

NATIONAL RETAIL PROPERTIES, INC.  
Form 10-Q  
August 01, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 001-11290

NATIONAL RETAIL PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of  
incorporation or organization)

56-1431377

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

450 South Orange Avenue, Suite 900

Orlando, Florida 32801

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (407) 265-7348

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

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

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

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

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

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

121,190,784 shares of common stock, \$0.01 par value, outstanding as of July 30, 2013.

## TABLE OF CONTENTS

|  | PAGE<br>REFERENCE |
|--|-------------------|
| Part I - Financial Information   |                   |
| Item 1. <u>Financial Statements:</u>   |                   |
| <u>Condensed Consolidated Balance Sheets</u>   | <u>3</u>          |
| <u>Condensed Consolidated Statements of Comprehensive Income</u>                                     | <u>4</u>          |
| <u>Condensed Consolidated Statements of Cash Flows</u>   | <u>6</u>          |
| <u>Notes to Condensed Consolidated Financial Statements</u>  | <u>8</u>          |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>21</u>         |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | <u>35</u>         |
| Item 4. <u>Controls and Procedures</u>   | <u>36</u>         |
| Part II - Other Information  |                   |
| Item 1. <u>Legal Proceedings</u>   | <u>37</u>         |
| Item 1A. <u>Risk Factors</u>   | <u>37</u>         |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | <u>37</u>         |
| Item 3. <u>Defaults Upon Senior Securities</u>   | <u>37</u>         |
| Item 4. <u>Mine Safety Disclosures</u>   | <u>37</u>         |
| Item 5. <u>Other Information</u>   | <u>37</u>         |
| Item 6. <u>Exhibits</u>  | <u>37</u>         |
| <u>Signatures</u>  | <u>41</u>         |
| <u>Exhibit Index</u>   | <u>42</u>         |

---

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

|  | June 30, 2013 | December 31,<br>2012 |
|--|---------------|----------------------|
| ASSETS   | (unaudited)   |                      |
| Real estate portfolio:   |               |                      |
| Accounted for using the operating method, net of accumulated depreciation and amortization   | \$4,158,943   | \$3,791,282          |
| Accounted for using the direct financing method  | 22,407        | 23,217               |
| Real estate held for sale  | 46,691        | 20,308               |
| Mortgages, notes and accrued interest receivable   | 26,203        | 27,770               |
| Commercial mortgage residual interests   | 14,173        | 13,096               |
| Cash and cash equivalents  | 236,916       | 2,076                |
| Receivables, net of allowance of \$1,923 and \$855, respectively   | 3,443         | 3,112                |
| Accrued rental income, net of allowance of \$3,153 and \$3,270, respectively   | 25,226        | 25,458               |
| Debt costs, net of accumulated amortization of \$18,902 and \$17,965, respectively   | 14,189        | 12,781               |
| Other assets   | 101,161       | 68,926               |
| Total assets   | \$4,649,352   | \$3,988,026          |
| LIABILITIES AND EQUITY   |               |                      |
| Liabilities:   |               |                      |
| Line of credit payable   | \$—           | \$174,200            |
| Mortgages payable, including unamortized premium of \$158 and \$187, respectively  | 10,048        | 10,602               |
| Notes payable – convertible, net of unamortized discount of \$0 and \$2,072, respectively  | 222,944       | 236,500              |
| Notes payable, net of unamortized discount of \$11,413 and \$9,338, respectively   | 1,513,587     | 1,165,662            |
| Accrued interest payable   | 17,277        | 17,527               |
| Other liabilities  | 87,925        | 85,950               |
| Total liabilities  | 1,851,781     | 1,690,441            |
| Equity:  |               |                      |
| Stockholders' equity:  |               |                      |
| Preferred stock, \$0.01 par value. Authorized 15,000,000 shares  |               |                      |
| Series D, 11,500,000 depositary shares issued and outstanding, at stated liquidation value of \$25 per share                           | 287,500       | 287,500              |
| Series E, 11,500,000 depositary shares issued and outstanding, at stated liquidation value of \$25 per share                           | 287,500       | —                    |
| Common stock, \$0.01 par value. Authorized 375,000,000 shares; 119,287,073 and 111,554,997 shares issued and outstanding, respectively | 1,194         | 1,117                |
| Excess stock, \$0.01 par value. Authorized 390,000,000 shares; none issued or outstanding  | —             | —                    |
| Capital in excess of par value   | 2,343,074     | 2,101,002            |
| Retained earnings (deficit)  | (119,866      | ) (90,952            |
| Accumulated other comprehensive income (loss)  | (3,088        | ) (2,382             |

