

NATIONAL RETAIL PROPERTIES, INC.
Form 10-K/A
February 25, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K/A

(Amendment No. 1)

(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, 2007

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:

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Title of each class:
Common Stock, \$0.01 par value

Name of exchange on which registered:
New York Stock Exchange

7.375% Non-Voting Series C Preferred Stock, \$0.01 par value
Securities registered pursuant to section 12(g) of the Act:

New York Stock Exchange

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of voting common stock held by non-affiliates of the registrant as of June 30, 2007 was \$66,159,208.

The number of shares of common stock outstanding as of February 14, 2008 was 72,534,884.

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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 2008 Annual Meeting of Stockholders to be filed with the Securities Exchange 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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EXPLANATORY NOTE:

This Form 10-K/A is being filed in its entirety to correct certain typographical errors in the following portions of National Retail Properties Inc.'s Form 10-K for the year ended December 31, 2007 (the "Form 10-K"): (i) the Report of Independent Registered Public Accounting Firm of KPMG in Item 8 of the Form 10-K and (ii) the Consent of KPMG LLP filed as Exhibit 23.2 to the 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 its [consolidated] subsidiaries, including taxable real estate investment trust (REIT) subsidiaries and their majority owned and controlled subsidiaries (collectively 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. Also, when NNN uses any of the words anticipate, assume, believe, estimate, expect, intend, or similar expressions, NNN is making forward-looking statements. Although management believes that the expectations reflected in such forward-looking statements are based upon present expectations and reasonable assumptions, NNN's actual results could differ materially from those set forth in the forward-looking statements. Certain factors that could cause actual results or events to differ materially from those NNN anticipates or projects are described in Item 1A. Risk Factors of this Annual Report on Form 10-K.

Given these uncertainties, readers are cautioned not to place undue reliance on such statements, which speak only as of the date of this Annual Report on Form 10-K or any document incorporated herein by reference. NNN undertakes no obligation to publicly release any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date of this Annual Report on Form 10-K.

Item 1. Business

The Company

NNN, a Maryland corporation, is a fully integrated REIT formed in 1984. NNN's operations are divided into two primary business segments: (i) investment assets, including real estate assets and mortgages and notes receivable (including structured finance) (collectively, Investment Assets), and (ii) inventory real estate assets (Inventory Assets). The Investment Assets are operated through National Retail Properties, Inc. and its wholly owned subsidiaries. The Inventory Assets are held in the TRS.

Real Estate Assets

NNN acquires, owns, invests in, manages and develops properties that are leased primarily to retail tenants under long-term net leases (Investment Properties or Investment Portfolio). As of December 31, 2007, NNN owned 908 Investment Properties, with an aggregate leasable area of 10,610,000 square feet, located in 44 states. Approximately 98 percent of NNN's Investment Portfolio was leased at December 31, 2007. The TRS, directly and indirectly, through investment interests, acquires and/or develops real estate primarily for the purpose of resale (Inventory Properties or Inventory Portfolio). As of December 31, 2007, the TRS owned 56 Inventory Properties.

Mortgages and Notes Receivable

Mortgages are loans secured by real estate, real estate securities or other assets. As of December 31, 2007, these receivables totaled \$49,336,000.

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Structured finance agreements are typically loans secured by a borrower's pledge of ownership interests in the entity that owns or leases the real estate and/or other acceptable collateral such as fixtures, equipment or cash. These agreements are sometimes subordinated to senior loans secured by first mortgages encumbering the underlying real estate. Subordinated positions are generally subject to a higher risk of nonpayment of principal and interest than the more senior loans. As of December 31, 2007, the structured finance agreements had an outstanding principal balance of \$14,359,000.

Investment in Unconsolidated Affiliate

Crow Holdings. In September 2007, NNN entered into a joint venture, NNN Retail Properties Fund I LLC (the "NNN Crow JV I"), with an affiliate of Crow Holdings Realty Partners IV, L.P. NNN Crow JV I plans to acquire from unrelated third parties up to \$220,000,000 of real estate assets leased to convenience store operators.

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, 2008, NNN employed 72 full-time associates including executive and administrative personnel.

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 can be downloaded free of charge. The common shares of National Retail Properties, Inc. are traded on the New York Stock Exchange ("NYSE"), under the ticker symbol NNN.

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 located along high-traffic commercial corridors near areas of commercial and residential density. Management believes that these types of properties, when leased to national or regional retailers generally pursuant to triple-net leases, provide attractive opportunities for a stable current return and the potential for increased current 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, and repairs and maintenance. Initial lease terms are generally 15 to 20 years.

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

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

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

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

The operating strategies employed by NNN have allowed it to increase dividends paid per common share for 18 consecutive years.

Investment in Real Estate or Interests in Real Estate

NNN's management believes that attractive acquisition opportunities for retail properties will continue to be available and that NNN is well suited to take advantage of these opportunities because of its access to 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 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,

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the financial and other characteristics of the existing tenant,

the tenant's business plan, operating history and management team,

the tenant's industry,

the terms of any existing leases, and

the rent to be paid by the tenant.

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

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

While NNN's primary business objectives and current portfolio ownership primarily 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 collateral related to business operations of an owned or leased property, or (iv) securities of other REITs, other entities engaged in real estate activities or securities of other issuers, including for the purpose of exercising control over such entities. For example, NNN from time to time has made investments in mortgage loans or held mortgages on properties that NNN has sold and has made structured finance investments and other loans related to properties acquired or sold.

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 \$400,000,000 unsecured revolving credit facility (Credit Facility). As of December 31, 2007, \$129,800,000 was outstanding and approximately \$270,200,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$2,685,000.

For the year ended December 31, 2007, NNN's ratio of total indebtedness to total gross assets (before accumulated depreciation) was approximately 43 percent and the secured indebtedness to total gross assets was approximately one percent. The total debt to total market capitalization was approximately 39 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 Operation - 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.

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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 issues and does not intend to do so.

Strategies and Policy Changes

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

Investment Properties

As of December 31, 2007, NNN owned 908 Investment Properties with an aggregate gross leasable area of 10,610,000 square feet, located in 44 states. Approximately 98 percent of the gross leasable area was leased at December 31, 2007. Reference is made to the Schedule of Real Estate and Accumulated Depreciation and Amortization filed with this report for a listing of NNN's Investment Properties and their respective carrying costs.

The following table summarizes NNN's Investment Properties as of December 31, 2007 (in thousands):

	Size ⁽¹⁾			Cost ⁽²⁾		
	High	Low	Average	High	Low	Average
Land	2,223	7	115	\$ 10,197	\$ 25	\$ 1,078
Building	135	1	12	13,874	44	1,440

⁽¹⁾ Approximate square feet.

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

In connection with the development of 27 Investment Properties, NNN has agreed to fund construction commitments (including land costs) of \$71,883,000, of which \$44,561,000 has been funded as of December 31, 2007.

During 2006, NNN disposed of the properties leased to the United States of America which had accounted for more than 10 percent of NNN's total rental income in 2005. As of December 31, 2007, NNN does not have any one tenant that accounts for ten percent or more of its rental income.

Leases. Although there are variations in the specific terms of the leases, the following is a summary of the general structure of NNN's leases. Generally, the leases of the Investment Properties provide for initial terms of 15 to 20 years. As of December 31, 2007, the weighted average remaining lease term was approximately 13 years. The Investment Properties are generally leased under net leases pursuant to which the tenant typically will bear responsibility for substantially all property costs and expenses associated with ongoing maintenance and operation, including utilities, property taxes and insurance. In addition, the majority of NNN's leases provide that the tenant is responsible for roof and structural repairs. The leases of the Investment Properties provide for annual base rental payments (payable in monthly installments) ranging from \$11,000 to \$1,800,000 (average of \$217,000). Tenant 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.

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

Certain Investment Properties have leases that provide the tenant with a purchase option to acquire the Investment Property from NNN. The purchase price calculations are generally stated in the lease agreement or are based on current market value.

The following table summarizes the lease expirations of NNN's Investment Portfolio as of December 31, 2007:

	% of Annual Base Rent ⁽¹⁾	# of Properties	Gross Leasable Area ⁽²⁾		% of Annual Base Rent ⁽¹⁾	# of Properties	Gross Leasable Area ⁽²⁾
2008	0.7%	14	258,000	2014	5.0%	31	509,000
2009	1.8%	24	458,000	2015	2.9%	20	469,000
2010	3.1%	38	401,000	2016	2.3%	16	262,000
2011	2.3%	21	336,000	2017	4.9%	27	674,000
2012	4.0%	35	563,000	2018	4.3%	33	505,000
2013	4.3%	32	687,000	Thereafter	64.4%	601	5,233,000

⁽¹⁾ Based on annualized base rent for all leases in place as of December 31, 2007.

⁽²⁾ Approximate square feet.

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

Top 10 Lines of Trade	% of Annual Base Rent ⁽¹⁾		
	2007	2006	2005
1. Convenience Stores	23.9%	16.3%	12.1%
2. Restaurants Full Service	10.3%	12.1%	6.6%
3. Drug Stores	5.0%	8.3%	10.0%
4. Automotive Parts	4.9%	1.6%	0.1%
5. Books	4.4%	5.7%	5.8%
6. Consumer Electronics	4.3%	5.6%	5.9%
7. Theaters	4.2%	-	-
8. Car Washes	4.0%	-	-
9. Sporting Goods	3.9%	7.3%	7.4%
10. Restaurants Limited Service	3.7%	4.7%	3.0%
Other	31.4%	38.4%	49.1%
	100.0%	100.0%	100.0%

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

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The following table summarizes the diversification by state of NNN's Investment Portfolio as of December 31, 2007:

	State	# of Properties	% of Annual Base Rent ⁽¹⁾
1.	Texas	201	20.2%
2.	Florida	84	11.3%
3.	North Carolina	62	6.8%
4.	Illinois	38	6.6%
5.	Georgia	48	5.3%
6.	Pennsylvania	80	4.7%
7.	Indiana	36	3.7%
8.	Colorado	15	3.4%
9.	Ohio	28	3.4%
10.	Missouri	19	3.0%
	Other	297	31.6%
		908	100.0%

(1) Based on annualized base rent for all leases in place as of December 31, 2007.

Mortgages and Notes Receivable

As of December 31, 2007 and 2006, NNN held mortgages and notes receivables with an aggregate principal balance of \$51,556,000 and \$17,227,000, respectively. The mortgages and notes receivables bear interest rates ranging from 7.00% to 12.00% with maturity dates ranging from May 2008 through October 2028.

Structured finance agreements are typically loans secured by a borrower's pledge of its ownership interest in the entity that owns or leases the real estate and/or other acceptable collateral such as fixtures, equipment or cash. These agreements are sometimes subordinated to senior loans secured by first mortgages encumbering the underlying real estate. Subordinated positions are generally subject to a higher risk of nonpayment of principal and interest than the more senior loans.

In 2007 and 2006, NNN made structured finance investments of \$12,376,000 and \$16,477,000, respectively. As of December 31, 2007, the structured finance investments bear a weighted average interest rate of 11.26% per annum, of which 9.78% is payable monthly and the remaining 1.48% accrues and is due at maturity. The principal balance of each structured finance investment is due in full at maturity, which ranges between January 2009 and March 2010. The structured finance investments are secured by the borrowers' pledge of their respective membership interests in the entities which own the respective real estate. As of December 31, 2007 and 2006, the outstanding principal balance of the structured finance investments was \$14,359,000 and \$13,917,000, respectively.

Commercial Mortgage Residual Interests

Orange Avenue Mortgage Investments, Inc. (OAMI), a majority 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

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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 \$24,340,000 at December 31, 2007.

Inventory Assets

The TRS develops Inventory Properties (Development Properties or Development Portfolio) as well as acquires existing Inventory Properties (Exchange Properties or Exchange Portfolio). NNN's Inventory Portfolio is held with the intent to sell the properties to purchasers who are looking for replacement like-kind exchange property or to other purchasers with different investment objectives. As of December 31, 2007, the TRS owned 23 Development Properties (eight completed, nine under construction and six land parcels) and 33 Exchange Properties. Reference is made to the Schedule of Real Estate and Accumulated Depreciation and Amortization filed with this report for a listing of the Inventory Properties and their respective carrying costs.

The following table summarizes the eight completed Development Properties and 33 Exchange Properties as of December 31, 2007 (in thousands):

	Size ⁽¹⁾			Cost ⁽²⁾		
	High	Low	Average	High	Low	Average
Completed Development Properties:						
Land	1,255	47	378	\$ 8,959	\$ 244	\$ 172
Building	125	8	34	37,007	1,635	9,212
Exchange Properties:						
Land	294	11	64	\$ 3,665	\$ 121	\$ 1,403
Building	47	2	15	4,785	184	2,033

⁽¹⁾ Approximate square feet.

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

Under Construction. In connection with the development of nine Inventory Properties by the TRS, NNN has agreed to fund total construction commitments (including land costs) of \$24,097,000, of which \$17,125,000 has been funded as of December 31, 2007.

Governmental Regulations Affecting Properties

Property Environmental Considerations. NNN may acquire a property that contains some level of contamination or potential contamination exists, subject to a determination of the level of risk and potential cost of remediation. Investments in real property create a potential for substantial environmental liability on the part of the owner of such property from the presence or discharge of hazardous substances on the property, 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 contamination or potential contamination exists, NNN generally requires the seller or tenant to (i) remediate the problem, (ii) indemnify NNN for environmental liabilities, or (iii) agree to other arrangements deemed appropriate by NNN to address environmental conditions at the property.

NNN has 70 Investment Properties currently under some level of environmental remediation. In general, the seller, the tenant or an adjacent land owner is responsible for the cost of the environmental remediation for each of these Investment Properties.

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Americans with Disabilities Act of 1990. The Investment and Inventory Properties, as commercial facilities, are required to comply with Title III of the Americans with Disabilities Act of 1990 (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, 2008, 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 condition or results of operations.

Other Regulations. State and local fire, life-safety and similar requirements regulate the use of NNN's Investment and Inventory Properties. The leases generally require that each tenant will have 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.

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

NNN's five largest tenants accounted for an aggregate of approximately 25 percent of NNN's annual base rent as of December 31, 2007. The default, financial distress or bankruptcy of one or more of NNN's tenants could cause substantial vacancies among NNN's Investment Portfolio. Vacancies reduce NNN's revenues until NNN is able to re-lease the affected properties and could decrease the ultimate sale value of each such vacant property. Upon the expiration of the leases that are currently in place, NNN may not be able to re-lease a vacant property at a comparable lease rate or without incurring additional expenditures in connection with such re-leasing.

A significant portion of the source of NNN's annual base rent is heavily concentrated in a specific industry classification and in specific geographic locations.

As of December 31, 2007, an aggregate of approximately 38 percent of NNN's annual base rent is generated from two retail lines of trade, convenience stores and restaurants, each representing more than 10 percent. In addition, as of December 31, 2007, an aggregate of approximately 32 percent of NNN's annual base rent is generated from properties in Texas and Florida, each representing more than 10 percent. Any financial hardship and/or changes in these industries or states could have an adverse effect on NNN's financial results.

There are a number of risks inherent in owning real estate and indirect interests in real estate.

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,

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

adverse changes in local real estate market conditions, such as an oversupply, reduction in demand or intense competition for tenants,

changes in tenant preferences that reduce the attractiveness of NNN's properties to tenants,

zoning, regulatory restrictions, or change in taxes, 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 income from investment. Such reduction in investment income could have an adverse effect on NNN's financial condition.

NNN may be subject to known or unknown environmental liabilities.

NNN may acquire a property that contains some level of contamination or potential contamination exists, subject to a determination of the level of risk and potential cost of remediation. Investments in real property create a potential for substantial environmental liability on the part of the owner of such property from the presence or discharge of hazardous substances on the property, regardless of fault. It is NNN's policy, as a part of its acquisition due diligence process, generally to obtain an environmental site assessment for each property. In such cases that NNN intends to acquire real estate where contamination or potential contamination exists, NNN generally requires the seller or tenant to (i) remediate the problem, (ii) indemnify NNN for environmental liabilities, or (iii) agree to other arrangements deemed appropriate by NNN to address environmental conditions at the property.

NNN has 70 Investment Properties currently under some level of environmental remediation. In general, the seller, the tenant or an adjacent land owner is responsible for the cost of the environmental remediation for each of these Investment Properties. In the event of a bankruptcy or other inability on the part of these parties to cover these costs, NNN may have to cover the costs of remediation, fines or other environmental liabilities at these and other properties. NNN may also own properties where required remediation has not begun or adverse environmental conditions have not yet been detected. This may require remediation or otherwise subject NNN to liability. NNN cannot assure that (i) it will not be required to undertake or pay for removal or remediation of any contamination of the properties currently or previously owned by NNN, (ii) NNN will not be subject to fines by governmental authorities or litigation, or (iii) the costs of such removal, remediation fines or litigation would not be material.

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

NNN cannot assure that it will 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

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NNN has historically leased properties, NNN will also be subject to the risks associated with investment in new markets or with new tenants that may be relatively unfamiliar to NNN's management team.

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

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

NNN may be unable to sell properties targeted for disposition (including its Inventory Properties) due to adverse market conditions. This may adversely affect, among other things, NNN's ability to sell under favorable terms, execute its operating strategy, achieve target earnings or returns, retire 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, 2007, the Residuals had a carrying value of \$24,340,000. The value of these Residuals is based on 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 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, 2007, mortgages and notes receivables had an outstanding principal balance of \$51,556,000 and the structured finance investments had an outstanding principal balance of \$14,359,000. If a borrower defaults on the debt senior to NNN's loan, or in the event of the bankruptcy of a borrower, NNN's loan will be satisfied only after the borrower's senior creditors claims are satisfied. Where debt senior to NNN's loans exists, the presence of intercreditor arrangements may limit NNN's ability to amend loan documents, assign the loans, accept prepayments, exercise remedies and control decisions made in bankruptcy proceedings relating to borrowers. Bankruptcy proceedings and litigation can significantly increase the time needed for NNN to acquire underlying collateral 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.

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Certain provisions of the 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 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. 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 investments include impasses on decisions, because no single co-venturer or partner has full control over the joint venture or partnership. Additionally, the partner may become insolvent or bankrupt.

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, which could have an adverse effect on its results of operations.

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

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

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

Terrorist attacks may negatively affect NNN's operations. There can be no assurance that there will not be further terrorist attacks against the United States or United States businesses. These attacks may directly impact NNN's physical facilities or the businesses of its tenants.

The United States is engaged in armed conflict, which could have an impact on NNN's tenants. 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

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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 a significant adverse impact on NNN's financial condition or results of operations.

Vacant properties or bankrupt tenants could adversely affect NNN.

