NATIONAL RETAIL PROPERTIES, INC.
Form 10-K
February 24, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-K
(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the fiscal year ended December 31, 2011
OR
¨TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from to .
Commission file number 001-11290
NATIONAL RETAIL PROPERTIES, INC.
(Exact name of registrant as specified in its charter)

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

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

Title of each class:	Name of exchange on which registered:
Common Stock, $0.01 par value	New York Stock Exchange
7.375% Series C Preferred Stock, $0.01 par value	New York Stock Exchange
6.625% Series D Preferred Stock, $0.01 par value	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:
None
(Title of class)
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x
The aggregate market value of voting common stock held by non-affiliates of the registrant as of June 30, 2011 was $2,074,965,000.
The number of shares of common stock outstanding as of February 15, 2012 was 105,775,779.
DOCUMENTS INCORPORATED BY REFERENCE:
Registrant incorporates by reference into Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K portions of National Retail Properties, Inc.'s definitive Proxy Statement for the 2011 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission (the "Commission") pursuant to Regulation 14A. The definitive Proxy Statement will be filed with the Commission not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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PART I

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

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

Item 1. Business

The Company

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

Real Estate Assets

NNN acquires, owns, invests in and develops properties that are leased primarily to retail tenants under long-term net leases and primarily held for investment (“Properties” or “Property Portfolio”). As of December 31, 2011, NNN owned 1,422 Properties (including 11 properties with retail operations that NNN operates), with an aggregate gross leasable area of 16,428,000 square feet, located in 47 states. Approximately 97 percent of the total properties in NNN’s Property Portfolio were leased or operated as of December 31, 2011.

Prior to December 31, 2011, NNN reported its operations in two primary business segments, investment assets and inventory assets. As a result of a continued reduction of investments in real estate acquired for the purpose of resale, the previously reported segment of inventory assets no longer meets the criteria for significance for separate segment reporting. Currently, NNN's operations are reported within one business segment in the financial statements and all properties are considered part of the Properties or Property Portfolio. As such, property counts and calculations involving property counts reflect all NNN properties.

Competition

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

Employees

As of January 31, 2012, NNN employed 59 full-time associates including executive and administrative personnel.

Other Information

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

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The common shares of National Retail Properties, Inc. are traded on the New York Stock Exchange (the "NYSE") under the ticker symbol "NNN." The depositary shares, each representing 1/100th of a share of 7.375% Series C Cumulative Redeemable Preferred Stock, par value $0.01 per share ("Series C Preferred Stock"), of NNN are traded on the NYSE under the ticker symbol "NNNPRC." The depositary shares, each representing a 1/100th interest in a share of 6.625% Series D Cumulative Redeemable Preferred Stock, par value $0.01 per share ("Series D Preferred Stock"), of NNN are expected to trade on the NYSE under the ticker symbol "NNNPRD."

Business Strategies and Policies

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

Operating Strategies

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

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

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

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

The operating strategies employed by NNN have allowed it to increase the annual dividend (paid quarterly) per common share for 22 consecutive years.

Investment in Real Estate or Interests in Real Estate

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

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

- the location, visibility and accessibility of the property,
- the geographic area and demographic characteristics of the community, as well as the local real estate market, including potential for growth, market rents, and existing or potential competing properties or retailers,
- the size of the property,
- the purchase price,
- the non-financial terms of the proposed acquisition,
- the availability of funds or other consideration for the proposed acquisition and the cost thereof,
- the compatibility of the property with NNN's existing portfolio,
- the potential for, and current extent of, any environmental problems,

- the quality of construction and design and the current physical condition of the property,
- the property level operating history,
- the financial and other characteristics of the existing tenant,

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- the tenant's business plan, operating history and management team,
- the tenant's industry,
- the terms of any existing leases, and
- the rent to be paid by the tenant.

NNN intends to engage in future investment activities in a manner that is consistent with the maintenance of its status as a REIT for federal income tax purposes and that will not make NNN an investment company under the Investment Company Act of 1940, as amended. Equity investments in acquired properties may be subject to existing mortgage financings and other indebtedness or to new indebtedness which may be incurred in connection with acquiring or refinancing these investments.

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

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

Financing Strategy

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

NNN typically funds its short-term liquidity requirements including investments in additional retail properties with cash from its $450,000,000 unsecured revolving credit facility ("Credit Facility"). As of December 31, 2011, $65,600,000 was outstanding and $384,400,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling $57,000.

For the year ended December 31, 2011, NNN's ratio of total liabilities to total gross assets (before accumulated depreciation) was approximately 39 percent and the ratio of secured indebtedness to total gross assets was approximately one percent. The ratio of total debt to total market capitalization was approximately 33 percent. Certain financial agreements to which NNN is a party contain covenants that limit NNN's ability to incur debt under certain circumstances.

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

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

Strategies and Policy Changes

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

Property Portfolio

As of December 31, 2011, NNN owned 1,422 Properties with an aggregate gross leasable area of 16,428,000 square feet, located in 47 states. Approximately 97 percent of total properties in the Property Portfolio were leased or operated by NNN as of December 31, 2011.

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The following table summarizes NNN's Property Portfolio as of December 31, 2011 (in thousands):

	Size[1]			Acquisition Cost[2]		
	High	Low	Average	High	Low	Average
Land	2,223	5	104	$8,882	$5	$971
Building	135	1	12	29,373	19	1,635

(1) Approximate square feet.

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

In connection with the development of 54 Properties, NNN has agreed to fund construction commitments (including construction, land costs and tenant improvements) of $158,725,000. As of December 31, 2011, NNN had funded $103,614,000 of these commitments, with $55,111,000 remaining to be funded.

As of December 31, 2011, NNN did not have any tenant that accounted for ten percent or more of its rental income.

Leases

Although there are variations in the specific terms of the leases, the following is a summary of the general structure of NNN's leases. Generally, the leases of the Properties provide for initial terms of 15 to 20 years. As of December 31, 2011, the weighted average remaining lease term was approximately 12 years. The Properties are generally leased under net leases pursuant to which the tenant typically will bear responsibility for substantially all property costs and expenses associated with ongoing maintenance and operation, including utilities, property taxes and insurance. NNN's leases provide for annual base rental payments (payable in monthly installments) ranging from $1,000 to $2,521,000 (average of $211,000). NNN's leases generally provide for limited increases in rent as a result of fixed increases, increases in the Consumer Price Index ("CPI"), and/or, to a lesser extent, increases in the tenant's sales volume.

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

The following table summarizes the lease expirations, assuming none of the tenants exercise renewal options, of NNN's Property Portfolio for each of the next 10 years and then thereafter in the aggregate as of December 31, 2011:

	% of Annual Base Rent[1]		# of Properties	Gross Leasable Area[2]		% of Annual Base Rent[1]		# of Properties	Gross Leasable Area[2]
2012	1.5	%	28	434,000	2018	3.5	%	39	829,000
2013	3.5	%	42	883,000	2019	3.1	%	40	670,000
2014	3.3	%	43	587,000	2020	3.5	%	87	746,000
2015	3.1	%	68	926,000	2021	5.1	%	86	723,000
2016	2.1	%	38	569,000	Thereafter	67.5	%	861	8,406,000
2017	3.8	%	32	812,000					

(1) Based on annualized base rent for all leases in place as of December 31, 2011.

(2) Approximate square feet.

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

	Top 10 Lines of Trade	% of Annual Base Rent[1] 2011	2010	2009
1.	Convenience stores	24.6 %	23.5 %	26.1 %
2.	Restaurants - full service	9.4 %	10.1 %	9.1 %
3.	Automotive parts	6.5 %	7.8 %	6.6 %
4.	General merchandise	5.2 %	1.4 %	1.6 %
5.	Theaters	5.0 %	5.7 %	6.2 %
6.	Automotive service	4.9 %	5.3 %	5.5 %
7.	Sporting goods	4.8 %	4.5 %	3.5 %
8.	Restaurants - limited service	3.6 %	4.3 %	3.6 %
9.	Consumer electronics	3.5 %	2.6 %	3.0 %
10.	Drug stores	3.2 %	3.9 %	4.0 %
	Other	29.3 %	30.9 %	30.8 %
		100.0 %	100.0 %	100.0 %

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

The following table shows the top 10 states in which NNN's Properties are located as of December 31, 2011:

	State	# of Properties	% of Annual Base Rent[1]
1.	Texas	329	23.0 %
2.	Florida	102	9.2 %
3.	Illinois	53	5.6 %
4.	North Carolina	77	5.2 %
5.	Georgia	64	4.1 %
6.	Indiana	42	3.5 %
7.	California	33	3.4 %
8.	Ohio	43	3.3 %
9.	Pennsylvania	85	3.1 %
10.	Virginia	28	3.1 %
	Other	566	36.5 %
		1,422	100.0 %

(1) Based on annualized base rent for all leases in place as of December 31, 2011.

Mortgages and Notes Receivable

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

	2011	2010
Mortgages and notes receivable	$32,751	$29,750
Accrued interest receivables, net of reserves	730	644
Unamortized discount	(53)	(63)
	$33,428	$30,331

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Commercial Mortgage Residual Interests

Orange Avenue Mortgage Investments, Inc. ("OAMI"), a wholly owned and consolidated subsidiary of NNN, holds the residual interests ("Residuals") from seven commercial real estate loan securitizations. Each of the Residuals is reported at fair value based upon an independent valuation; unrealized gains or losses are reported as other comprehensive income in stockholders' equity, and other than temporary losses as a result of a change in timing or amount of estimated cash flows are recorded as an other than temporary valuation impairment. The Residuals had an estimated fair value of $15,299,000 and $15,915,000 at December 31, 2011 and 2010, respectively.

Governmental Regulations Affecting Properties

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

As of February 15, 2012, NNN has 66 Properties currently under some level of environmental remediation. In general, the seller, a previous owner, the tenant or an adjacent land owner is responsible for the cost of the environmental remediation for each of these Properties.

Americans with Disabilities Act of 1990. The Properties, as commercial facilities, are required to comply with Title III of the Americans with Disabilities Act of 1990 and similar state and local laws and regulations (collectively, the "ADA"). Investigation of a property may reveal non-compliance with the ADA. The tenants will typically have primary responsibility for complying with the ADA, but NNN may incur costs if the tenant does not comply. As of February 15, 2012, NNN has not been notified by any governmental authority of, nor is NNN's management aware of, any non-compliance with the ADA that NNN's management believes would have a material adverse effect on its business, financial position or results of operations.

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

Item 1A. Risk Factors

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

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

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

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

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Potential consequences of the current financial and economic conditions include:

- the financial condition of NNN's tenants may be adversely affected, which may result in tenant defaults under the leases due to bankruptcy, lack of liquidity, operational failures or for other reasons;
- the ability to borrow on terms and conditions that NNN finds acceptable may be limited or unavailable, which could reduce NNN's ability to pursue acquisition and development opportunities and refinance existing debt, reduce NNN's returns from acquisition and development activities, reduce NNN's ability to make cash distributions to its shareholders and increase NNN's future interest expense;
- the recognition of impairment charges on or reduced values of NNN's properties, which may adversely affect NNN's results of operations or limit NNN's ability to dispose of assets at attractive prices and may reduce the availability of buyer financing;
- the value and liquidity of NNN's short-term investments and cash deposits could be reduced as a result of a deterioration of the financial condition of the institutions that hold NNN's cash deposits or the institutions or assets in which NNN has made short-term investments, the dislocation of the markets for NNN's short-term investments, increased volatility in market rates for such investments or other factors; and
- one or more lenders under the Credit Facility could fail and NNN may not be able to replace the financing commitment of any such lenders on favorable terms, or at all.