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

|                                   |             |             |
|-----------------------------------|-------------|-------------|
| Total stockholders' equity of NNN | 2,796,314   | 2,296,285   |
| Noncontrolling interests          | 1,257       | 1,300       |
| Total equity                      | 2,797,571   | 2,297,585   |
| Total liabilities and equity      | \$4,649,352 | \$3,988,026 |

See accompanying notes to condensed consolidated financial statements.

3

---

NATIONAL RETAIL PROPERTIES, INC.  
and SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands, except per share data)

(Unaudited)

|  | Quarter Ended June 30, |          | Six Months Ended June 30, |           |
|--|------------------------|----------|---------------------------|-----------|
|  | 2013                   | 2012     | 2013                      | 2012      |
| Revenues:  |                        |          |                           |           |
| Rental income from operating leases  | \$91,295               | \$76,525 | \$178,869                 | \$148,772 |
| Earned income from direct financing leases   | 556                    | 594      | 1,122                     | 1,198     |
| Percentage rent  | 162                    | 221      | 533                       | 332       |
| Real estate expense reimbursement from tenants   | 3,149                  | 2,556    | 6,126                     | 5,366     |
| Interest and other income from real estate transactions  | 371                    | 594      | 754                       | 1,300     |
| Interest income on commercial mortgage residual interests  | 588                    | 716      | 1,195                     | 1,471     |
|  | 96,121                 | 81,206   | 188,599                   | 158,439   |
| Retail operations:   |                        |          |                           |           |
| Revenues   | —                      | 7,784    | —                         | 19,008    |
| Operating expenses   | —                      | (7,480)  | —                         | (18,542)  |
| Net  | —                      | 304      | —                         | 466       |
| Operating expenses:  |                        |          |                           |           |
| General and administrative   | 9,412                  | 7,025    | 17,676                    | 14,630    |
| Real estate  | 4,301                  | 4,040    | 8,218                     | 8,549     |
| Depreciation and amortization  | 22,552                 | 18,678   | 46,270                    | 36,388    |
| Impairment losses and other charges, net of recoveries   | 160                    | 2,548    | 1,972                     | 2,583     |
|  | 36,425                 | 32,291   | 74,136                    | 62,150    |
| Earnings from operations   | 59,696                 | 49,219   | 114,463                   | 96,755    |
| Other expenses (revenues):   |                        |          |                           |           |
| Interest and other income  | (377)                  | (361)    | (711)                     | (720)     |
| Interest expense   | 23,394                 | 19,569   | 45,221                    | 39,387    |
|  | 23,017                 | 19,208   | 44,510                    | 38,667    |
| Earnings from continuing operations before income tax expense and equity in earnings of unconsolidated affiliate | 36,679                 | 30,011   | 69,953                    | 58,088    |
| Income tax benefit (expense)   | (432)                  | (156)    | 2                         | (271)     |
| Equity in earnings of unconsolidated affiliate   | —                      | 155      | —                         | 305       |
| Earnings from continuing operations  | 36,247                 | 30,010   | 69,955                    | 58,122    |
| Earnings from discontinued operations, net of income tax expense   | 1,359                  | 3,466    | 1,554                     | 5,177     |
| Earnings including noncontrolling interests  | 37,606                 | 33,476   | 71,509                    | 63,299    |
| Loss (earnings) attributable to noncontrolling interests:  |                        |          |                           |           |
| Continuing operations  | 40                     | 32       | 259                       | 46        |
| Discontinued operations  | (160)                  | (3)      | (216)                     | (8)       |
|  | (120)                  | 29       | 43                        | 38        |
| Net earnings attributable to NNN   | \$37,486               | \$33,505 | \$71,552                  | \$63,337  |

See accompanying notes to condensed consolidated financial statements.