As of December 31, 2007, NNN owned 12 vacant, unleased Investment Properties, which accounted for approximately two percent of the total gross leasable area of NNN's Investment Portfolio, in addition to three vacant land parcels. NNN is actively marketing these properties for sale or lease but may not be able to sell or lease these properties on favorable terms or at all. The lost revenues and increased property expenses resulting from the rejection by any bankrupt tenant of any of their respective leases with NNN could have a material adverse effect on the liquidity and results of operations of NNN if NNN is unable to re-lease the Investment Properties at comparable rental rates and in a timely manner. Less than one percent of the total gross leasable area of NNN's Investment Portfolio is leased to three tenants that have filed a voluntary petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. As a result, these tenants have the right to reject or affirm their lease 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, 2007, NNN had total mortgage debt and secured notes payable outstanding of approximately \$39,480,000, total unsecured notes payable of \$890,790,000 and \$129,800,000 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 dividends to its stockholders. In addition, increased leverage could increase the risk that NNN may default on its debt obligations. The Credit Facility contains financial covenants that could limit the amount of distributions to NNN's common and preferred stockholders.

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

require NNN to dedicate a substantial portion of its cash flow from operations to payments on its debt, thereby reducing funds available for operations, real estate investments and other appropriate business opportunities that may arise in the future,

increase NNN's vulnerability to general adverse economic and industry conditions,

limit NNN's ability to obtain any additional financing it may need in the future for working capital, debt refinancing, capital expenditures, real estate investments, development or other general corporate purposes,

make it difficult to satisfy NNN's debt service requirements,

limit NNN's ability to pay dividends 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.

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NNN's ability to make scheduled payments of principal or interest on its debt, or to refinance such debt will depend primarily on its future performance, which to a certain extent is subject to the creditworthiness of its tenants, competition, as well as 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 you that any such refinancing, sale of assets or additional financing would be possible on terms and conditions, including but not limited to the interest rate, which NNN would find acceptable.

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

NNN's unsecured debt contains various restrictive covenants which include, among others, provisions restricting NNN's ability to:

incur or guarantee additional debt,

make certain distributions, investments and other restricted payments, including dividend payments on its outstanding common and preferred stock,

limit the ability of restricted subsidiaries to make payments to NNN,

enter into transactions with certain affiliates,

create certain liens, and

consolidate, merge or sell NNN's assets.

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

relating to the maintenance of the property securing the debt,

restricting its ability to sell, assign or further encumber the properties securing the debt,

restricting its ability to incur additional debt,

restricting its ability to amend or modify existing leases, and

relating to certain prepayment restrictions.

NNN's ability to meet some of the covenants in its debt, 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.

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

maintain certain maximum leverage ratios,

maintain certain minimum interest and debt service coverage ratios,

limit dividends declared and paid to NNN's common and preferred stockholders, and

limit investments in certain types of assets.

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The market value of NNN's equity and debt securities could be substantially affected by various factors.

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 may be unrelated to NNN's operating performance or prospects. These factors include among many:

general economic and financial market conditions,

level and trend of interest rates,

NNN's financial condition and performance,

market perception of NNN compared to other REITs, and

market perception of REITs compared to other investment sectors.

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

NNN intends to operate in a manner that will allow NNN to continue to qualify as a real estate investment trust (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 Internal Revenue Code provisions 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.

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 maintains its REIT status, NNN may be subject to certain federal, state and local taxes on its income and property.

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

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

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Adverse legislative or regulatory tax changes could reduce the NNN's earnings, cash flow and market price of our 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 2010). 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 our common stock.

Changes in accounting pronouncements could adversely impact NNN 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 that govern the preparation of its 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.

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 to fund 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, 2007, 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.

Item 1B. Unresolved Staff Comments.

None.

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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 is 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. Submission of Matters to a Vote of Security Holders

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 500) for the five year period commencing December 31, 2002 and ending December 31, 2007. The graph assumes an investment of \$100 on December 31, 2002.

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2007					
High	\$ 25.950	\$ 25.450	\$ 24.580	\$ 26.150	\$ 26.150
Low	22.390	21.760	20.200	22.480	20.200
Close	24.190	21.860	24.380	23.380	23.380
Dividends paid per share	0.335	0.355	0.355	0.355	1.400
2006					
High	\$ 23.540	\$ 23.370	\$ 22.460	\$ 24.100	\$ 24.100
Low	20.220	18.810	19.820	21.250	18.810
Close	23.300	19.950	21.600	22.950	22.950
Dividends paid per share	0.325	0.325	0.335	0.335	1.320

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

	2007		2006	
Ordinary dividends	\$ 1.397402	99.8144%	\$ 1.150780	87.1803%
Qualified dividends	0.000414	0.0296%	-	-
Capital gain	0.002184	0.1560%	0.150261	11.3834%
Unrecaptured Section 1250 Gain	-	-	0.018959	1.4363%
	\$ 1.400000	100.0000%	\$ 1.320000	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 Internal Revenue Code of 1986, as amended, and such other factors as the board of directors deems relevant.

In February 2008, NNN paid dividends to its stockholders of \$21,598,000 or \$0.355 per share of common stock.

On January 31, 2008, there were 1,556 stockholders of record of common stock.

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Historical Financial Highlights

(dollars in thousands, except per share data)

	2007	2006	2005	2004	2003
Gross revenues ⁽¹⁾	\$ 208,630	\$ 180,878	151,831	133,875	112,073
Earnings from continuing operations	85,150	64,695	35,610	30,317	22,519
Net earnings	157,110	182,505	89,400	64,934	53,473
Total assets	2,539,605	1,917,497	1,736,588	1,300,517	1,211,639
Total debt	1,060,070	776,737	861,045	524,241	467,419
Total equity	1,407,285	1,096,505	828,087	756,998	730,754
Cash dividends declared to:					
Common stockholders	92,989	76,035	69,018	66,272	55,473
Series A Preferred Stock stockholders	-	4,376	4,008	4,008	4,008
Series B Convertible Preferred Stock stockholders	-	419	1,675	1,675	502
Series C Preferred Stock stockholders	6,785	923	-	-	-
Weighted average common shares:					
Basic	66,152,437	57,428,063	52,984,821	51,312,434	43,108,213
Diluted	66,407,530	58,079,875	54,640,143	51,742,518	43,896,800
Per share information:					
Earnings from continuing operations:					
Basic	1.18	1.03	0.56	0.48	0.42
Diluted	1.18	1.02	0.58	0.48	0.42
Net earnings:					
Basic	2.27	3.08	1.58	1.15	1.14
Diluted	2.26	3.05	1.56	1.15	1.13
Dividends declared to:					
Common stockholders	1.40	1.32	1.30	1.29	1.28
Series A Preferred Stock stockholders	-	2.45625	2.25	2.25	2.25
Series B Convertible Preferred Stock stockholders	-	41.875	167.50	167.50	50.25
Series C Preferred Stock depositary stockholders	1.84375	0.250955	-	-	-
Other data:					
Cash flows provided by (used in):					
Operating activities	129,634	1,676	19,226	85,800	54,215
Investing activities	(536,717)	(90,099)	(230,738)	(69,963)	(256,870)
Financing activities	432,907	81,864	217,844	(19,225)	205,965
Funds from operations diluted ⁽²⁾	124,113	97,121	81,803	73,065	61,749

(1) Gross revenues include revenues from NNN's continuing and discontinued operations. FASB issued Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and broadens the presentation of discontinued operations in the income statement to include a component of an entity. Accordingly, the results of operations related to these certain properties that have been classified as held for sale or have been disposed of subsequent to December 31, 2001, the effective date of SFAS No. 144, have been reclassified as earnings from discontinued operations.

(2) The National Association of Real Estate Investment Trusts (NAREIT) developed 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

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under GAAP. FFO is defined by NAREIT and is used by NNN as follows: net earnings (computed in accordance with GAAP) plus depreciation and amortization of assets unique to the real estate industry, excluding gains (or including losses) on the disposition of real estate held for investment, and NNN's share of these items from NNN's unconsolidated partnerships and joint ventures.

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

NNN has earnings from discontinued operations in each of its segments, investment assets and inventory assets, real estate held for investment and real estate held for sale. All property dispositions from NNN's investment segment are classified as discontinued operations. In addition, certain properties in NNN's inventory segment that have generated revenues before disposition are classified as discontinued operations. These inventory properties have not historically been classified as discontinued operations, therefore, prior period comparable consolidated financial statements have been restated to include these properties in its earnings from discontinued operations. These adjustments resulted in a decrease in NNN's reported total revenues and total and per share earnings from continuing operations and an increase in NNN's earnings from discontinued operations. However, NNN's total and per share net earnings available to common stockholders is not affected.

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

	2007	2006	2005	2004	2003
Reconciliation of funds from operations:					
Net earnings	\$ 157,110	\$ 182,505	\$ 89,400	\$ 64,934	\$ 53,473
Real estate depreciation and amortization:					
Continuing operations	30,067	20,358	14,331	10,871	9,219
Discontinued operations	315	2,061	6,076	4,844	2,653
Partnership/joint venture real estate depreciation	31	463	606	622	699
Partnership gain on sale of asset	-	(262)	-	-	-
Gain on disposition of equity investment	-	(11,373)	-	-	-
Gain on disposition of investment assets	(56,625)	(91,332)	(9,816)	(2,523)	(287)
Extraordinary gain	-	-	(14,786)	-	-
FFO	130,898	102,420	85,811	78,748	65,757
Series A Preferred Stock dividends ⁽¹⁾	-	(4,376)	(4,008)	(4,008)	(4,008)
Series B Convertible Preferred Stock dividends ⁽¹⁾	-	(419)	(1,675)	(1,675)	(502)
Series C Preferred Stock dividends	(6,785)	(923)	-	-	-
FFO available to common stockholders basic	124,113	96,702	80,128	73,065	61,247
Series B Convertible Preferred Stock dividends, if dilutive	-	419	1,675	-	502
FFO available to common stockholders diluted	\$ 124,113	\$ 97,121	\$ 81,803	\$ 73,065	\$ 61,749

⁽¹⁾ The Series A and Series B Convertible Preferred stock issuances are no longer outstanding.

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

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

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.

Overview

NNN's operations are divided into two primary business segments: (i) investment assets, including real estate assets and mortgages, and notes receivable (including structured finance investments) on the consolidated balance sheets (collectively, Investment Assets), and (ii) inventory real estate assets (Inventory Assets). The Investment Assets are operated through National Retail Properties, Inc. and its wholly owned subsidiaries. NNN acquires, owns, invests in, manages and develops properties that are leased primarily to retail tenants under long-term net leases (Investment Properties or Investment Portfolio). The Inventory Assets are operated through the TRS. The TRS, directly and indirectly, through investment interests, owns real estate primarily for the purpose of selling the real estate (Inventory Properties or Inventory Portfolio). Additionally, the TRS acquires and develops Inventory Properties (Development Properties or Development Portfolio) and also acquires existing Inventory Properties (Exchange Properties or Exchange Portfolio).

As of December 31, 2007, NNN owned 908 Investment Properties, with an aggregate leasable area of 10,610,000 square feet, located in 44 states. Approximately 98 percent of NNN's Investment Portfolio was leased at December 31, 2007. In addition to the Investment Properties, as of December 31, 2007, NNN had \$65,964,000 and \$24,340,000 in mortgages and notes receivable (including accrued interest receivable) and commercial mortgage residual interests, respectively. As of December 31, 2007, the TRS owned 23 Development Properties (eight completed inventory, nine under construction and six land parcels) and 33 Exchange Properties.

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

The growth of the Investment Portfolio from 524 properties to 908 properties over the three years ending December 31, 2007 has increased property diversification. NNN has increased its investments in the convenience store sector. This sector represents a large part of the freestanding retail property marketplace which NNN believes represents an area of attractive investment opportunity. Similarly, NNN has some geographic concentration in the south and southeast which NNN believes are areas of above average population growth.

NNN formed a joint venture with an institutional investor in 2007. This joint venture plans to acquire up to \$220 million of real estate assets leased to convenience store operators. NNN owns a 15 percent equity ownership interest in the joint venture which mitigates NNN's convenience store sector concentration compared to acquiring these assets in the Investment Portfolio. Additionally, the joint venture provides an additional source of capital to fund property acquisitions.

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As of December 31, 2007, 2006 and 2005, occupancy of the Investment Portfolio has averaged 98 percent. The Investment Portfolio's average remaining lease term of 13 years has remained fairly constant over the past three years which, coupled with its net lease structure, provide enhanced probability of maintaining occupancy and operating earnings in periods of soft economic conditions.

Critical Accounting Policies and Estimates

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

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

Purchase Accounting for Acquisition of Real Estate Subject to a Lease For acquisitions of real estate subject to a lease subsequent to June 30, 2001, the effective date of Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations (SFAS 141), the fair value of the real estate acquired is allocated to the acquired tangible assets, consisting of land, building and tenant improvements, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, value of in-place leases, and value of tenant relationships, based in each case on their relative fair values.

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

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

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

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Management periodically assesses its real estate for possible impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable through operations. 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 Inventory Portfolio. The TRS acquires and/or develops and owns properties for the purpose of re-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 currently being, constructed by the TRS. The TRS records the acquisition of the real estate at cost, including the acquisition and closing costs. The cost of the real estate developed by the TRS includes direct and indirect costs of construction, interest and other miscellaneous costs incurred during the development period until the project is substantially complete and available for occupancy. Real estate held for sale is not depreciated.

Commercial Mortgage Residual Interest at Fair Value. Commercial mortgage residual interests, classified as available for sale, are reported at their market values with unrealized gains and losses reported as other comprehensive income in stockholders' equity. The commercial mortgage residual interests were acquired in connection with the acquisition of 78.9 percent equity interest of OAMI. NNN recognizes the excess of all cash flows attributable to the commercial mortgage residual interests estimated at the acquisition/transaction date over the initial investment (the accretable yield) as interest income over the life of the beneficial interest using the effective yield method. Losses are considered other than temporary valuation impairments if and when there has been a change in the timing or amount of estimated cash flows, exclusive of changes in interest rates, that leads to a loss in value. Certain of the commercial mortgage residual interests have been pledged as security for notes payable.

Revenue Recognition. Rental revenues for non-development real estate assets are recognized when earned in accordance with SFAS 13, *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.

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 collectibility of receivables from tenants, including accrued rental income, and capitalized overhead relating to development projects. Actual results could differ from those estimates.

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Results of Operations

Property Analysis Investment Portfolio

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

	2007	2006	2005
Investment Properties Owned:			
Number	908	710	524
Total gross leasable area (square feet)	10,610,000	9,341,000	9,227,000
Investment Properties Leased:			
Number	892	697	512
Total gross leasable area (square feet)	10,355,000	9,173,000	9,066,000
Percent of total gross leasable area leased	98%	98%	98%
Weighted average remaining lease term (years)	13	12	11

The following table summarizes the lease expirations of NNN's Investment Portfolio as of December 31, 2007:

	% of Annual Base Rent ⁽¹⁾	# of Properties	Gross Leasable Area ⁽²⁾		% of Annual Base Rent ⁽¹⁾	# of Properties	Gross Leasable Area ⁽²⁾
2008	0.7%	14	258,000	2014	5.0%	31	509,000
2009	1.8%	24	458,000	2015	2.9%	20	469,000
2010	3.1%	38	401,000	2016	2.3%	16	262,000
2011	2.3%	21	336,000	2017	4.9%	27	674,000
2012	4.0%	35	563,000	2018	4.3%	33	505,000
2013	4.3%	32	687,000	Thereafter	64.4%	601	5,233,000

(1) Based on the annualized base rent for all leases in place as of December 31, 2007.

(2) Approximate square feet.

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

Top 10 Lines of Trade	% of Annual Base Rent ⁽¹⁾		
	2007	2006	2005
1. Convenience Stores	23.9%	16.3%	12.1%
2. Restaurants Full Service	10.3%	12.1%	6.6%
3. Drug Stores	5.0%	8.3%	10.0%
4. Automotive Parts	4.9%	1.6%	0.1%
5. Books	4.4%	5.7%	5.8%
6. Consumer Electronics	4.3%	5.6%	5.9%
7. Theaters	4.2%	-	-
8. Car Washes	4.0%	-	-
9. Sporting Goods	3.9%	7.3%	7.4%
10. Restaurants Limited Service	3.7%	4.7%	3.0%
Other	31.4%	38.4%	49.1%
	100.0%	100.0%	100.0%

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

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The following table shows the top 10 states in which NNN's Investment Properties are located in as of December 31, 2007:

State	# of Properties	% of Annual Base Rent ⁽¹⁾
1. Texas	201	20.2%
2. Florida	84	11.3%
3. North Carolina	62	6.8%
4. Illinois	38	6.6%
5. Georgia	48	5.3%
6. Pennsylvania	80	4.7%
7. Indiana	36	3.7%
8. Colorado	15	3.4%
9. Ohio	28	3.4%
10. Missouri	19	3.0%
Other	297	31.6%
	908	100.0%

⁽¹⁾ Based on annualized base rent for all leases in place as of December 31, 2007.

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

	2007	2006	2005
Acquisitions:			
Number of Investment Properties	235	213	170
Gross leasable area (square feet)	2,205,000	1,130,000	1,150,000
Total dollars invested ⁽¹⁾	\$ 696,682	\$ 371,898	\$ 332,461

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

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

	2007	2006	2005
Number of properties	37	30	12
Gross leasable area (square feet)	997,000	1,015,000	476,000
Net sales proceeds	\$ 146,041	\$ 319,361	\$ 40,377
Net gain	\$ 56,625	\$ 91,332	\$ 9,816

Property Analysis — Inventory Portfolio

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

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	2007	2006	2005
Development Portfolio:			
Completed Inventory Properties	8	11	1
Properties under construction	9	5	12
Land parcels	6	13	4
	23	29	17
Exchange Portfolio:			
Inventory Properties	33	68	46
Total Inventory Properties	56	97	63

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

	2007	2006	2005
Development Portfolio:			
Number of properties acquired	3	16	15
Dollars invested ⁽¹⁾	\$ 64,694	\$ 82,524	\$ 67,846
Exchange Portfolio:			
Number of properties acquired	23	77	58
Dollars invested	\$ 105,152	\$ 118,553	\$ 66,527
Total dollars invested	\$ 169,846	\$ 201,077	\$ 134,373

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

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

	2007		2006		2005	
	# of Properties	Gain	# of Properties	Gain	# of Properties	Gain
Development ⁽¹⁾	13	\$ 5,125	9	\$ 5,774	12	\$ 12,987
Exchange	58	5,888	55	3,892	16	2,641
	71	\$ 11,013	64	\$ 9,666	28	\$ 15,628

⁽¹⁾ Net of any intercompany eliminations or minority interest.

Business Combinations

Orange Avenue Mortgage Investments, Inc. In December 2004, OAMI sold its loan origination, securitization and servicing operations and the majority of its assets and liabilities to a third party, leaving OAMI with an interest in seven commercial real estate loan securitization residual interests. The loans in each of the securitizations are secured by first mortgages on commercial real estate and generally borrower personal guarantees. On May 2, 2005, NNN exercised its option to acquire 78.9 percent of the common shares of OAMI for \$9,379,000. As a result of the option exercise, NNN has consolidated OAMI in its consolidated financial statements.