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

NNN may be unable to obtain capital on favorable terms, if at all, to further its business objectives or meet its existing obligations. Nearly all of NNN's debt, including the Credit Facility, is subject to balloon principal payments due at maturity. These maturities range between 2012 and 2021. NNN's ability to make these scheduled principal payments may be adversely impacted by NNN's inability to extend or refinance the Credit Facility, the inability to dispose of assets at an attractive price or the inability to obtain additional debt or equity capital. Capital that may be available may be materially more expensive or available under terms that are materially more restrictive than NNN's existing capital which would have an adverse impact on NNN's business, financial condition or results of operations.

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

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

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

As of December 31, 2011, approximately,

- 51 percent of NNN's Property Portfolio annual base rent is generated from five retail lines of trade, including convenience stores (25 percent) and full-service restaurants (nine percent),
- 27 percent of NNN's Property Portfolio annual base rent is generated from five tenants, including The Pantry, Inc. (seven percent) and Susser Holdings Corp. (six percent), and
- 47 percent of NNN's Property Portfolio annual base rent is generated from five states, including Texas (23 percent) and Florida (nine percent).

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

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

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

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

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

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As of February 15, 2012 NNN has 66 Properties currently under some level of environmental remediation. In general, the seller, a previous owner, the tenant or an adjacent land owner is responsible for the cost of the environmental remediation for each of these Properties.

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

In order to mitigate exposure to environmental liability, NNN has an environmental insurance policy on certain of its convenience store and travel plaza properties which expires in August 2013. However, the policy is subject to exclusions and limitations and does not cover all of the properties owned by NNN, and for those properties covered under the policy, insurance may not fully compensate NNN for any environmental liability. NNN has no assurance that the insurer on its environmental insurance policy will be able to meet its obligations under the policy. NNN may not desire to renew the environmental insurance policy in place upon expiration or a replacement policy may not be available at a reasonable cost, if at all.

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

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

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

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

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

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

As of December 31, 2011, the Residuals had a carrying value of $15,299,000. The value of these Residuals is based on assumptions made by NNN to determine their value. These assumptions include, but are not limited to, discount rate, loan loss, prepayment speed and interest rate assumptions made by NNN to determine their value. If actual experience differs materially from these assumptions, the actual future cash flow could be less than expected and the value of the Residuals, as well as NNN's earnings, could decline.

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

If a borrower defaults on a mortgage, structured finance loan or other loan made by NNN, and does not have sufficient assets to satisfy the loan, NNN may suffer a loss of principal and interest. In the event of the bankruptcy of a borrower, NNN may not be able to recover against all or any of the assets of the borrower, or the assets of the borrower may not be sufficient to satisfy the balance due on the loan. In addition, certain of NNN's loans may be subordinate to other debt of a borrower. These investments are typically loans secured by a borrower's pledge of its ownership interests in the entity that owns the real estate or other assets. These agreements are typically subordinated to senior loans secured by other loans encumbering the underlying real estate or assets. Subordinated positions are generally subject to a higher risk of nonpayment of principal and interest than the more senior loans. As of December 31, 2011, mortgages and notes receivables had an outstanding principal balance of $33,428,000. If a borrower defaults on the debt senior to NNN's loan, or in the event of the bankruptcy of a borrower, NNN's loan will be satisfied only after the borrower's senior creditors' claims are satisfied. Where debt senior to NNN's loans exists,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As of December 31, 2011, NNN owned 38 vacant, un-leased Properties, which accounted for approximately three percent of total Properties held in NNN's Property Portfolio. NNN is actively marketing these properties for sale or lease but may not be able to sell or lease these properties on favorable terms or at all. The lost revenues and increased property expenses resulting from the rejection by any bankrupt tenant of any of their respective leases with NNN could have a material adverse effect on the liquidity and results of operations of NNN if NNN is unable to re-lease the Properties at comparable rental rates and in a timely manner. As of January 31, 2012, less than one percent of the total gross leasable area of NNN's Property Portfolio was leased to four tenants that have filed a voluntary petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code and have the right to reject or affirm their leases with NNN.

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

As of December 31, 2011, NNN had total mortgage debt outstanding of approximately $23,171,000, total unsecured notes payable of $1,250,338,000 and $65,600,000 outstanding on the Credit Facility. NNN's organizational documents do not limit the level or amount of debt that it may incur. If NNN incurs additional indebtedness and permits a higher degree of leverage, debt service requirements would increase and could adversely affect NNN's financial condition and results of operations, as well as NNN's ability to pay principal and interest on the outstanding indebtedness or cash dividends to its stockholders. In addition, increased leverage could increase the risk that NNN may default on its debt obligations.

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

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

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

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

As of December 31, 2011, NNN had approximately $1,339,109,000 of outstanding indebtedness, of which approximately $23,171,000 was secured indebtedness. NNN's unsecured debt instruments contains various restrictive covenants which include, among others, provisions restricting NNN's ability to:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

At any time, the federal and state income tax laws governing REITs or the administrative interpretations of those laws may change. Any such changes may have retroactive effect, and could adversely affect NNN or its stockholders. For example, legislation enacted in 2003 and extended in 2006 generally reduced the federal income tax rate on most dividends paid by corporations to individual investors to a maximum of 15 percent (through 2012). REIT dividends, with limited exceptions, will not benefit from the rate reduction, because a REIT's income generally is not subject to corporate level tax. As such, this legislation could cause shares in non-REIT corporations to be a more attractive investment to individual investors than shares in REITs, and could have an adverse effect on the value of NNN's common stock.

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

To maintain its status as a REIT for U.S. federal income tax purposes, NNN must meet certain requirements on an on-going basis, including requirements regarding its sources of income, the nature and diversification of its assets, the amounts NNN distributes to its stockholders and the ownership of its shares. NNN may also be required to make distributions to its stockholders when it does not have funds readily available for distribution or at times when NNN's funds are otherwise needed to fund capital expenditures or debt service requirements. NNN generally will not be subject to federal income taxes on amounts distributed to stockholders, providing it distributes 100 percent of its REIT taxable income and meets certain other requirements for qualifying as a REIT. For each of the years in the three-year period ended December 31, 2011, NNN believes it has qualified as a REIT. Notwithstanding NNN's qualification for taxation as a REIT, NNN is subject to certain state taxes on its income and real estate.

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

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

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NNN’s failure to maintain effective internal control over financial reporting could have a material adverse effect on its business, operating results and share price.
Section 404 of the Sarbanes-Oxley Act of 2002 requires annual management assessments of the effectiveness of the Company’s internal control over financial reporting. If NNN fails to maintain the adequacy of its internal control over financial reporting, as such standards may be modified, supplemented or amended from time to time, NNN may not be able to ensure that it can conclude on an ongoing basis that it has effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. Moreover, effective internal control over financial reporting, particularly those related to revenue recognition, are necessary for NNN to produce reliable financial reports and to maintain its qualification as a REIT and are important in helping to prevent financial fraud. If NNN cannot provide reliable financial reports or prevent fraud, its business and operating results could be harmed, REIT qualification could be jeopardized, investors could lose confidence in the Company’s reported financial information, and the trading price of NNN’s shares could drop significantly.
NNN’s ability to pay dividends in the future is subject to many factors.
NNN’s ability to pay dividends may be impaired if any of the risks described in this section were to occur. In addition, payment of NNN’s dividends depends upon NNN’s earnings, financial condition, maintenance of NNN’s REIT status and other factors as NNN’s Board of Directors may deem relevant from time to time.
Cybersecurity risks and cyber incidents could adversely affect NNN's business and disrupt operations.

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

Item1B. Unresolved Staff Comments
None.

Item 2. Properties
Please refer to Item 1. “Business.”

Item 3. Legal Proceedings
In the ordinary course of its business, NNN is a party to various legal actions that management believes are routine in nature and incidental to the operation of the business of NNN. Management believes that the outcome of these proceedings will not have a material adverse effect upon its operations, financial condition or liquidity.

Item 4. Mine Safety Disclosures

None.

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PART II

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

The common stock of NNN currently is traded on the NYSE under the symbol "NNN." Set forth below is a line graph comparing the cumulative total stockholder return on NNN's common stock, based on the market price of the common stock and assuming reinvestment of dividends, with the FTSE National Association of Real Estate Investment Trusts Equity Index ("NAREIT") and the S&P 500 Index ("S&P") for the five year period commencing December 31, 2006 and ending December 31, 2011. The graph assumes an investment of $100 on December 31, 2006.

Comparison to Five-Year Cumulative Total Return

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

2011	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
High	$26.93	$26.69	$27.61	$27.54	$27.61
Low	24.32	23.48	22.69	24.60	22.69
Close	25.95	24.85	26.87	26.38	26.38
Dividends paid per share	0.380	0.380	0.385	0.385	1.530
2010					
High	$23.73	$24.59	$25.94	$28.11	$28.11
Low	19.19	20.50	20.82	24.85	19.19
Close	22.83	21.44	25.11	26.50	26.50
Dividends paid per share	0.375	0.375	0.380	0.380	1.510

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

	2011			2010		
Ordinary dividends	$1.088228	71.1260	%	$1.072446	71.0229	%
Qualified dividends	—	—	%	0.081661	5.4080	%
Capital gain	—	—	%	0.000861	0.0570	%
Unrecaptured Section 1250 Gain	—	—	%	0.000498	0.0330	%
Nontaxable distributions	0.441772	28.8740	%	0.354534	23.4791	%
	$1.530000	100.0000	%	$1.510000	100.0000	%

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

In February 2012, NNN paid dividends to its stockholders of $40,432,000, or $0.385 per share, of common stock.

On January 31, 2012, there were 1,842 stockholders of record of common stock.

In February 2012, NNN declared a dividend on its Series C Preferred Stock of 46.09375 cents per depositary share payable March 15, 2012.

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

	2011	2010	2009	2008	2007
Gross revenues[1]	$271,696	$237,062	$243,933	$247,352	$208,629
Earnings from continuing operations	91,085	70,629	54,567	96,372	75,541
Earnings including noncontrolling interests	92,416	73,353	56,399	119,971	155,743
Net earnings attributable to NNN	92,325	72,997	54,810	117,153	154,599
Total assets	3,434,429	2,713,575	2,590,962	2,649,471	2,539,673
Total debt	1,339,109	1,133,685	987,346	1,027,391	1,049,154
Total stockholders' equity	2,002,498	1,527,483	1,564,240	1,566,860	1,417,647
Cash dividends declared to:					
Common stockholders	133,720	125,391	120,256	110,107	92,989
Series C preferred stockholders	6,785	6,785	6,785	6,785	6,785
Weighted average common shares:					
Basic	88,100,076	82,715,645	79,846,258	74,249,137	66,152,437
Diluted	88,837,057	82,849,362	79,953,499	74,344,231	66,263,980
Per share information:					
Earnings from continuing operations:					
Basic	$0.95	$0.77	$0.58	$1.20	$1.03
Diluted	0.95	0.77	0.58	1.20	1.03
Net earnings:					
Basic	0.96	0.80	0.60	1.48	2.23
Diluted	0.96	0.80	0.60	1.48	2.22
Cash dividends declared to:					
Common stockholders	1.53	1.51	1.50	1.48	1.40
Series C preferred depositary stockholders	1.84375	1.84375	1.84375	1.84375	1.84375
Other data:					
Cash flows provided by (used in):					
Operating activities	$182,946	$187,914	$149,502	$237,459	$130,147
Investing activities	(752,068)	(220,260)	(28,063)	(256,304)	(536,717)
Financing activities	569,156	19,169	(108,840)	(6,028)	432,394
Funds from operations – diluted[2]	139,665	108,328	89,506	132,996	110,589

(1) Gross revenues include revenues from NNN's continuing and discontinued operations. In accordance with FASB guidance on Accounting for the Impairment or Disposal of Long-Lived Assets, NNN has classified the revenues related to (i) all Properties which generated revenue that were sold and a leasehold interest which expired and (ii) all Properties which generated revenue and were held for sale at December 31, 2011, as discontinued operations.