4

---

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

|  | Quarter Ended June 30, |             | Six Months Ended June 30, |             |
|--|------------------------|-------------|---------------------------|-------------|
|  | 2013                   | 2012        | 2013                      | 2012        |
| Net earnings attributable to NNN   | \$37,486               | \$33,505    | \$71,552                  | \$63,337    |
| Series C preferred stock dividends   | —                      | —           | —                         | (1,979 )    |
| Series D preferred stock dividends   | (4,762 )               | (5,926 )    | (9,523 )                  | (5,926 )    |
| Excess of redemption value over carrying value of Series C preferred shares redeemed | —                      | —           | —                         | (3,098 )    |
| Net earnings attributable to common stockholders                                     | \$32,724               | \$27,579    | \$62,029                  | \$52,334    |
| Net earnings per share of common stock:  |                        |             |                           |             |
| Basic:   |                        |             |                           |             |
| Continuing operations  | \$0.27                 | \$0.23      | \$0.52                    | \$0.44      |
| Discontinued operations  | 0.01                   | 0.03        | 0.01                      | 0.05        |
| Net earnings   | \$0.28                 | \$0.26      | \$0.53                    | \$0.49      |
| Diluted:   |                        |             |                           |             |
| Continuing operations  | \$0.26                 | \$0.23      | \$0.51                    | \$0.44      |
| Discontinued operations  | 0.01                   | 0.03        | 0.01                      | 0.05        |
| Net earnings   | \$0.27                 | \$0.26      | \$0.52                    | \$0.49      |
| Weighted average number of common shares outstanding:                                |                        |             |                           |             |
| Basic  | 117,812,651            | 105,992,014 | 115,663,895               | 105,417,595 |
| Diluted  | 120,865,525            | 107,458,993 | 118,403,689               | 106,844,080 |
| Other comprehensive income:  |                        |             |                           |             |
| Net earnings attributable to NNN   | \$37,486               | \$33,505    | \$71,552                  | \$63,337    |
| Amortization of interest rate hedges   | 118                    | 58          | 178                       | 114         |
| Fair value forward starting swaps  | (1,997 )               | —           | (3,141 )                  | —           |
| Unrealized gain – commercial mortgage residual interests                             | 350                    | 213         | 1,219                     | 213         |
| Stock value adjustments  | 8                      | —           | 89                        | (1 )        |
| Reclassification of noncontrolling interests   | —                      | —           | 949                       | —           |
| Comprehensive income attributable to NNN   | \$35,965               | \$33,776    | \$70,846                  | \$63,663    |

See accompanying notes to condensed consolidated financial statements.