In accordance with SFAS No. 141, *Business Combinations* (SFAS 141), NNN recorded the assets and liabilities of OAMI at fair value and recognized an extraordinary gain of \$14,786,000, equal to the excess fair value over the option price, as all assets acquired were financial assets and current assets.

Between June 2001 and July 2003, a wholly owned subsidiary of NNN, Net Lease Funding, Inc. (NLF), entered into five limited liability company agreements with OAMI to create five limited liability companies (collectively, the LLCs). Kevin B. Habicht, an officer and director of NNN, is an officer, director and indirect stockholder of OAMI. Craig Macnab, an officer and director of NNN, and Julian E. Whitehurst, an officer of NNN, are each an officer and director of OAMI. Each of the LLCs holds an interest in mortgage loans and is 100 percent equity financed. Prior to the acquisition of the 78.9 percent equity interest in OAMI, NLF held a non-voting and non-controlling interest in each of the LLCs ranging between 36.7 and 44.0 percent and accounted for its investment under the equity method of accounting.

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As a result of NNN's acquisition of 78.9 percent equity interest in OAMI, NNN's interest in the LLCs is no longer accounted for as an equity investment and is now included as part of OAMI in NNN's consolidated financial statements. In addition, certain officers and directors of NNN own preferred shares of OAMI.

Prior to the acquisition of 78.9 percent equity interest in OAMI, NNN received \$2,749,000 in distribution from the LLCs during the year ended December 31, 2005. For the year ended December 31, 2005, NNN recognized \$1,467,000 of earnings from the LLCs.

In connection with the independent valuations of the Residuals' fair value, NNN reduced the carrying value of the Residuals to reflect such fair value at December 31, 2007. The reduction in the Residuals' value that related to the Residuals acquired at the time of the option exercise was recorded as a purchase price allocation adjustment. NNN recorded an other than temporary valuation impairment of \$638,000 and \$8,779,000 for the years ended December 31, 2007 and 2006, respectively. In addition, NNN recorded \$326,000 of unrealized losses and \$1,992,000 of unrealized gains as other comprehensive income for the years ended December 31, 2007 and 2006, respectively.

NNN merged certain of its wholly owned subsidiaries into National Retail Properties, Inc. and elected to convert OAMI to a REIT. As a result, effective January 1, 2005, OAMI was taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, and related regulations. Upon making the REIT election, \$3,453,000 of OAMI's tax liability was eliminated and recorded as an adjustment to the net assets acquired at the time of the option exercise. The remaining tax liability will be reduced over the next ten years in proportion to the reduction of the basis of the respective commercial mortgage residual interests.

National Properties Corporation. On June 16, 2005, NNN acquired 100 percent of National Properties Corporation (NAPE), a publicly traded company, which owned 43 freestanding properties located in 12 states. Results of NAPE operations have been included in the consolidated financial statements since the date of acquisition. NAPE stockholders received 1,636,532 newly issued shares of NNN's common stock. In accordance with SFAS 141, the acquisition price of \$32,199,000 was allocated to the assets acquired and liabilities assumed at their fair values.

Revenue from Continuing Operations Analysis

General. During the year ended December 31, 2007, NNN's rental income increased primarily due to the acquisition of Investment Properties (See Results of Operations Property Analysis Investment Portfolio Property Acquisitions). NNN anticipates any significant increase in rental income will continue to come primarily from additional property acquisitions.

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

	2007	2006	2005	Percent of Total			2007 Versus 2006 Percent Increase (Decrease)	2006 Versus 2005 Percent Increase (Decrease)
Rental Income ⁽¹⁾	\$ 170,733	\$ 125,004	\$ 91,876	91.6%	88.6%	84.1%	36.6%	36.1%
Real estate expense reimbursement from tenants	5,720	4,619	3,902	3.1%	3.3%	3.6%	23.8%	18.4%
Interest and other income from real estate transactions	5,076	4,265	6,111	2.7%	3.0%	5.6%	19.0%	(30.2)%
Interest income on commercial mortgage residual interests	4,882	7,268	7,349	2.6%	5.1%	6.7%	(32.8)%	(1.1)%
Total revenues from continuing operations	\$ 186,411	\$ 141,156	\$ 109,238	100.0%	100.0%	100.0%	32.1%	29.2%

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

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Revenue from Operations by Source of Income. NNN has identified two primary operating segments, and thus, sources of revenue: (i) earnings from NNN's Investment Assets and (ii) earnings from NNN's Inventory Assets. NNN revenues from continuing operations come primarily from Investment Assets. The following table summarizes the revenues from continuing operations for each of the years ended December 31, (dollars in thousands):

				Percent of Total			2007	2006
	2007	2006	2005	2007	2006	2005	Versus 2006 Percent Increase (Decrease)	Versus 2005 Percent Increase (Decrease)
Investment Assets	\$ 170,234	\$ 124,702	\$ 104,681	91.3%	88.3%	95.8%	36.5%	19.1%
Inventory Assets	16,177	16,454	4,557	8.7%	11.7%	4.2%	(1.7)%	261.1%
Total revenues	\$ 186,411	\$ 141,156	\$ 109,238	100.0%	100.0%	100.0%	32.1%	29.2%

Comparison of Year Ended December 31, 2007 to Year Ended December 31, 2006.

Rental Income. Rental income increased for the year ended December 31, 2007 as compared to the same period in 2006 primarily from NNN's acquisition of 235 Investment Properties with an aggregate gross leasable area of 2,205,000 square feet during the year ended December 31, 2007. The Investment Portfolio occupancy rate remained relatively stable at approximately 98 percent for each of the years ended December 31, 2007 and 2006.

Real Estate Expense Reimbursements from Tenants. Real estate expense reimbursements from tenants remained relatively constant as a percentage of revenues from continuing operations, but increased for the year ended December 31, 2007 as compared to the year ended December 31, 2006 was attributable to a full year of reimbursement from certain properties acquired in 2006 and the reimbursements from the newly acquired Investment Properties acquired in 2007.

Interest and Other Income from Real Estate Transactions. Interest and other income from real estate transactions increased for the year ended December 31, 2007 as compared to the same period in 2006. This increase is primarily attributable to an increase in interest income on its mortgages and notes receivables. The aggregate principal balance of NNN's mortgages and notes receivables at December 31, 2007 and 2006 was \$51,556,000 and \$17,227,000, respectively. The increase in interest income was partially offset by a lower weighted average outstanding principal balance on NNN's structured finance investments during 2007. NNN recorded interest income of \$4,240,000 and \$3,966,000 for the years ended December 31, 2007 and 2006, respectively.

Interest Income on Commercial Mortgage Residual Interests. The decrease in interest income on commercial mortgage residual interests for the year ended December 31, 2007 as compared to 2006 is primarily the result of the amortization and pre-payments of the underlying notes.

Gain from Disposition of Real Estate, Inventory Portfolio. Inventory Properties typically are operating properties and are classified as discontinued operations. However, the gains on the sale of Inventory Properties which are sold prior to rent commencement are reported in continuing operations. The decrease in the gain from the disposition of real estate is primarily due to the timing of sales of these Inventory Properties.

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The following table summarizes the Inventory Property dispositions included in continuing operations for the years ended December 31 (dollars in thousands):

	2007		2006	
	# of Properties	Gain	# of Properties	Gain
Gain	2	\$ 332	6	\$ 8,000
Minority interest	-	-	-	(3,609)
Gain, net of minority interest	2	\$ 332	6	\$ 4,391

Comparison of Year Ended December 31, 2006 to Year Ended December 31, 2005.

Rental Income. NNN's Rental Income increased primarily due to the addition of an aggregate gross leasable area of 1,130,000 square feet to NNN's Investment Portfolio resulting from the acquisition of an additional 213 Investment Properties during the year ended December 31, 2006. The Investment Portfolio occupancy rate remained relatively stable at approximately 98 percent for each of the years ended December 31, 2006 and 2005.

Real Estate Expense Reimbursements from Tenants. Real estate expense reimbursements from tenants remained fairly constant as a percent of total revenues from continuing operations. The increase for the year ended December 31, 2006 as compared to the year ended December 31, 2005 was attributable to a full year of reimbursements from certain tenants acquired in 2005 and the reimbursements from the newly acquired Investment Properties in 2006.

Interest and Other Income from Real Estate Transactions. Interest and other income from real estate transactions decreased for the year ended December 31, 2006, primarily due to a decrease in interest earned on the structured finance investments compared to the year ended December 31, 2005. The weighted average outstanding principal balance of the structured finance investments during the year ended December 31, 2006 and 2005 was \$16,834,000 and \$27,584,000, respectively. In addition, NNN received \$886,000 of disposition and development fee income during the year ended December 31, 2006. There was no fee income recognized in 2006.

Interest Income on Commercial Mortgage Residual Interests. NNN recognizes interest income on commercial mortgage residual interests as a result of its acquisition of 78.9 percent equity interest in OAMI in May 2005. As a result of the timing of the acquisition, NNN recognized such income for the entire year ended December 31, 2006, versus a partial period in 2005 (see Business Combinations). However, the increase in interest income from the commercial mortgage residual interests for the year ended December 31, 2006, is partially offset by a decrease in interest income as a result of the amortization and prepayments of the underlying loans.

Gain from Disposition of Real Estate, Inventory Portfolio. Inventory Properties typically are operating properties and are classified as discontinued operations. However, the gains on the sale of Inventory Properties which are sold prior to rent commencement are reported in continuing operations. The increase in the gain from the disposition of real estate is primarily due to the varying gross margin on sales of these Inventory Properties and the timing of such sales.

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The following table summarizes the Inventory Property dispositions included in continuing operations for the years ended December 31 (dollars in thousands):

	2006		2005	
	# of Properties	Gain	# of Properties	Gain
Gain	6	\$ 8,000	6	\$ 2,010
Minority interest	-	(3,609)	-	-
Gain, net of minority interest	6	\$ 4,391	6	\$ 2,010

Analysis of Expenses from Continuing Operations

General. During 2007, operating expenses from continuing operations increased primarily as a result of the acquisition of additional properties and was offset by a decrease in impairments. Operating expenses from continuing operations decreased as a percentage from NNN's total revenues from continuing operations due to increased efficiencies. The following summarizes NNN's expenses from continuing operations (dollars in thousands):

	2007	2006	2005
General and administrative	\$ 23,542	\$ 24,009	\$ 22,401
Real estate	8,272	6,701	5,613
Depreciation and amortization	32,593	22,445	16,252
Impairment real estate	791	-	1,673
Impairment commercial mortgage residual interests valuation	638	8,779	2,382
Restructuring costs	-	1,580	-
Total operating expenses	\$ 65,836	\$ 63,514	\$ 48,321
Interest and other income	\$ (4,753)	\$ (3,816)	\$ (2,039)
Interest expense	49,286	45,872	33,309
Total other expenses (revenues)	\$ 44,533	\$ 42,056	\$ 31,270

	Percentage of Total Operating Expenses			Percentage of Revenues from Continuing Operations			2007 Versus 2006 Percent Increase (Decrease)	2006 Versus 2005 Percent Increase (Decrease)
	2007	2006	2005	2007	2006	2005	(Decrease)	(Decrease)
General and administrative	35.8%	37.8%	46.4%	12.6%	17.0%	20.5%	(1.9)%	7.2%
Real estate	12.5%	10.6%	11.6%	4.5%	4.8%	5.1%	23.4%	19.4%
Depreciation and amortization	49.5%	35.3%	33.6%	17.5%	15.9%	14.9%	45.2%	38.1%
Impairment real estate	1.2%	-	3.5%	0.4%	-	1.5%	100.0%	(100.0)%
Impairment commercial mortgage residual interests valuation	1.0%	13.8%	4.9%	0.3%	6.2%	2.2%	(92.7)%	268.6%

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Restructuring costs	-	2.5%	-	-	1.1%	-	(100.0)%	100.0%
Total operating expenses	100.0%	100.0%	100.0%	35.3%	45.0%	44.2%	3.7%	31.4%
Interest and other income	(10.7)%	(9.1)%	(6.5)%	(2.5)%	(2.7)%	(1.9)%	24.6%	87.2%
Interest expense	110.7%	109.1%	106.5%	26.4%	32.5%	30.5%	7.4%	37.7%
Total other expenses (revenues)	100.0%	100.0%	100.0%	23.9%	29.8%	28.6%	5.9%	34.5%

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Comparison of Year End December 31, 2007 to Year Ended December 31, 2006.

General and Administrative. General and administrative expenses decreased slightly for the year ended December 31, 2007 as compared to the same period in 2006; however, such expenses remained fairly consistent as a percentage of total operating expense from continuing operations. The decrease in general and administrative expenses for 2007 was primarily attributable to a decrease in expenses related to personnel compensation, and a decrease in lost pursuit costs.

Real Estate. Real estate expenses increased for the year ended December 31, 2007, as compared to the year ended December 31, 2006; however, such expenses remained fairly consistent as a percentage of total revenues from continuing operations. The increase in real estate expenses for 2007 as compared to the same period for 2006 is primarily attributable to (i) an increase in tenant reimbursable real estate expenses, and (ii) an increase in certain real estate expenses that were not reimbursable by tenants.

Depreciation and Amortization. Depreciation and amortization expenses increased for the year ended December 31, 2007, as compared to the year ended December 31, 2006. The increase for the year ended December 31, 2007, as compared to the same period in 2006 is attributable to (i) the acquisition of 235 Investment Properties with an aggregate gross leasable area of 2,205,000 square feet in 2007, and (ii) a full year of depreciation and amortization on the 213 Investment Properties with an aggregate gross leasable area of 1,130,000 square feet which were acquired during 2006. The increase in depreciation and amortization was partially offset by the disposition of 37 Investment Properties with an aggregate gross leasable area of 997,000 square feet during the year ended December 31, 2007.

Impairment Real Estate. NNN reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Events or circumstances that may occur include changes in real estate market conditions, the ability of NNN to re-lease properties that are currently vacant or become vacant, and the ability to sell properties at an attractive return. Generally, NNN calculates a possible impairment by comparing the 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 year ended December 31, 2007, NNN recorded impairments totaling \$791,000. No impairments were recorded during the year ended December 31, 2006.

Impairment Commercial Mortgage Residual Interests Valuation. In connection with the independent valuations of the Residuals fair value, NNN reduced the carrying value of the Residuals to reflect such fair value at December 31, 2007 and 2006. In 2007, due to changes in market conditions relating to residual assets, the independent valuation increased the discount rate from 17% to 25%. Other than temporary valuation adjustments are recorded as a reduction of earnings from operations. For the years ended December 2007 and 2006, NNN recorded an other than temporary impairment of \$638,000 and \$8,779,000, respectively.

Restructuring Costs. During the year ended December 31, 2006, NNN recorded restructuring costs of \$1,580,000, which included severance costs and accelerated vesting of restricted stock in connection with a workforce reduction in April 2006. No such costs were incurred during 2007.

Interest Expense. The increase in interest expense for the year ended December 31, 2007, as compared to the year ended December 31, 2006, is primarily attributable to an increase of \$126,164,000 in weighted average long-term debt outstanding. The increase in the weighted average long-term debt was due to the increase in dollars invested in Investment and Inventory Properties. The increase in interest expense was partially offset by an increase of \$1,440,000 in the interest capitalized to construction

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projects in 2007, as well as by a decrease in the overall weighted average interest rate for 2007 as compared to 2006. The following represents the primary changes in debt:

- (i) issuance of \$250,000,000 of notes payable in September 2007 with an effective interest rate of 6.92% due in October 2017,
- (ii) repayment of mortgage in September 2007 with balance of \$7,305,000 at December 31, 2006 and an interest rate of 7.37%,
- (iii) the decrease in the weighted average debt outstanding on the revolving credit facility (decreased by \$28,506,000),
- (iv) issuance of \$172,500,000 of notes payable in September 2006 with an effective interest rate of 3.95% due in September 2026,
- (v) payoff of the \$20,800,000 variable rate term note in October 2007, which was assumed in connection with the acquisition of NAPE in June 2005,
- (vi) repayment of a mortgage in February 2006 with a balance of \$18,538,000 at December 31, 2005 with an interest rate of 7.435%, and
- (vii) payoff of the \$10,500,000 OAMI secured note payable with a stated interest rate of 10.00%.

Comparison of Year Ended December 31, 2006 to Year Ended December 31, 2005.

General and Administrative. General and administrative expenses increased for the year ended December 31, 2006, however, such expenses decreased as a percentage of total operating expenses from continuing operations for the year ended December 31, 2006. The increase in general and administrative expenses for 2006 was primarily attributable to (i) an increase in expenses related to personnel compensation, (ii) an increase in professional services provided to NNN, and (iii) an increase in lost pursuit costs. The increase in 2006 was partially offset by the decrease in expenses related to personnel as a result of a workforce reduction in April 2006 and an increase in costs capitalized to projects under development.

Real Estate. Real estate expenses increased for the year ended December 31, 2006, as compared to the year ended December 31, 2005; however, such expenses remained fairly consistent as a percentage of total operating expenses and total revenues from continuing operations. The increase in real estate expenses for 2006 when compared to the same period for 2005 is primarily attributable to (i) an increase in tenant reimbursable real estate expenses, (ii) an increase in expenses related to vacant properties, and (iii) an increase in certain real estate expenses that were not reimbursable by tenants.

Depreciation and Amortization. Depreciation and amortization expenses increased for the year ended December 31, 2006, as compared to the year ended December 31, 2005; however, such expenses remained fairly consistent as a percentage of total operating expenses and total revenues from continuing operations. The increase for the year ended December 31, 2006, when compared to the same period in 2005 is attributable to (i) the acquisition of 213 Investment Properties with an aggregate gross leasable area of 1,130,000 square feet in 2006 and (ii) a full year of depreciation and amortization on the 170 Investment Properties with an aggregate gross leasable area of 1,150,000 square feet acquired in 2005. The increase in depreciation and amortization was partially offset by the disposition of 30 Investment Properties with an aggregate gross leasable area of 1,015,000 square feet during the year ended December 31, 2006.

Impairment Real Estate. NNN reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Events or

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circumstances that may occur include changes in real estate market conditions, the ability of NNN to re-lease properties that are currently vacant or become vacant, and the ability to sell properties at an attractive return. Generally, NNN calculates a possible impairment by comparing the 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.

Impairment Commercial Mortgage Residual Interests Valuation. In connection with the independent valuations of the Residuals fair value, NNN recorded an other than temporary valuation impairment of \$8,779,000 and \$2,382,000 for the years ended December 31, 2006 and 2005, respectively.

The reduction in the Residuals value that related to the Residuals acquired at the time of the option exercise was recorded as a purchase price allocation adjustment. The reduction in the Residuals value acquired at the time of the option exercise that related to the period subsequent to the option exercise, as well as the reduction in value related to the portion of the Residuals previously owned by NLF, were recorded as an aggregate other than temporary valuation impairment in 2005 (see Business Combinations).

NNN reduced the carrying value of the Residuals during the year ended December 31, 2006, based upon the fair value as determined by an independent valuation. The decrease in the value of the Residuals was primarily the result of the increase in prepayment speeds of the underlying loans. The valuation adjustments that are considered other than temporary are recorded as a reduction of earnings from operations.

