                   | 2008   | 2009                      | 2008     |
| Unrealized gains                          | \$ 1,584               | \$ 475 | \$ 2,531                  | \$ 1,829 |
| Other than temporary valuation impairment | -                      | -      | -                         | 758      |

**Note 8 Line of Credit Payable:**

NNN's \$400,000,000 revolving credit facility (the Credit Facility) had a weighted average outstanding balance of \$19,898,000 and a weighted average interest rate of 1.19% during the six months ended June 30, 2009. The interest rate on the Credit Facility is based on a tiered rate structure which is determined by the debt rating of the Company. In June 2008, NNN's interest rate on the Credit Facility decreased to 65 basis points above LIBOR as a result of an upgrade in its debt rating. As of June 30, 2009, \$22,000,000 was outstanding, and approximately \$378,000,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$877,000.

**Table of Contents****Note 9 Notes Payable Convertible:**

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

| Terms  | 2026<br>Notes <sup>(1)(2)(4)</sup> | 2028<br>Notes <sup>(2)(5)(6)</sup> |
|--|------------------------------------|------------------------------------|
| Issue Date                                     | September 2006                     | March 2008                         |
| Net Proceeds                                   | \$ 168,650                         | \$ 228,576                         |
| Stated Interest Rate <sup>(8)</sup>            | 3.950%                             | 5.125%                             |
| Debt Issuance Costs                            | \$ 3,850 <sup>(3)</sup>            | \$ 5,459 <sup>(7)</sup>            |
| 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 June 30, 2009 | \$ 138,700                         | \$ 223,035                         |

<sup>(1)</sup> NNN repurchased \$3,800, \$5,000 and \$25,000 in March 2009, January 2009 and November 2008, respectively, for a purchase price of \$3,100, \$3,894 and \$19,188, respectively, resulting in a gain of \$607, \$958 and \$4,961, respectively.

<sup>(2)</sup> 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.

<sup>(3)</sup> Includes \$114 and \$349 of note costs which were written off in connection with the repurchase of \$8,800 and \$25,000 of the 2026 Notes, respectively.

<sup>(4)</sup> The conversion rate per \$1 principal amount was 41.5008 shares of NNN's common stock, which is equivalent to a conversion price of \$24.0959 per share of common stock.

<sup>(5)</sup> The conversion rate per \$1 principal amount was 39.3459 shares of NNN's common stock, which is equivalent to a conversion price of \$25.4156 per share of common stock.

<sup>(6)</sup> NNN repurchased \$2,500 and \$8,500 in May 2009 and February 2009, respectively, for a purchase price of \$2,049 and \$6,539, respectively, resulting in a gain of \$342 and \$1,525, respectively.

<sup>(7)</sup> Includes \$171 and \$48 of note costs which were written off in connection with the repurchase of \$8,500 and \$2,500 of the 2028 Notes, respectively.

<sup>(8)</sup> With the adoption of FSP APB 14-1, the effective interest rate for the 2026 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.

**Note 10 Preferred Stock:**

NNN declared and paid dividends to its Series C Preferred stockholders of \$3,392,000 or \$0.9218 per share during each of the six months ended June 30, 2009 and 2008, respectively. The Series C Preferred Stock has no maturity date and will remain outstanding unless redeemed.

**Note 11 Common Stock:**

## Edgar Filing: NATIONAL RETAIL PROPERTIES, INC. - Form 10-Q

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

During the six months ended June 30, 2009 and 2008, NNN declared and paid dividends to its common shareholders of \$59,220,000 and \$53,152,000, respectively, or \$0.75 and \$0.73 per share, respectively, of common stock.

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In July 2009, NNN declared a dividend of \$0.375 per share, which is payable in August 2009 to its common stockholders of record as of July 31, 2009.

**Dividend Reinvestment and Stock Purchase Plan** In June 2009, NNN filed a shelf registration statement with the Securities and Exchange 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 each of the six months ended June 30 (dollars in thousands):

|                        | 2009      | 2008      |
|------------------------|-----------|-----------|
| Shares of common stock | 1,340,072 | 1,201,259 |
| Net proceeds           | \$ 21,364 | \$ 26,493 |

**Note 12 Restructuring Costs:**

During the six months ended June 30, 2009, NNN recorded restructuring costs of \$731,000 related to the reduction of its workforce in January 2009.

**Note 13 Income Taxes:**

NNN elected to be taxed as a REIT under the Internal Revenue Code ( Code ), commencing with its taxable year ended December 31, 1984. To qualify as a REIT, NNN must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its REIT taxable income to its stockholders. Also, at least 95% of gross income in any year must be derived from qualifying sources. NNN intends to adhere to these requirements and maintain its REIT status. As a REIT, NNN generally will not be subject to corporate level federal income tax on taxable income that it distributes currently to its stockholders. NNN may be subject to certain state and local taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income, if any. The provision for federal income taxes in NNN's consolidated financial statements relates to its TRS operations and any potential taxable built-in gain. NNN did not have significant tax provisions or deferred income tax items during the periods reported hereunder.

NNN incurred a new deferred income tax item as a result of NNN taking over the operations of the 12 auto service businesses. See Note 5 Business Combinations. The new deferred tax item is goodwill. The initial amount of the tax deductible goodwill is approximately \$11,357,000. It is amortized for tax purposes using a straight-line method, over 15 years, beginning with the month incurred. The initial amount of tax basis goodwill may be refined as additional information is received with regard to the value of the business assets received.

In June 2006, the FASB issued SFAS Interpretation No. 48, Accounting for Uncertainty in Income Taxes ( FIN 48 ). In summary, FIN 48 requires that all tax positions subject to FASB issued SFAS No. 109, Accounting for Income Taxes ( SFAS 109 ), be analyzed using a two-step approach. The first step requires an entity to determine if a tax position would more likely than not be sustained upon examination. In the second step, the tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis that is more likely than not to be realized upon ultimate settlement. FIN 48 is effective for fiscal years beginning after December 15, 2006. The periods that remain open under federal statute are 2005 through 2009. NNN believes that its tax filing positions and deductions are well documented and supported, and that it is more likely than not that its tax positions would be sustained upon an examination. Therefore, NNN has not recorded a reserve pursuant to FIN 48 for uncertain income tax positions nor has it recorded a cumulative effect adjustment relating to the adoption of FIN 48. Further, no interest or penalties have been included since no reserves were recorded, and no significant

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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.

**Note 14 Earnings from Discontinued Operations:**

**Real Estate Investment Portfolio** In accordance with FASB issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ( SFAS 144 ), NNN has 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 June 30, 2009, as discontinued operations. The following is a summary of the earnings from discontinued operations from the Investment Portfolio (dollars in thousands):

|  | Quarter Ended June 30, |          | Six Months Ended June 30, |           |
|--|------------------------|----------|---------------------------|-----------|
|  | 2009                   | 2008     | 2009                      | 2008      |
| <b>Revenues:</b>   |                        |          |                           |           |
| Rental income from operating leases  | \$ 1,804               | \$ 1,430 | \$ 2,586                  | \$ 2,748  |
| Earned income from direct financing leases   | -                      | 3        | -                         | 100       |
| Percentage rent  | -                      | 5        | -                         | 17        |
| Real estate expense reimbursement from tenants   | 15                     | 35       | 45                        | 67        |
| Interest and other income from real estate transactions                                | 348                    | 416      | 646                       | 949       |
|  | 2,167                  | 1,889    | 3,277                     | 3,881     |
| <b>Operating expenses:</b>   |                        |          |                           |           |
| General and administrative   | -                      | -        | -                         | (79)      |
| Real estate  | -                      | 94       | 62                        | (107)     |
| Depreciation and amortization  | 5                      | 173      | 38                        | 366       |
| Impairment real estate   | -                      | 153      | -                         | 167       |
|  | 5                      | 420      | 100                       | 347       |
| Earnings before gain on disposition of real estate                                     | 2,162                  | 1,469    | 3,177                     | 3,534     |
| Gain on disposition of real estate   | 600                    | 2,709    | 1,632                     | 6,586     |
| Earnings from discontinued operations attributable to National Retail Properties, Inc. | \$ 2,762               | \$ 4,178 | \$ 4,809                  | \$ 10,120 |