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

|  | Six Months Ended June 30, |             |
|--|---------------------------|-------------|
|  | 2013                      | 2012        |
| Cash flows from operating activities:  |                           |             |
| Earnings including noncontrolling interests  | \$71,509                  | \$63,299    |
| Adjustments to reconcile net earnings to net cash provided by operating activities:                                  |                           |             |
| Performance incentive plan expense   | 4,843                     | 3,889       |
| Performance incentive plan payment   | (2,139)                   | )           |
| Depreciation and amortization  | 46,418                    | 37,383      |
| Impairment losses and other charges, net of recoveries   | 4,004                     | 2,900       |
| Amortization of notes payable discount   | 2,591                     | 2,378       |
| Amortization of debt costs   | 1,806                     | —           |
| Amortization of mortgages payable premium  | (28)                      | )           |
| Amortization of deferred interest rate hedges  | 178                       | 114         |
| Equity in earnings of unconsolidated affiliate   | —                         | (305)       |
| Distributions received from unconsolidated affiliate   | —                         | 362         |
| Gain on disposition of real estate   | (3,174)                   | )           |
| Change in operating assets and liabilities, net of assets acquired and liabilities assumed in business combinations: |                           |             |
| Additions to held for sale real estate   | (1,029)                   | )           |
| Decrease in real estate leased to others using the direct financing method   | 810                       | 807         |
| Decrease (increase) in mortgages, notes and accrued interest receivable  | 217                       | (345)       |
| Decrease (increase) in receivables   | (331)                     | ) 633       |
| Decrease (increase) in accrued rental income   | 128                       | (218)       |
| Decrease (increase) in other assets  | (61)                      | ) 487       |
| Decrease in accrued interest payable   | (250)                     | ) (668)     |
| Decrease in other liabilities  | (1,201)                   | ) (3,490)   |
| Increase (decrease) in current tax liability   | (102)                     | ) 255       |
| Net cash provided by operating activities  | 124,189                   | 100,257     |
| Cash flows from investing activities:  |                           |             |
| Proceeds from the disposition of real estate   | 17,088                    | 12,024      |
| Additions to real estate:  |                           |             |
| Accounted for using the operating method   | (485,230)                 | ) (288,812) |
| Increase in mortgages and notes receivable   | (1,060)                   | ) (7,861)   |
| Principal payments on mortgages and notes receivable   | 3,160                     | 3,085       |
| Cash received from commercial mortgage residual interests  | 142                       | 399         |
| Payment of lease costs   | (735)                     | ) (1,154)   |
| Other  | (117)                     | ) 557       |
| Net cash used in investing activities  | (466,752)                 | ) (281,762) |

See accompanying notes to condensed consolidated financial statements.





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

|  | Six Months Ended June 30, |           |
|--|---------------------------|-----------|
|  | 2013                      | 2012      |
| Cash flows from financing activities:  |                           |           |
| Proceeds from line of credit payable   | \$300,500                 | \$614,400 |
| Repayment of line of credit payable  | (474,700)                 | (537,400) |
| Payment of interest rate hedge   | (3,141)                   | —         |
| Repayment of mortgages payable   | (526)                     | (680)     |
| Proceeds from notes payable  | 347,406                   | —         |
| Repayment of notes payable   | —                         | (50,000)  |
| Repayment of notes payable - convertible   | (20,656)                  | —         |
| Payment of debt costs  | (3,183)                   | —         |
| Proceeds from issuance of common stock   | 258,085                   | 60,319    |
| Proceeds from issuance of Series D preferred stock   | —                         | 287,500   |
| Proceeds from issuance of Series E preferred stock   | 287,500                   | —         |
| Redemption of Series C preferred stock   | —                         | (92,000)  |
| Payment of Series C preferred stock dividends  | —                         | (1,979)   |
| Payment of Series D preferred stock dividends  | (9,523)                   | (5,926)   |
| Payment of common stock dividends  | (90,943)                  | (81,511)  |
| Stock issuance costs   | (13,416)                  | (10,393)  |
| Net cash provided by financing activities  | 577,403                   | 182,330   |
| Net increase in cash and cash equivalents  | 234,840                   | 825       |
| Cash and cash equivalents at beginning of year   | 2,076                     | 2,082     |
| Cash and cash equivalents at end of year   | \$236,916                 | \$2,907   |
| Supplemental disclosure of cash flow information:  |                           |           |
| Interest paid, net of amount capitalized   | \$41,770                  | \$38,800  |
| Taxes paid   | \$117                     | \$78      |
| Supplemental disclosure of noncash investing and financing activities:   |                           |           |
| Issued 298,896 and 396,577 shares of restricted and unrestricted common stock in 2013 and 2012, respectively, pursuant to NNN's performance incentive plan | \$8,218                   | \$8,576   |
| Issued 7,774 and 8,389 shares of common stock in 2013 and 2012, respectively, to directors pursuant to NNN's performance incentive plan                    | \$274                     | \$229     |
| Issued 5,873 and 10,247 shares of common stock in 2013 and 2012, respectively, pursuant to NNN's Deferred Director Fee Plan                                | \$75                      | \$149     |
| Surrender of 241 and of 4,178 shares of restricted common stock in 2013 and 2012, respectively   | \$7                       | \$98      |
| Change in other comprehensive income   | \$706                     | \$(326)   |
| Change in lease classification (direct financing lease to operating lease)   | \$—                       | \$757     |
| Mortgages payable assumed in connection with real estate transactions  | \$—                       | \$6,634   |
| Mortgage receivable accepted in connection with real estate transactions   | \$750                     | \$—       |
| Real estate acquired in connection with mortgage receivable foreclosure  | \$—                       | \$490     |
| Real estate received in note receivable foreclosure  | \$—                       | \$1,595   |

See accompanying notes to condensed consolidated financial statements.