(2) The National Association of Real Estate Investment Trusts ("NAREIT") developed Funds from Operations ("FFO") as a relative non-GAAP financial measure of performance of a REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under generally accepted accounting principles ("GAAP"). FFO is defined by NAREIT and is used by NNN as follows: net earnings (computed in accordance with GAAP) plus depreciation and amortization of real estate assets, excluding gains (or including losses) on the disposition of certain assets, any impairment charges on a depreciable real estate asset and NNN's share of these items from NNN's unconsolidated partnerships and joint ventures.

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

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computation of FFO may differ from the methodology for calculating FFO used by other equity REITs, and therefore, may not be comparable to such other REITs.

All revenue generating property dispositions and revenue generating properties held for sale at December 31, 2011 from NNN's Property Portfolio are classified as discontinued operations. These properties have not historically been classified as discontinued operations, therefore, prior period comparable consolidated financial statements have been restated to include these properties in its earnings from discontinued operations. These adjustments resulted in a decrease in NNN's reported total revenues and total and per share earnings from continuing operations and an increase in NNN's earnings from discontinued operations. However, NNN's total and per share net earnings available to common stockholders is not affected.

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

	2011	2010	2009	2008	2007
Reconciliation of funds from operations:					
Net earnings attributable to NNN's stockholders	$92,325	$72,997	$54,810	$117,153	$154,599
Real estate depreciation and amortization:					
Continuing operations	53,827	43,182	42,556	40,024	28,364
Discontinued operations	216	468	1,720	1,766	2,018
Partnership/joint venture real estate depreciation	178	178	178	177	31
Gain on disposition of real estate	(527)	(1,712)	(2,973)	(19,339)	(67,638)
Impairment losses - real estate	431	—	—	—	—
FFO	146,450	115,113	96,291	139,781	117,374
Series C preferred stock dividends	(6,785)	(6,785)	(6,785)	(6,785)	(6,785)
FFO available to common stockholders – basic and diluted	$139,665	$108,328	$89,506	$132,996	$110,589

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

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

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

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

Overview

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

Prior to December 31, 2011, NNN reported its operations in two primary business segments, investment assets and inventory assets. As a result of a continued reduction of investments in real estate acquired for the purpose of resale, the previously reported segment of inventory assets no longer meets the criteria for significance for separate segment reporting. Currently, NNN's operations are reported within one business segment in the financial statements and all properties are considered part of the Properties or Property Portfolio. As such, property counts and calculations involving property counts reflect all NNN properties.

As of December 31, 2011, NNN owned 1,422 Properties (including 11 properties with retail operations that NNN operates), with an aggregate gross leasable area of approximately 16,428,000 square feet, located in 47 states. Approximately 97 percent of total properties in the Property Portfolio was leased or operated as of December 31, 2011.

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

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

As of years end December 31, 2011, 2010 and 2009, Properties have remained at least 96 percent leased. NNN's Property Portfolio’s average remaining lease term of 12 years has remained fairly constant over the past three years which, coupled with its net lease structure, provides enhanced probability of maintaining occupancy and operating earnings.

Critical Accounting Policies and Estimates

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

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

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

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

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

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

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

Commercial Mortgage Residual Interests, at Fair Value. Commercial mortgage residual interests, classified as available for sale, are reported at their market values with unrealized gains and losses reported as other comprehensive income in stockholders’ equity. NNN recognizes the excess of all cash flows attributable to the commercial mortgage residual interests estimated at the acquisition/transaction date over the initial investment (the accretable yield) as interest income over the life of the beneficial interest using the effective yield method. Losses are considered other than temporary valuation impairments if and when there has been a change in the timing or amount of estimated cash flows, exclusive of changes in interest rates, that leads to a loss in value. In 2010, NNN acquired the 21.1% non-controlling interest in its majority owned and controlled subsidiary, Orange Avenue Mortgage Investments, Inc. ("OAMI"), for $1,603,000 pursuant to which OAMI became a wholly owned subsidiary of NNN. NNN accounted for the transaction as an equity transaction in accordance with the FASB guidance on consolidation.

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

New Accounting Pronouncements. Refer to Note 1 of the December 31, 2011, Consolidated Financial Statements.

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

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Results of Operations

Property Analysis

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

	2011		2010		2009	
Properties Owned:						
Number	1,422		1,195		1,015	
Total gross leasable area (square feet)	16,428,000		12,972,000		11,373,000	
Properties:						
Leased	1,364		1,147		966	
Operated	11		11		12	
Percent of Properties – leased and operated	97	%	97	%	96	%
Weighted average remaining lease term (years)	12		12		12	
Total gross leasable area (square feet) – leased and operated	15,681,000		12,215,000		10,508,000	

The following table summarizes the lease expirations, assuming none of the tenants exercise renewal options, of NNN's Property Portfolio for each of the next 10 years and then thereafter in the aggregate as of December 31, 2011:

	% of Annual Base Rent(1)		# of Properties	Gross Leasable Area(2)		% of Annual Base Rent(1)		# of Properties	Gross Leasable Area(2)
2012	1.5	%	28	434,000	2018	3.5	%	39	829,000
2013	3.5	%	42	883,000	2019	3.1	%	40	670,000
2014	3.3	%	43	587,000	2020	3.5	%	87	746,000
2015	3.1	%	68	926,000	2021	5.1	%	86	723,000
2016	2.1	%	38	569,000	Thereafter	67.5	%	861	8,406,000
2017	3.8	%	32	812,000					

(1) Based on the annualized base rent for all leases in place as of December 31, 2011.

(2) Approximate square feet.

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

	Lines of Trade	2011		2010		2009	
1.	Convenience stores	24.6	%	23.5	%	26.1	%
2.	Restaurants - full service	9.4	%	10.1	%	9.1	%
3.	Automotive parts	6.5	%	7.8	%	6.6	%
4.	General merchandise	5.2	%	1.4	%	1.6	%
5.	Theaters	5.0	%	5.7	%	6.2	%
6.	Automotive service	4.9	%	5.3	%	5.5	%
7.	Sporting goods	4.8	%	4.5	%	3.5	%
8.	Restaurants - limited service	3.6	%	4.3	%	3.6	%
9.	Consumer electronics	3.5	%	2.6	%	3.0	%
10.	Drug stores	3.2	%	3.9	%	4.0	%
	Other	29.3	%	30.9	%	30.8	%
		100.0	%	100.0	%	100.0	%

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

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The following table shows the top 10 states in which NNN’s Properties are located in as of December 31, 2011:

	State	# of Properties	% of Annual Base Rent[1]	
1.	Texas	329	23.0	%
2.	Florida	102	9.2	%
3.	Illinois	53	5.6	%
4.	North Carolina	77	5.2	%
5.	Georgia	64	4.1	%
6.	Indiana	42	3.5	%
7.	California	33	3.4	%
8.	Ohio	43	3.3	%
9.	Pennsylvania	85	3.1	%
10.	Virginia	28	3.1	%
	Other	566	36.5	%
		1,422	100.0	%

(1) Based on annualized base rent for all leases in place as of December 31, 2011.

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

	2011	2010	2009
Acquisitions:			
Number of Properties	218	194	10
Gross leasable area (square feet)	3,448,000	1,700,000	309,000
Total dollars invested[1]	$772,463	$256,570	$38,968

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

	2011	2010	2009
Number of properties	8	18	13
Gross leasable area (square feet)	122,000	326,000	253,000
Net sales proceeds	$12,632	$58,797	$21,890
Net gain	$527	$1,712	$2,973

NNN typically uses the proceeds from property sales either to pay down the Credit Facility or reinvest in real estate.
Revenue from Continuing Operations Analysis
General. During the year ended December 31, 2011, NNN’s rental income increased primarily due to the increase in rental income from property acquisitions (See “Results of Operations – Property Analysis – Property Acquisitions”). NNN anticipates increases in rental income will continue to come from additional property acquisitions and increases in rents pursuant to lease terms.

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

	2011	2010	2009	Percent of Total 2011		Percent of Total 2010		Percent of Total 2009		2011 Versus 2010 Percent Increase (Decrease)		2010 Versus 2009 Percent Increase (Decrease)	
Rental Income[1]	$250,449	$214,249	$212,114	94.2	%	94.0	%	92.7	%	16.9	%	1.0	%
Real estate expense reimbursement from tenants	9,927	7,197	8,138	3.7	%	3.2	%	3.5	%	37.9	%	(11.6	)%
Interest and other income from real estate transactions	2,312	2,982	4,323	0.9	%	1.3	%	1.9	%	(22.5	)%	(31.0	)%
Interest income on commercial mortgage residual interests	3,105	3,460	4,252	1.2	%	1.5	%	1.9	%	(10.3	)%	(18.6	)%
Total revenues from continuing operations	$265,793	$227,888	$228,827	100.0	%	100.0	%	100.0	%	16.6	%	(0.4	)%

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

Comparison of Year Ended December 31, 2011 to Year Ended December 31, 2010

Rental Income. Rental Income increased in amount, but remained consistent as a percent of the total revenues from continuing operations for the year ended December 31, 2011 as compared to 2010. The increase for the year ended December 31, 2011, is primarily due to a full year of rental income from the acquisition of 194 properties with a gross leasable area of approximately 1,700,000 square feet in 2010 and a partial year of rental income from the acquisition of 218 properties with aggregate gross leasable area of approximately 3,448,000 during 2011. In addition, NNN recorded $2,649,000 as compared to $728,000 in lease termination and rent settlement fees during the years ended December 31, 2011 and 2010, respectively.

Real Estate Expense Reimbursement from Tenants. Real estate expense reimbursements from tenants increased for the year ended December 31, 2011, as compared to 2010 and increased as a percentage of total revenues from continuing operations. The increase is primarily attributable to a full year of reimbursements from properties acquired in 2010 and a partial year of reimbursements from certain newly acquired properties in 2011.

Interest and Other Income from Real Estate Transactions. Interest and other income from real estate transactions decreased for the year ended December 31, 2011, as compared to 2010. The decrease is primarily due to the decrease in the average outstanding balance of NNN's mortgages receivable to $23,798,000 for the year ended December 31, 2011 as compared to $31,925,000 for the same period in 2010.

Interest Income on Commercial Mortgage Residual Interests. Interest income on commercial mortgage residual interests ("Residuals") decreased for the year ended December 31, 2011, as compared to December 31, 2010. The decrease in interest income on Residuals is primarily the result of scheduled loan amortization.

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

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

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

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

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

Analysis of Expenses from Continuing Operations

General. During 2011, operating expenses from continuing operations increased primarily due to an increase in depreciation expense, an increase in reimbursable real estate expenses from acquired properties and an increase in incentive compensation during the year ended December 31, 2011, as compared to the same period in 2010. The increase was partially offset by the recovery of previous impairment losses and other charges. The following summarizes NNN's expenses from continuing operations (dollars in thousands):

	2011	2010	2009
General and administrative	$28,814	$22,763	$21,774
Real estate	16,887	13,235	13,497
Depreciation and amortization	58,115	48,047	46,258
Impairment losses and other charges, net of recoveries	(1,431)	7,458	36,080
Impairment – commercial mortgage residual interests valuation	1,024	3,995	498
Restructuring costs	—	—	731
Total operating expenses	$103,409	$95,498	$118,838
Interest and other income	$(1,511)	$(1,513)	$(1,371)
Interest expense	74,845	65,179	62,151
Total other expenses (revenues)	$73,334	$63,666	$60,780

	Percentage of Total Operating Expenses			Percentage of Revenues from Continuing Operations			2011 Versus 2010 Percent Increase (Decrease)	2010 Versus 2009 Percent Increase (Decrease)
	2011	2010	2009	2011	2010	2009		
General and administrative	27.9%	23.8%	18.3%	10.8%	10.0%	9.5%	26.6%	4.5%
Real estate	16.3%	13.9%	11.4%	6.4%	5.8%	5.9%	27.6%	(1.9)%
Depreciation and amortization	56.2%	50.3%	38.9%	21.9%	21.1%	20.2%	21.0%	3.9%
Impairment losses and other charges, net of recoveries	(1.4)%	7.8%	30.4%	(0.5)%	3.3%	15.8%	(119.2)%	(79.3)%
Impairment – commercial mortgage residual interests valuation	1.0%	4.2%	0.4%	0.4%	1.8%	0.2%	(74.4)%	702.2%
Restructuring costs	—	—	0.6%	—	—	0.3%	—	(100.0)%
Total operating expenses	100.0%	100.0%	100.0%	39.0%	42.0%	51.9%	8.3%	(19.6)%
Interest and other income	(2.1)%	(2.4)%	(2.3)%	(0.6)%	(0.7)%	(0.6)%	(0.1)%	10.4%
Interest expense	102.1%	102.4%	102.3%	28.2%	28.6%	27.2%	14.8%	4.9%

Total other expenses (revenues)	100.0	%	100.0	%	100.0	%	27.6	%	27.9	%	26.6	%	15.2	%	4.7	%

Comparison of Year Ended December 31, 2011 to Year Ended December 31, 2010

General and Administrative Expenses. General and administrative expenses increased for the year ended December 31, 2011, as compared to the same period in 2010 both as a percentage of total operating expenses and as a percentage of revenues from continuing operations. The increase in general and administrative expenses for the year ended December 31, 2011, is primarily attributable to an increase in incentive compensation.