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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 June 30, 2009. The following is a summary of the earnings from discontinued operations from the Inventory Portfolio (dollars in thousands):

|  | Quarter Ended June 30, |                     | Six Months Ended June 30, |                     |
|--|------------------------|---------------------|---------------------------|---------------------|
|  | 2009                   | 2008 <sup>(1)</sup> | 2009                      | 2008 <sup>(1)</sup> |
| <b>Revenues:</b>   |                        |                     |                           |                     |
| Rental income from operating leases  | \$ 1,469               | \$ 2,748            | \$ 2,871                  | \$ 6,101            |
| Percentage rent  | -                      | 127                 | -                         | 133                 |
| Real estate expense reimbursement from tenants   | 184                    | 227                 | 1,134                     | 556                 |
| Interest and other from real estate transactions                                       | 19                     | 332                 | 57                        | 786                 |
|  | 1,672                  | 3,434               | 4,062                     | 7,576               |
| <b>Disposition of real estate:</b>   |                        |                     |                           |                     |
| Gross proceeds   | 502                    | 29,726              | 5,402                     | 98,914              |
| Costs  | (490)                  | (29,019)            | (4,844)                   | (89,079)            |
| Gain   | 12                     | 707                 | 558                       | 9,835               |
| <b>Operating expenses:</b>   |                        |                     |                           |                     |
| General and administrative   | 20                     | 25                  | 68                        | 49                  |
| Real estate  | 346                    | 340                 | 1,664                     | 895                 |
| Depreciation and amortization  | 60                     | 67                  | 198                       | 111                 |
|  | 426                    | 432                 | 1,930                     | 1,055               |
| <b>Other expenses (revenues):</b>  |                        |                     |                           |                     |
| Interest expense   | 896                    | 1,778               | 1,826                     | 2,776               |
| Earnings before income tax expense   | 362                    | 1,931               | 864                       | 13,580              |
| Income tax expense   | (136)                  | (887)               | (406)                     | (3,914)             |
| Earnings from discontinued operations including noncontrolling interests               | 226                    | 1,044               | 458                       | 9,666               |
| Loss (earnings) attributable to noncontrolling interests                               | (4)                    | 407                 | 205                       | (3,269)             |
| Earnings from discontinued operations attributable to National Retail Properties, Inc. | \$ 222                 | \$ 1,451            | \$ 663                    | \$ 6,397            |

<sup>(1)</sup> Adjusted to reflect the adoption of SFAS 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51, effective January 1, 2009 (discussed in Note 1).

**Note 15 Derivatives:**

FASB issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by SFAS 133, 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

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primarily uses treasury locks and interest rate swaps as part of its cash flow hedging strategy. Treasury locks designated as cash flow hedges lock in the yield or price of a treasury security. Interest rate swaps designated as cash flow hedges 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. To date, such derivatives have been used to hedge the variable cash flows associated with floating rate debt and forecasted interest payments of a forecasted issuance of debt.

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.

As of June 30, 2009, \$469,000 remains in other comprehensive income related to the fair value of the interest rate hedges. During the six months ended June 30, 2009 and 2008, NNN reclassified \$79,000 and \$85,000, respectively, out of other comprehensive income as a reduction in interest expense. NNN estimates in the next twelve months an additional \$162,000 will be reclassified to interest expense. Amounts reported in accumulated other comprehensive income will be reclassified to interest expense as interest payments are made on NNN's long-term debt.

Additionally, NNN recorded an immaterial amount of hedge ineffectiveness on the cash flow hedge as other interest expense.

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 June 30, 2009.



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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 quarters ended June 30 (dollars in thousands):

|   | Investment<br>Assets | Inventory<br>Assets | Eliminations<br>(Intercompany) | Condensed<br>Consolidated<br>Totals |
|---|----------------------|---------------------|--------------------------------|-------------------------------------|
| <b>2009</b>   |                      |                     |                                |                                     |
| External revenues   | \$ 59,045            | \$ 52               | \$ -                           | \$ 59,097                           |
| Intersegment revenues   | 956                  | 267                 | (1,223)                        | -                                   |
| Earnings from continuing operations                           | 24,303               | (701)               | 539                            | 24,141                              |
| Earnings including noncontrolling interests                   | 27,066               | (476)               | 539                            | 27,129                              |
| Net earnings attributable to National Retail Properties, Inc. | 26,954               | (539)               | 539                            | 26,954                              |
| Total assets  | \$ 2,745,540         | \$ 124,858          | \$ (232,239)                   | \$ 2,638,159                        |

|   |              |            |              |              |
|---|--------------|------------|--------------|--------------|
| <b>2008</b>   |              |            |              |              |
| External revenues   | \$ 57,277    | \$ 100     | \$ -         | \$ 57,377    |
| Intersegment revenues   | 3,544        | 73         | (3,617)      | -            |
| Earnings from continuing operations                           | 25,267       | (2,191)    | 813          | 23,889       |
| Earnings including noncontrolling interests                   | 29,445       | (1,147)    | 813          | 29,111       |
| Net earnings attributable to National Retail Properties, Inc. | 29,266       | (813)      | 813          | 29,266       |
| Total assets  | \$ 2,671,405 | \$ 205,843 | \$ (205,693) | \$ 2,671,555 |

The following tables represent the segment data and reconciliation to NNN's consolidated totals for the six months ended June 30 (dollars in thousands):

|   | Investment<br>Assets | Inventory<br>Assets | Eliminations<br>(Intercompany) | Condensed<br>Consolidated<br>Totals |
|---|----------------------|---------------------|--------------------------------|-------------------------------------|
| <b>2009</b>   |                      |                     |                                |                                     |
| External revenues   | \$ 117,330           | \$ 78               | \$ -                           | \$ 117,408                          |
| Intersegment revenues   | 1,909                | 526                 | (2,435)                        | -                                   |
| Earnings from continuing operations                           | 49,170               | (1,299)             | 765                            | 48,636                              |
| Earnings including noncontrolling interest                    | 53,979               | (841)               | 765                            | 53,903                              |
| Net earnings attributable to National Retail Properties, Inc. | 53,757               | (765)               | 765                            | 53,757                              |
| Total assets  | 2,745,540            | 124,858             | (232,239)                      | 2,638,159                           |

|   |              |            |              |              |
|---|--------------|------------|--------------|--------------|
| <b>2008</b>   |              |            |              |              |
| External revenues   | \$ 112,536   | \$ 101     | \$ -         | \$ 112,637   |
| Intersegment revenues   | 8,248        | 73         | (8,321)      | -            |
| Earnings from continuing operations                           | 51,704       | (7,007)    | (468)        | 44,229       |
| Earnings including noncontrolling interest                    | 61,824       | 2,659      | (468)        | 64,015       |
| Net earnings attributable to National Retail Properties, Inc. | 61,505       | 468        | (468)        | 61,505       |
| Total assets  | \$ 2,671,405 | \$ 205,843 | \$ (205,693) | \$ 2,671,555 |

**Note 17 Fair Value Measurements:**

On January 1, 2008, the Company adopted the provisions of SFAS No. 157, Fair Value Measurements (SFAS 157), in relation to financial assets and liabilities. On January 1, 2009, the Company adopted the provisions of SFAS 157 in relation to non-financial assets and liabilities. SFAS 157 specifies a hierarchy of valuation inputs which was established to increase



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consistency, clarity and comparability in fair value measurements and related disclosures. The standard 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.