Restructuring Costs. During the year ended December 31, 2006, NNN recorded restructuring costs of \$1,580,000, which included severance costs and accelerated vesting of restricted stock in connection with a workforce reduction in April 2006.

Interest Expense. The increase in interest expense for the year ended December 31, 2006, over the year ended December 31, 2005, was primarily due to a \$241,104,000 increase in the weighted average long-term debt outstanding for the year ended December 31, 2006. The increase in the weighted average long-term debt outstanding is attributable to the increase in Investment and Inventory Properties and the acquisition of the 78.9 percent equity interest in OAMI. This increase was offset slightly by a 25 basis point decrease in the overall weighted average interest rate for 2006 compared to 2005. The following represents the primary changes in debt:

- (i) issuance of \$150,000,000 of notes payable in November 2005 with an effective interest rate of 6.185% due in December 2015,
- (ii) the increase in the weighted average debt outstanding on the revolving credit facility (increased by \$61,819,000),
- (iii) issuance of \$172,500,000 of notes payable in September 2006 with an effective interest rate of 3.95% due in September 2026,
- (iv) the \$20,800,000 variable rate term note assumed in connection with the acquisition of NAPE in June 2005,
- (v) the \$32,000,000 secured notes payable acquired in May 2005 in connection with the 78.9 percent equity interest in OAMI, and
- (vi) repayment of a mortgage in February 2006 with a balance of \$18,538,000 at December 31, 2005 with an interest rate of 7.435%.

Table of ContentsInvestment in Unconsolidated Affiliates

In September 2007, NNN entered into a joint venture, NNN Retail Properties Fund I LLC (the "NNN Crow JV I") with an affiliate of Crow Holdings Realty Partners IV, L.P. and holds a 15 percent equity interest in the joint venture which it accounts for under the equity method of accounting. Net income and losses of the joint venture are allocated to the members in accordance with their respective percentage interests. During the year ended December 31, 2007, in accordance with the terms of the joint venture agreement, NNN loaned \$2,749,000 to the joint venture at an interest rate of 7.75%. The loan balance was paid in full in November 2007.

In October 2006, NNN sold its equity investment in CNL Plaza, Ltd. and CNL Plaza Venture, Ltd. (collectively, "Plaza") for \$10,239,000 and recognized a gain of \$11,373,000. Plaza owned a 346,000 square foot office building, one floor of which serves as NNN's headquarters office, and an interest in an adjacent parking garage. In connection with the sale, NNN was released as a guarantor of Plaza's \$14,000,000 unsecured promissory note.

During the years ended December 31, 2007, 2006 and 2005, NNN recognized equity in earnings of unconsolidated affiliates of \$49,000, \$122,000, and \$1,209,000, respectively. The decrease in equity in earnings of unconsolidated affiliates prior to the years ended December 31, 2007 and 2006, was primarily attributable to the decrease in the income earned on investments in commercial mortgage residual interests as a result of the acquisition of 78.9 percent equity interest in OAMI in May 2005. Subsequent to the acquisition, NNN's interest in the LLCs was no longer being accounted for as an equity investment and is now included as a part of OAMI in NNN's consolidated financial statements.

Earnings from Discontinued Operations

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," NNN classified as discontinued operations the revenues and expenses related to its Investment Properties that were sold and its leasehold interests that expired subsequent to December 31, 2001, as well as, the revenues and expenses related to any Investment Property that was held for sale at December 31, 2007. NNN also classified as discontinued operations the revenues and expenses of its Inventory Properties which generated rental revenues. NNN records discontinued operations by NNN's identified segments: (i) Investment Assets, and (ii) Inventory Assets. The following table summarizes the earnings from discontinued operations for the years ended December 31 (dollars in thousands):

	2007			2006			2005		
	# of Sold Properties	Gain	Earnings	# of Sold Properties	Gain	Earnings	# of Sold Properties	Gain	Earnings
Investment Assets	37	\$ 56,625	\$ 63,338	30	\$ 91,332	\$ 109,664	12	\$ 9,816	\$ 29,453
Inventory Assets, net of minority interest	69	10,681	8,622	58	5,275	8,146	22	13,618	9,551
	106	\$ 67,306	\$ 71,960	88	\$ 96,607	\$ 117,810	34	\$ 23,434	\$ 39,004

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

Table of Contents**Extraordinary Gain**

During the year ended December 31, 2005, NNN recognized an extraordinary gain of \$14,786,000, which resulted from the difference between NNN's portion of the fair value of net assets acquired in the acquisition of 78.9 percent equity interest in OAMI and the purchase price (see Business Combinations).

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 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.

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

Liquidity

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

NNN expects to meet these requirements (other than amounts required for additional property investments, mortgages and notes receivables and structured finance investments) through cash provided from operations and NNN's revolving credit facility. NNN utilizes its credit facility to meet its short term working capital requirements. As of December 31, 2007, \$129,800,000 was outstanding and approximately \$270,200,000 was available for future borrowings under the credit facility, excluding undrawn letters of credit totaling \$2,685,000. NNN anticipates that any additional investments in properties, mortgages and notes receivables and structured finance investments during the next 12 months will be funded with cash provided from operations, long-term debt and the issuance of common or preferred equity, which may be initially funded with proceeds from NNN's revolving credit facility. 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.

Below is a summary of NNN's cash flows for each of the years ended December 31 (in thousands):

	2007	2006	2005
Cash and cash equivalents:			
Provided by operating activities	\$ 129,634	\$ 1,676	\$ 19,226
Used in investing activities	(536,717)	(90,099)	(230,783)
Provided by financing activities	432,907	81,864	217,844
Increase (decrease)	25,824	(6,559)	6,287
January 1	1,675	8,234	1,947
December 31	\$ 27,499	\$ 1,675	\$ 8,234

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Cash provided by operating activities represents cash received primarily from rental income from tenants, proceeds from the disposition of Inventory Properties and interest income less general and administrative expenses, interest expense and acquisition of Inventory Properties. NNN's cash flow from operating activities, net of cash used in and provided by the acquisition and disposition of its Inventory Properties, has been sufficient to pay the distributions for each period presented. NNN uses proceeds from its Credit Facility to fund the acquisition of its Inventory Properties. The change in cash provided by operations for the years ended December 31, 2007, 2006 and 2005, is primarily the result of changes in revenues and expenses as discussed in Results of Operations. Cash generated from operations is expected to fluctuate in the future.

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

NNN's financing activities for the year ended December 31, 2007 included the following significant transactions:

\$247,498,000 in net proceeds from issuance of notes due in October 2017,

\$135,750,000 in net proceeds from the issuance of 5,750,000 shares of common stock,

\$99,150,000 in net proceeds from the issuance of 4,000,000 shares of common stock,

\$92,989,000 in dividends paid to common stockholders,

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

\$44,540,000 paid to redeem all outstanding shares of Series A Preferred stock,

\$101,800,000 in net proceeds from NNN's credit facility,

\$62,980,000 in net proceeds from the issuance of 2,645,257 common shares in connection with the Dividend Reinvestment and Stock Purchase Plan (DRIP),

\$10,500,000 repayment of secured note payable,

\$20,800,000 repayment of term note, and

\$26,007,000 repurchase of the properties under the financing lease obligation.

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.

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NNN typically funds its short-term liquidity requirements including investments in additional Investment Properties with cash from its \$400,000,000 unsecured revolving credit facility (Credit Facility). As of December 31, 2007, \$129,800,000 was outstanding and approximately \$270,200,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$2,685,000.

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For the year ended December 31, 2007, NNN's ratio of total indebtedness to total gross assets (before accumulated depreciation) was approximately 43 percent and the secured indebtedness to total gross assets was approximately one percent. The total debt to total market capitalization was approximately 39 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, 2007. The table presents principal cash flows by year-end of the expected maturity for debt obligations and commercial commitments outstanding as of December 31, 2007.

	Expected Maturity Date						
	Total	2008	(dollars in thousands)				Thereafter
			2009	2010	2011	2012	
Long-term debt ⁽¹⁾	\$ 931,980	\$ 113,190	\$ 1,001	\$ 21,022	\$ 173,598	\$ 69,291	\$ 553,878
Credit Facility	129,800	-	129,800	-	-	-	-
Operating lease	6,261	839	865	891	917	945	1,804
Total contractual cash obligations ⁽²⁾	\$ 1,068,041	\$ 114,029	\$ 131,666	\$ 21,913	\$ 174,515	\$ 70,236	\$ 555,682

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

⁽²⁾ Excludes \$11,243 of accrued interest payable.

In addition to the contractual obligations outlined above, NNN has agreed to fund construction commitments in connection with the development of additional properties as outlined below (dollars in thousands):

	# of Properties	Total Construction Commitment ⁽¹⁾	Amount Funded at December 31, 2007
Investment Portfolio	27	\$ 71,883	\$ 44,561
Inventory Portfolio	9	24,097	17,125
	36	\$ 95,980	\$ 61,686

⁽¹⁾ Including land costs.

As of December 31, 2007 NNN had outstanding letters of credit totaling \$2,685,000 under its Credit Facility.

As of December 31, 2007, NNN does not have any other 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 preferred stock with cumulative preferential cash distributions, as described below under Dividends.

Management anticipates satisfying these obligations with a combination of NNN's current capital resources on hand, its revolving credit facility and debt or equity financings.

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Many of the Investment Properties are recently constructed and are generally net leased. Therefore, management anticipates that capital demands to meet obligations with respect to these Investment Properties will be modest for the foreseeable future and can be met with funds from operations and working capital. Certain of NNN's Investment Properties are subject to leases under which NNN retains responsibility for certain costs and expenses associated with the Investment Property. Management anticipates the costs associated with NNN's vacant Investment Properties or those Investment Properties that become vacant will also be met with funds from operations and working capital. NNN may be required to borrow under NNN's 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 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 if NNN is unable to release the Investment Properties at comparable rental rates and in a timely manner. As of January 31, 2008, NNN owns 13 vacant, unleased Investment Properties which account for approximately three percent of the total gross leasable area of NNN's Investment Portfolio in addition to three vacant land parcels. Additionally, less than one percent of the total gross leasable area of NNN's Investment Portfolio is leased to three tenants that have filed a voluntary petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. As a result, these tenants have the right to reject or affirm their leases with NNN.

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

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, 2007, 2006 and 2005, NNN declared and paid dividends to its common stockholders of \$92,989,000, \$76,035,000, and \$69,018,000, respectively, or \$1.40, \$1.32 and \$1.30 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:

	2007		2006		2005	
Ordinary dividends	\$ 1.397402	99.8144%	\$ 1.150780	87.1803%	\$ 1.068470	82.1900%
Qualified dividends	0.000414	0.0296%	-	-	0.224510	17.2700%
Capital gain	0.002184	0.1560%	0.150261	11.3834%	-	-
Unrecaptured Section 1250 Gain	-	-	0.018959	1.4363%	0.002210	0.1700%
Nontaxable distributions	-	-	-	-	0.004810	0.3700%
	\$ 1.400000	100.0000%	\$ 1.320000	100.0000%	\$ 1.300000	100.0000%

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In February 2008, NNN paid dividends to its common stockholders of \$21,598,000, or \$0.355 per share of common stock.

Holders of each of NNN's preferred stock issuances are entitled to receive, when and as authorized by the board of directors, cumulative preferential cash distributions based on the stated rate and liquidation preference per annum. The following table outlines each issuance of NNN's preferred stock (dollars in thousands, except per share data):

Non-Voting Preferred Stock Issuance	Shares Outstanding At December 31, 2007	Liquidation Preference (per share)	Fixed Annual Cash Distribution (per share)	Dividends Declared and Paid					
				2007		2006		2005	
				Total	Per Share	Total	Per Share	Total	Per Share
9% Series A ⁽¹⁾	-	\$ 25.00	\$ 25.00000	\$ -	\$ -	\$ 4,376	\$ 2.456250	\$ 4,008	\$ 2.25
6.7% Series B Convertible ⁽²⁾	-	2,500.00	167.50000	-	-	419	41.875000	1,675	167.50
7.375% Series C ⁽³⁾	3,680,000	25.00	1.84375	6,785,000	1.84375	923	0.250955	-	-

⁽¹⁾ Effective January 2, 2007, NNN redeemed all 1,781,589 shares of Series A Preferred Stock at their redemption price of \$25.00 per share plus all accumulated and unpaid dividends through the redemption date of \$0.20625 per share, for an aggregate redemption price of \$25.20625. Dividends declared and paid in 2006 include \$367 of dividends payable at December 31, 2006, which were paid in 2007.

⁽²⁾ In April 2006, the holder of NNN's Series B Convertible Preferred Stock elected to convert those 10,000 shares into 1,293,996 shares of common stock.

⁽³⁾ In October 2006, NNN issued 3,680,000 depository shares, each representing 1/100th of a share of 7.375% Series C Preferred Stock. See Capital Resources Debt and Equity Securities.

Restricted Cash. Restricted cash consisted of amounts held in restricted accounts in connection with the sale of certain assets of OAMI to a third party (the Buyer). In December 2007, in accordance to agreements with the Buyer, all restrictions were released, therefore, as of December 31, 2007 NNN has no cash held in restricted accounts. The amount held in these accounts at December 31, 2006 was \$36,728,000. NNN used a portion of the amounts released to repay the \$10,500,000 OAMI secured note payable.

Capital Resources

Generally, cash needs for property acquisitions, mortgages and notes receivable, structured finance investments, 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, from internally generated funds. Cash needs for other items have been met from operations. Potential 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):

	2007	Percentage of Total	2006	Percentage of Total
Line of credit payable	\$ 129,800	12.2%	\$ 28,000	3.6%
Mortgages payable	27,480	2.6%	35,892	4.6%
Notes payable - secured	12,000	1.1%	24,500	3.2%
Notes payable - convertible	172,500	16.3%	172,500	22.2%
Notes payable	718,290	67.8%	489,804	63.1%
Financing lease obligation	-	-	26,041	3.3%
Total outstanding debt	\$ 1,060,070	100.0%	\$ 776,737	100.0%

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Line of Credit Payable. In October 2007, NNN exercised the \$100,000,000 accordion feature of its existing revolving Credit Facility increasing the borrowing capacity to \$400,000,000 from \$300,000,000. The terms of the Credit Facility provide for (i) a tiered interest rate structure of a maximum of 112.5 basis points above LIBOR (based upon the debt rating of NNN, the current interest rate is 80 basis points above LIBOR), (ii) requires NNN to pay a commitment fee based on a tiered rate structure to a maximum of 25 basis points per annum (based upon the debt rating of NNN, the current commitment fee is 20 basis points), (iii) provides for a competitive bid option for up to 50 percent of the facility amount and (iv) expires on May 8, 2009. The principal balance is due in full upon expiration of the Credit Facility in May 2009, which NNN may request to be extended for an additional 12 months. As of December 31, 2007, \$129,800,000 was outstanding and approximately \$270,200,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$2,685,000.

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) maximum leverage ratios, (ii) debt service coverage, (iii) cash flow coverage, and (iv) investment limitations. At December 31, 2007, NNN was in compliance with those covenants. In the event that NNN violates any of these restrictive financial covenants, its access to the debt or equity markets may become impaired.

Mortgages Payable. In September 2007, upon maturity, NNN repaid the outstanding principal balance on the long-term fixed rate loan which had an original principal balance of \$12,000,000, and was secured by a first mortgage on nine Investment Properties. Upon repayment of the loan, the encumbered Investment Properties were released from the mortgage. As of December 31, 2006, the outstanding principal balance was \$7,305,000 with an interest rate of 7.37%.

In February 2006, upon maturity, NNN repaid the outstanding principal balance of its long-term, fixed rate loan with an original principal balance of \$39,450,000, which was secured by a first mortgage on certain of NNN's Investment Properties. Upon repayment of the loan, the Investment Properties were released from the mortgage. As of December 31, 2005, the outstanding principal balance was \$18,538,000 with an interest rate of 7.44%.

In May 2006, NNN disposed of three Investment Properties that were subject to a first mortgage with an original and outstanding principal balance of \$95,000,000 with an interest rate of 5.40%. Upon disposition of these Investment Properties, the buyer assumed the mortgage.

Notes Payable - Secured. In December 2007, NNN repaid the outstanding principal balance of \$10,500,000 on one of its secured notes which had an interest rate of 10.00%. NNN repaid the outstanding balance of the note with the restricted cash that was released in December 2007.

Notes Payable - Convertible. In September 2006, NNN filed a prospectus supplement to the prospectus contained in its February 2006 shelf registration statement and issued \$150,000,000 of 3.95% convertible senior notes due September 2026 (with a 2011 put option). Subsequently, NNN issued an additional \$22,500,000 in connection with the underwriters' over-allotment option (collectively, the Convertible Notes). The Convertible Notes were sold at par with interest payable semi-annually commencing on March 15, 2007 (effective interest rate of 3.95%).

The notes are convertible, at the option of the holder, at any time on or after September 15, 2025. Prior to September 15, 2025, holders may convert their Convertible Notes under certain circumstances. The initial conversion rate per \$1,000 principal amount of Convertible Notes was 40.9015 shares of NNN's

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common stock, which was equivalent to an initial conversion price of \$24.4490 per share of common stock. The initial conversion rate is subject to adjustment in certain circumstances. As a result of the increase in NNN's dividend, the conversion rate was adjusted to 41.0028, which is equivalent to a conversion price of \$24.3886 per share. Upon conversion of each \$1,000 principal amount of Convertible Notes, NNN will settle any amounts up to the principal amount of the notes in cash and the remaining conversion value, if any, will be settled, at NNN's option, in cash, common stock or a combination thereof.

The Convertible Notes are redeemable at the option of NNN, in whole or in part, on or after September 20, 2011 for cash equal to 100% of the principal amount of the Convertible Notes being redeemed plus unpaid interest accrued to, but not including, the redemption date. In addition, on September 20, 2011, September 15, 2016 and September 15, 2021 note holders may require NNN to repurchase the notes for cash equal to the principal amount of the Convertible Notes to be repurchased plus accrued interest thereon.

In connection with the Convertible Notes offering, NNN incurred debt issuance costs totaling \$3,850,000 consisting primarily of underwriting discounts and commissions, legal and accounting fees, rating agency fees and printing expenses. Debt issuance costs have been deferred and are being amortized over the period to the earliest put option of the holders, September 20, 2011, using the effective interest method.

NNN used the proceeds of the Convertible Notes to pay down outstanding indebtedness under the Credit Facility.