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Real Estate. Real estate expenses increased both as a percentage of total operating expenses and as a percentage of revenues from continuing operations for the year ended December 31, 2011, as compared to the same period in 2010. The increase is primarily due to the increase in tenant reimbursable expenses related to a partial year of reimbursable expenses from certain properties acquired in 2011 and a full year of reimbursable expenses from certain properties acquired in 2010.

Depreciation and Amortization. Depreciation and amortization expenses increased as a percentage of total operating expenses and as a percentage of revenues from continuing operations for the year ended December 31, 2011, as compared to the year ended December 31, 2010. The increase is primarily due to the acquisition of 194 properties with an aggregate gross leasable area of approximately 1,700,000 square feet in 2010 and 218 properties with an aggregate gross leasable area of approximately 3,448,000 square feet during 2011.

Impairment Losses and Other Charges, Net of Recoveries. The decrease in impairment losses and other charges is primarily due to a $5,625,000 mortgage receivable charge recorded in 2010, of which $3,115,000 was recovered in 2011.

Impairment – Commercial Mortgage Residual Interests Valuation. In connection with the independent valuations of the Residuals' fair value, during the years ended December 31, 2011 and 2010, NNN recorded an other than temporary valuation adjustment of $1,024,000 and $3,995,000, respectively, as a reduction of earnings from operations.

Interest Expense. Interest expense increased for the year ended December 31, 2011, as compared to the same period in 2010, and increased as a percentage of revenues from continuing operations but remained relatively stable as a percentage of total operating expenses.

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

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

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

(iii) the increase of $86,782,000 in the weighted average debt outstanding on the Credit Facility for the year ended December 31, 2011, as compared to the same period in 2010.

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

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

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

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

Impairment Losses and Other Charges, Net of Recoveries. Based upon the events or changes in certain circumstances, management periodically assesses its Investment Properties for possible impairment indicating that the carrying value of the asset, including accrued rental income, may not be recoverable through operations. Events or circumstances that may occur include changes in real estate market conditions, the ability of NNN to re-lease properties that are currently vacant or become vacant, and the ability to sell properties at an attractive return. Generally, NNN determines a possible impairment by comparing the estimated future cash flows to the current net book value. Impairments are measured as the amount by which the current book value of the asset exceeds the fair value of the asset. The decrease in impairment losses and other charges is primarily due to real estate impairments of $28,884,000 recorded in 2009, as compared to zero in 2010.

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

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

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Interest Expense. Interest expense increased for the year ended December 31, 2010, as compared to the same period in 2009, and increased as a percentage of revenues from continuing operations but remained relatively stable as a percentage of total operating expenses.

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

(i) the repurchase of $11,000,000 of convertible notes payable due June 2028 with an effective interest rate of 7.192% in 2009,

(ii) the repurchase of $8,800,000 of convertible notes payable due September 2026 with an effective interest rate of 5.840% in 2009,

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

(iv) the increase of $7,037,000 in the weighted average debt outstanding on the Credit Facility for year ended December 31, 2010, as compared to the same period in 2009,

(v) the increase in the weighted average interest rate on the Credit Facility from 1.19% during the year ended December 31, 2009, to 3.80% during the year ended December 31, 2010,

(vi) the decrease of $626,000 in capitalized interest expense for the year ended December 31, 2010, as compared to the same period in 2009, and

(vii) the increase of $850,000 in amortization of loan commitment fees related to the Credit Facility entered into November 2009.

Discontinued Operations

Earnings (Loss)

NNN classified as discontinued operations the revenues and expenses related to its revenue generating Properties that were sold, its leasehold interests that expired or were terminated and any revenue generating Properties that were held for sale at December 31, 2011. The following table summarizes the earnings from discontinued operations for the years ended December 31 (dollars in thousands):

	2011			2010			2009		
	# of Sold Properties	Gain	Earnings	# of Sold Properties	Gain	Earnings	# of Sold Properties	Gain	Earnings
Properties	8	$424	$1,331	16	$1,434	$2,724	11	$2,950	$1,832
Noncontrolling interests	—	—	(80)	—	—	11	—	—	(166)
	8	$424	$1,251	16	$1,434	$2,735	11	$2,950	$1,666

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

Impairment Losses and Other Charges. NNN periodically assesses its real estate for possible impairment whenever certain events or changes in circumstances indicate that the carrying amount of the asset, including accrued rental income, may not be recoverable through operations. Events or circumstances that may occur include significant changes in real estate market conditions and the ability of NNN to re-lease or sell properties that are vacant or become vacant. Generally, NNN calculates a possible impairment by comparing the estimated future cash flows to the current net book value. Impairments are measured as the amount by which the current book value of the asset exceeds the fair value of the asset. During the years ended December 31, 2011 and 2009, NNN recognized real estate impairments on discontinued operations of $431,000 and $5,630,000, respectively. During the year ended December 31, 2010, NNN did not recognize real estate impairments on discontinued operations.

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Impact of Inflation

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

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

Liquidity

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

NNN expects to meet these requirements (other than amounts required for additional property investments, mortgages and notes receivable) through cash provided from operations and NNN’s Credit Facility. NNN utilizes the Credit Facility to meet its short-term working capital requirements. As of December 31, 2011, $65,600,000 was outstanding and $384,400,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling $57,000. NNN anticipates that any additional investments in properties, mortgages and notes receivables during the next 12 months will be funded by the Credit Facility, cash provided from operations, the issuance of long-term debt or the issuance of common or preferred equity or other instruments convertible into or exchangeable for common or preferred equity. However, there can be no assurance that additional financing or capital will be available, or that the terms will be acceptable or advantageous to NNN.

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

	2011	2010	2009
Cash and cash equivalents:			
Provided by operating activities	$182,946	$187,914	$149,502
Used in investing activities	(752,068)	(220,260)	(28,063)
Provided by (used in) financing activities	569,156	19,169	(108,840)
Increase (decrease)	34	(13,177)	12,599
Net cash at beginning of period	2,048	15,225	2,626
Net cash at end of period	$2,082	$2,048	$15,225

Cash provided by operating activities represents cash received primarily from rental income from tenants, proceeds from the disposition of certain properties and interest income less cash used for general and administrative expenses, interest expense and acquisition of certain properties. NNN’s cash flow from operating activities, net of cash used in and provided by the acquisition and disposition of certain properties, has been sufficient to pay the distributions for each period presented. NNN uses proceeds from its Credit Facility to fund the acquisition of its properties. The change in cash provided by operations for the years ended December 31, 2011, 2010 and 2009, is primarily the result of changes in revenues and expenses as discussed in “Results of Operations.” Cash generated from operations is expected to fluctuate in the future.

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

NNN’s financing activities for the year ended December 31, 2011, included the following significant transactions:

- $95,400,000 in net payments on NNN's Credit Facility,
- $229,451,000 in net proceeds from the issuance of 9,200,000 shares of common stock in September,
- $198,228,000 in net proceeds from the issuance of 8,050,000 shares of common stock in December,
- $133,720,000 in dividends paid to common stockholders,

- $6,785,000 in dividends paid to holders of the depositary shares of NNN’s Series C Preferred Stock,
- $93,451,000 in net proceeds from the issuance of 3,745,896 shares of common stock in connection with the Dividend Reinvestment and Stock Purchase Plan (“DRIP”), and
- $292,956,000 in net proceeds from the issuance of 5.50% notes payable.

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

NNN typically funds its short-term liquidity requirements, including investments in additional Properties, with cash from its Credit Facility. As of December 31, 2011, $65,600,000 was outstanding and $384,400,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling $57,000.

For the year ended December 31, 2011, NNN's ratio of total liabilities to total gross assets (before accumulated depreciation) was approximately 39 percent and the ratio of secured indebtedness to total gross assets was approximately one percent. The ratio of total debt to total market capitalization was approximately 33 percent. Certain financial agreements to which NNN is a party contain covenants that limit NNN's ability to incur debt under certain circumstances. The organizational documents of NNN do not limit the absolute amount or percentage of indebtedness that NNN may incur. Additionally, NNN may change its financing strategy.

Contractual Obligations and Commercial Commitments. The information in the following table summarizes NNN's contractual obligations and commercial commitments outstanding as of December 31, 2011. The table presents principal cash flows by year-end of the expected maturity for debt obligations and commercial commitments outstanding as of December 31, 2011.

	Expected Maturity Date (dollars in thousands)						
	Total	2012	2013	2014	2015	2016	Thereafter
Long-term debt(1)	$1,284,906	$69,290	$223,898 (3)	$150,881	$150,917	$139,652 (3)	$550,268
Credit Facility	65,600	—	—	—	65,600	—	—
Operating leases	2,749	945	973	831	—	—	—
Total contractual cash obligations(2)	$1,353,255	$70,235	$224,871	$151,712	$216,517	$139,652	$550,268

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

(2) Excludes $15,108 of accrued interest payable.

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

In addition to the contractual obligations outlined above, in connection with the development of 54 Properties, NNN has agreed to fund construction commitments (including construction, land costs and tenant improvements) of $158,725,000. As of December 31, 2011, NNN had funded $103,614,000 of this commitment, with $55,111,000 remaining to be funded.

As of December 31, 2011, NNN had outstanding letters of credit totaling $57,000 under its Credit Facility.

As of December 31, 2011, NNN did not have any other material contractual cash obligations, such as purchase obligations, financing lease obligations or other long-term liabilities other than those reflected in the table. In addition to items reflected in the table, NNN has issued preferred stock with cumulative preferential cash distributions, as described below under "Dividends."

Management anticipates satisfying these obligations with a combination of NNN's cash provided from operations, current capital resources on hand, its Credit Facility, debt or equity financings and asset dispositions.

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

The lost revenues and increased property expenses resulting from vacant properties or uncollectibility of lease revenues could have a material adverse effect on the liquidity and results of operations if NNN is unable to release the Properties at comparable rental rates and in a timely manner. As of December 31, 2011, NNN owned 38 vacant, un-leased Properties which accounted for approximately three percent of total Properties held in NNN's Property Portfolio. Additionally, as of January 31, 2012, less

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than one percent of the total gross leasable area of NNN's Property Portfolio was leased to four tenants that filed a voluntary petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. As a result, these tenants have the right to reject or affirm their leases with NNN.