NNN currently values its Residuals based upon an independent valuation which provides a discounted cash flow analysis based upon prepayment speeds, expected loan losses and yield curves. These valuation inputs are generally considered unobservable; therefore, the Residuals are considered Level 3 financial assets. The table below presents a reconciliation of the Residuals during the six months ended June 30, 2009 (dollars in thousands):

|   |           |
|---|-----------|
| Balance at beginning of period  | \$ 22,000 |
| Total gains (losses) realized/unrealized:   |           |
| Included in earnings  | -         |
| Included in other comprehensive income  | 3,296     |
| Interest income on Residuals  | 2,054     |
| Cash received from Residuals  | (1,825)   |
| Transfers in and/or out of Level 3  | -         |
| Balance at end of period  | \$ 25,525 |
| Changes in gains (losses) included in earnings attributable to a change in unrealized gains (losses) relating to assets still held at the end of period | \$ -      |

The adoption of the fair value measurement provisions of SFAS 157 for NNN's non-financial assets and non-financial liabilities had no material impact on NNN's financial position or results of operations.

**Note 18 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 June 30, 2009, and December 31, 2008, approximate fair value based upon current market prices for similar issuances. At June 30, 2009, the carrying value and fair value of NNN's notes payable and convertible notes payable, collectively, were \$959,028,000 and \$841,237,000, respectively. At December 31, 2008, the carrying value and fair value of NNN's notes payable and convertible notes payable, collectively, was \$974,601,000 and \$709,944,000, respectively.

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**Note 19 Subsequent Events:**

Pursuant to SFAS 165, NNN reviewed all subsequent events and transactions that have occurred after June 30, 2009, the date of the condensed consolidated balance sheet, through August 4, 2009, the date of issuance.

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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes included in the Current Report on Form 8-K of National Retail Properties, Inc. dated June 24, 2009. The information herein contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934. These statements generally are characterized by the use of terms such as believe, expect and may.

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

#### Overview

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 ( Investment Properties or Investment Portfolio ). As of June 30, 2009, NNN owned 999 Investment Properties (including 12 properties that NNN operates), with an aggregate gross leasable area of approximately 11,375,000 square feet, located in 44 states. Approximately 97 percent of total properties in NNN's Investment Portfolio were leased or operated as of June 30, 2009. In addition, as of June 30, 2009, NNN had \$49,774,000 in mortgages and notes receivables and \$25,525,000 commercial mortgage residuals interests.

The TRS, directly and indirectly, through investment interests, acquires and/or develops real estate primarily for the purpose of selling the real estate ( Inventory Properties or Inventory Portfolio ). The TRS typically owns two types of properties, property for development ( Development Properties or Development Portfolio ) and improved properties ( Exchange Properties or Exchange Portfolio ). As of June 30, 2009, the TRS held 30 Inventory Properties, of which 18 were Development Properties (11 completed inventory, one under construction and six land parcels) and 12 were Exchange 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 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 free standing retail property marketplace which NNN believes represent an area of attractive investment opportunity. However, any financial hardship within these sectors could have an adverse effect on the financial condition and operating performance of NNN. NNN has some geographic concentration in the south and southeast which NNN believes are areas of above-average population growth.

**Table of Contents**Results of OperationsProperty Analysis – Investment Portfolio

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

|  | June 30,<br>2009 | December 31,<br>2008 | June 30,<br>2008 |
|--|------------------|----------------------|------------------|
| <b>Investment Properties Owned:</b>                      |                  |                      |                  |
| Number   | 999              | 1,005                | 959              |
| Total gross leasable area (square feet)                  | 11,375,000       | 11,251,000           | 11,053,000       |
| <b>Investment Properties:</b>                            |                  |                      |                  |
| Leased   | 954              | 972                  | 943              |
| Operated   | 12               | -                    | -                |
| Total gross leasable area (square feet)                  | 10,643,000       | 10,728,000           | 10,809,000       |
| Percent of total gross leasable area leased and operated | 94%              | 97%                  | 98%              |
| Weighted average remaining lease term (years)            | 13               | 13                   | 13               |

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

| Lines of Trade                   | % of Annual Base Rent <sup>(1)</sup> |                      |                  |
|----------------------------------|--------------------------------------|----------------------|------------------|
|                                  | June 30,<br>2009                     | December 31,<br>2008 | June 30,<br>2008 |
| 1. Convenience Stores            | 26.4%                                | 25.7%                | 25.7%            |
| 2. Restaurants – Full Service    | 9.2%                                 | 8.7%                 | 9.2%             |
| 3. Theaters                      | 6.3%                                 | 6.1%                 | 6.2%             |
| 4. Automotive Parts              | 6.3%                                 | 5.1%                 | 4.8%             |
| 5. Automotive Service            | 5.5%                                 | 8.9%                 | 8.0%             |
| 6. Drug Stores                   | 4.2%                                 | 4.0%                 | 4.2%             |
| 7. Books                         | 4.1%                                 | 4.0%                 | 4.0%             |
| 8. Restaurants – Limited Service | 3.5%                                 | 3.3%                 | 3.4%             |
| 9. Sporting Goods                | 3.2%                                 | 3.3%                 | 3.6%             |
| 10. Grocery                      | 2.9%                                 | 2.6%                 | 2.7%             |
| Other                            | 28.4%                                | 28.3%                | 28.2%            |
|                                  | 100.0%                               | 100.0%               | 100.0%           |

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

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

|                                       | Quarter Ended June 30, |            | Six Months Ended June 30, |            |
|---------------------------------------|------------------------|------------|---------------------------|------------|
|                                       | 2009                   | 2008       | 2009                      | 2008       |
| <b>Acquisitions:</b>                  |                        |            |                           |            |
| Number of Investment Properties       | -                      | 34         | -                         | 61         |
| Gross leasable area (square feet)     | -                      | 208,000    | -                         | 598,000    |
| Total dollars invested <sup>(1)</sup> | \$ 11,939              | \$ 103,247 | \$ 19,582                 | \$ 253,822 |

<sup>(1)</sup> Includes dollars invested on projects currently under construction for each respective period.

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

|                                   | Quarter Ended June 30, |           | Six Months Ended June 30, |           |
|-----------------------------------|------------------------|-----------|---------------------------|-----------|
|                                   | 2009                   | 2008      | 2009                      | 2008      |
| Number of properties              | 3                      | 7         | 6                         | 11        |
| Gross leasable area (square feet) | 46,000                 | 70,000    | 107,000                   | 108,000   |
| Net sales proceeds                | \$ 5,584               | \$ 26,458 | \$ 9,705                  | \$ 36,760 |
| Net gain                          | \$ 600                 | \$ 2,709  | \$ 1,632                  | \$ 6,586  |

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:

|                                   | June 30, 2009 | December 31, 2008 | June 30, 2008 |
|-----------------------------------|---------------|-------------------|---------------|
| <b>Development Portfolio:</b>     |               |                   |               |
| Completed Inventory Properties    | 11            | 11                | 13            |
| Properties under construction     | 1             | 1                 | 2             |
| Land parcels                      | 6             | 7                 | 7             |
|                                   | 18            | 19                | 22            |
| <b>Exchange Portfolio:</b>        |               |                   |               |
| Inventory Properties              | 12            | 13                | 24            |
| <b>Total Inventory Properties</b> | <b>30</b>     | <b>32</b>         | <b>46</b>     |

*Property Acquisitions.* The following table summarizes the property acquisitions and dollars invested in the Inventory Portfolio (dollars in thousands):

|                                 | Quarter Ended June 30, |                 | Six Months Ended June 30, |                  |
|---------------------------------|------------------------|-----------------|---------------------------|------------------|
|                                 | 2009                   | 2008            | 2009                      | 2008             |
| <b>Development Portfolio:</b>   |                        |                 |                           |                  |
| Number of properties acquired   | -                      | -               | -                         | 2                |
| Dollars invested <sup>(1)</sup> | \$ -                   | \$ 1,900        | \$ 2,116                  | \$ 5,700         |
| <b>Exchange Portfolio:</b>      |                        |                 |                           |                  |
| Number of properties acquired   | -                      | -               | -                         | 3                |
| Dollars invested <sup>(1)</sup> | \$ -                   | \$ -            | \$ 74                     | \$ 19,033        |
| <b>Total dollars invested</b>   | <b>\$ -</b>            | <b>\$ 1,900</b> | <b>\$ 2,190</b>           | <b>\$ 24,733</b> |

<sup>(1)</sup> Includes dollars invested in projects currently under construction or tenant improvements for each respective period.