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

Notes	Issue Date	Principal	Discount ⁽³⁾	Net Price	Stated Rate	Effective Rate ⁽⁴⁾	Commencement of Semi-Annual Interest Payments	Maturity Date
2008 ⁽¹⁾⁽⁷⁾	March 1998	\$ 100,000	\$ 271	\$ 99,729	7.125%	7.163%	September 1998	March 2008
2010 ⁽¹⁾	September 2000	20,000	126	19,874	8.500%	8.595%	March 2001	September 2010
2012 ⁽¹⁾	June 2002	50,000	287	49,713	7.750%	7.833%	December 2002	June 2012
2014 ⁽¹⁾⁽²⁾⁽⁵⁾	June 2004	150,000	440	149,560	6.250%	5.910%	June 2004	June 2014
2015 ⁽¹⁾	November 2005	150,000	390	149,610	6.150%	6.185%	June 2006	December 2015
2017 ⁽¹⁾⁽⁶⁾	September 2007	250,000	877	249,123	6.875%	6.924%	April 2008	October 2017

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

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

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

(4) Includes the effects of the discount and interest rate hedge (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 loss of \$3,228. The loss 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 anticipates using proceeds from the Credit Facility to fund the maturity of the 2008 Note.

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

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In connection with the note offerings, NNN incurred debt issuance costs totaling \$6,667,000 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 indenture, pursuant to which NNN's notes have been issued, NNN is required to meet certain restrictive financial covenants, which, among other things, require NNN to maintain (i) certain leverage ratios and (ii) certain interest coverage. At December 31, 2007, NNN was in compliance with those covenants. In the event that NNN violates any of the certain restrictive financial covenants, its access to the debt or equity markets may become impaired.

In addition, in connection with the acquisition of NAPE, NNN assumed a \$20,800,000 term note payable (Term Note). In October 2007, NNN repaid the outstanding principal balance on its \$20,800,000 term note. The term note had a weighted interest rate of 6.62% as of December 2006.

Financing Lease Obligation. In July 2004, NNN sold five investment properties for approximately \$26,041,000 and subsequently leased back the properties under a 10-year financing lease obligation. NNN may repurchase one or more of the properties subject to put and call options included in the financing lease. In accordance with the provisions of SFAS No. 66, Accounting for Sales of Real Estate, NNN has recognized the sale as a financing transaction. The 10-year financing lease bears an interest rate of 5.00% annually with monthly interest payments of \$109,000 and expires in June 2014 unless either the put or call option was exercised. In November 2007, NNN repurchased the properties under the agreements of the put option for approximately \$26,007,000.

Debt and Equity Securities.

NNN has used, and expects to use in the future, issuances of debt and equity securities primarily to pay down its outstanding indebtedness and to finance investment acquisitions. NNN has maintained investment grade debt ratings from Standard and Poor's, Moody's Investor Service and Fitch Ratings on its senior, unsecured debt since 1998. In February 2006, NNN filed a shelf registration statement with the Securities and Exchange Commission which permits the issuance by NNN of an indeterminate amount of debt and equity securities.

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 3,200,000 depositary shares, each representing 1/100th of a share of 7.375% Series C Cumulative Redeemable Preferred Stock (Series C Redeemable Preferred Stock), and received gross proceeds of \$80,000,000. Subsequently, NNN issued an additional 480,000 depositary shares in connection with the underwriters' over-allotment option and received gross proceeds of \$12,000,000. 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 Redeemable Preferred Stock underlying the depositary shares ranks senior to NNN's common stock with respect to dividend rights and rights upon liquidation, dissolution

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or winding up of NNN. NNN may redeem the Series C Redeemable 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.

In January 2007, NNN used \$44,540,000 of the net proceeds from the offering to redeem the Series A Preferred Stock; and the remainder of the net proceeds were to repay borrowings under the Credit Facility.

Common Stock Issuances. In March 2007, NNN issued 5,000,000 shares of common stock at a price of \$24.70 per share and received net proceeds of \$118,020,000. Subsequently, in April 2007, NNN issued an additional 750,000 shares of common stock in connection with the underwriters' over-allotment option and received net proceeds of \$17,730,000. In connection with this offering, NNN incurred stock issuance costs totaling approximately \$6,217,000 consisting primarily of underwriters' fees and commissions, legal and accounting fees and printing expenses.

In October 2007, NNN issued 4,000,000 shares of common stock at a price of \$25.94 per share and received net proceeds of \$99,150,000. In connection with this offering, NNN incurred stock issuance costs totaling approximately \$4,874,000 consisting primarily of underwriter's fees and commissions, legal and accounting fees. In October 2007, NNN used a portion of the net proceeds to repay the outstanding principal balance on its term note.

In June 2005, in connection with the acquisition of National Properties Corporation (see *Results of Operations - Business Combination*), NNN issued 1,636,532 newly issued shares of NNN's common stock in exchange for 100 percent of the common stock of NAPE.

Dividend Reinvestment and Stock Purchase Plan. In February 2006, NNN filed a shelf registration statement with the Securities and Exchange Commission for its Dividend Reinvestment and Stock Purchase Plan (*DRIP*), which permits the issuance by NNN of up to 12,191,394 shares of common stock. The 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 (dollars in thousands):

	2007	2006
Shares of common stock	2,645,257	3,046,408
Net proceeds	\$ 62,980	\$ 65,722

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

Investment in Unconsolidated Affiliates. In September 2007, NNN entered into a joint venture, NNN Retail Properties Fund I LLC (the *NNN Crow JV I*), with an affiliate of Crow Holdings Realty Partners IV, L.P. NNN Crow JV I plans to acquire up to \$220,000,000 of real estate assets leased to convenience store operators from unrelated third parties. NNN owns a 15 percent equity interest in the joint venture which it accounts for under the equity method of accounting. Net income and losses of the joint venture are allocated to the members in accordance with their respective percentage interest. During the year ended December 31, 2007, in accordance with the terms of the joint venture agreement, NNN loaned \$2,749,000 to the joint venture at an interest rate of 7.75%. The loan balance was paid in full in November 2007.

Mortgages and Notes Receivable. Mortgages are loans secured by real estate, real estate securities or other assets. As of December 31, 2007, these receivables totaled \$49,336,000.

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Structured finance agreements are typically loans secured by a borrower's pledge of ownership interests in the entity that owns or leases the real estate and/or other acceptable collateral such as fixtures, equipment or cash. These agreements are sometimes subordinated to senior loans secured by first mortgages encumbering the underlying real estate. Subordinated positions are generally subject to a higher risk of nonpayment of principal and interest than the more senior loans. As of December 31, 2007, the structured finance agreements had an outstanding principal balance of \$14,359,000.

As of December 31, 2007, the structured finance investments bear a weighted average interest rate of 11.26% per annum, of which 9.78% is payable monthly and the remaining 1.48% accrues and is due at maturity. The principal balance of each structured finance investment is due in full at maturity, which ranges between January 2009 and March 2010. The structured finance investments are secured by the borrowers' pledge of their respective membership interests in the certain subsidiaries which own the respective real estate.

Mortgages and notes receivable consisted of the following at December 31 (dollars in thousands):

	2007	2006
Mortgages and notes receivable	\$ 51,556	\$ 17,227
Structured Finance	14,359	13,917
Accrued interest receivables	545	641
	66,460	31,785
Less loan origination fees, net	(100)	(206)
Less allowance	(396)	(634)
	\$ 65,964	\$ 30,945

Commercial Mortgage Residual Interests. In connection with the independent valuations of the commercial mortgage residual interests (the Residuals) fair value, NNN adjusted carrying value of the Residuals to reflect such fair value at December 31, 2007. The adjustments in the Residuals were recorded as an aggregate other than temporary valuation impairment of \$638,000 and \$8,779,000, for the years ended December 31, 2007 and 2006, respectively. NNN recorded \$326,000 of unrealized losses and \$1,992,000 of unrealized gains as other comprehensive income for the years ended December 31, 2007 and 2006, respectively.

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

NNN is exposed to interest changes primarily as a result of its variable rate Credit Facility and its long-term, fixed rate debt used to finance NNN's development and acquisition activities, and 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, 2007, NNN has one interest rate hedge with a value of \$109,000 which is included in other liabilities. As of December 31, 2006, 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, 2007 and 2006. The table presents principal cash flows and related interest rates by year for debt obligations outstanding as of December 31, 2007. The variable interest rates shown represent the weighted average rates for the Credit Facility and Term Note at the end of the periods. The table incorporates only those debt obligations that exist as of December 31, 2007 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 approximately three percent for the year ended December 31, 2007.

	Debt Obligations (dollars in thousands)							
	Variable Rate Debt Credit Facility and Term Note ⁽¹⁾		Fixed Rate Debt					
	Debt Obligation	Weighted Average Interest Rate ⁽²⁾	Mortgages		Unsecured Debt ⁽³⁾⁽⁴⁾		Secured Debt	
			Debt Obligation	Weighted Average Interest Rate	Debt Obligation	Effective Interest Rate	Debt Obligation	Weighted Average Interest Rate
2008	-	-	1,190	7.04%	99,992	7.16%	12,000	10.00%
2009	129,800	6.24%	1,000	7.02%	-	-	-	-
2010	-	-	1,022	7.01%	19,955	8.60%	-	-
2011	-	-	1,098	7.00%	172,500	3.95%	-	-
2012	-	-	19,291	6.73%	49,846	7.83%	-	-
Thereafter	-	-	3,879	7.60%	548,497	6.45%	-	-
Total	\$ 129,800	6.24%	\$ 27,480	7.04%	\$ 890,790	6.17%	\$ 12,000	10.00%
Fair Value:								
December 31, 2007	\$ 129,800	6.24%	\$ 27,480	7.04%	\$ 921,507	6.17%	\$ 12,000	10.00%
December 31, 2006	\$ 48,800	5.98%	\$ 35,892	7.12%	\$ 690,198	5.84%	\$ 24,500	10.00%

(1) In October 2007, NNN repaid the outstanding principal balance on the Term Note.

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

(3) Includes NNN's notes payable, net of unamortized note discounts and convertible notes payable.

(4) In July 2004, NNN sold Investment Properties for \$26,041 and subsequently leased back the properties under a 10 year financing lease obligation which was subsequently repurchased in November 2007.

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, had a carrying value of \$24,340,000 and \$31,512,000 as of December 31, 2007 and December 31, 2006, 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 Shareholders

National Retail Properties, Inc.

We have audited National Retail Properties, Inc.'s internal control over financial reporting as of December 31, 2007, 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.'s 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 operative 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. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, 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. as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended of National Retail Properties, Inc. and our report dated February 22, 2008, expressed an unqualified opinion thereon.

Certified Public Accountants

February 22, 2008

Miami, Florida

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

National Retail Properties, Inc.

We have audited the accompanying consolidated balance sheets of National Retail Properties, Inc. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), National Retail Properties, Inc.'s internal control over financial reporting as of December 31, 2007, 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 22, 2008, expressed an unqualified opinion thereon.

February 22, 2008

Miami, Florida

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

National Retail Properties, Inc.:

We have audited the accompanying consolidated statements of earnings, stockholders' equity, and cash flows of National Retail Properties, Inc. and subsidiaries for the year ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements for 2005 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and the cash flows of National Retail Properties, Inc. and subsidiaries for the year ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

Orlando, Florida

February 17, 2006, except as to notes 2, 19, 26 which are as of February 22, 2008

Certified Public Accountants

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share data)

ASSETS	December 31, 2007	December 31, 2006
Real estate, Investment Portfolio:		
Accounted for using the operating method, net of accumulated depreciation and amortization	\$ 2,055,846	\$ 1,440,996
Accounted for using the direct financing method	37,497	71,334
Real estate, Inventory Portfolio, held for sale	248,611	228,159
Investment in unconsolidated affiliates	4,139	-
Mortgages, notes and accrued interest receivable, net of allowance	65,964	30,945
Commercial mortgage residual interests	24,340	31,512
Cash and cash equivalents	27,499	1,675
Restricted cash	-	36,587
Receivables, net of allowance of \$1,582 and \$722, respectively	3,818	7,915
Accrued rental income, net of allowance	24,652	26,510
Debt costs, net of accumulated amortization of \$13,424 and \$11,339, respectively	8,548	8,180
Other assets	38,691	33,684
Total assets	\$ 2,539,605	\$ 1,917,497
LIABILITIES AND STOCKHOLDERS' EQUITY		
Line of credit payable	\$ 129,800	\$ 28,000
Mortgages payable	27,480	35,892
Notes payable - secured	12,000	24,500
Notes payable - convertible	172,500	172,500
Notes payable, net of unamortized discount of \$1,710 and \$996, respectively	718,290	489,804
Financing lease obligation	-	26,041
Accrued interest payable	11,243	5,989
Other liabilities	57,002	30,828
Income tax liability	1,671	6,340
Total liabilities	1,129,986	819,894
Commitments and contingencies (Note 28)		
Minority interest	2,334	1,098
Stockholders' equity:		
Preferred stock, \$0.01 par value. Authorized 15,000,000 shares		
Series A, 1,781,589 shares issued and outstanding, stated liquidation value of \$25 per share	-	44,540
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; 72,527,729 and 59,823,031 shares issued and outstanding at December 31, 2007 and 2006, respectively	725	598
Excess stock, \$0.01 par value. Authorized 205,000,000 shares; none issued or outstanding	-	-
Capital in excess of par value	1,175,364	873,885
Retained earnings (accumulated dividends in excess of net earnings)	137,599	80,263
Accumulated other comprehensive income	1,597	5,219

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Total stockholders' equity	1,407,285	1,096,505
	\$ 2,539,605	\$ 1,917,497

See accompanying notes to consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

Years Ended December 31, 2007, 2006 and 2005

(dollars in thousands, except per share data)

	Year Ended December 31,		
	2007	2006	2005
Revenues:			
Rental income from operating leases	\$ 165,511	\$ 120,632	\$ 87,559
Earned income from direct financing leases	3,650	3,640	3,874
Percentage rent	1,572	732	443
Real estate expense reimbursement from tenants	5,720	4,619	3,902
Interest and other income from real estate transactions	5,076	4,265	6,111
Interest income on commercial mortgage residual interests	4,882	7,268	7,349
	186,411	141,156	109,238
Disposition of real estate, Inventory Portfolio:			
Gross proceeds	1,750	36,705	13,569
Costs	(1,418)	(28,705)	(11,559)
Gain	332	8,000	2,010
Operating expenses:			
General and administrative	23,542	24,009	22,401
Real estate	8,272	6,701	5,613
Depreciation and amortization	32,593	22,445	16,252
Impairment real estate	791	-	1,673
Impairment commercial mortgage residual interests valuation	638	8,779	2,382
Restructuring costs	-	1,580	-
	65,836	63,514	48,321
Earnings from operations	120,907	85,642	62,927
Other expenses (revenues):			
Interest and other income	(4,753)	(3,816)	(2,039)
Interest expense	49,286	45,872	33,309
	44,533	42,056	31,270
Earnings from continuing operations before income tax benefit, minority interest, equity in earnings of unconsolidated affiliates and gain on disposition of equity investment	76,374	43,586	31,657
Income tax benefit	8,537	11,206	2,882
Minority interest	190	(1,592)	(138)
Equity in earnings of unconsolidated affiliates	49	122	1,209
Gain on disposition of equity investment	-	11,373	-

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Earnings from continuing operations	85,150	64,695	35,610
Earnings from discontinued operations:			
Real estate, Investment Portfolio	63,338	109,664	29,453
Real estate, Inventory Portfolio, net of income tax expense and minority interest	8,622	8,146	9,551
	71,960	117,810	39,004
Earnings before extraordinary gain	157,110	182,505	74,614
Extraordinary gain	-	-	14,786
Net earnings	157,110	182,505	89,400
Other comprehensive income	(3,622)	5,219	-
Total comprehensive income	\$ 153,488	\$ 187,724	\$ 89,400

See accompanying notes to consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS CONTINUED

Years Ended December 31, 2007, 2006 and 2005

(dollars in thousands, except per share data)

	Year Ended December 31,		
	2007	2006	2005
Net earnings	\$ 157,110	\$ 182,505	\$ 89,400
Series A preferred stock dividends	-	(4,376)	(4,008)
Series B Convertible preferred stock dividends	-	(419)	(1,675)
Series C preferred stock dividends	(6,785)	(923)	-
Net earnings available to common stockholders basic	150,325	176,787	83,717
Series B Convertible preferred stock dividends, if dilutive	-	419	1,675
Net earnings available to common stockholders diluted	\$ 150,325	\$ 177,206	\$ 85,392
Net earnings per share of common stock:			
Basic:			
Continuing operations	\$ 1.18	\$ 1.03	\$ 0.56
Discontinued operations	1.09	2.05	0.74
Extraordinary gain	-	-	0.28
Net earnings	\$ 2.27	\$ 3.08	\$ 1.58
Diluted:			
Continuing operations	\$ 1.18	\$ 1.02	\$ 0.58
Discontinued operations	1.08	2.03	0.71
Extraordinary gain	-	-	0.27
Net earnings	\$ 2.26	\$ 3.05	\$ 1.56
Weighted average number of common shares outstanding:			
Basic	66,152,437	57,428,063	52,984,821
Diluted	66,407,530	58,079,875	54,640,143

See accompanying notes to consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Years Ended December 31, 2007, 2006 and 2005

(dollars in thousands, except per share data)

	Series A Preferred Stock	Series B Convertible Preferred Stock	Series C Preferred Stock	Common Stock	Capital in Excess of Par Value	Retained Earnings (Accumulated Dividends in Excess of Net Earnings)	Accumulated Other Comprehensive Income	Total
Balances at December 31, 2004	44,540	25,000	-	521	722,125	(35,188)	-	756,998
Net earnings	-	-	-	-	-	89,400	-	89,400
Dividends declared and paid:								
\$2.25 per share of Series A Preferred Stock	-	-	-	-	-	(4,008)	-	(4,008)
\$167.50 per share of Series B Convertible Preferred Stock	-	-	-	-	-	(1,675)	-	(1,675)
\$1.30 per share of common stock	-	-	-	1	2,684	(69,018)	-	(66,333)
Issuance of common stock:								
1,636,532 shares in connection with business combination	-	-	-	16	31,143	-	-	31,159
180,580 shares	-	-	-	2	2,649	-	-	2,651
912,334 shares under discounted stock purchase program	-	-	-	9	18,063	-	-	18,072
Issuance of 216,168 shares of restricted common stock	-	-	-	2	(2)	-	-	-
Stock issuance costs	-	-	-	-	(8)	-	-	(8)
Amortization of deferred compensation	-	-	-	-	1,831	-	-	1,831
Balances at December 31, 2005	\$ 44,540	\$ 25,000	\$ -	\$ 551	\$ 778,485	\$ (20,489)	\$ -	\$ 828,087

See accompanying notes to consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY CONTINUED

Years Ended December 31, 2007, 2006 and 2005

(dollars in thousands, except per share data)

	Series A Preferred Stock	Series B Convertible Preferred Stock	Series C Preferred Stock	Common Stock	Capital in Excess of Par Value	Retained Earnings (Accumulated Dividends in Excess of Net Earnings)	Accumulated Other Comprehensive Income	Total
Balances at December 31, 2005	\$ 44,540	\$ 25,000	\$ -	\$ 551	\$ 778,485	\$ (20,489)	\$ -	\$ 828,087
Net earnings	-	-	-	-	-	182,505	-	182,505
Dividends declared and paid:								
\$2.25 per share of Series A Preferred Stock	-	-	-	-	-	(4,376)	-	(4,376)
\$41.875 per share of Series B Convertible Preferred Stock ⁽¹⁾	-	-	-	-	-	(419)	-	(419)
\$0.250955 per depositary share of Series C Preferred Stock	-	-	-	-	-	(923)	-	(923)
\$1.32 per share of common stock	-	-	-	3	7,073	(76,035)	-	(68,959)
Conversion of 10,000 shares of Series B Convertible Preferred Stock to 1,293,996 shares of common stock	-	(25,000)	-	13	24,987	-	-	-
Issuance of 3,680,000 depositary shares of Series C Preferred Stock	-	-	92,000	-	-	-	-	92,000
Issuance of common stock:								
272,184 shares	-	-	-	3	4,654	-	-	4,657
2,715,235 shares discounted stock purchase program	-	-	-	27	58,632	-	-	58,659
Issuance of 79,500 shares of restricted common stock	-	-	-	1	(1)	-	-	-
Stock issuance costs	-	-	-	-	(3,111)	-	-	(3,111)
Amortization of deferred compensation	-	-	-	-	3,166	-	-	3,166
Treasury lock gain on interest rate hedge ⁽²⁾	-	-	-	-	-	-	3,653	3,653
Amortization of interest rate hedge	-	-	-	-	-	-	(345)	(345)
Unrealized gain Commercial mortgage residual interests	-	-	-	-	-	-	1,992	1,992
Stock value adjustment	-	-	-	-	-	-	(81)	(81)
Balances at December 31, 2006	\$ 44,540	\$ -	\$ 92,000	\$ 598	\$ 873,885	\$ 80,263	\$ 5,219	\$ 1,096,505

⁽¹⁾Includes \$367 dividends paid in January 2007.⁽²⁾Fair value of interest rate hedge net of prior year amortization reclassified from NNN's unsecured notes payable from the unamortized interest rate hedge gain resulting from the termination of the \$94,000 swap in June 2004.