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

In June 2010, one of NNN's tenants, Majestic Liquor Stores, Inc. ("Majestic"), which leased 13 Properties from NNN, filed a petition of reorganization under Chapter 11 of the U.S. Bankruptcy Code. In addition, in June 2010, the principals of Majestic, (the "Majestic Principals"), which are the borrowers on a loan from NNN secured by one Majestic property, filed a petition of reorganization under Chapter 11 of the U.S. Bankruptcy Code. In June 2010, Majestic elected to reject the leases of four properties owned by NNN and the one property securing the loan to the Majestic Principals. In November 2010 NNN foreclosed on the property securing the loan to the Majestic Principals. In addition, during the year ended December 31, 2010, NNN recorded a $5,625,000 charge in connection with the loan to the Majestic Principals. In December 2010, Majestic assumed all 9 of the remaining leases with NNN. Also in December 2010 Majestic and Majestic Principals plan of reorganization was approved by the U.S. Bankruptcy court and Majestic and the Majestic Principals exited bankruptcy. In 2011, NNN received a $6,544,000 related to the Majestic Principals note receivable, property foreclosure and rejected leases.

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

One of NNN's primary objectives, consistent with its policy of retaining sufficient cash for reserves and working capital purposes and maintaining its status as a REIT, is to distribute a substantial portion of its funds available from operations to its stockholders in the form of dividends. During the years ended December 31, 2011, 2010 and 2009, NNN declared and paid dividends to its common stockholders of $133,720,000, $125,391,000 and $120,256,000, respectively, or $1.53, $1.51 and $1.50 per share, respectively, of common stock.

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

	2011			2010			2009		
Ordinary dividends	$1.088228	71.1260	%	$1.072446	71.0229	%	$1.495182	99.6788	%
Qualified dividends	—	—		0.081661	5.4080	%	—	—	
Capital gain	—	—		0.000861	0.0570	%	0.003051	0.2034	%
Unrecaptured Section 1250 Gain	—	—		0.000498	0.0330	%	0.001767	0.1178	%
Nontaxable distributions	0.441772	28.8740	%	0.354534	23.4791	%	—	—	
	$1.530000	100.0000	%	$1.510000	100.0000	%	$1.500000	100.0000	%

In February 2012, NNN paid dividends to its common stockholders of $40,432,000, or $0.385 per share of common stock.

Holders of NNN's preferred stock issuance are entitled to receive, when and as authorized by the Board of Directors, cumulative preferential cash distributions based on the stated rate and liquidation preference per annum.

NNN declared and paid dividends to its Series C Preferred stockholders of $6,785,000 or $1.843750 per depository share during each of the years ended December 31, 2011, 2010 and 2009. The Series C Preferred Stock has no maturity date and will remain outstanding unless redeemed.

In February 2012, NNN declared a dividend on its Series C Preferred Stock of 46.09375 cents per depositary share payable March 15, 2012.

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

	2011			2010			2009		
Ordinary dividends	$1.843750	100.0000	%	$1.703170	92.3753	%	$1.837828	99.6788	%
Qualified dividends	—	—		0.140580	7.6247	%	—	—	
Capital gain	—	—		—	—		0.003750	0.2034	%
Unrecaptured Section 1250 Gain	—	—		—	—		0.002172	0.1178	%
	$1.843750	100.0000	%	$1.843750	100.0000	%	$1.843750	100.0000	%

Capital Resources

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

Debt

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

	2011	Percentage of Total		2010	Percentage of Total	
Line of credit payable	$65,600	4.9	%	$161,000	14.2	%
Mortgages payable	23,171	1.8	%	24,269	2.2	%
Notes payable – convertible	355,371	26.5	%	349,534	30.8	%
Notes payable	894,967	66.8	%	598,882	52.8	%
Total outstanding debt	$1,339,109	100.0	%	$1,133,685	100.0	%

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

Line of Credit Payable. In May 2011, NNN amended and restated its credit agreement increasing the borrowing capacity under its unsecured revolving credit facility from $400,000,000 to $450,000,000 and amending certain other terms under the former revolving credit facility (as the context requires, the previous and new revolving credit facility, the "Credit Facility"). The Credit Facility had a weighted average outstanding balance of $104,644,000 and a weighted average interest rate of 3.2% during the year ended December 31, 2011. The Credit Facility matures May 2015, with an option to extend maturity to May 2016. The Credit Facility bears interest at LIBOR plus 150 basis points; however, such interest rate may change pursuant to a tiered interest rate structure based on NNN's debt rating. The Credit Facility also includes an accordion feature for NNN to increase, at its option, the facility size up to $650,000,000. As of December 31, 2011, $65,600,000 was outstanding, and $384,400,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling $57,000.

In accordance with the terms of the Credit Facility, NNN is required to meet certain restrictive financial covenants, which, among other things, require NNN to maintain certain (i) leverage ratios, (ii) debt service coverage, (iii) cash flow coverage, and (iv) investment limitations. At December 31, 2011, NNN was in compliance with those covenants. In the event that NNN violates any of these restrictive financial covenants, it could cause the indebtedness under the Credit Facility to be accelerated and may impair NNN's access to the debt and equity markets and limit NNN's ability to pay dividends to its common and preferred stockholders, each of which would likely have a material adverse impact on NNN's financial condition and results of operations.

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

Entered	Original Balance	Interest Rate	Maturity(3)	Carrying Value of Encumbered Asset(s)(1)	Outstanding Principal Balance at December 31, 2011	2010
December 2001(2)	$623	9.00%	April 2014	$642	$158	$215
December 2001(2)	698	9.00%	April 2019	1,119	333	364
December 2001(2)	485	9.00%	April 2019	1,085	172	187
June 2002 (4)	21,000	6.90%	July 2012	23,369	18,488	18,841
February 2004(2)	6,952	6.90%	January 2017	11,280	3,485	4,038
March 2005(2)	1,015	8.14%	September 2016	1,303	535	624
				$38,798	$23,171	$24,269

(1) Each loan is secured by a first mortgage lien on certain of NNN's properties. The carrying values of the assets are as of December 31, 2011.

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

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

(4) NNN plans to use proceeds from the Credit Facility to repay outstanding indebtedness.

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

Terms	2026 Notes(1)(2)(4)	2028 Notes(2)(5)(6)
Issue Date	September 2006	March 2008
Net Proceeds	$168,650	$228,576
Stated Interest Rate (8)	3.950 %	5.125 %
Debt Issuance Costs	$3,850 (3)	$5,459 (7)
Earliest Conversion Date (9)	September 2025	June 2027
Earliest Put Option Date	September 2016	June 2013
Maturity Date	September 2026	June 2028
Original Principal	$172,500	$234,035
Repurchases	(33,800)	(11,000)
Outstanding principal balance at December 31, 2011	$138,700	$223,035

(1) NNN repurchased $8,800 and $25,000 in 2009 and 2008, respectively, for a purchase price of $6,994 and $19,188, respectively, resulting in a gain of $1,565 and $4,961, respectively.

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

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

(4) The conversion rate per $1 principal amount was 42.2959 shares of NNN's common stock, which is equivalent to a conversion price of $23.6430 per share of common stock.

(5) The conversion rate per $1 principal amount was 39.4084 shares of NNN's common stock, which is equivalent to a conversion price of $25.3753 per share of common stock.

(6) NNN repurchased $11,000 in 2009 for a purchase price of $8,588 resulting in a gain of $1,867.

(7)

Includes $219 of note costs which were written off in connection with the repurchase of $11,000 of the 2028 Notes, respectively.

(8) With the adoption of the accounting guidance on convertible debt securities in 2009, the effective interest rates for the 2026 Notes and the 2028 Notes are 5.840% and 7.192%, respectively.

(9) Prior to the earliest respective conversion date, the notes are only convertible in limited circumstances pursuant to the terms of the notes.

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

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

	2011	2010
Carrying value of equity component	$(33,873)	$(33,873)
Principal amount of convertible debt	361,735	361,735
Remaining unamortized debt discount	(6,363)	(12,201)
Net carrying value of convertible debt	$321,499	$315,661

As of December 31, 2011, the remaining amortization period for the 2028 Notes debt discount was approximately 18 months. The 2026 Notes debt discount has been fully amortized.

The adjusted effective interest rates for the liability components of the 2026 Notes and the 2028 Notes were 5.840% and 7.192%, respectively. The Company recorded noncash interest charges of $5,837,000, $6,154,000 and $5,809,000 for the years ended December 31, 2011, 2010 and 2009, respectively, relating to the 2026 Notes and 2028 Notes. The Company recorded contractual interest expense of $16,909,000, $16,909,000 and $17,046,000 for the years ended December 31, 2011, 2010 and 2009, respectively, relating to the 2026 Notes and 2028 Notes.

The if-converted values which exceed the principal amount as of December 31, 2011, are $16,057,000 and $8,831,000 for the 2026 Notes and the 2028 Notes, respectively. As of December 31, 2010, the if-converted values which exceed the principal amount are $15,601,000 and $9,611,000 for the 2026 Notes and the 2028 Notes, respectively.

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

Notes	Issue Date	Principal	Discount[3]	Net Price	Stated Rate	Effective Rate[4]	Maturity Date
2012[1] [8]	June 2002	$50,000	287	$49,713	7.750%	7.833%	June 2012
2014[1][2][5]	June 2004	150,000	440	149,560	6.250%	5.910%	June 2014
2015[1]	November 2005	150,000	390	149,610	6.150%	6.185%	December 2015
2017[1][6]	September 2007	250,000	877	249,123	6.875%	6.924%	October 2017
2021[1][7]	July 2011	300,000	4,269	295,731	5.500%	5.690%	July 2021

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

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

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

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

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

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

(7)

NNN entered into two interest rate hedges with a total notional amount of $150,000. Upon issuance of the 2021 Notes, NNN terminated the interest rate hedge agreements resulting in a liability of $5,300, of which $5,218 was deferred in other comprehensive income. The deferred liability is being amortized over the term of the 2021Notes using the effective interest method.

(8) NNN plans to use proceeds from the Credit Facility to repay outstanding indebtedness.

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Each series of notes represents senior, unsecured obligations of NNN and is subordinated to all secured indebtedness of NNN. The notes are redeemable at the option of NNN, in whole or in part, at a redemption price equal to the sum of (i) the principal amount of the notes being redeemed plus accrued and unpaid interest thereon through the redemption date, and (ii) the make-whole amount, if any, as defined in the applicable supplemental indenture relating to the notes.
In connection with the note offerings, NNN incurred debt issuance costs totaling $8,001,000 consisting primarily of underwriting discounts and commissions, legal and accounting fees, rating agency fees and printing expenses. Debt issuance costs for all note issuances have been deferred and are being amortized over the term of the respective notes using the effective interest method.
In accordance with the terms of the indentures, pursuant to which NNN's notes and convertible notes have been issued, NNN is required to meet certain restrictive financial covenants, which, among other things, require NNN to maintain (i) certain leverage ratios, and (ii) certain interest coverage. At December 31, 2011, NNN was in compliance with those covenants. NNN's failure to comply with certain of its debt covenants could result in defaults that accelerate the payment under such debt and limit the dividends paid to NNN's common and preferred stockholders which would likely have a material adverse impact on NNN's financial condition and results of operations. In addition, these defaults could impair its access to the debt and equity markets.
In September 2010, NNN repaid the 8.500% $20,000,000 notes that were due in September 2010.