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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 (dollars in thousands):

|                            | Quarter Ended June 30, |       |                 |          | Six Months Ended June 30, |        |                 |          |
|----------------------------|------------------------|-------|-----------------|----------|---------------------------|--------|-----------------|----------|
|                            | 2009                   |       | 2008            |          | 2009                      |        | 2008            |          |
|                            | # of Properties        | Gain  | # of Properties | Gain     | # of Properties           | Gain   | # of Properties | Gain     |
| Development <sup>(1)</sup> | -                      | \$ -  | -               | \$ (210) | 1                         | \$ 546 | 4               | \$ 4,558 |
| Exchange                   | 1                      | 12    | 7               | 1,127    | 1                         | 12     | 11              | 1,992    |
|                            | 1                      | \$ 12 | 7               | \$ 917   | 2                         | \$ 558 | 15              | \$ 6,550 |

<sup>(1)</sup> Net of noncontrolling interest.

**Revenue from Continuing Operations Analysis**

*General.* During the quarter and six months ended June 30, 2009, NNN's revenue increased primarily due to rental income from properties acquired during the six months ended June 30, 2008, as well as rent settlement fees received during the quarter and six months ended June 30, 2009.

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

|   | Quarter Ended June 30, |           |                          |                          | Percent Increase (Decrease) | Six Months Ended June 30, |            |                          |                          | Percent Increase (Decrease) |
|---|------------------------|-----------|--------------------------|--------------------------|-----------------------------|---------------------------|------------|--------------------------|--------------------------|-----------------------------|
|   | 2009                   | 2008      | 2009<br>Percent of Total | 2008<br>Percent of Total |                             | 2009                      | 2008       | 2009<br>Percent of Total | 2008<br>Percent of Total |                             |
| Rental income <sup>(1)</sup>                              | \$ 54,592              | \$ 52,368 | 93.0%                    | 92.9%                    | 4.3%                        | \$ 108,321                | \$ 102,262 | 92.8%                    | 92.6%                    | 5.9%                        |
| Real estate expense reimbursement from tenants            | 2,109                  | 1,423     | 3.6%                     | 2.5%                     | 48.2%                       | 4,456                     | 2,977      | 3.8%                     | 2.7%                     | 49.7%                       |
| Interest and other income from real estate transactions   | 980                    | 1,407     | 1.7%                     | 2.5%                     | (30.3)%                     | 1,814                     | 2,642      | 1.6%                     | 2.4%                     | (31.3)%                     |
| Interest income on commercial mortgage residual interests | 1,000                  | 1,171     | 1.7%                     | 2.1%                     | (14.6)%                     | 2,054                     | 2,527      | 1.8%                     | 2.3%                     | (18.7)%                     |
| Total revenues from continuing operations                 | \$ 58,681              | \$ 56,369 | 100.0%                   | 100.0%                   | 4.1%                        | \$ 116,645                | \$ 110,408 | 100.0%                   | 100.0%                   | 5.6%                        |

<sup>(1)</sup> Includes rental income from operating leases, earned income from direct financing leases and percentage rent from continuing operations ( Rental Income ). *Revenue from Operations by Source of Income.* NNN has identified two primary business segments, and thus, sources of revenue: (i) earnings from Investment Assets, and (ii) earnings from Inventory Assets. NNN's revenues from continuing operations come primarily from its Investment Assets. The revenues generated from NNN's Inventory Assets are typically classified as discontinued operations in accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ( SFAS 144 ).

*Rental Income.* Rental income increased for the quarter and six months ended June 30, 2009, as compared to the same periods in 2008, but remained relatively stable as a percent of the total revenues from continuing operations. The increase is primarily due to the acquisition of 109 Investment Properties with aggregate gross leasable area of 868,000 square feet during the year ended December 31, 2008 of which 61

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properties with aggregate gross leasable area of 598,000 square feet were acquired during the six months ended June 30, 2008. Additionally, NNN recorded \$4,976,000 and \$404,000 in lease termination fees and rent settlement during the six months ended June 30, 2009 and 2008, respectively, of which \$2,190,000 was recorded for the quarter ended June 30, 2009.

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*Real Estate Expense Reimbursements from Tenants.* Real estate expense reimbursements from tenants increased for the quarter and six months ended June 30, 2009, as compared to the same periods in 2008 and remained fairly consistent as a percentage of total revenues from continuing operations. The increase is attributable to reimbursements from certain properties acquired in 2008 as well as reimbursements resulting from the releasing of existing vacancies.

*Interest and Other Income from Real Estate Transactions.* Interest and other income from real estate transactions decreased for the quarter and six months ended June 30, 2009, as compared to the quarter and six months ended June 30, 2008, primarily due to a lower weighted average principal balance on NNN's mortgages receivable and structured finance investments during the six months ended June 30, 2009. For the six months ended June 30, 2009 and 2008, the weighted average outstanding principal balance on NNN's mortgages receivable and structured finance investments was \$26,184,000 and \$49,853,000, respectively.

*Interest Income on Commercial Mortgage Residual Interests.* Interest income on commercial mortgage residual interests (Residuals) decreased for the quarter and six months ended June 30, 2009, as compared to the same periods last year, but remained relatively stable as a percent of total revenues from continuing operations. The decrease in interest income on Residuals is primarily the result of the decrease in loan prepayment speeds and an increase in the loan delinquencies.

**Analysis of Expenses from Continuing Operations**

*General.* Operating expenses from continuing operations increased for the quarter and six months ended June 30, 2009, primarily due to the increase in depreciation related to the 2008 real estate acquisitions and other expenses related to real estate. The following table summarizes NNN's expenses from continuing operations for the quarters ended June 30 (dollars in thousands):

|  | 2009             | 2008             | Percent Increase (Decrease) | Percentage of Total |               | Percent of Revenues from Continuing Operations |              |
|--|------------------|------------------|-----------------------------|---------------------|---------------|--|--------------|
|  |                  |                  |                             | 2009                | 2008          | 2009   | 2008         |
| General and administrative             | \$ 5,784         | \$ 6,041         | (4.3)%                      | 26.0%               | 31.7%         | 9.9%   | 10.7%        |
| Real estate                            | 3,241            | 2,247            | 44.2%                       | 14.6%               | 11.8%         | 5.5%   | 4.0%         |
| Depreciation and amortization          | 12,121           | 10,787           | 12.4%                       | 54.6%               | 56.5%         | 20.7%  | 19.1%        |
| Impairment real estate                 | 1,064            | -                | N/C <sup>(1)</sup>          | 4.8%                | -             | 1.8%   | -            |
| <b>Total operating expenses</b>        | <b>\$ 22,210</b> | <b>\$ 19,075</b> | <b>16.4%</b>                | <b>100.0%</b>       | <b>100.0%</b> | <b>37.9%</b>                                   | <b>33.8%</b> |
| Interest and other income              | \$ (416)         | \$ (1,008)       | (58.7)%                     | (2.8)%              | (6.6)%        | (0.7)%   | (1.8)%       |
| Interest expense                       | 15,436           | 16,281           | (5.2)%                      | 102.8%              | 106.6%        | 26.3%  | 28.9%        |
| <b>Total other expenses (revenues)</b> | <b>\$ 15,020</b> | <b>\$ 15,273</b> | <b>(1.7)%</b>               | <b>100.0%</b>       | <b>100.0%</b> | <b>25.6%</b>                                   | <b>27.1%</b> |

<sup>(1)</sup> Not calculable ( N/C )