7

---

NATIONAL RETAIL PROPERTIES, INC.  
and SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2013  
(Unaudited)

Note 1 – Organization and Summary of Significant Accounting Policies:

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

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

|                                   | June 30, 2013 |
|-----------------------------------|---------------|
| Property Portfolio:               |               |
| Total properties                  | 1,838         |
| Gross leasable area (square feet) | 20,218,000    |
| States                            | 47            |

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by U.S. generally accepted accounting principles (“GAAP”). The unaudited condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. Operating results for the quarter and six months ended June 30, 2013, may not be indicative of the results that may be expected for the year ending December 31, 2013. Amounts as of December 31, 2012, included in the condensed consolidated financial statements have been derived from the audited consolidated financial statements as of that date. The unaudited condensed consolidated financial statements, included herein, should be read in conjunction with the consolidated financial statements and notes thereto as well as Management's Discussion and Analysis of Financial Condition and Results of Operations in NNN's Form 10-K for the year ended December 31, 2012.

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

Real Estate Portfolio – NNN records the acquisition of real estate which is not subject to a lease 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. During the quarter and six months ended June 30, 2013, NNN recorded \$321,000 and \$540,000, respectively, in capitalized interest and recorded \$436,000 and \$868,000 in capitalized interest during the same periods in 2012, respectively.

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

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

In allocating the fair value of the identified intangible assets and liabilities of an acquired property, above-market and below-market in-place lease values are recorded as other assets or liabilities based on the present value (using an interest rate which

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

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

Intangible assets and liabilities consisted of the following as of (in thousands):

|   | June 30, 2013 | December 31, 2012 |
|---|---------------|-------------------|
| Intangible lease assets (included in Other assets):           |               |                   |
| Value of above market in-place leases, net                    | \$13,344      | \$6,679           |
| Value of in-place leases, net                                 | 62,620        | 37,889            |
| Intangible lease liabilities (included in Other liabilities): |               |                   |
| Value of below market in-place leases, net                    | 31,616        | 23,708            |

Investment in an Unconsolidated Affiliate – NNN accounts for its investment in an unconsolidated affiliate under the equity method of accounting. In September 2007, NNN entered into a joint venture, NNN Retail Properties Fund I LLC ("NNN Crow JV"), with an affiliate of Crow Holdings Realty Partners IV, L.P., which is accounted for under the equity method of accounting. During the quarter ended September 30, 2012, NNN Crow JV sold all of its assets and paid off its bank term loan. In April 2013, NNN Crow JV was dissolved.

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 equivalents consist of demand deposits and money market accounts and are stated at cost plus accrued interest, which approximates fair value.

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

Valuation of Receivables – NNN estimates the collectability 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.

Earnings Per Share – Earnings per share have been computed pursuant to the FASB guidance included in Earnings Per Share. Effective January 1, 2009, the guidance requires classification of the Company's unvested restricted share units, which contain rights to receive nonforfeitable dividends, as participating securities requiring the two-class method of computing earnings per share. Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings to common stockholders and undistributed earnings allocated to common stockholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both common shares and participating securities based on the weighted average shares outstanding during the period.