See accompanying notes to consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY CONTINUED

Years Ended December 31, 2007, 2006 and 2005

(dollars in thousands, except per share data)

	Series A Preferred Stock	Series B Convertible Preferred Stock	Series C Preferred Stock	Common Stock	Capital in Excess of Par Value	Retained Earnings (Accumulated Dividends in Excess of Net Earnings)	Accumulated Other Comprehensive Income	Total
Balances at December 31, 2006	\$ 44,540	\$ -	\$ 92,000	\$ 598	\$ 873,885	\$ 80,263	\$ 5,219	\$ 1,096,505
Net earnings	-	-	-	-	-	157,110	-	157,110
Dividends declared and paid:								
\$1.84375 per depository share of Series C Preferred Stock	-	-	-	-	-	(6,785)	-	(6,785)
\$1.40 per share of common stock	-	-	-	6	13,947	(92,989)	-	(79,036)
Redemption of 1,781,589 shares of Series A Preferred Stock	(44,540)	-	-	-	-	-	-	(44,540)
Issuance of common stock:								
9,861,323 shares	-	-	-	98	247,643	-	-	247,741
2,054,805 shares discounted stock purchase program	-	-	-	21	49,006	-	-	49,027
Issuance of 198,119 shares of restricted common stock	-	-	-	2	(2)	-	-	-
Stock issuance costs	-	-	-	-	(11,206)	-	-	(11,206)
Amortization of deferred compensation	-	-	-	-	2,091	-	-	2,091
Interest rate hedge termination	-	-	-	-	-	-	(3,119)	(3,119)
Amortization of interest rate hedges	-	-	-	-	-	-	(309)	(309)
Unrealized loss Commercial mortgage residual interests	-	-	-	-	-	-	(326)	(326)
Stock value adjustment	-	-	-	-	-	-	132	132
Balances at December 31, 2007	\$ -	\$ -	\$ 92,000	\$ 725	\$ 1,175,364	\$ 137,599	\$ 1,597	\$ 1,407,285

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,		
	2007	2006	2005
Cash flows from operating activities:			
Net earnings	\$ 157,110	\$ 182,505	\$ 89,400
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Stock compensation expense	2,091	3,170	1,971
Depreciation and amortization	32,976	24,524	22,350
Impairment real estate	1,970	693	3,729
Impairment commercial mortgage residual interests valuation adjustment	638	8,779	2,382
Amortization of notes payable discount	164	137	105
Amortization of deferred interest rate hedges	(309)	(345)	(326)
Equity in earnings of unconsolidated affiliates	(49)	(122)	(1,209)
Distributions received from unconsolidated affiliates	30	864	3,293
Minority interests	1,143	2,622	(5,854)
Gain on disposition of real estate, Investment Portfolio	(56,625)	(91,165)	(9,816)
Gain on disposition of equity investment	-	(11,373)	-
Gain on disposition of real estate, Inventory Portfolio	(12,133)	(13,781)	(21,627)
Extraordinary gain	-	-	(14,786)
Deferred income taxes	(4,590)	(8,366)	(1,709)
Change in operating assets and liabilities, net of assets acquired and liabilities assumed in business combinations:			
Additions to real estate, Inventory Portfolio	(165,160)	(195,956)	(137,286)
Proceeds from disposition of real estate, Inventory Portfolio	160,173	101,324	79,065
Decrease in real estate leased to others using the direct financing method	2,130	2,982	2,915
Increase in work in process	(4,217)	(3,315)	(4,355)
Decrease (increase) in mortgages, notes and accrued interest receivable	(301)	795	6,465
Decrease in receivables	3,924	642	7,730
Decrease (increase) in accrued rental income	(2,631)	(5,777)	593
Decrease (increase) in other assets	3,615	(520)	877
Increase in accrued interest payable	5,254	450	913
Increase (decrease) in other liabilities	4,510	1,951	(4,365)
Increase (decrease) in current tax liability	(79)	958	(1,229)
Net cash provided by operating activities	129,634	1,676	19,226
Cash flows from investing activities:			
Proceeds from the disposition of real estate, Investment Portfolio	136,295	222,778	38,982
Proceeds from the disposition of equity investment	-	10,239	-
Additions to real estate, Investment Portfolio:			
Accounted for using the operating method	(677,101)	(351,100)	(267,488)
Accounted for using the direct financing method	-	(1,449)	(309)
Investment in unconsolidated affiliates	(4,156)	-	-
Increase in mortgages and notes receivable	(44,888)	(18,371)	(17,738)
Mortgage and notes payments received	19,862	39,075	16,846
Cash received from commercial mortgage residual interests	6,208	16,885	11,704
Business combination, net of cash acquired	-	-	2,183

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Restricted cash	36,587	(6,396)	(12,764)
Acquisition of 1.3 percent interest in Services	-	-	(829)
Payment of lease costs	(2,912)	(2,790)	(1,253)
Other	(6,612)	1,030	(117)
Net cash used in investing activities	(536,717)	(90,099)	(230,783)

See accompanying notes to consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS CONTINUED

(dollars in thousands)

	Year Ended December 31,		
	2007	2006	2005
Cash flows from financing activities:			
Proceeds from line of credit payable	\$ 662,300	\$ 379,000	\$ 373,500
Repayment of line of credit payable	(560,500)	(513,300)	(229,100)
Repayment of mortgages payable	(8,412)	(20,241)	(6,644)
Proceeds from notes payable convertible	-	172,500	-
Repayment of notes payable secured	(33,300)	-	-
Proceeds from notes payable	249,122	-	149,610
Repayment of notes payable	-	(3,750)	(11,150)
Payment of interest rate hedge	(3,228)	-	-
Payment of debt costs	(2,453)	(3,864)	(3,073)
Repayment of financing lease obligation	(26,007)	-	-
Proceeds from issuance of common stock	310,721	70,392	23,268
Proceeds from issuance of preferred stock	-	88,902	-
Redemption of 1,781,589 shares of Series A Preferred Stock	(44,540)	-	-
Payment of Series A Preferred Stock dividends	-	(4,376)	(4,008)
Payment of Series B Convertible Preferred Stock dividends	-	(419)	(1,675)
Payment of Series C Preferred Stock dividends	(6,785)	(923)	-
Payment of common stock dividends	(92,989)	(76,039)	(69,018)
Minority interest distributions	(62)	(5,817)	(3,858)
Minority interest contributions	155	2	-
Stock issuance costs	(11,115)	(203)	(8)
Net cash provided by financing activities	432,907	81,864	217,844
Net increase (decrease) in cash and cash equivalents	25,824	(6,559)	6,287
Cash and cash equivalents at beginning of year	1,675	8,234	1,947
Cash and cash equivalents at end of year	\$ 27,499	\$ 1,675	\$ 8,234
Supplemental disclosure of cash flow information:			
Interest paid, net of amount capitalized	\$ 51,824	\$ 50,774	\$ 38,684
Taxes paid	\$ 1,375	\$ 1,137	\$ 4,494
Supplemental disclosure of non-cash investing and financing activities:			
Issued 206,718, 79,500 and 223,468 shares of restricted and unrestricted common stock in 2007, 2006 and 2005, respectively, pursuant to NNN's performance incentive plan	\$ 4,214	\$ 1,763	\$ 4,003
Converted 10,000 shares of Series B Convertible Preferred Stock to 1,293,996 shares of common stock in 2006	\$ -	\$ 25,000	\$ -
Issued 7,750 and 14,062 shares of common stock in 2007 and 2006, respectively to directors pursuant to NNN's performance incentive plan	\$ 182	\$ 307	\$ -
Issued 16,346 and 33,379 shares of common stock in 2007 and 2006, respectively pursuant to NNN's Deferred Director Fee Plan	\$ 331	\$ 655	\$ -

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Surrender of 8,600 and 30,135 shares of restricted common stock in 2007 and 2005, respectively	\$	182	\$	-	\$	461
Dividends on unvested restricted stock shares		-	\$	4	\$	-
Change in other comprehensive income	\$	(3,622)	\$	5,219	\$	1,254
Change in lease classification	\$	-	\$	885	\$	2,158
Transfer of real estate from Inventory Portfolio to Investment Portfolio	\$	14,845	\$	12,933	\$	4,752
Note and mortgage notes receivable accepted in connection with real estate transactions	\$	9,747	\$	1,582	\$	2,415
Assignment of mortgage payable in connection with the disposition of real estate	\$	-	\$	95,000	\$	406
Issued 1,636,532 shares of common stock in connection with the acquisition of National Properties Corporation (NAPE) in 2005	\$	-	\$	-	\$	31,160
Interest rate hedge	\$	109	\$	-	\$	-

See accompanying notes to consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2007, 2006 and 2005

Note 1 Organization and Summary of Significant Accounting Policies:

Organization and Nature of Business National Retail Properties, Inc. (formerly known as Commercial Net Lease Realty, Inc.), a Maryland corporation, is a fully integrated real estate investment trust (REIT) formed in 1984. The term NNN refers to National Retail Properties, Inc. and its majority owned and controlled subsidiaries. These subsidiaries include the wholly owned subsidiaries of National Retail Properties, Inc., as well as the taxable REIT subsidiaries and their majority owned and controlled subsidiaries (collectively, the TRS).

NNN's operations are divided into two primary business segments: (i) investment assets, including real estate assets, mortgages and notes receivable (including structured finance investments) on the consolidated balance sheets and commercial mortgage residual interests (collectively, Investment Assets), and (ii) inventory real estate assets (Inventory Assets). The Investment Assets are operated through National Retail Properties, Inc. and its wholly owned subsidiaries. NNN acquires, owns, invests in, manages and develops properties that are leased primarily to retail tenants under long-term net leases (Investment Properties or Investment Portfolio). As of December 31, 2007, NNN owned 908 Investment Properties, with an aggregate gross leasable area of 10,610,000 square feet, located in 44 states. In addition to the Investment Properties, as of December 31, 2007, NNN had \$65,964,000 and \$24,340,000 in mortgages and notes receivables (including structured finance investments) and commercial mortgage residual interests, respectively. The Inventory Assets are operated through the TRS. The TRS, directly and indirectly, through investment interests, acquires and develops real estate primarily for the purpose of selling the real estate (Inventory Properties or Inventory Portfolio). As of December 31, 2007, the TRS owned 56 Inventory Properties.

Principles of Consolidation In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities (FIN 46R). This Interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements, addresses consolidation by business enterprises of variable interest entities.

NNN's consolidated financial statements include the accounts of each of the respective majority owned and controlled affiliates. 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.

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The TRS develops real estate through various joint venture development affiliate agreements. NNN consolidates the joint venture development entities listed in the table below based upon either NNN being the primary beneficiary of the respective variable interest entity or NNN having a controlling interest over the respective entity. NNN eliminates significant intercompany balances and transactions and records a minority interest for its other partners' ownership percentage. The following table summarizes each of the investments as of December 31, 2007:

Date of Agreement	Entity Name	TRS Ownership %
November 2002	WG Grand Prairie TX, LLC	60%
February 2003	Gator Pearson, LLC	50%
February 2004	CNLRs Yosemite Park CO, LLC	50%
September 2004	CNLRs Bismarck ND, LLC	50%
December 2005	CNLRs P&P, L.P.	50%
February 2006	CNLRs BEP, L.P.	50%
February 2006	CNLRs Rockwall, L.P.	50%
September 2006	NNN Harrison Crossing, L.P.	50%
September 2006	CNLRs RGI Bonita Springs, LLC	50%

NNN no longer holds an interest in the collective partnership interest of CNL Plaza, Ltd. and CNL Plaza Venture, Ltd. (collectively, Plaza). In October 2006, NNN sold its equity investment for \$10,239,000 (see Note 4).

In September 2007, NNN entered into a joint venture, NNN Retail Properties Fund I LLC (the NNN Crow JVI) with an affiliate of Crow Holdings Realty Partners IV, LP (see Note 4).

In May 2005, NNN (through a wholly owned subsidiary of the TRS) exercised its option to purchase 78.9 percent of the common shares of Orange Avenue Mortgage Investments, Inc. (OAMI). As a result, NNN has consolidated OAMI in its consolidated financial statements (see Note 22).

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

Purchase Accounting for Acquisition of Real Estate Subject to a Lease For acquisitions of real estate subject to a lease subsequent to June 30, 2001, the effective date of Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations (SFAS 141), the fair value of the real estate acquired 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 relative fair values of these assets. The as-if-vacant fair value of a property is provided to management by a qualified appraiser.

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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 non-cancelable term of the lease. The capitalized above-market lease values are amortized as a reduction of rental income over the remaining non-cancelable terms of the respective leases. The capitalized below-market lease values are amortized as an increase to rental income over the initial term.

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

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

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

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

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

Management periodically assesses its real estate for possible impairment whenever events or changes in circumstances indicate that the carrying value of the asset, including accrued rental income, may not be recoverable through operations. 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.

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Real Estate Inventory Portfolio The TRS acquires, develops and owns properties that it intends to sell. The properties that are classified as held for sale at any given time may consist of properties that have been acquired in the marketplace with the intent to sell and properties that have been, or are currently being, constructed by the TRS. The TRS records the acquisition of the real estate at cost, including the acquisition and closing costs. The cost of the real estate developed by the TRS includes direct and indirect costs of construction, interest and other miscellaneous costs incurred during the development period until the project is substantially complete and available for occupancy. Real estate held for sale is not depreciated. In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the TRS classifies its real estate held for sale as discontinued operations for each property in which rental revenues are generated (see Note 19).

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 provisions of SFAS No. 66 Accounting for 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 allowance related to the mortgages, notes and accrued interest is NNN's best estimate of the amount of probable credit losses. The allowance is determined on an individual note basis in reviewing any payment past due for over 90 days. Any outstanding amounts are written off against the allowance when all possible means of collection have been exhausted.

Investment in Unconsolidated Affiliates NNN accounts for each of its investments in unconsolidated affiliates under the equity method of accounting (see Note 4).

Commercial Mortgage Residual Interests, at Fair Value Commercial mortgage residual interests, classified as available for sale, are reported at their market values with unrealized gains and losses reported as other comprehensive income in stockholders' equity. The commercial mortgage residual interests were acquired in connection with the acquisition of 78.9 percent equity interest of OAMI. NNN recognizes the excess of all cash flows attributable to the commercial mortgage residual interests estimated at the acquisition/transaction date over the initial investment (the accretable yield) as interest income over the life of the beneficial interest using the effective yield method. Losses are considered other than temporary valuation impairments if and when there has been a change in the timing or amount of estimated cash flows, exclusive of changes in interest rates, that leads to a loss in value. Certain of the commercial mortgage residual interests have been pledged as security for notes payable.

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.

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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. NNN limits investment of temporary cash investments to financial institutions with high credit standing; therefore, management believes it is not exposed to any significant credit risk on cash and cash equivalents.

Restricted Cash Restricted cash consisted of amounts held in restricted accounts in connection with the sale of certain assets of OAMI to a third party (the Buyer). As of December 31, 2007, NNN has no cash held in restricted accounts. The amount held in these accounts at December 31, 2006 was \$36,728,000. In December 2007, in accordance to agreements with the Buyer, the restrictions expired. NNN used a portion of the amounts released to repay the \$10,500,000 OAMI secured note payable.

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

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

Revenue Recognition Rental revenues for non-development real estate assets are recognized when earned in accordance with SFAS 13, 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.

Earnings Per Share Basic net earnings per share is computed by dividing net earnings available to common stockholders by the weighted average number of common shares outstanding during each period. Diluted net earnings per common share is computed by dividing net earnings available to common stockholders for the period by the number of common shares that would have been outstanding assuming the issuance of common shares for all potentially dilutive common shares outstanding during the periods.

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The following is a reconciliation of the denominator of the basic net earnings per common share computation to the denominator of the diluted net earnings per common share computation for each of the years ended December 31:

	2007	2006	2005
Weighted average number of common shares outstanding	66,519,519	57,698,533	53,272,997
Unvested restricted stock	(367,082)	(270,470)	(288,176)
Weighted average number of common shares outstanding used in basic earnings per share	66,152,437	57,428,063	52,984,821
Weighted average number of common shares outstanding used in basic earnings per share	66,152,437	57,428,063	52,984,821
Effect of dilutive securities:			
Restricted stock	143,550	114,367	221,337
Common stock options	69,040	107,909	128,944
Assumed conversion of Series B Convertible Preferred Stock to common stock	-	400,607	1,293,996
Directors' deferred fee plan	42,503	28,929	11,045
Weighted average number of common shares outstanding used in diluted earnings per share	66,407,530	58,079,875	54,640,143

In April 2006, the Series B Convertible Preferred shares were converted into 1,293,996 shares of common stock and therefore are included in the computation of both basic and diluted weighted average shares outstanding. In addition, the potential dilutive shares related to convertible notes payable were not included in computing earnings per common share because their effects would be antidilutive.