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

|  | 2009             | 2008             | Percent Increase (Decrease) | Percentage of Total |               | Percent of Revenues from Continuing Operations |              |
|--|------------------|------------------|-----------------------------|---------------------|---------------|--|--------------|
|  |                  |                  |                             | 2009                | 2008          | 2009   | 2008         |
| General and administrative   | \$ 11,090        | \$ 13,601        | (18.5)%                     | 25.4%               | 34.2%         | 9.5%   | 12.3%        |
| Real estate  | 6,828            | 4,627            | 47.6%                       | 15.7%               | 11.6%         | 5.9%   | 4.2%         |
| Depreciation and amortization  | 23,965           | 20,770           | 15.4%                       | 54.8%               | 52.3%         | 20.5%  | 18.8%        |
| Impairment - real estate   | 1,064            | -                | N/C <sup>(1)</sup>          | 2.4%                | -             | 0.9%   | -            |
| Impairment - commercial mortgage residual interests valuation adjustment | -                | 758              | (100.0)%                    | -                   | 1.9%          | -  | 0.7%         |
| Restructuring costs  | 731              | -                | N/C <sup>(1)</sup>          | 1.7%                | -             | 0.6%   | -            |
| <b>Total operating expenses</b>  | <b>\$ 43,678</b> | <b>\$ 39,756</b> | <b>9.9%</b>                 | <b>100.0%</b>       | <b>100.0%</b> | <b>37.4%</b>                                   | <b>36.0%</b> |
| Interest and other income  | \$ (763)         | \$ (2,229)       | (65.8)%                     | (2.5)%              | (7.2)%        | (0.7)%   | (2.1)%       |
| Interest expense   | 30,866           | 32,467           | (4.9)%                      | 102.5%              | 104.6%        | 26.5%  | 29.4%        |
| Loss on interest rate hedge  | -                | 804              | (100.0)%                    | -                   | 2.6%          | -  | 0.8%         |
| <b>Total other expenses (revenues)</b>                                   | <b>\$ 30,103</b> | <b>\$ 31,042</b> | <b>(3.0)%</b>               | <b>100.0%</b>       | <b>100.0%</b> | <b>25.8%</b>                                   | <b>28.1%</b> |

<sup>(1)</sup> Not calculable ( N/C )

*General and Administrative Expenses.* General and administrative expenses decreased for quarter and six months ended June 30, 2009, as compared to the same periods in 2008, 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 quarter and six months ended June 30, 2009, is primarily attributable to a decrease in expenses related to compensation of personnel, a decrease in technology expenses and a decrease in lost pursuit costs.

*Real Estate.* Real estate expenses increased for the quarter and six months ended June 30, 2009, as compared to the same periods in 2008. The increase in real estate is primarily due to an increase in tenant reimbursable real estate expenses from 2008 acquisitions, as well as an increase in expenses related to vacant properties.

*Depreciation and Amortization.* For the quarter and six months ended June 30, 2009, depreciation and amortization expenses increased both as a percentage of revenues from continuing operations. The increase is primarily a result of the depreciation recognized on the 109 Investment Properties with aggregate gross leasable area of 868,000 square feet which were acquired in 2008, of which 61 properties with aggregate gross leasable area of 598,000 square feet were acquired during the six months ended June 30, 2008. The increase is also attributable to the additional amortization in connection with the termination of certain leases.

*Impairment - Real Estate.* 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 for impairments, for the quarter and six months ended June 30, 2009, NNN recorded \$1,064,000 of impairments.

*Impairment - Commercial Mortgage Residual Interests Valuation Adjustment.* In connection with the independent valuations of the Residuals fair value, during the six months ended June 30, 2009, NNN recorded \$758,000 as an other than temporary valuation adjustment during the six months ended June 30, 2008. No other than temporary valuation adjustment was required during the six months ended June 30, 2009.

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*Restructuring Costs.* During the six months ended June 30, 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 quarter and six months ended June 30, 2009, as compared to the quarter and six months ended June 30, 2008.

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

- (i) repurchase of \$2,500,000 and \$8,500,000 of convertible notes payable June 2028 with an effective interest rate of 7.192% in May 2009 and February 2009, respectively,
- (ii) repurchase of \$3,800,000, \$5,000,000 and \$25,000,000 of convertible notes payable with an effective interest rate of 5.840% in March 2009, January 2009 and November 2008, respectively,
- (iii) issuance in March 2008 of \$234,035,000 of convertible notes payable in June 2028, with an effective interest rate of 5.125%,
- (iv) payoff of the \$100,000,000 7.125% notes payable in March 2008,
- (v) payoff of the \$12,000,000 secured note payable with stated interest rate of 10.00% in February 2008,
- (vi) the decrease of \$118,970,000 in the weighted average debt outstanding on the Credit Facility for the six months ended June 30, 2009, as compared to the same period in 2008, and
- (vii) the decrease in weighted average interest rate on the Credit Facility from 3.99% for the six months ended June 30, 2008, to 1.19% for the six months ended June 30, 2009.

**Earnings from Discontinued Operations**

In accordance with SFAS 144, NNN classified as discontinued operations the revenues and expenses related to its Investment Properties that were sold, its leasehold interests that were terminated and any Investment Properties that were held for sale at June 30, 2009. NNN also classified as discontinued operations the revenues and expenses of its Inventory Properties that generated revenues. NNN records discontinued operations by its identified segments: (i) Investment Assets, and (ii) Inventory Assets. The following table summarizes the earnings from discontinued operations for each of the quarters ended June 30 (dollars in thousands):

|   | 2009                 |        |          | 2008                 |          |          |
|---|----------------------|--------|----------|----------------------|----------|----------|
|   | # of Sold Properties | Gain   | Earnings | # of Sold Properties | Gain     | Earnings |
| Investment Assets                                 | 3                    | \$ 600 | \$ 2,762 | 7                    | \$ 2,709 | \$ 4,178 |
| Inventory Assets, net of noncontrolling interests | 1                    | 12     | 222      | 7                    | 917      | 1,451    |
|   | 4                    | \$ 612 | \$ 2,984 | 14                   | \$ 3,626 | \$ 5,629 |

The following table summarizes the earnings from discontinued operations for the six months ended June 30 (dollars in thousands):

|   | 2009                 |          |          | 2008                 |           |           |
|---|----------------------|----------|----------|----------------------|-----------|-----------|
|   | # of Sold Properties | Gain     | Earnings | # of Sold Properties | Gain      | Earnings  |
| Investment Assets                                 | 6                    | \$ 1,632 | \$ 4,809 | 11                   | \$ 6,586  | \$ 10,120 |
| Inventory Assets, net of noncontrolling interests | 2                    | 558      | 663      | 14                   | 6,539     | 6,397     |
|   | 8                    | \$ 2,190 | \$ 5,472 | 25                   | \$ 13,125 | \$ 16,517 |



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

**Liquidity**

*General.* NNN's demand for funds has been and will continue to be primarily for (i) payment of operating expenses and cash dividends; (ii) property acquisitions and development; (iii) origination of mortgages and notes receivable; (iv) capital expenditures; (v) payment of principal and interest on its outstanding indebtedness; and (vi) other investments.

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

|  | 2009            | 2008            |
|--|-----------------|-----------------|
| <b>Cash and cash equivalents:</b>          |                 |                 |
| Provided by operating activities           | \$ 77,726       | \$ 111,899      |
| Provided by (used in) investing activities | (17,188)        | (213,259)       |
| Provided by financing activities           | (61,591)        | 78,734          |
| <b>Increase (decrease)</b>                 | <b>(1,053)</b>  | <b>(22,626)</b> |
| Net cash at beginning of period            | 2,626           | 27,499          |
| <b>Net cash at end of period</b>           | <b>\$ 1,573</b> | <b>\$ 4,873</b> |

Cash provided by operating activities represents cash received primarily from rental income from tenants, proceeds from the disposition of Inventory Properties and interest income less cash used for general and administrative expenses, interest expense and the acquisition of Inventory Properties. NNN's cash flow from operating activities, net of the cash used in and provided by the acquisition and disposition of its Inventory Properties, has been sufficient to pay the dividends in each of the periods presented. NNN uses proceeds from its Credit Facility to fund the acquisition of its Inventory Properties. The change in cash provided by operations for the six months ended June 30, 2009 and 2008 is primarily the result of changes in revenues and expenses as discussed in Results of Operations.