The following table is a reconciliation of the numerator and denominator used in the computation of basic and diluted earnings per common share using the two-class method (dollars in thousands):

|  | Quarter Ended June 30, |             | Six Months Ended June 30, |             |
|--|------------------------|-------------|---------------------------|-------------|
|  | 2013                   | 2012        | 2013                      | 2012        |
| <b>Basic and Diluted Earnings:</b>   |                        |             |                           |             |
| Net earnings attributable to NNN   | \$37,486               | \$33,505    | \$71,552                  | \$63,337    |
| Less: Series C preferred stock dividends   | —                      | —           | —                         | (1,979 )    |
| Less: Series D preferred stock dividends   | (4,762 )               | (5,926 )    | (9,523 )                  | (5,926 )    |
| Less: Excess of redemption value over carrying value of Series C preferred shares redeemed | —                      | —           | —                         | (3,098 )    |
| Net earnings available to NNN's common stockholders  | 32,724                 | 27,579      | 62,029                    | 52,334      |
| Less: Earnings attributable to unvested restricted shares                                  | (130 )                 | (180 )      | (231 )                    | (312 )      |
| Net earnings used in basic earnings per share  | 32,594                 | 27,399      | 61,798                    | 52,022      |
| Reallocated undistributed loss   | —                      | —           | —                         | —           |
| Net earnings used in diluted earnings per share  | \$32,594               | \$27,399    | \$61,798                  | \$52,022    |
| <b>Basic and Diluted Weighted Average Shares</b>   |                        |             |                           |             |
| <b>Outstanding:</b>  |                        |             |                           |             |
| Weighted average number of shares outstanding  | 118,620,837            | 107,006,399 | 116,386,249               | 106,321,014 |
| Less: Unvested restricted stock  | (469,370 )             | (696,804 )  | (427,465 )                | (631,329 )  |
| Less: Contingent shares  | (338,816 )             | (317,581 )  | (294,889 )                | (272,090 )  |
| Weighted average number of shares outstanding used in basic earnings per share             | 117,812,651            | 105,992,014 | 115,663,895               | 105,417,595 |
| <b>Effects of dilutive securities:</b>   |                        |             |                           |             |
| Contingent shares  | —                      | —           | —                         | 12,735      |
| Convertible notes payable  | 2,882,355              | 1,310,445   | 2,570,706                 | 1,259,319   |
| Common stock options   | —                      | 1,419       | —                         | 1,855       |
| Directors' deferred fee plan   | 170,519                | 155,115     | 169,088                   | 152,576     |
| Weighted average number of shares outstanding used in diluted earnings per share           | 120,865,525            | 107,458,993 | 118,403,689               | 106,844,080 |

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

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

models and similar techniques.

10

---



Other Comprehensive Income (Loss) – The following table outlines the changes in accumulated other comprehensive income (dollars in thousands):

|   | Gain or Loss<br>on Cash Flow<br>Hedges <sup>(1)</sup> | Unrealized<br>Gains and<br>Losses on<br>Commercial<br>Mortgage<br>Residual<br>Interests <sup>(2)</sup> | Unrealized Gains<br>and Losses on<br>Available-for-Sale<br>Securities | Total              |
|---|---|--|---|--------------------|
| Beginning balance, December 31, 2012  | \$(5,693 )  | \$3,244  | \$ 67   | \$(2,382 )         |
| Other comprehensive income (loss)   | (3,141 )  | 2,168  | 89  | (884 )             |
| Reclassifications from accumulated other comprehensive income to net earnings | 178   | —  | —   | 178 <sup>(3)</sup> |
| Net current period other comprehensive income (loss)                          | (2,963 )  | 2,168  | 89  | (706 )             |
| Ending balance, June 30, 2013   | \$(8,656 )  | \$5,412  | \$ 156  | \$(3,088 )         |

<sup>1)</sup> Additional disclosure is included in Note 12 - Derivatives.

<sup>2)</sup> Additional disclosure is included in Note 6 - Commercial Mortgage Residual Interests.

<sup>3)</sup> Reclassifications out of other comprehensive income are recorded in Interest Expense on the Condensed Consolidated Statements of Comprehensive Income. There is no income tax expense (benefit) resulting from this reclassification.

New Accounting Pronouncements – In December 2011, the FASB issued Accounting Standards Update ("ASU") 2011-11 amending its guidance on offsetting assets and liabilities in financial statements. The objective of this update will require disclosure to facilitate comparison between those entities that prepare their financial statements on the basis of GAAP and those entities that prepare their financial statements on the basis of International Financial Reporting Standards ("IFRS"). The amendments in this update are effective for annual reporting periods beginning on or after January 1, 2013. The adoption of the standard did not have a significant impact on NNN's financial position or results of operations.