Debt and Equity Securities
NNN has used, and expects to use in the future, issuances of debt and equity securities primarily to pay down its outstanding indebtedness and to finance investment acquisitions. In February 2009, NNN filed a shelf registration statement with the Securities and Exchange Commission (the "Commission") which was automatically effective and permits the issuance by NNN of an indeterminate amount of debt and equity securities.
A description of NNN's outstanding series of publicly held notes is found under "Debt – Notes Payable – Convertible" and "Debt – Notes Payable" above.
7.375% Series C Cumulative Redeemable Preferred Stock. In October 2006, NNN issued 3,680,000 depositary shares, each representing 1/100th of a share of 7.375% Series C Cumulative Redeemable Preferred Stock ("Series C Preferred Stock"), and received gross proceeds of $92,000,000. In connection with this offering, NNN incurred stock issuance costs of approximately $3,098,000, consisting primarily of underwriting commissions and fees, legal and accounting fees and printing expenses.
Holders of the depositary shares are entitled to receive, when and as authorized by the Board of Directors, cumulative preferential cash dividends at the rate of 7.375% of the $25.00 liquidation preference per depositary share per annum (equivalent to a fixed annual amount of $1.84375 per depositary share). The Series C Preferred Stock underlying the depositary shares ranks senior to NNN's common stock with respect to dividend rights and rights upon liquidation, dissolution or winding up of NNN. The Series C Preferred Stock has no maturity date and will remain outstanding unless redeemed. NNN may redeem the Series C Preferred Stock underlying the depositary shares on or after October 12, 2011, for cash, at a redemption price of $2,500.00 per share (or $25.00 per depositary share), plus all accumulated, accrued and unpaid dividends. NNN intends to redeem the Series C Preferred Stock on March 15, 2012 at $25.00 per depositary share, plus all accumulated and unpaid distributions through the redemption date, for an aggregate redemption price of $25.0768229 per depositary share.
6.625% Series D Cumulative Redeemable Preferred Stock. On February 23, 2012, NNN consummated an underwritten public offering of 11,500,000 depositary shares (including 1,500,000 shares in connection with the underwriters over-allotment), each representing a 1/100th interest in a share of 6.625% Series D Cumulative Redeemable Preferred Stock ("Series D Preferred Stock"), and received gross proceeds of $287,000,000. In connection with this offering, the Company incurred stock issuance costs of approximately $9,600,000, consisting primarily of underwriting commissions and fees, legal and accounting fees and printing expenses.
Holders of the Series D depositary shares are entitled to receive, when and as authorized by the Board of Directors, cumulative preferential cash dividends at the rate of 6.625% of the $25.00 liquidation preference per depositary share per annum (equivalent to a fixed annual amount of $1.65625 per depositary share). The Series D Preferred Stock

underlying the depositary shares ranks senior to NNN's common stock with respect to dividend rights and rights upon liquidation, dissolution or winding up of NNN. The Series D Preferred Stock has no maturity date and will remain outstanding unless redeemed. NNN may redeem the Series D Preferred Stock underlying the depositary shares on or after September 23, 2017, for cash, at a redemption price of $2,500.00 per share (or $25.00 per depositary share), plus all accumulated and unpaid dividends. In addition, upon a

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change of control, as defined in the articles supplementary fixing the rights and preferences of the Series D Preferred Stock, NNN may redeem the Series D Preferred Stock underlying the depositary shares at a redemption price of $2,500.00 per share (or $25.00 per depositary share), plus all accumulated and unpaid dividends, and the holders of depositary shares may convert some or all of their Series D Preferred Stock into shares of NNN's common stock at conversion rates provided in the related articles supplementary. As of February 24, 2012, the Series D Preferred Stock was not redeemable or convertible.

NNN intends to use the net proceeds (including net proceeds from the underwriters' over-allotment exercise) of approximately $277,900,000 from this offering to redeem the Series C Preferred Stock, which became redeemable on October 12, 2011. The Series C Preferred Stock will be redeemed on March 15, 2012 at $25.00 per depositary share, plus all accumulated and unpaid distributions through the redemption date, for an aggregate redemption price of $25.0768229 per depositary share. NNN intends to use the remainder of the net proceeds for general corporate purposes, which may include repaying the outstanding indebtedness under its Credit Facility.

Common Stock Issuances. In September 2011, NNN filed a prospectus supplement to the prospectus contained in its February 2009 shelf registration statement and issued 9,200,000 shares (including 1,200,000 shares in connection with the underwriters' over allotment) of common stock at a price of $26.07 per share and received net proceeds of $229,451,000. In connection with this offering, NNN incurred stock issuance costs totaling approximately $10,393,000, consisting primarily of underwriters' fees and commissions, legal and accounting fees and printing expenses. The Company used a portion of the net proceeds from the offering to repay borrowings under its Credit Facility and used the remainder for general corporate purposes, including property acquisitions.

In December 2011, NNN filed a prospectus supplement to the prospectus contained in its February 2009 shelf registration statement and issued 8,050,000 shares (including 1,050,000 shares in connection with the underwriters' over allotment) of common stock at a price of $25.75 per share and received net proceeds of $198,228,000. In connection with this offering, NNN incurred stock issuance costs totaling approximately $9,060,000, consisting primarily of underwriters' fees and commissions, legal and accounting fees and printing expenses. The Company used a portion of the net proceeds from the offering to repay borrowings under its Credit Facility and used the remainder for general corporate purposes, including property acquisitions.

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

	2011	2010	2009
Shares of common stock	3,745,896	793,759	3,766,452
Net proceeds	$93,451,000	$17,623,000	$67,354,000

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

Mortgages and Notes Receivable.

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

	2011	2010
Mortgages and notes receivable	$32,751	$29,750
Accrued interest receivable, net of reserves	730	644
Unamortized discount	(53)	(63)
	$33,428	$30,331

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Commercial Mortgage Residual Interests

In connection with the independent valuations of the Residuals' fair value, NNN adjusted the carrying value of the Residuals to reflect such fair value as of December 31, 2011. Due to changes in market conditions relating to residual assets, the independent valuation changed several valuation assumptions. The following table summarizes the changes to the key assumptions used in determining the value of the Residuals as of December 31:

	2011	2010
Discount rate	25 %	25 %
Average life equivalent CPR speeds range	2.18% to 18.57% CPR	4.35% to 20.37% CPR
Foreclosures:		
Frequency curve default model	0.2% - 4.7% range	0.1% - 15.0% range
Loss severity of loans in foreclosure	20 %	20 %
Yield:		
LIBOR	Forward 3-month curve	Forward 3-month curve
Prime	Forward curve	Forward curve

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

	2011	2010	2009
Unrealized gains	$—	$1,272	$—
Unrealized losses	246	—	1,744
Other than temporary valuation impairment	1,024	3,995	498

Business Combination

In connection with the default of a note receivable and certain lease agreements between NNN and one of its tenants, in June 2009, NNN acquired the operations of an auto service business that operated certain Properties. The note foreclosure resulted in a loss of $7,816,000. NNN recorded the value of the assets received at fair value. No liabilities were assumed. The fair value of the assets resulted in goodwill of $3,400,000. In connection with the review of goodwill for impairment, NNN recognized a total noncash impairment charge of $1,500,000 and $1,900,000 in 2011 and 2010, respectively.

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Item7A.Quantitative and Qualitative Disclosures About Market Risk

NNN is exposed to interest rate risk primarily as a result of its variable rate Credit Facility and its fixed rate debt which is used to finance NNN's development and acquisition activities, as well as for general corporate purposes. NNN's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve its objectives, NNN borrows at both fixed and variable rates on its long-term debt. As of December 31, 2011, NNN had no outstanding derivatives.
The information in the table below summarizes NNN's market risks associated with its debt obligations outstanding as of December 31, 2011 and 2010. The table presents principal payments and related interest rates by year for debt obligations outstanding as of December 31, 2011. The variable interest rates shown represent weighted average rate for the Credit Facility for the year ended December 31, 2011. The table incorporates only those debt obligations that existed as of December 31, 2011, and it does not consider those debt obligations or positions which could arise after this date. Moreover, because firm commitments are not presented in the table below, the information presented therein has limited predictive value. As a result, NNN's ultimate realized gain or loss with respect to interest rate fluctuations will depend on the exposures that arise during the period, NNN's hedging strategies at that time and interest rates. If interest rates on NNN's variable rate debt increased by one percent, NNN's interest expense would have increased by less than two percent for the year ended December 31, 2011.

Debt Obligations (dollars in thousands)

	Variable Rate Debt			Fixed Rate Debt					
	Credit Facility			Mortgages			Unsecured Debt[1]		
	Debt Obligation	Weighted Average Interest Rate		Debt Obligation	Weighted Average Interest Rate		Debt Obligation	Effective Interest Rate	
2012	$—			$19,290	6.92	%	$49,983	7.83	%
2013	—			863	7.35	%	216,671	7.19	%
2014	—			881	7.27	%	149,867	5.91	%
2015	65,600	3.22	%	917	7.22	%	149,817	6.19	%
2016	—			952	7.19	%	138,700	5.84	%
Thereafter	—			268	8.47	%	545,300	6.25	%
Total	$65,600	3.22	%	$23,171	6.99	%	$1,250,338	6.38	%
Fair Value:									
December 31, 2011	$65,600			$23,171			$1,362,922		
December 31, 2010	$161,000			$24,269			$1,044,621		

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

NNN is also exposed to market risks related to NNN's Residuals. Factors that may impact the market value of the Residuals include delinquencies, loan losses, prepayment speeds and interest rates. The Residuals, which are reported at market value based upon an independent valuation, had a carrying value of $15,299,000 and $15,915,000 as of December 31, 2011 and 2010, respectively. Unrealized gains and losses are reported as other comprehensive income in stockholders' equity. Losses are considered other than temporary and reported as a valuation impairment in earnings from operations if and when there has been a change in the timing or amount of estimated cash flows that leads to a loss in value.

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Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders of National Retail Properties, Inc. and Subsidiaries

We have audited National Retail Properties, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). National Retail Properties, Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, National Retail Properties, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of National Retail Properties, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of earnings, equity, and cash flows for each of the three years in the period ended December 31, 2011 and our report dated February 24, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Certified Public Accountants
Orlando, Florida
February 24, 2012

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of National Retail Properties, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of earnings, equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedules listed in the index at Item 15(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of National Retail Properties, Inc. and Subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statements schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), National Retail Property Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Certified Public Accountants

Orlando, Florida
February 24, 2012

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NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except per share data)

ASSETS	December 31, 2011	December 31, 2010
Real estate portfolio:		
Accounted for using the operating method, net of accumulated depreciation and amortization	$3,224,023	$2,514,302
Accounted for using the direct financing method	26,518	29,773
Real estate held for sale	37,201	37,724
Investment in unconsolidated affiliate	4,358	4,515
Mortgages, notes and accrued interest receivable, net of allowance	33,428	30,331
Commercial mortgage residual interests	15,299	15,915
Cash and cash equivalents	2,082	2,048
Receivables, net of allowance of $1,403 and $1,750, respectively	2,149	3,403
Accrued rental income, net of allowance of $4,870 and $3,609, respectively	25,187	25,535
Debt costs, net of accumulated amortization of $15,332 and $11,198, respectively	10,802	9,366
Other assets	53,382	40,663
Total assets	$3,434,429	$2,713,575
LIABILITIES AND EQUITY		
Liabilities:		
Line of credit payable	$65,600	$161,000
Mortgages payable	23,171	24,269
Notes payable – convertible, net of unamortized discount of $6,363 and $12,201, respectively	355,371	349,534
Notes payable, net of unamortized discount of $5,033 and $1,118, respectively	894,967	598,882
Accrued interest payable	15,108	7,342
Other liabilities	76,336	43,774
Total liabilities	1,430,553	1,184,801
Commitments and contingencies (Note 26)		
Equity:		
Stockholders' equity:		
Preferred stock, $0.01 par value. Authorized 15,000,000 shares		
Series C, 3,680,000 depositary shares issued and outstanding, at stated liquidation value of $25 per share	92,000	92,000
Common stock, $0.01 par value. Authorized 190,000,000 shares; 104,754,859 and 83,613,289 shares issued and outstanding, respectively	1,049	838
Excess stock, $0.01 par value. Authorized 205,000,000 shares; none issued or outstanding	—	—
Capital in excess of par value	1,958,225	1,429,750
Retained earnings	(44,946)	3,234
Accumulated other comprehensive income	(3,830)	1,661
Total stockholders' equity of NNN	2,002,498	1,527,483
Noncontrolling interests	1,378	1,291
Total equity	2,003,876	1,528,774
Total liabilities and equity	$3,434,429	$2,713,575