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

NNN's financing activities for the six months ended June 30, 2009, include the following significant transactions:

\$8,588,000 in net payments on the repurchase of \$11,000,000 of convertible notes payable June 2028 with an effective interest rate of 7.192%,

\$6,994,000 in net payments on the repurchase of \$8,800,000 of convertible notes payable September 2026 with an effective interest rate of 5.840%,

\$59,220,000 in dividends paid to common stockholders,

\$3,392,000 in dividends paid to holders of the depositary shares of NNN's Series C Preferred Stock,

\$21,364,000 in net proceeds from the issuance of 1,340,072 shares of common stock in connection with the Dividend Reinvestment and Stock Purchase Plan ( DRIP ), and



\$4,500,000 in net payments on NNN s revolving Credit Facility.

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*Contractual Obligations and Commercial Commitments.* As of June 30, 2009, NNN has agreed to fund construction commitments in connection with the development of additional properties as outlined in the table below (dollars in thousands):

|                      | # of<br>Properties | Total<br>Commitment <sup>(1)</sup> | Amount<br>Funded | Remaining<br>Commitment |
|----------------------|--------------------|------------------------------------|------------------|-------------------------|
| Investment Portfolio | 11                 | \$ 68,488                          | \$ 57,713        | \$ 10,775               |
| Inventory Portfolio  | 1                  | 4,814                              | 3,828            | 986                     |
|                      | 12                 | \$ 73,302                          | \$ 61,541        | \$ 11,761               |

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

As of June 30, 2009, NNN had outstanding letters of credit totaling \$877,000 under its Credit Facility.

As of June 30, 2009, 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 current capital resources on hand, its Credit Facility, debt or equity financings and asset dispositions.

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 June 30, 2009, NNN owned 33 vacant, unleased Investment Properties (including vacant land parcels) which accounted for approximately three percent of the total Investment Properties held in NNN's Investment Portfolio. Additionally, as of July 31, 2009, approximately one percent of the total gross leasable area of NNN's Investment Portfolio is leased to tenants that have filed a voluntary petition for bankruptcy under Chapter 11 of the U. S. Bankruptcy Code. As a result, these tenants have the right to reject or affirm their leases with NNN.

In May 2008, one of NNN's tenants, Uni-Mart, Inc. ( Uni-Mart ), which leased 69 Investment Properties and eight Inventory Properties, filed a petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. In July 2008, Uni-Mart elected to reject the leases of 13 properties owned by NNN. Additionally, in December 2008, Uni-Mart elected to reject an additional three properties. NNN has re-leased 15 of the 16 properties as of June 30, 2009, and continues to market for re-lease or sale the remaining property. On April 1, 2009, Uni-Mart rejected the leases of 36 properties. All of the 36 properties were subject to subleases with convenience store operators and all of the subleases with the operators were assigned from Uni-Mart to NNN effective April 1, 2009. The rent under the assigned subleases on the 36 properties is roughly equivalent to the rent NNN was receiving from Uni-Mart on these properties. On April 30, 2009, Uni-Mart assumed all of the remaining leases between Uni-Mart and NNN. For the six months ended June 30, 2009, NNN recorded \$3,371,000 of income in connection with the Uni-Mart bankruptcy rent settlement. During the year ended December 31, 2008, NNN recorded \$2,421,000 of income in connection with the Uni-Mart bankruptcy damage claim. NNN does not believe Uni-Mart's Chapter 11 filing will have a material adverse effect on its operations and financial position.

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. NNN does not believe Titlemax's Chapter 11 filing will have a material adverse effect on its operations or financial position.

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*Dividends.* NNN has made an election to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, and related regulations and intends to continue to operate so as to remain qualified as a REIT for federal income tax purposes. NNN generally will not be subject to federal income tax on income that it distributes to its stockholders, provided that it distributes 100 percent of its REIT taxable income and meets certain other requirements for qualifying as a REIT. If NNN fails to qualify as a REIT in any taxable year, it will be subject to federal income tax on its taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year during which qualification is lost. Such an event could materially affect NNN's income and its ability to pay dividends. NNN believes it has been structured as, and its past and present operations qualify NNN as, a REIT.

One of NNN's primary objectives, consistent with its policy of retaining sufficient cash for reserves and working capital purposes and maintaining its status as a REIT, is to distribute a substantial portion of its funds available from operations to its stockholders in the form of dividends. During the six months ended June 30, 2009 and 2008, NNN declared and paid dividends to its common stockholders of \$59,220,000 and \$53,152,000, respectively, or \$0.75 and \$0.73 per share, respectively, of common stock.

In July 2009, NNN declared a dividend of \$0.375 per share which is payable in August 2009 to its common stockholders of record as of July 31, 2009.

NNN declared and paid dividends to its Series C Preferred stockholders of \$3,392,000 or \$0.9218 per share during each of the six months ended June 30, 2009 and 2008, respectively. The Series C Preferred Stock has no maturity date and will remain outstanding unless redeemed.

**Capital Resources**

Generally, cash needs for property acquisitions, mortgages and notes receivable, 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 (dollars in thousands):

|                               | June 30,<br>2009    | Percentage<br>of Total | December 31,<br>2008 | Percentage<br>of Total |
|-------------------------------|---------------------|------------------------|----------------------|------------------------|
| Line of credit payable        | \$ 22,000           | 2.2%                   | \$ 26,500            | 2.6%                   |
| Mortgages payable             | 25,798              | 2.6%                   | 26,290               | 2.6%                   |
| Notes payable - convertible   | 340,452             | 33.8%                  | 356,122              | 34.6%                  |
| Notes payable                 | 618,576             | 61.4%                  | 618,479              | 60.2%                  |
| <b>Total outstanding debt</b> | <b>\$ 1,006,826</b> | <b>100.0%</b>          | <b>\$ 1,027,391</b>  | <b>100.0%</b>          |

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

*Line of Credit Payable.* NNN's \$400,000,000 Credit Facility had a weighted average outstanding balance of \$19,898,000 and a weighted average interest rate of 1.19% during the six months ended June 30, 2009. The interest rate on the Credit Facility is based on a tiered rate structure which is determined by the debt rating of the Company. In June 2008, as a result of an upgrade in its debt rating, NNN's interest rate on

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the Credit Facility decreased to 65 basis points above LIBOR. In October 2008, NNN exercised its option to extend the maturity date of the Credit Facility from May 2009 to May 2010. As of June 30, 2009, \$22,000,000 was outstanding, and approximately \$378,000,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$877,000.

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

| Terms  | 2026<br>Notes <sup>(1)(2)(4)</sup> | 2028<br>Notes <sup>(2)(5)(6)</sup> |
|--|------------------------------------|------------------------------------|
| Issue Date                                     | September 2006                     | March 2008                         |
| Net Proceeds                                   | \$ 168,650                         | \$ 228,576                         |
| Stated Interest Rate <sup>(8)</sup>            | 3.950%                             | 5.125%                             |
| Debt Issuance Costs                            | \$ 3,850 <sup>(3)</sup>            | \$ 5,459 <sup>(7)</sup>            |
| 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 June 30, 2009 | \$ 138,700                         | \$ 223,035                         |

(1) NNN repurchased \$3,800, \$5,000 and \$25,000 in March 2009, January 2009 and November 2008, respectively, for a purchase price of \$3,100, \$3,894 and \$19,188, respectively, resulting in a gain of \$607, \$958 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 \$114 and \$349 of note costs which were written off in connection with the repurchase of \$8,800 and \$25,000 of the 2026 Notes, respectively.