Stock-Based Compensation On January 1, 2006, NNN adopted the provisions of SFAS No. 123 (R), Share-Based Payments (SFAS 123R), under the modified prospective method. Under the modified prospective method, compensation cost is recognized for all awards granted after the adoption of this standard and for the unvested portion of previously granted awards that are outstanding as of that date. In accordance with SFAS 123R, NNN will estimate the fair value of restricted stock and stock option grants at the date of grant and amortize those amounts into expense on a straight line basis or amount vested, if greater, over the appropriate vesting period. Adoption of SFAS 123R did not have a significant impact on NNN's earnings from continuing operations, net earnings, cash flow from operations, cash flow from financing activities and basic and diluted earnings per share for the year ended December 31, 2007.

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, 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 real estate investment trust 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, 2007, 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 TRS is able to engage in activities resulting in income that previously would have been disqualified from being eligible REIT income under

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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 3). 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 SFAS No. 109, *Accounting for 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.

New Accounting Standards In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands the disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The changes to current practice resulting from the application of the SFAS 157 relate to the definition of fair value, the methods used to measure fair value and the expanded disclosures about fair value measurements. The definition focuses on the price that would be received to sell the asset or paid to transfer the liability at the measurement date (an exit price) and not the price that would be paid to acquire the asset or received to assume the liability at the measurement date (an entry price). This statement also emphasizes that fair value is a market-based measurement, not an entity specific measurement and subsequently a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. The statement also clarifies that the market participant assumptions include assumptions about risk, and assumptions about the effect of a restriction on the sale or use of an asset. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. This statement should be applied prospectively as of the beginning of the year in which this statement is initially applied. A limited form of retrospective application of SFAS 157 is allowed for certain financial instruments. NNN has evaluated the provisions of SFAS 157 and determined that the adoption of SFAS 157 will not have a significant impact on NNN's financial position or results of operations.

In February 2007, FASB issued SFAS Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159), which expands the scope of what companies may carry at fair value. This statement also includes an amendment to SFAS Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115). SFAS 159 offers an irrevocable option to carry the vast majority of recognized financial assets and liabilities at fair value with changes in fair value recorded in earnings. This statement can be applied instrument by instrument but must be applied to the entire financial instrument and not portions thereof. This statement does not apply to: (a) financial assets and financial liabilities recognized under leases as defined in SFAS Statement No. 13 *Accounting for Leases* with the exception of a guarantee of a third party lease obligation or a contingent obligation arising from a cancelled lease; (b) financial instruments that are in whole or part,

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classified by the issuer as a component of stockholder's equity (such as convertible debt security with a non-contingent beneficial conversion feature); (c) non-financial insurance contracts and warranties; and (d) financial instruments resulting from the separation of an embedded non-financial derivative instrument from a non-financial hybrid instrument and various employers' and plan obligations for pension benefits, post retirement benefits and other forms of deferred compensation arrangements including stock purchase plans and stock option plans. The amendment to SFAS 115 affects entities with available-for-sale and trading securities. This statement is effective as of the beginning of the first fiscal year that begins after November 15, 2007. The adoption of SFAS 159 will not have a significant impact on NNN's financial position or results of operation.

In May 2007, a FASB Staff Position (FSP FIN 48-1), Definition of Settlement in FASB Interpretation 48, was issued to amend Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN 48). FSP FIN 48-1 clarifies that a tax position could be effectively settled upon examination by a taxing authority. An enterprise should make the assessment on a position-by-position basis, but an enterprise could conclude that all positions in a particular tax year are effectively settled. In determining effective settlement an enterprise shall evaluate all the following conditions (a) the taxing authority has completed its examination procedures including all appeals and administrative reviews that the taxing authority is required and expected to perform for the tax position; (b) the enterprise does not intend to appeal or litigate any aspect of the tax position included in the completed examination, and (c) it is remote that the taxing authority would examine or reexamine any aspect of the tax position. In making this assessment management shall consider the taxing authority's policy on reopening closed examinations and the specific facts and circumstances of the tax position. Management shall presume the taxing authority has full knowledge of all relevant information in making the assessment on whether the taxing authority would reopen a previously closed examination. This FSP was applied upon initial adoption of FIN 48. If an enterprise did not apply FIN 48 in a manner consistent to this FSP then adoption of the provisions of FSP FIN 48-1 should be retrospectively applied to the date of the initial adoption of FIN 48. The adoption of this FSP did not have a significant impact on the NNN's financial position or results of operations.

In June 2007, FASB issued and ratified Emerging Issues Task Force No. 06-11, (EITF 06-11), Accounting for Income Tax Benefits of Dividends On Share-Based Payment Award. EITF 06-11 concludes that a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity classified non-vested equity shares, nonvested equity share units and outstanding equity share options should be recognized as an increase in additional paid-in capital. EITF 06-11 should be applied prospectively and is effective for fiscal years beginning after December 15, 2007 and interim periods within those fiscal years. Retroactive application to previously issued financial statements is prohibited. The adoption of EITF 06-11 will not have a significant impact on NNN's financial position or results of operation.

In December 2007, FASB issued Statements No. 141 (revised 2007), Business Combinations (SFAS 141(R)) the objective of which is to improve and simplify the accounting for business combinations. SFAS 141(R) will improve reporting by creating greater consistency in the accounting and financial reporting of business combinations. This statement requires the new acquiring entity to recognize all assets acquired and liabilities assumed in business combination

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transactions; establishes an acquisition-date fair value for said assets and liabilities; and fully disclose to investors the financial effect the acquisition will have. SFAS 141(R) applies to business combinations between mutual entities, including those combinations achieved in the absence of a transaction involving the acquirer such as through the lapse of minority veto rights and combinations achieved without the transfer of consideration, for example, by contract alone. FAS 141(R) specifically excludes joint ventures and common control transactions. SFAS 141(R) is effective for fiscal years beginning on or after December 15, 2008 and should be applied prospectively. NNN is currently evaluating the provisions for SFAS 141(R) to determine the potential impact, if any, the adoption will have on NNN's financial position or results of operations.

In December 2007, FASB issued Statements No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160), an amendment to Accounting Research Board No. 51 SFAS 160 objective is to improve the relevance, comparability and transparency of financial information that a reporting entity provides in its consolidated financial statements. The key aspects of SFAS 160 are (i) the minority interests in subsidiaries should be presented in the consolidated balance sheet within equity of the consolidated group, separate from the parent's shareholders' equity, (ii) acquisitions or dispositions of noncontrolling interests in a subsidiary that do not result in a change of control should be accounted for as equity transactions, (iii) a parent recognizes a gain or loss in net income when a subsidiary is deconsolidated, measured using the fair value of the non-controlling equity investment, (iv) the acquirer should attribute net income and each component of other comprehensive income between controlling and noncontrolling interests based on any contractual arrangements or relative ownership interests, and (v) a reconciliation of beginning to ending total equity is required for both controlling and noncontrolling interests. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008 and should be applied prospectively. NNN is currently evaluating the provisions for SFAS 160 to determine the potential impact, if any, the adoption will have on NNN's financial position or results of operations.

The FASB is currently reviewing comments on a proposed FASB Staff Position (the proposed FSP) which, if issued, would require separate accounting for the debt and equity components of convertible instruments. The proposed FSP would require the value assigned to the debt component to be the estimated fair value of a similar bond without the conversion feature, which would result in the debt being recorded at a discount. The debt discount would be amortized over the expected life of the debt as additional interest expense. The proposed FSP would be effective for financial statements issued for fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. The guidance in the proposed FSP would be applied retrospectively to all periods presented and could result in additional annual interest expense recognized by NNN if adopted, as proposed.

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

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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 2007 presentation. These reclassifications had no effect on stockholders' equity or net earnings.

The statements of cash flow for the years ended December 31, 2006 and 2005 reflect a reclassification of \$16,855,000 and \$11,704,000, respectively, to reclassify the cash received from commercial mortgage residual assets from cash flows from operating activities to cash flows from investing activities. For the year ended December 31, 2006, the reclassification resulted in a change in the net cash provided by operating activities from \$18,561,000 to \$1,676,000 and a change in the net cash used in investing activities from \$106,984,000 to \$90,099,000. For the year ended December 31, 2005, the reclassification resulted in a change in the net cash provided by operating activities from \$30,930,000 to \$19,226,000 and a change in the net cash used in investing activities from \$242,487,000 to \$230,783,000. The reclassification does not effect the net change in cash for either of the years ended December 31, 2006 and 2005 and has no impact on the consolidated balance sheets, consolidated statements of earnings and the related earnings per share amounts or the consolidated statements of stockholders' equity.

Note 2 Real Estate Investment Portfolio:

Leases NNN generally leases its Investment Properties to established tenants. As of December 31, 2007, 892 of the Investment Property leases have been classified as operating leases and 26 leases have been classified as direct financing leases. For the Investment Property leases classified as direct financing leases, the building portions of the property leases are accounted for as direct financing leases while the land portions of 10 of these leases are accounted for as operating leases. Substantially all leases have initial terms of 10 to 20 years (expiring between 2008 and 2027) and provide for minimum rentals. In addition, the tenant leases generally provide for limited increases in rent as a result of fixed increases, increases in the consumer price index, and/or increases in the tenant's sales volume. Generally, the tenant is also required to pay all property taxes and assessments, substantially maintain the interior and exterior of the building and carry property and liability insurance coverage. Certain of NNN's Investment Properties are subject to leases under which NNN retains responsibility for certain costs and expenses of the property. As of December 31, 2007, the weighted average remaining lease term was approximately 13 years. Generally, the leases of the Investment Properties provide the tenant with one or more multi-year renewal options subject to generally the same terms and conditions as the initial lease.

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

	2007	2006
Land and improvements	\$ 938,804	\$ 693,187
Buildings and improvements	1,201,999	830,450
Leasehold interests	2,532	2,532
	2,143,335	1,526,169
Less accumulated depreciation and amortization	(111,087)	(87,359)
	2,032,248	1,438,810
Work in progress	25,556	3,769
	2,057,804	1,442,579
Less impairment	(1,958)	(1,583)
	\$ 2,055,846	\$ 1,440,996

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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, 2007, 2006 and 2005, NNN recognized collectively in continuing and discontinued operations, \$2,672,000, \$3,160,000, and \$2,053,000, respectively, of such income. At December 31, 2007 and 2006, the balance of accrued rental income, net of allowances of \$3,077,000 and \$2,536,000, respectively, was \$24,652,000 and \$26,510,000, respectively.

In connection with the development of 27 Investment Properties, NNN has agreed to fund construction commitments (including land costs) of \$71,883,000, of which \$44,561,000 has been funded as of December 31, 2007.

The following is a schedule of future minimum lease payments to be received on noncancellable operating leases at December 31, 2007 (dollars in thousands):

2008	\$	189,858
2009		188,275
2010		185,705
2011		181,700
2012		176,464
Thereafter		1,652,500
	\$	2,574,502

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 Consumer Price Index (CPI) or future contingent rents which may be received on the leases based on a percentage of the tenant's gross sales.

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

	2007	2006
Minimum lease payments to be received	\$ 54,967	\$ 104,756
Estimated unguaranteed residual values	13,622	25,015
Less unearned income	(31,092)	(58,437)
Net investment in direct financing leases	\$ 37,497	\$ 71,334

The following is a schedule of future minimum lease payments to be received on direct financing leases held for investment at December 31, 2007 (dollars in thousands):

2008	\$	5,024
2009		5,104
2010		5,123
2011		5,108
2012		5,139
Thereafter		29,469
	\$	54,967

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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 Accounted for Using the Operating Method).

Impairments As a result of NNN's review of long lived assets for impairment, including identifiable intangible assets, NNN recognized the following impairments for each of the years ended December 31 (dollars in thousands):

	2007	2006	2005
Continuing operations:			
Real estate	\$ 503	\$ -	\$ 345
Intangibles ⁽¹⁾	288	-	1,328
	791	-	1,673
Discontinued operations:			
Real estate	335	693	2,056
	\$ 1,126	\$ 693	\$ 3,729

⁽¹⁾ Included in Other Assets on the Consolidated Balance Sheets.

Note 3 Real Estate Inventory Portfolio:

As of December 31, 2007, the TRS owned 56 Inventory Properties: 41 completed inventory, nine under construction and six land parcels. As of December 31, 2006, the TRS owned 97 Inventory Properties: 79 complete inventory, five under construction and 13 land parcels. The real estate Inventory Portfolio consisted of the following (dollars in thousands):

	2007	2006
Inventory:		
Land	\$ 65,983	\$ 62,554
Building	140,970	101,168
	206,953	163,722
Construction projects:		
Land	30,477	42,303
Work in process	12,025	22,134
	42,502	64,437
Less impairment	(844)	-
	\$ 248,611	\$ 228,159

In connection with the development of nine Inventory Properties by the TRS, NNN has agreed to fund construction commitments of \$24,097,000, of which \$17,125,000 has been funded as of December 31, 2007.

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

	2007		2006		2005	
	# of Properties	Gain	# of Properties	Gain	# of Properties	Gain
Continuing operations	2	\$ 332	6	\$ 8,000	6	\$ 2,010
Minority interest		-		(3,609)		-
Total continuing operations		332		4,391		2,010
Discontinued operations	69	10,957	58	5,590	22	18,696
Intersegment eliminations		844		190		921
Minority interest		(1,120)		(505)		(5,999)
Total discontinued operations		10,681		5,275		13,618
	71	\$ 11,013	64	\$ 9,666	28	\$ 15,628

Note 4 Investments in Unconsolidated Affiliates:

Crow Holdings. In September 2007, NNN entered into a joint venture, NNN Retail Properties Fund I LLC (the "NNN Crow JV I"), with an affiliate of Crow Holdings Realty Partners IV, L.P. NNN Crow JV I plans to acquire up to \$220,000,000 of real estate assets leased to convenience store operators from unrelated third parties. NNN owns a 15 percent equity interest in the joint venture which it accounts for under the equity method of accounting. Net income and losses of the joint venture are allocated to the members in accordance with their respective percentage interest. For the year ended December 31, 2007, NNN recognized earnings of \$49,000 for NNN Crow JV I. NNN manages the joint venture pursuant to a management agreement and earned management fees of \$21,000 for the year ended December 31, 2007.

During the year ended December 31, 2007, in accordance with the terms of the joint venture agreement, NNN loaned \$2,749,000 to the joint venture at an interest rate of 7.75%. The loan balance was repaid in full in November 2007.

CNL Plaza. In May 2002, NNN purchased a 25 percent partnership interest in CNL Plaza Ltd. and CNL Plaza Venture Ltd. (collectively "Plaza") for \$750,000. The remaining partnership interests in Plaza were owned by affiliates of James M. Seneff, Jr. and Robert A. Bourne, each a former member of NNN's Board of Directors. Plaza owned a 346,000 square foot office building and an interest in an adjacent parking garage. NNN had severally guaranteed 41.67 percent of a \$14,000,000 unsecured promissory note on behalf of Plaza. In October 2006, NNN sold its equity investment in Plaza for \$10,239,000 and recognized a gain of \$11,373,000. In connection with the sale, NNN was released as guarantor of Plaza's \$14,000,000 unsecured promissory note.

During the years ended December 31, 2006 and 2005, NNN received \$1,042,000, and \$471,000, respectively, in distributions from Plaza. For the year ended December 31, 2006, NNN recognized earnings from Plaza of \$122,000, and a loss of \$218,000 for the year ended December 31, 2005.

Since November 1999, NNN has leased its headquarters office space from Plaza. NNN's lease expires in October 2014. In October 2006, NNN amended its lease with Plaza to reduce the square footage leased by NNN. During the years ended December 31, 2007, 2006 and 2005, NNN incurred rental expenses in connection with the lease of \$938,000, \$1,024,000 and

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\$1,035,000, respectively. In May 2000, NNN subleased a portion of its office space to affiliates of James M. Seneff, Jr. In October 2006, NNN terminated these subleases in connection with NNN's amendment. During the years ended December 31, 2006 and 2005, NNN earned \$337,000 and \$397,000, respectively, in rental and accrued rental income from these affiliates.

The following is a schedule of NNN's future minimum lease payments related to the office space leased from Plaza at December 31, 2007 (dollars in thousands):

2008	\$ 839
2009	865
2010	891
2011	917
2012	945
Thereafter	1,804
	\$ 6,261

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. NNN has the option to renew its lease with Plaza for three successive five-year periods subject to similar terms and conditions as the initial lease.

Note 5 Mortgages, Notes and Accrued Interest Receivable:

Mortgage receivables and structured finance are loans secured by real estate, real estate securities or other assets.

As of December 31, 2007 and 2006, NNN held mortgages and notes receivable with an aggregate principal balance of \$51,556,000 and \$17,227,000, respectively. The mortgage receivables bear interest rates ranging from 7.00% to 12.00% with maturity dates ranging from May 2008 through October 2028.

As of December 31, 2007, the structured finance investments bear a weighted average interest rate of 11.26% per annum, of which 9.78% is payable monthly and the remaining 1.48% accrues and is due at maturity. The principal balance of each structured finance investment is due in full at maturity, which ranges between January 2009 and March 2010. The structured finance investments are secured by the borrowers' pledge of their respective membership interests in the certain subsidiaries which own the respective real estate.

Mortgages and notes receivable consisted of the following at December 31 (dollars in thousands):

	2007	2006
Mortgages and notes receivable	\$ 51,556	\$ 17,227
Structured Finance	14,359	13,917
Accrued interest receivables	545	641
	66,460	31,785
Less loan origination fees, net	(100)	(206)
Less allowance	(396)	(634)

\$ 65,964 \$ 30,945

Table of Contents**Note 6 Commercial Mortgage Residual Interests:**

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

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

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

⁽²⁾ NNN owns 78.9 percent of OAMI's investment interest

Each of the Residuals is recorded at fair value based upon an independent valuation. Unrealized gains and losses are reported as other comprehensive income in stockholders' equity, and other than temporary losses as a result of a change in the timing or amount of estimated cash flows are recorded as an other than temporary valuation impairment. Due to changes in market conditions relating to residual assets, the independent valuation increased the discount rate from 17% to 25% during 2007. As a result of the increase in discount rate and an increase in prepayments of underlying loans of the Residuals, NNN recognized an other than temporary valuation impairment of \$638,000 for the year ended 2007. In 2006, as a result of the increase in historical prepayments, the independent valuation changed the assumption in future pay prepayments. As a result, NNN recognized an other than temporary valuation impairment of \$8,779,000 for the year ended December 31, 2006.

NNN recorded \$326,000 of unrealized losses and \$1,992,000 of unrealized gains as other comprehensive income for the years ended December 31, 2007 and 2006, respectively.

The following table summarizes the key assumptions used in determining the value of these assets as of December 31:

	2007	2006
Discount rate	25%	17%
Average life equivalent CPR speeds range	33.0% to 45.7% CPR	38.7% to 47.6% CPR
Foreclosures:		
Frequency curve default model	1.1% maximum rate	1.1% maximum rate
Loss severity of loans in foreclosure	10%	10%
Yield:		
LIBOR	Forward 3-month curve	Forward 3-month curve
Prime	Forward curve	Forward curve

The following table shows the effects on the key assumptions affecting the fair value of the Residuals at December 31, 2007 (dollars in thousands).