See accompanying notes to consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(dollars in thousands, except per share data)

	Year Ended December 31,		
	2011	2010	2009
Revenues:			
Rental income from operating leases	$246,569	$210,329	$207,734
Earned income from direct financing leases	2,787	3,001	3,070
Percentage rent	1,093	919	1,310
Real estate expense reimbursement from tenants	9,927	7,197	8,138
Interest and other income from real estate transactions	2,312	2,982	4,323
Interest income on commercial mortgage residual interests	3,105	3,460	4,252
	265,793	227,888	228,827
Retail operations:			
Revenues	45,139	32,958	15,595
Operating expenses	(43,096)	(31,647)	(15,176)
Net	2,043	1,311	419
Operating expenses:			
General and administrative	28,814	22,763	21,774
Real estate	16,887	13,235	13,497
Depreciation and amortization	58,115	48,047	46,258
Impairment losses and other charges, net of recoveries	(1,431)	7,458	36,080
Impairment – commercial mortgage residual interests valuation	1,024	3,995	498
Restructuring costs	—	—	731
	103,409	95,498	118,838
Earnings from operations	164,427	133,701	110,408
Other expenses (revenues):			
Interest and other income	(1,511)	(1,513)	(1,371)
Interest expense	74,845	65,179	62,151
	73,334	63,666	60,780
Earnings from continuing operations before gain on disposition of real estate, income tax benefit (expense), equity in earnings of unconsolidated affiliate and gain on extinguishment of debt	91,093	70,035	49,628
Gain on disposition of real estate	297	641	37
Income tax benefit (expense)	(779)	(475)	1,049
Equity in earnings of unconsolidated affiliate	474	428	421
Gain on extinguishment of debt	—	—	3,432
Earnings from continuing operations	91,085	70,629	54,567
Earnings from discontinued operations, net of income tax expense (Note 18)	1,331	2,724	1,832
Earnings including noncontrolling interests	92,416	73,353	56,399

See accompanying notes to consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(dollars in thousands, except per share data)

	Year Ended December 31,		
	2011	2010	2009
Loss (earnings) attributable to noncontrolling interests:			
Continuing operations	$(11)	$(367)	$(1,423)
Discontinued operations	(80)	11	(166)
	(91)	(356)	(1,589)
Net earnings attributable to NNN	92,325	72,997	54,810
Other comprehensive income (loss)	(5,491)	1,150	(1,903)
Total comprehensive income	$86,834	$74,147	$52,907
Net earnings attributable to NNN	$92,325	$72,997	$54,810
Series C preferred stock dividends	(6,785)	(6,785)	(6,785)
Net earnings attributable to common stockholders	$85,540	$66,212	$48,025
Net earnings per share of common stock:			
Basic:			
Continuing operations	$0.95	$0.77	$0.58
Discontinued operations	0.01	0.03	0.02
Net earnings	$0.96	$0.80	$0.60
Diluted:			
Continuing operations	$0.95	$0.77	$0.58
Discontinued operations	0.01	0.03	0.02
Net earnings	$0.96	$0.80	$0.60
Weighted average number of common shares outstanding:			
Basic	88,100,076	82,715,645	79,846,258
Diluted	88,837,057	82,849,362	79,953,499

See accompanying notes to consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
Years Ended December 31, 2011, 2010 and 2009
(dollars in thousands, except per share data)

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

Contributions from noncontrolling interests	—	—	—	—	—	—	152	152
Distributions to noncontrolling interests	—	—	—	—		—	(552)	(552)
Other	—	—	190	—	—	190	(757)	(567)
Balances at December 31, 2009	$92,000	$825	$1,408,491	$62,413	$ 511	$ 1,564,240	$ 2,622	$1,566,862

See accompanying notes to consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
Years Ended December 31, 2011, 2010 and 2009
(dollars in thousands, except per share data)

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

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

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
Years Ended December 31, 2011, 2010 and 2009
(dollars in thousands, except per share data)

	Series C Preferred Stock	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balances at December 31, 2010	$92,000	$838	$1,429,750	$3,234	$ 1,661	$ 1,527,483	$ 1,291	$1,528,774
Net earnings	—	—	—	92,325	—	92,325	91	92,416
Dividends declared and paid:								
$1.84375 per depositary share of Series C preferred stock	—	—	—	(6,785)	—	(6,785)	—	(6,785)
$1.53 per share of common stock	—	5	13,652	(133,720)	—	(120,063)	—	(120,063)
Issuance of common stock:								
17,288,265 shares	—	173	447,690	—	—	447,863	—	447,863
3,197,127 shares – discounted stock purchase program	—	32	79,762	—	—	79,794	—	79,794
Issuance of 133,432 shares of restricted common stock	—	1	(57)	—	—	(56)	—	(56)
Stock issuance costs	—	—	(19,453)	—	—	(19,453)	—	(19,453)
Performance incentive plan	—	—	(513)	—	—	(513)	—	(513)
Amortization of deferred compensation	—	—	7,394	—	—	7,394	—	7,394
Amortization of interest rate hedges	—	—	—	—	9	9	—	9
Fair value treasury locks	—	—	—	—	(5,218)	(5,218)	—	(5,218)
Unrealized gain commercial	—	—	—	—	(246)	(246)	—	(246)

mortgage residual interests								
Stock value adjustment	—	—	—	—	(36)	(36)	—	(36)
Contributions from noncontrolling interests	—	—	—	—	—	—	41	41
Distributions to noncontrolling interests	—	—	—	—	—	—	(45)	(45)
Balances at December 31, 2011	$92,000	$1,049	$1,958,225	$(44,946)	$ (3,830)	$ 2,002,498	$ 1,378	$2,003,876

See accompanying notes to consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		
	2011	2010	2009
Cash flows from operating activities:			
Earnings including noncontrolling interests	$92,416	$73,353	$56,399
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Performance incentive plan expense	8,283	5,756	4,172
Stock options expense – tax effect	—	122	190
Depreciation and amortization	58,817	49,084	48,485
Impairment losses and other charges	2,115	7,458	41,710
Impairment – commercial mortgage residual interests valuation	1,024	3,995	498
Amortization of notes payable discount	6,191	6,360	6,006
Amortization of deferred interest rate hedges	9	(166)	(159)
Equity in earnings of unconsolidated affiliate	(474)	(428)	(421)
Distributions received from unconsolidated affiliate	593	578	607
Gain on disposition of real estate portfolio	(721)	(2,075)	(2,987)
Gain on extinguishment of debt	—	—	(3,432)
Deferred income taxes	884	(2,544)	(16,649)
Income tax valuation allowance	—	3,121	14,900
Change in operating assets and liabilities, net of assets acquired and liabilities assumed in business combinations:			
Additions to held for sale real estate	(1,025)	(478)	(2,457)
Proceeds from disposition of held for sale real estate	1,993	42,817	6,276
Decrease in real estate leased to others using the direct financing method	1,595	1,544	1,378
Increase in work in process	(1,213)	(755)	(786)
Increase in mortgages, notes and accrued interest receivable	(96)	(467)	(10)
Decrease (increase) in receivables	1,108	(219)	941
Decrease (increase) in commercial mortgage residual interests	(654)	1,516	(291)
Decrease (increase) in accrued rental income	253	124	(2,061)
Decrease (increase) in other assets	746	(53)	(172)
Increase (decrease) in accrued interest payable	7,766	(129)	(137)
Increase (decrease) in other liabilities	2,682	(431)	(2,930)
Increase (decrease) in current tax liability	654	(169)	432
Net cash provided by operating activities	182,946	187,914	149,502
Cash flows from investing activities:			
Proceeds from the disposition of real estate, Investment Portfolio	10,696	10,312	14,588
Additions to real estate:			
Accounted for using the operating method	(756,633)	(230,928)	(44,433)
Accounted for using the direct financing method	(1,747)	—	—
Increase in mortgages and notes receivable	(9,838)	(8,564)	(959)
Principal payments on mortgages and notes receivable	6,837	13,818	4,009
Payment of lease costs	(1,589)	(1,324)	(451)
Other	206	(3,574)	(817)

Net cash used in investing activities	(752,068)	(220,260)	(28,063)

See accompanying notes to consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		
	2011	2010	2009
Cash flows from financing activities:			
Proceeds from line of credit payable	$805,300	$278,900	$132,400
Repayment of line of credit payable	(900,700)	(117,900)	(158,900)
Payment of interest rate hedge	(5,218)	—	—
Repayment of mortgages payable	(1,098)	(6,453)	(1,000)
Proceeds from notes payable	295,731	—	—
Repurchase of notes payable – convertible – debt component	—	—	(14,785)
Repurchase of notes payable – convertible – equity component	—	—	(795)
Repayment of notes payable	—	(20,000)	—
Payment of debt costs	(5,582)	(75)	(6,275)
Proceeds from issuance of common stock	540,560	17,692	68,060
Payment of Series C preferred stock dividends	(6,785)	(6,785)	(6,785)
Payment of common stock dividends	(133,720)	(125,391)	(120,256)
Noncontrolling interest distributions	(45)	(861)	(552)
Noncontrolling interest contributions	41	43	152
Stock issuance costs	(19,328)	(1)	(104)
Net cash provided by (used in) financing activities	569,156	19,169	(108,840)
Net increase (decrease) in cash and cash equivalents	34	(13,177)	12,599
Cash and cash equivalents at beginning of year	2,048	15,225	2,626
Cash and cash equivalents at end of year	$2,082	$2,048	$15,225
Supplemental disclosure of cash flow information:			
Interest paid, net of amount capitalized	$63,474	$62,386	$61,475
Taxes paid (received)	$(561)	$472	$(63)
Supplemental disclosure of noncash investing and financing activities:			
Issued 141,351, 392,474 and 262,546 shares of restricted and unrestricted common stock in 2011, 2010 and 2009, respectively, pursuant to NNN's performance incentive plan	$3,456	$6,889	$4,290
Issued 9,632, 10,092 and 6,594 shares of common stock in 2011, 2010 and 2009, respectively, to directors pursuant to NNN's performance incentive plan	$250	$236	$118
Issued 26,023, 25,066 and 41,604 shares of common stock in 2011, 2010 and 2009, respectively, pursuant to NNN's Deferred Director Fee Plan	$449	$401	$611
Surrender of 5,215 shares of restricted common stock in 2011	$109	$—	$—
Change in other comprehensive income	$(5,491)	$1,150	$(1,903)
Change in lease classification (direct financing lease to operating lease)	$3,407	$—	$—
Transfer of real estate from Portfolio to held for sale	$—	$—	$16,058

Note and mortgage receivable accepted in connection with real estate transactions	$—	$5,950	$1,550
Mortgages payable assumed in connection with real estate transactions	$—	$5,432	$—
Real estate acquired in connection with mortgage receivable foreclosure	$—	$6,250	$4,240
Assets received in note receivable foreclosure	$—	$—	$5,527
Note receivable foreclosures	$—	$—	$(17,013)

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2011, 2010 and 2009

Note 1 – Organization and Summary of Significant Accounting Policies:
Organization and Nature of Business – National Retail Properties, Inc., a Maryland corporation, is a fully integrated real estate investment trust ("REIT") formed in 1984. The term "NNN" or the "Company" refers to National Retail Properties, Inc. and all of its consolidated subsidiaries. NNN has elected to treat certain subsidiaries as taxable REIT subsidiaries. These taxable subsidiaries and their majority owned and controlled subsidiaries are collectively referred to as the "TRS."

NNN assets include: real estate assets, mortgages and notes receivable, and commercial mortgage residual interests. NNN acquires, owns, invests in and develops properties that are leased primarily to retail tenants under long-term net leases and primarily held for investment ("Properties" or "Property Portfolio").