(4) The conversion rate per \$1 principal amount was 41.5008 shares of NNN's common stock, which is equivalent to a conversion price of \$24.0959 per share of common stock.

(5) The conversion rate per \$1 principal amount was 39.3459 shares of NNN's common stock, which is equivalent to a conversion price of \$25.4156 per share of common stock.

(6) NNN repurchased \$2,500 and \$8,500 in May 2009 and February 2009, respectively, for a purchase price of \$2,049 and \$6,539, respectively, resulting in a gain of \$342 and \$1,525, respectively.

(7) Includes \$171 and \$48 of note costs which were written off in connection with the repurchase of \$8,500 and \$2,500 of the 2028 Notes, respectively.

(8) With the adoption of FSP APB 14-1, the effective interest rate for the 2026 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.

**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.

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

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*Dividend Reinvestment and Stock Purchase Plan.* In June 2009, NNN filed a shelf registration statement with the Securities and Exchange Commission for the DRIP which permits the issuance by NNN of 16,000,000 shares of common stock. NNN's DRIP provides an economical and convenient way for current stockholders and other interested new investors to invest in NNN's common stock. The following outlines the common stock issuances pursuant to the DRIP for the quarters ended June 30 (dollars in thousands):

|                        | 2009      | 2008      |
|------------------------|-----------|-----------|
| Shares of common stock | 1,340,072 | 1,021,259 |
| Net proceeds           | \$ 21,364 | \$ 26,493 |

**Mortgages and Notes Receivable**

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

|                                 | June 30,<br>2009 | December 31,<br>2008 |
|---------------------------------|------------------|----------------------|
| Mortgages and notes receivable  | \$ 44,671        | \$ 55,495            |
| Structured finance investments  | 4,514            | 4,514                |
| Accrued interest receivables    | 547              | 387                  |
| Unamortized premium             | 42               | 84                   |
|                                 | 49,774           | 60,480               |
| Less loan origination fees, net | -                | (8)                  |
|                                 | \$ 49,774        | \$ 60,472            |

**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 at June 30, 2009. 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 June 30, 2009:

|  | June 30, 2009         | December 31, 2008     |
|--|-----------------------|-----------------------|
| Discount rate                            | 25%                   | 25%                   |
| Average life equivalent CPR speeds range | 2.6% - 23.2% CPR      | 3.7% to 39.4% CPR     |
| Foreclosures:                            |                       |                       |
| Frequency curve default model            | 2.75% maximum rate    | 1.1% maximum rate     |
| Loss severity of loans in foreclosure    | 20%                   | 10%                   |
| 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 (dollars in thousands):

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|   | Quarter Ended June 30, 2009 |        | Six Months Ended June 30, 2008 |          |
|---|-----------------------------|--------|--------------------------------|----------|
|   | 2009                        | 2008   | 2009                           | 2008     |
| Unrealized gains                          | \$ 1,584                    | \$ 475 | \$ 2,531                       | \$ 1,829 |
| Other than temporary valuation impairment | \$ -                        | \$ -   | \$ -                           | \$ 758   |

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**Business Combination**

In connection with the default of a note receivable and certain lease agreements between NNN and one of NNN's tenants, in June 2009, NNN acquired the operations of the 12 auto service businesses which were operated on the respective Investment Properties. The note foreclosure resulted in a gain of \$1,048,000 based upon the preliminary fair value of the assets. NNN recorded the value of the assets received at fair value. No liabilities were assumed. The preliminary fair value of the assets resulted in goodwill of \$12,405,000. The preliminary fair value of the assets acquired will be adjusted when the final valuation is received.

**Recent Accounting Pronouncements**

Refer to Note 1 to the June 30, 2009, Condensed Consolidated Financial Statements.



**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk**

NNN is exposed to interest rate risk primarily as a result of its variable rate Credit Facility and its long-term, fixed rate debt which is used to finance its 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. NNN had no outstanding derivatives as of June 30, 2009.

The information in the table below summarizes NNN's market risks associated with its debt obligations outstanding as of June 30, 2009 and December 31, 2008. The table presents principal payments and related interest rates by year for debt obligations outstanding as of June 30, 2009. The variable interest rates shown represent the weighted average rate for the Credit Facility during the six months ended June 30, 2009. The table incorporates only those debt obligations that exist as of June 30, 2009; 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 six months ended June 30, 2009.

|              | Debt Obligations (dollars in thousands) |   |                  |                                |                   |                         |
|--------------|---|---|------------------|--------------------------------|-------------------|-------------------------|
|              | Variable Rate Debt                      |   |                  | Fixed Rate Debt                |                   |                         |
|              | Credit Facility                         |   | Mortgages        | Unsecured Debt <sup>(2)</sup>  |                   | Effective Interest Rate |
|              | Debt Obligation                         | Weighted Average Interest Rate <sup>(1)</sup> | Debt Obligation  | Weighted Average Interest Rate | Debt Obligation   |                         |
| 2009         | -                                       | -   | 508              | 7.26%                          | -                 | -                       |
| 2010         | 22,000                                  | 1.19%   | 1,022            | 7.19%                          | 19,979            | 8.60%                   |
| 2011         | -                                       | -   | 1,098            | 7.20%                          | 133,254           | 5.84%                   |
| 2012         | -                                       | -   | 19,291           | 6.92%                          | 49,892            | 7.83%                   |
| 2013         | -                                       | -   | 863              | 7.35%                          | 207,198           | 7.19%                   |
| Thereafter   | -                                       | -   | 3,016            | 7.33%                          | 548,705           | 6.44%                   |
| <b>Total</b> | <b>\$ 22,000</b>                        | <b>1.19%</b>                                  | <b>\$ 25,798</b> | <b>7.01%</b>                   | <b>\$ 959,028</b> | <b>6.64%</b>            |

## Fair Value:

|                   |           |           |            |
|-------------------|-----------|-----------|------------|
| June 30, 2009     | \$ 22,000 | \$ 25,798 | \$ 841,237 |
| December 31, 2008 | \$ 26,500 | \$ 26,290 | \$ 709,944 |

<sup>(1)</sup> The Credit Facility interest rate varies based upon a tiered rate structure ranging from 55 to 112.5 basis points above LIBOR based upon the debt rating of NNN.

<sup>(2)</sup> Includes NNN's notes payable and convertible notes payable, each net of unamortized note discount. NNN uses Bloomberg software to determine the fair value. NNN is also exposed to market risks related to the 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 \$25,525,000 and \$22,000,000 as of June 30, 2009 and December 31, 2008, respectively. Unrealized gains and losses are reported as other comprehensive income in stockholders' equity. Losses are considered other than temporary and reported as a valuation impairment in earnings from operations if and when there has been a change in the timing or amount of estimated cash flows that leads to a loss in value.

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**Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures.* As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of NNN's management, including NNN's Chief Executive Officer and Chief Financial Officer, of the effectiveness as of June 30, 2009, of the design and operation of NNN's disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934, as amended. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as of the end of the period covered by this report.

*Changes in Internal Control over Financial Reporting.* There has been no change in NNN's internal control over financial reporting that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, NNN's internal control over financial reporting.

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## PART II. OTHER INFORMATION

**Item 1. Legal Proceedings.** Not applicable.

**Item 1A. Risk Factors.** There were no material changes in NNN's risk factors disclosed in Item 1A. Risk Factors of NNN's Annual Report on Form 10-K for the year ended December 31, 2008.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.** During the three months ended June 30, 2009, the Company issued 737,960 shares of its Common Stock at a weighted average price per share of \$16.95 pursuant to the Company's Dividend Reinvestment and Stock Purchase Plan (the "Plan"). The Company's registration statement on Form S-3 relating to the Plan expired on February 28, 2009. As a result, these shares were inadvertently sold under an expired registration statement and do not appear to qualify for an exemption from registration under the Securities Act of 1933, as amended. The Company filed a new registration statement on Form S-3 for the Plan on June 24, 2009.