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	Residuals
Carrying amount of retained interests	\$ 24,340
Discount rate assumption	
Fair value at 27% discount rate	\$ 23,807
Fair value at 30% discount rate	\$ 23,041
Prepayment speed assumption	
Fair value of 1% increases above the CPR Index	\$ 24,317
Fair value of 2% increases above the CPR Index	\$ 25,727
Expected credit losses	
Fair value 2% adverse change	\$ 25,745
Fair value 3% adverse change	\$ 25,742
Yield Assumptions	
Fair value of Prime/LIBOR spread contracting 25 basis points	\$ 26,172
Fair value of Prime/LIBOR spread contracting 50 basis points	\$ 26,608

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

Note 7 Line of Credit Payable:

In October 2007, NNN exercised the \$100,000,000 accordion feature of its existing revolving credit facility (the Credit Facility) increasing the borrowing capacity to \$400,000,000 from \$300,000,000. NNN's Credit Facility's current loan agreement terms as amended and restated in December 2005, (i) lowers the interest rates of the tiered rate structure from a maximum of 135 points above LIBOR to a maximum rate of 112.5 basis points above LIBOR (based upon the debt rating of NNN, the current interest rate is 80 basis points above LIBOR), (ii) requires NNN to pay a commitment fee based on a tiered rate structure to a maximum of 25 basis points per annum (based upon the debt rating of NNN, the current commitment fee is 20 basis points), (iii) provides for a competitive bid option for up to 50 percent of the facility amount, (iv) extends the expiration date to May 8, 2009 and (v) amends certain of the financial covenants of NNN. The principal balance is due in full upon expiration of the Credit Facility in May 2009, which NNN may request to be extended for an additional 12 months. As of December 31, 2007, \$129,800,000 was outstanding and approximately \$270,200,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$2,685,000. The Credit Facility had a weighted average interest rate of 6.24% and 5.91% for the years ended December 31, 2007 and 2006, respectively. In accordance with the terms of the Credit Facility, NNN is required to meet certain restrictive financial covenants, which, among other things, require NNN to maintain certain (i) maximum leverage ratios, (ii) debt service coverage, (iii) cash flow coverage and (iv) investment and dividend limitations. At December 31, 2007, NNN was in compliance with those covenants.

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For the years ended December 31, 2007, 2006 and 2005, interest cost incurred was \$5,937,000, \$7,310,000, and \$2,948,000 respectively, of which \$3,718,000, \$2,278,000 and \$2,563,000, respectively, was capitalized by NNN as a cost of buildings constructed. For the years ended December 31, 2007, 2006 and 2005, \$2,219,000, \$5,032,000 and \$385,000, respectively, were charged to operations.

Note 8 Mortgages Payable:

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

Entered	Balance	Interest Rate	Maturity ⁽⁴⁾	Carrying Value of Encumbered Asset(s) ⁽¹⁾	Outstanding Principal Balance at December 31,	
					2007	2006
June 1996 ⁽²⁾	\$ 1,916	8.250%	December 2008	\$ 1,739 ⁽⁵⁾	\$ 263	\$ 506
December 1999	350	8.500%	December 2009	3,270	95	136
December 2001	623	9.000%	April 2014	962	358	398
December 2001	698	9.000%	April 2019	1,344	441	463
December 2001	485	9.000%	April 2019	1,317	226	236
June 2002	21,000	6.900%	July 2012	25,654	19,759	20,027
February 2004 ⁽²⁾	6,952	6.900%	January 2017	12,248	5,487	5,907
February 2004 ⁽³⁾	12,000	7.370%	September 2007	-	-	7,304
March 2005 ⁽²⁾	1,015	8.140%	September 2016	1,380	851	915
				\$ 47,914	\$ 27,480	\$ 35,892

⁽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, 2007.

⁽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⁾ NNN assumed this long term fixed rate loan when NNN increased its ownership in Net Lease Institutional Realty, L.P. In September 2007, upon maturity, NNN repaid the outstanding principal balance on this long-term fixed rate loan.

⁽⁴⁾ Monthly payments include interest and principal, if any; the balance is due at maturity.

⁽⁵⁾ NNN has a \$354,000 letter of credit that also secures the loan.

The following is a schedule of the annual maturities of NNN's mortgages payable at December 31, 2007 (dollars in thousands):

2008	\$ 1,190
2009	1,000
2010	1,022
2011	1,098
2012	19,291
Thereafter	3,879
	\$ 27,480

Note 9 Notes Payable Secured:

NNN's consolidated financial statements include the following notes payable, resulting from the acquisition of OAMI (see Note 22) (dollars in thousands):

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	Outstanding Principal Balance		Stated Rate	Maturity Date
	at December 31, 2007	2006		
02-1 Notes ⁽¹⁾	\$ -	\$ 10,500	10%	December 2007
03-1 Notes ⁽²⁾⁽³⁾	12,000	14,000	10%	June 2008
	\$ 12,000	\$ 24,500		

(1) NNN repaid the outstanding principal amount in December 2007.

(2) Secured by certain equity investments in commercial mortgage residual interests of NNN with a carrying value of \$5,445.

(3) Interest is payable quarterly with annual principal payments of \$2,000 payable June 30.

The 03-1 Note can be prepaid at the option of OAMI, in whole or in part, without premium or penalty after the pre-payment date, as defined in each respective note.

Note 10 Notes Payable:

NNN filed a prospectus supplement to its shelf registration for each issuance of notes outlined in the table below (dollars in thousands).

Notes	Issue Date	Principal	Discount ⁽³⁾	Net Price	Stated Rate	Effective Rate ⁽⁴⁾	Commencement of Semi-Annual Interest Payments	Maturity Date
2008 ⁽¹⁾	March 1998	\$ 100,000	\$ 271	\$ 99,729	7.125%	7.163%	September 1998	March 2008
2010 ⁽¹⁾	September 2000	20,000	126	19,874	8.500%	8.595%	March 2001	September 2010
2012 ⁽¹⁾	June 2002	50,000	287	49,713	7.750%	7.833%	December 2002	June 2012
2014 ⁽¹⁾⁽²⁾⁽⁵⁾	June 2004	150,000	440	149,560	6.250%	5.910%	June 2004	June 2014
2015 ⁽¹⁾	November 2005	150,000	390	149,610	6.150%	6.185%	June 2006	December 2015
2017 ⁽⁶⁾	September 2007	250,000	877	249,123	6.875%	6.924%	April 2008	October 2017

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

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

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

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

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

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

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

In connection with the debt offerings, NNN incurred debt issuance costs totaling \$6,667,000 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

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deferred and are being amortized over the term of the respective notes using the effective interest method.

In accordance with the terms of the indenture, pursuant to which NNN's notes have been issued, NNN is required to meet certain restrictive financial covenants, which, among other things, require NNN to maintain (i) certain leverage ratios and (ii) certain interest coverage. At December 31, 2007, NNN was in compliance with those covenants.

Term Note In connection with the acquisition of NAPE (see Note 22), NNN assumed a \$20,800,000 term note payable (Term Note). The principal balance on the Term Note was due in full upon June 2009. The Term Note bore interest based on a tiered rate structure to a maximum rate of 165 basis points above LIBOR. In accordance with the terms of Term Note, NNN was required to meet certain restrictive financial covenants, which among other things, required NNN to maintain certain (i) maximum leverage ratios, (ii) debt service coverage and (iii) cash flow coverage.

In October 2007, NNN repaid the outstanding principal balance on the Term Note. For the year ended December 31, 2006, the Term Note had a weighted average interest rate of 6.62%.

Note 11 Notes Payable Convertible:

In September 2006, NNN filed a prospectus supplement to the prospectus contained in its February 2006 shelf registration statement and issued \$150,000,000 of 3.95% convertible senior notes due September 2027 (with a 2011 put option). Subsequently, NNN issued an additional \$22,500,000 in connection with the underwriters' over-allotment option (collectively, the Convertible Notes). The Convertible Notes were sold at par with interest payable semi-annually commencing on March 15, 2007 (effective interest rate of 3.95%).

The notes are convertible, at the option of the holder, at any time on or after September 15, 2025. Prior to September 15, 2025, holders may convert their Convertible Notes under certain circumstances. The initial conversion rate per \$1,000 principal amount of Convertible Notes was 40.9015 shares of NNN's common stock, which was equivalent to an initial conversion price of \$24.4490 per share of common stock. The initial conversion rate is subject to adjustment in certain circumstances. As a result of the increase in NNN's dividend, the conversion rate was adjusted to 41.0028, which is equivalent to a conversion price of \$24.3886. Upon conversion of each \$1,000 principal amount of Convertible Notes, NNN will settle any amounts up to the principal amount of the notes in cash and the remaining conversion value, if any, will be settled, at NNN's option, in cash, common stock or a combination thereof.

The Convertible Notes are redeemable at the option of NNN, in whole or in part, on or after September 20, 2011 for cash equal to 100 percent of the principal amount of the Convertible Notes being redeemed plus unpaid interest accrued to, but not including, the redemption date. In addition, on September 20, 2011, September 15, 2016 and September 15, 2021 note holders may require NNN to repurchase the notes for cash equal to the principal amount of the Convertible Notes to be repurchased plus accrued interest thereon.

In connection with the Convertible Note offering, NNN incurred debt issuance costs totaling \$3,850,000 consisting primarily of underwriting discounts and commissions, legal and accounting fees, rating agency fees and printing expenses. Debt issuance costs have been

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deferred and are being amortized over the period to the earliest put option of the holders, September 20, 2011 using the effective interest method.

Note 12 Financing Lease Obligation:

In July 2004, NNN sold five investment properties for approximately \$26,041,000 and subsequently leased back the properties under a 10-year financing lease obligation. NNN may repurchase one or more of the properties subject to put and call options included in the financing lease. In accordance with the provisions of SFAS No. 66, Accounting for Sales of Real Estate, NNN has recognized the sale as a financing transaction. The 10-year financing lease bears an interest rate of 5.00% annually with monthly interest payments of \$109,000 and expires in June 2014 unless either the put or call option was exercised. In November 2007, NNN repurchased the properties under the agreements of the put option for approximately \$26,007,000.

Note 13 Preferred Stock:

The following table outlines each issuance of NNN's preferred stock (dollars in thousands):

	Shares Outstanding At December 31, 2007	Liquidation Preference (per share)	Fixed Annual Cash Distribution (per share)
Non-Voting Preferred Stock Issuance			
9% Series A	-	\$ 25.00	\$ 2.25000
6.7% Series B Convertible	-	2,500.00	167.50000
7.375% Series C Redeemable Depository Shares	3,680,000	25.00	1.84375

9% Non-Voting Series A Preferred Stock. In December 2001, NNN issued 1,999,974 shares of 9% Non-Voting Series A Preferred Stock (the Series A Preferred Stock). Holders of the Series A Preferred Stock are entitled to receive, when and as authorized by the board of directors, cumulative preferential cash distributions at a rate of nine percent of the \$25.00 liquidation preference per annum (equivalent to a fixed annual amount of \$2.25 per share). The Series A Preferred Stock ranked senior to NNN's common stock with respect to distribution rights and rights upon liquidation, dissolution or winding up of NNN.

In January 2007, NNN redeemed all outstanding shares of Series A Preferred Stock at a redemption price of \$25.00 per share, plus all accumulated and unpaid distributions through the redemption date of \$0.20625 per share.

6.70% Non-Voting Series B Cumulative Convertible Perpetual Preferred Stock. In August 2003, NNN filed a prospectus supplement to its shelf registration statement and issued 10,000 shares of 6.70% Non-Voting Series B Cumulative Convertible Perpetual Preferred Stock (the Series B Convertible Preferred Stock) and received gross proceeds of \$25,000,000. In connection with this offering, NNN incurred stock issuance costs totaling approximately \$687,000, consisting primarily of placement fees and legal and accounting fees. Holders of the Series B Convertible Preferred Stock were entitled to receive, when and as authorized by the board of directors, cumulative preferential cash distributions based on the stated rate and liquidation preferences per annum. In April 2006, the holder of NNN's Series B Convertible Preferred Stock elected to convert those 10,000 shares into 1,293,996 shares of common stock.

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7.375% Series C Cumulative Redeemable Preferred Stock. In October 2006, NNN filed a prospectus supplement to the prospectus contained in its February 2006 shelf registration statement and issued 3,200,000 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 \$80,000,000. In addition, NNN issued an additional 480,000 depositary shares in connection with the underwriters' over-allotment option and received gross proceeds of \$12,000,000. 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. NNN may redeem the Series C Preferred Stock underlying the depositary shares on or after October 12, 2011, for cash, at a redemption price of \$2,500.00 per share (or \$25.00 per depositary share), plus all accumulated, accrued and unpaid dividends.

Note 14 Common Stock:

In June 2005, NNN issued 1,636,532 shares of common stock pursuant to the acquisition of National Properties Corporation (*NAPE*) (see Note 22).

In March 2007, NNN filed a prospectus supplement to the prospectus contained in its February 2006 shelf registration statement and issued 5,000,000 shares of common stock at a price of \$24.70 per share and received net proceeds of \$118,020,000. Subsequently, in April 2007, NNN issued an additional 750,000 shares of common stock in connection with the underwriters' over-allotment option and received net proceeds of \$17,730,000. In connection with this offering, NNN incurred stock issuance costs totaling approximately \$6,217,000, consisting primarily of underwriters' fees and commissions, legal and accounting fees and printing expenses.

In June 2007, NNN filed a registration statement on Form S-8 with the Securities and Exchange Commission which permits the issuance by NNN of up to 5,900,000 shares of common stock pursuant to NNN's 2007 Performance Incentive Plan.

In October 2007, NNN filed a prospective supplement to the prospectus contained in its February 2006 Shelf Registration Statement and issued 4,000,000 shares of common stock at a price of \$25.94 per share and received net proceeds of \$99,150,000. In connection with this offering, NNN incurred stock issuance costs totaling approximately \$4,874,000, consisting primarily of underwriters' fees and commissions, legal and accounting fees and printing expenses.

Dividend Reinvestment and Stock Purchase Plan. In February 2006, NNN filed a shelf registration statement with the Securities and Exchange Commission for its Dividend Reinvestment and Stock Purchase Plan (*DRIP*) which permits the issuance by NNN of 12,191,394 shares of common stock. The following outlines the common stock issuances pursuant to the DRIP for the years ended December 31:

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	2007	2006
Shares of common stock	2,645,257	3,046,408
Net proceeds	\$ 62,980	\$ 65,722

Note 15 Employee Benefit Plan:

Effective January 1, 1998, NNN adopted a defined contribution retirement plan (the Retirement Plan) covering substantially all of the employees of NNN. The Retirement Plan permits participants to defer up to a maximum of 60 percent of their compensation, as defined in the Retirement Plan, subject to limits established by the Internal Revenue Code. NNN matches up to 60 percent of the participants' contributions based on a tiered rate structure up to a maximum of eight percent of a participant's annual compensation. NNN's contributions to the Retirement Plan for the years ended December 31, 2007, 2006 and 2005 totaled \$428,000, \$248,000, and \$194,000, respectively.

Note 16 Dividends:

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

	2007	2006	2005
Ordinary dividends	\$ 1.397402	\$ 1.150780	\$ 1.068470
Qualified dividends	0.000414	-	0.224510
Capital gain	0.002184	0.150261	-
Unrecaptured Section 1250 Gain	-	0.018959	0.002210
Nontaxable distributions	-	-	0.004810
	\$ 1.400000	\$ 1.320000	\$ 1.300000

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

	Total	Ordinary Dividends	Qualified Dividend	Capital Gain	Unrecaptured Section 1250 Gain
2007:					
Series A ⁽¹⁾	\$ 0.206250	\$ 0.205867	\$ 0.000061	\$ 0.000322	\$ -
Series C	1.843750	1.840328	0.000546	0.002876	-
2006:					
Series A	2.250000	1.961557	-	0.256127	0.032316
Series B Convertible ⁽¹⁾	41.875000	36.506800	-	4.766800	0.601400
Series C ⁽²⁾	0.250955	0.218784	-	0.028567	0.003604
2005:					
Series A	2.250000	2.250000	-	-	-
Series B Convertible	167.500000	167.500000	-	-	-

⁽¹⁾ Shares of Series A and Series B convertible are no longer outstanding.

⁽²⁾ Issued in October 2006.

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During the year ended December 31, 2006, NNN recorded restructuring costs of \$1,580,000, which included severance costs and accelerated vesting of restricted stock in connection with a workforce reduction in April 2006.

Note 18 Income Taxes:

In June 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

NNN is subject to the provisions of FIN 48 as of January 1, 2007, and has analyzed its various federal and state filing positions. NNN believes that its income tax filing positions and deductions are well documented and supported. Additionally, NNN believes that its accruals for tax liabilities are adequate. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48. In addition, NNN did not record a cumulative effect adjustment related to the adoption of FIN 48.

NNN has had no increases or decreases in unrecognized tax benefits for current or prior years since the date of adoption. Further, no interest or penalties have been included since no reserves were recorded and no significant increases or decreases are expected to occur within the next 12 months. When applicable, such interest and penalties will be recorded in non-operating expenses. The periods that remain open under federal statute are 2004 through 2007. NNN also files in many states with varying open years under statute.

For income tax purposes, NNN has taxable REIT subsidiaries in which certain real estate activities are conducted. Additionally, in May 2005, NNN acquired a 78.9 percent equity interest in OAMI, and has consolidated OAMI in its financial statements. OAMI, upon making its REIT election, has remaining tax liabilities relating to the built-in-gain of its assets.

NNN treats some depreciation expense and certain other items differently for tax than for financial reporting purposes. The principal differences between NNN's effective tax rates for the years ended December 31, 2007, 2006 and 2005, and the statutory rates relate to state taxes and nondeductible expenses such as meals and entertainment expenses.

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

	2007	2006
Temporary differences:		
Built-in-gain	\$ (6,768)	\$ (9,480)
Depreciation	(632)	(600)
Other	79	8
Excess interest expense carryforward	5,676	2,010
Net operating loss carryforward	134	1,961
Net deferred income tax asset (liability)	\$ (1,511)	\$ (6,101)
Current income tax asset (payable)	(160)	(239)
Income tax asset (liability)	\$ (1,671)	\$ (6,340)

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In assessing the ability to realize a deferred tax asset, management considers whether it is more likely than not that some portion or the entire deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The net operating loss carryforwards were generated by NNN's taxable REIT subsidiaries. The net operating loss carryforwards expire in 2027. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that NNN will realize all of the benefits of these deductible differences that existed as of December 31, 2007.

The income tax (expense) benefit consists of the following components for the years ended December 31 (dollars in thousands):

	2007	2006	2005
Net earnings before income taxes	\$ 153,849	\$ 176,283	\$ 92,362
Provision for income tax benefit (expense):			
Current:			
Federal	(1,120)	(1,805)	(2,402)
State and local	(209)	(339)	(451)
Deferred:			
Federal	3,570	6,493	(44)
State and local	1,020	1,873	(65)
Total provision for income taxes	3,261	6,222	(2,962)

Total net earning