	December 31, 2011
Property Portfolio:	
Total properties (including retail operations)	1,422
Gross leasable area (square feet)	16,428,000
States	47

Prior to December 31, 2011, NNN reported its operations in two primary business segments, investment assets and inventory assets. As a result of a continued reduction of investments in real estate acquired for the purpose of resale, the previously reported segment of inventory assets no longer meets the criteria for significance for separate segment reporting. Currently, NNN's operations are reported within one business segment in the financial statements and all properties are considered part of the Properties or Property Portfolio. As such, property counts and calculations involving property counts reflect all NNN properties.

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

The TRS develops real estate through various joint venture development affiliate agreements. NNN consolidates certain joint venture development entities based upon either NNN being the primary beneficiary of the respective variable interest entity or NNN having a controlling interest over the respective entity. NNN eliminates significant intercompany balances and transactions and records a noncontrolling interest for its other partners' ownership percentage.

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

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

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

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

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

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

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

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

Real Estate – Held For Sale – The properties that are classified as held for sale at any given time may consist of properties that have been acquired in the marketplace with the intent to sell and properties that have been or are under contract for sale. The properties are recorded at acquisition cost, including the acquisition and closing costs. The cost of the real estate developed includes direct and indirect costs of construction, interest and other miscellaneous costs incurred during the development period until the project is substantially complete and available for occupancy. Real estate held for sale is not depreciated and is recorded at the lower of cost or fair value. In accordance with the FASB guidance included in Real Estate, NNN classifies its real estate held for sale as discontinued operations for each property in which rental revenues are generated.

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

Real Estate Dispositions – When real estate is disposed of, the related cost, accumulated depreciation or amortization and any accrued rental income for operating leases and the net investment for direct financing leases are removed from the accounts and gains and losses from the dispositions are reflected in income. Gains from the disposition of real estate are generally recognized using the full accrual method in accordance with the FASB guidance included in Real Estate Sales, provided that various criteria relating to the terms of the sale and any subsequent involvement by NNN with the real estate sold are met. Lease termination fees are recognized when the related leases are cancelled and

NNN no longer has a continuing obligation to provide services to the former tenants.

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

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Investment in an Unconsolidated Affiliate – NNN accounts for its investment in an unconsolidated affiliate under the equity method of accounting. In September 2007, NNN entered into a joint venture, NNN Retail Properties Fund I LLC (the "NNN Crow JV") with an affiliate of Crow Holdings Realty Partners IV, LP., accounted for under the equity method of accounting.

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

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

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

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

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

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

Debt Costs – Debt costs incurred in connection with NNN's $450,000,000 line of credit and mortgages payable have been deferred and are being amortized over the term of the respective loan commitment using the straight-line method, which approximates the effective interest method. Debt costs incurred in connection with the issuance of NNN's notes payable have been deferred and are being amortized over the term of the respective debt obligation using the effective interest method.

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

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

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	2011	2010	2009
Basic and Diluted Earnings:			
Net earnings attributable to NNN	$92,325	$72,997	$54,810
Less: Series C preferred stock dividends	(6,785)	(6,785)	(6,785)
Net earnings available to NNN's common stockholders	85,540	66,212	48,025
Less: Earnings attributable to unvested restricted shares	(622)	(299)	(290)
Net earnings used in basic earnings per share	84,918	65,913	47,735
Reallocated undistributed income (loss)	(2)	—	(1)
Net earnings used in diluted earnings per share	$84,916	$65,913	$47,734
Basic and Diluted Weighted Average Shares Outstanding:			
Weighted average number of shares outstanding	88,972,723	83,320,921	80,486,215
Less: Unvested restricted stock	(630,102)	(605,276)	(639,957)
Less: Contingent shares	(242,545)	—	—
Weighted average number of shares outstanding used in basic earnings per share	88,100,076	82,715,645	79,846,258
Effects of dilutive securities:			
Contingent shares	66,001	—	—
Convertible debt	512,024	—	—
Common stock options	2,881	3,814	9,037
Directors' deferred fee plan	156,075	129,903	98,204
Weighted average number of shares outstanding used in diluted earnings per share	88,837,057	82,849,362	79,953,499

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

Stock-Based Compensation – In accordance with the FASB guidance in Equity - Based Payments to Non-Employees, NNN estimates the fair value of restricted stock and stock option grants at the date of grant and amortizes those amounts into expense on a straight line basis or amount vested, if greater, over the appropriate vesting period.

Income Taxes – NNN has made an election to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"), and related regulations. NNN generally will not be subject to federal income taxes on amounts distributed to stockholders, providing it distributes 100 percent of its REIT taxable income and meets certain other requirements for qualifying as a REIT. For each of the years in the three-year period ended December 31, 2011, NNN believes it has qualified as a REIT. Notwithstanding NNN's qualification for taxation as a REIT, NNN is subject to certain state taxes on its income and real estate.

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

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

Fair Value Measurement – NNN's estimates of fair value of financial and non-financial assets and liabilities based on the framework established in the fair value accounting guidance. The framework specifies a hierarchy of valuation inputs which

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was established to increase consistency, clarity and comparability in fair value measurements and related disclosures. The guidance describes a fair value hierarchy based upon three levels of inputs that may be used to measure fair value, two of which are considered observable and one that is considered unobservable. The following describes the three levels:

- Level 1 – Valuation is based upon quoted prices in active markets for identical assets or liabilities.
- Level 2 – Valuation is based upon inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include option pricing models, discounted cash flow models and similar techniques.

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

In June 2011, the FASB issued Accounting Standards Update 2011-05 which amended its guidance on the presentation of comprehensive income in financial statements. The new guidance requires that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The provisions of this new guidance are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance is not expected to have a material effect on the Company's condensed consolidated financial statements, but may require certain additional disclosures. In December 2011, the FASB issued update 2011-12, which indefinitely defers certain provisions of Accounting Standards Update 2011-05, including a requirement for entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net earnings is presented and the statement in which other comprehensive income is presented.

In September 2011, the FASB amended its guidance on testing goodwill for impairment. The objective of the amendment is to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The new guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this guidance is not expected to have a material effect on the Company's condensed consolidated financial statements, but may require certain additional disclosures.

In December 2011, the FASB issued Accounting Standards Update entitled Derecognition of in Substance Real Estate - a Scope Clarification. The amendments in this update clarify the scope of current U.S. GAAP. The amendments will resolve the diversity in practice about whether the guidance in subtopic 360-20 applies to the derecognition of in substance real estate when the parent ceases to have a controlling financial interest in a subsidiary that is in substance real estate because of a default by the subsidiary on its nonrecourse debt. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. NNN is currently evaluating the provisions to determine the potential impact, if any, the adoption will have on its financial position and results of operations.

In December 2011, the FASB amended its guidance on offsetting assets and liabilities in financial statements. The objective of this update would be to require disclosure to facilitate comparison between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of IFRS. The amendments in this update are effective for annual reporting periods beginning on or after January 1, 2013. NNN is currently evaluating the provisions to determine the potential impact, if any, the adoption will have on its financial position and results of operations.

Use of Estimates – Management of NNN has made a number of estimates and assumptions relating to the reporting of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these 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 purchase price allocation. Actual results could differ from those estimates.

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Reclassification – Certain items in the prior year's consolidated financial statements and notes to consolidated financial statements have been reclassified to conform to the 2011 presentation.
Prior to December 31, 2011, NNN reported its operations in two primary business segments, investment assets and inventory assets. As a result of reduction of investments in real estate acquired for the purpose of resale, the previously reported segment of inventory assets is no longer a significant segment of NNN's business and therefore is no longer reported as a separate segment. Currently, NNN's operations are reported within one primary business segment and all properties are considered part of the Properties or Property Portfolio. As such, property counts and calculations involving property counts reflect all NNN properties.

Note 2 – Real Estate – Portfolio:
Leases – The following outlines key information for NNN's leases at December 31, 2011:

Lease classification:	
Operating	1,377
Direct financing	15
Building portion – direct financing / land portion – operating	5
Weighted average remaining lease term	12 Years

The leases generally provide for limited increases in rent as a result of fixed increases, increases in the consumer price index, and/or increases in the tenant's sales volume. Generally, the tenant is also required to pay all property taxes and assessments, substantially maintain the interior and exterior of the building and carry property and liability insurance coverage. Certain of NNN's Properties are subject to leases under which NNN retains responsibility for specific costs and expenses of the property. Generally, the leases of the Properties provide the tenant with one or more multi-year renewal options subject to generally the same terms and conditions, including rent increases, consistent with the initial lease term.
Real Estate Portfolio – Accounted for Using the Operating Method – Real estate subject to operating leases consisted of the following as of December 31 (dollars in thousands):

	2011	2010
Land and improvements	$1,314,157	$1,117,915
Buildings and improvements	2,118,656	1,591,113
Leasehold interests	1,290	1,290
	3,434,103	2,710,318
Less accumulated depreciation and amortization	(270,094)	(222,406)
	3,164,009	2,487,912
Work in progress	60,014	26,390
	$3,224,023	$2,514,302

Some leases provide for scheduled rent increases throughout the lease term. Such amounts are recognized on a straight-line basis over the terms of the leases. For the years ended December 31, 2011, 2010 and 2009, NNN recognized collectively in continuing and discontinued operations, ($222,000), ($93,000) and $2,102,000, respectively, of such income, net of reserves. At December 31, 2011 and 2010, the balance of accrued rental income, net of allowances of $4,870,000 and $3,609,000, respectively, was $25,187,000 and $25,535,000, respectively.
As of December 31, 2011, in connection with the development of Properties, NNN has the following funding commitments (dollars in thousands):

	# of Properties	Total Commitment[1]	Amount Funded	Remaining Commitment
Real Estate Portfolio	54	$158,725	$103,614	$55,111

(1) Includes land and construction costs.

The following is a schedule of future minimum lease payments to be received on noncancellable operating leases at December 31, 2011 (dollars in thousands):

2012	$280,328
2013	273,762
2014	264,869
2015	257,821
2016	251,055
Thereafter	2,151,781
	$3,479,616

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

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

	2011	2010
Minimum lease payments to be received	$32,587	$37,699
Estimated unguaranteed residual values	11,464	12,297
Less unearned income	(17,533)	(20,223)
Net investment in direct financing leases	$26,518	$29,773

The following is a schedule of future minimum lease payments to be received on direct financing leases held for investment at December 31, 2011 (dollars in thousands):

2012	$4,263
2013	4,213
2014	3,454
2015	3,160
2016	3,077
Thereafter	14,420
	$32,587

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

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Note 3 – Real Estate – Held For Sale:
As of December 31, 2011, NNN owned 22 held for sale Properties: 16 improved properties and six land parcels. As of December 31, 2010, NNN owned 23 held for sale Properties: 14 improved properties and nine land parcels. Held for sale real estate consisted of the following at December 31 (dollars in thousands):

	2011	2010
Held For Sale:		
Land	$23,807	$24,737
Building	22,130	21,710
	45,937	46,447
Less accumulated depreciation and amortization	(527)	(514)
Less impairment	(8,209)	(8,209)
	$37,201	$37,724

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

	2011		2010		2009	
	# of Properties	Gain	# of Properties	Gain	# of Properties	Gain
Continuing operations	—	$297	2	$641	2	$37
Discontinued operations	8	424	16	1,434	11	2,950
Noncontrolling interest	—	(194)	—	(363)	—	(14)
	8	$527	18	$1,712	13	$2,973

Note 4 – Impairments – Real Estate:
Management periodically assesses its real estate for possible impairment whenever certain events or changes in circumstances indicate that the carrying amount of the asset, including accrued rental income, may not be recoverable through operations. Events or circumstances that may occur include significant changes in real estate market conditions and the ability of NNN to re-lease or sell properties that are vacant or become vacant. Impairments are measured as the amount by which the current book value of the asset exceeds the estimated fair value of the asset. As a result of the Company's review of long lived assets, including identifiable intangible assets, NNN recognized the following real estate impairments for the years ended December 31 (dollars in thousands):

	2011	2010	2009
Continuing operations	$—	$—	$28,884
Discontinued operations	431		