**Item 3. Defaults Upon Senior Securities.** Not applicable.

**Item 4. Submission of Matters to a Vote of Security Holders.** On May 15, 2009, NNN held its Annual Meeting of Shareholders (the "Annual Meeting"). At the Annual Meeting, the following proposals were considered and voted on by stockholders:

*Proposal I* Election of Directors. The following were elected to the Board of Directors:

| Nominees             | Votes      | For        | Withheld  |
|----------------------|------------|------------|-----------|
| Ted B. Lanier        | 72,019,107 | 69,112,067 | 2,907,040 |
| Richard B. Jennings  | 72,019,107 | 69,841,153 | 2,177,954 |
| Robert C. Legler     | 72,019,107 | 69,827,085 | 2,192,022 |
| Robert Martinez      | 72,019,107 | 69,673,048 | 2,346,059 |
| Kevin B. Habicht     | 72,019,107 | 66,629,930 | 5,389,177 |
| Craig Macnab         | 72,019,107 | 67,599,784 | 4,419,323 |
| Don DeFosset         | 72,019,107 | 70,947,573 | 1,071,534 |
| Dennis E. Gershenson | 72,019,107 | 69,735,656 | 2,283,451 |

*Proposal II* To ratify Ernst & Young LLP as the independent registered public accounting firm.

| Votes      | For        | Against | Withheld |
|------------|------------|---------|----------|
| 72,019,107 | 71,087,240 | 797,589 | 134,278  |

**Item 5. Other Information.** Not applicable.

**Item 6. Exhibits**

## Edgar Filing: NATIONAL RETAIL PROPERTIES, INC. - Form 10-Q

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

### 3. Articles of Incorporation and By-laws

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

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- Registrant's Registration Statement on Form 8-A dated October 11, 2006 and filed with the Securities and Exchange Commission on October 12, 2006, and incorporated herein by reference).
- 3.3 Third Amended and Restated Bylaws of the Registrant, as amended (filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on May 1, 2006, and incorporated herein by reference; second amendment filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 14, 2007, and incorporated herein by reference).
4. Instruments Defining the Rights of Security Holders, Including Indentures
- 4.1 Specimen Certificate of Common Stock, par value \$0.01 per share, of the Registrant (filed as Exhibit 3.4 to the Registrant's Registration Statement No. 1-11290 on Form 8-B filed with the Securities and Exchange Commission and incorporated herein by reference).
- 4.2 Indenture, dated as of March 25, 1998, between the Registrant and First Union National Bank, as trustee (filed as Exhibit 4.4 to the Registrant's Registration Statement on Form S-3 (Registration No. 333-132095) filed with the Securities and Exchange Commission on February 28, 2006, and incorporated herein by reference).
- 4.3 Form of Supplemental Indenture No. 3 dated September 20, 2000, by and among Registrant and First Union National Bank, Trustee, relating to \$20,000,000 of 8.5% Notes due 2010 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on September 20, 2000, and incorporated herein by reference).
- 4.4 Form of 8.5% Notes due 2010 (filed as Exhibit 4.3 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on September 20, 2000, and incorporated herein by reference).
- 4.5 Form of Supplemental Indenture No. 4 dated as of May 30, 2002, by and among Registrant and Wachovia Bank, National Association, Trustee, relating to \$50,000,000 of 7.75% Notes due 2012 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on June 4, 2002, and incorporated herein by reference).
- 4.6 Form of 7.75% Notes due 2012 (filed as Exhibit 4.3 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on June 4, 2002, and incorporated herein by reference).
- 4.7 Form of Supplemental Indenture No. 5 dated as of June 18, 2004, by and among Registrant and Wachovia Bank, National Association, Trustee, relating to \$150,000,000 of 6.25% Notes due 2014 (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated June 15, 2004 and filed with the Securities and Exchange Commission on June 18, 2004, and incorporated herein by reference).

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- 4.8 Form of 6.25% Notes due 2014 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated June 15, 2004 and filed with the Securities and Exchange Commission on June 18, 2004, and incorporated herein by reference).
- 4.9 Form of Supplemental Indenture No. 6 dated as of November 17, 2005, by and among Registrant and Wachovia Bank, National Association, Trustee, relating to \$150,000,000 of 6.15% Notes due 2015 (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated November 14, 2005 and filed with the Securities and Exchange Commission on November 17, 2005, and incorporated herein by reference).
- 4.10 Form of 6.15% Notes due 2015 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated November 14, 2005 and filed with the Securities and Exchange Commission on November 17, 2005, and incorporated herein by reference).
- 4.11 Seventh Supplemental Indenture, dated as of September 13, 2006, between National Retail Properties, Inc. and U.S. Bank National Association relating to 3.95% Convertible Senior Notes due 2026 (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated September 7, 2006 and filed with the Securities and Exchange Commission on September 13, 2006, and incorporated herein by reference).
- 4.12 Form of 3.95% Convertible Senior Notes due 2026 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated September 7, 2006 and filed with the Securities and Exchange Commission on September 13, 2006, and incorporated herein by reference).
- 4.13 Specimen certificate representing the 7.375% Series C Cumulative Redeemable Preferred Stock, par value \$.01 per share, of the Registrant (filed as Exhibit 4.4 to the Registrant's Registration Statement on Form 8-A dated October 11, 2006 and filed with the Securities and Exchange Commission on October 12, 2006, and incorporated herein by reference).
- 4.14 Deposit Agreement, among the Registrant, American Stock Transfer & Trust Company, as Depositary, and the holders of depositary receipts (filed as Exhibit 4.18 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 6, 2006, and incorporated herein by reference).
- 4.15 Form of Supplemental Indenture No. 8 between National Retail Properties, Inc. and U.S. Bank National Association relating to 6.875% Notes due 2017 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on September 4, 2007, and incorporated herein by reference).
- 4.16 Form of 6.875% Notes due 2017 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on September 4, 2007, and incorporated herein by reference).

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- 4.17 Form of Ninth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 5.125% Convertible Senior Notes due 2028 (filed as Exhibit 4.1 to Registrants Current Report on Form 8-K dated February 27, 2008 and filed with the Securities and Exchange Commission on March 4, 2008, and incorporated herein by reference).
- 4.18 Form of 5.125% Convertible Senior Notes due 2028 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated February 27, 2008 and filed with the Securities and Exchange Commission on March 4, 2008, and incorporated herein by reference).
- 10. Material Contracts
  - 10.1 2007 Performance Incentive Plan (filed as Annex A to the Registrant's 2007 Annual Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 3, 2007, and incorporated herein by reference).
  - 10.2 Form of Restricted Stock Agreement between NNN and the Participant of NNN (filed as Exhibit 10.2 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2005, and incorporated herein by reference).
  - 10.3 Employment Agreement dated as of December 1, 2008, between the Registrant and Craig Macnab (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).
  - 10.4 Employment Agreement dated as of December 1, 2008, between the Registrant and Julian E. Whitehurst (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).
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- 10.9 Eighth Amended and Restated Line of Credit and Security Agreement, dated December 13, 2005, by and among Registrant, certain lenders and Wachovia Bank, N.A., as the Agent (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on December 15, 2005, and incorporated herein by reference).
- 10.10 First Amendment to Eighth Amended and Restated Line of Credit and Security Agreement, dated February 20, 2007, by and among Registrant, certain lenders and Wachovia Bank, N.A., as the Agent (filed as Exhibit 10.8 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 21, 2007, and incorporated herein by reference).
  
- 31. Section 302 Certifications
  - 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
  - 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
  
- 32. Section 906 Certifications
  - 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
  - 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).



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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATED this 4th day of August 2009.

NATIONAL RETAIL PROPERTIES, INC.

By: /s/ Craig Macnab  
Craig Macnab  
Chairman of the Board and Chief Executive Officer

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

Executive Vice President and Director

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