In February 2013, the FASB issued ASU 2013-02. The objective of this update is to improve the reporting of reclassifications out of accumulated other comprehensive income. The update requires reporting significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income or cross-reference other required disclosures that provide additional detail about amounts that are not. The amendments in this update are effective prospectively for reporting periods beginning after December 15, 2012. The adoption of the standard in the quarter ended March 31, 2013, did not have a significant impact on NNN's financial position or results of operations. In February 2013, the FASB issued ASU 2013-04. The objective of this update is to provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. NNN is currently evaluating ASU 2013-04 to determine the potential impact, if any, its adoption will have on NNN's financial position and results of operations.

Use of Estimates – Management of NNN has made a number of estimates and assumptions relating to the reporting of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with GAAP. Significant estimates include provisions for impairment and allowances for certain assets, accruals, useful lives of assets and purchase price allocation. Actual results could differ from those estimates.

Reclassification – Certain items in the prior year’s consolidated financial statements and notes to consolidated financial statements have been reclassified to conform to the 2013 presentation.

## Note 2 – Real Estate – Portfolio:

Leases – The following outlines key information for NNN’s leases:

|  | June 30, 2013 |
|--|---------------|
| Lease classification:  |               |
| Operating  | 1,827         |
| Direct financing   | 13            |
| Building portion – direct financing / land portion – operating | 4             |
| Weighted average remaining lease term                          | 12 Years      |

The leases generally provide for periodic 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 property and carry property and liability insurance coverage. Certain of NNN’s Properties are subject to leases under which NNN retains responsibility for specific costs and expenses of the property. Generally, the leases of the Properties provide the tenant with one or more multi-year renewal options subject to generally the same terms and conditions, including rent increases, consistent with the initial lease term.

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

|  | June 30, 2013 | December 31, 2012 |
|--|---------------|-------------------|
| Land and improvements                          | \$1,613,418   | \$1,471,831       |
| Buildings and improvements                     | 2,843,906     | 2,563,086         |
| Leasehold interests                            | 1,290         | 1,290             |
|  | 4,458,614     | 4,036,207         |
| Less accumulated depreciation and amortization | (370,278)     | (331,432)         |
|  | 4,088,336     | 3,704,775         |
| Work in progress                               | 70,607        | 86,507            |
|  | \$4,158,943   | \$3,791,282       |

## Note 3 – Real Estate – Held For Sale:

As of June 30, 2013, NNN categorized 29 of its Properties as held for sale. As of December 31, 2012, NNN categorized 10 Properties as held for sale. Real estate held for sale consisted of the following as of (dollars in thousands):

|  | June 30, 2013 | December 31, 2012 |
|--|---------------|-------------------|
| Property held for sale:                        |               |                   |
| Land and improvements                          | \$19,438      | \$9,937           |
| Building and improvements                      | 35,437        | 17,566            |
| Work in process                                | 1,193         | 72                |
|  | 56,068        | 27,575            |
| Less accumulated depreciation and amortization | (2,410)       | (2,347)           |
| Less impairment                                | (6,967)       | (4,920)           |
|  | \$46,691      | \$20,308          |

In March 2013, NNN completed a strategic review of its Properties held for sale and reclassified 15 Properties that were previously held for sale to held for investment, included in Real Estate - Portfolio.

The following table summarizes the number of Properties sold and the corresponding gain recognized on the disposition of Properties included in discontinued operations (dollars in thousands):

|                                | Quarter Ended June 30, |         |                      |         | Six Months Ended June 30, |         |                      |         |
|--------------------------------|------------------------|---------|----------------------|---------|---------------------------|---------|----------------------|---------|
|                                | 2013                   |         | 2012                 |         | 2013                      |         | 2012                 |         |
|                                | # of Sold Properties   | Gain    | # of Sold Properties | Gain    | # of Sold Properties      | Gain    | # of Sold Properties | Gain    |
| Discontinued operations<br>(1) | 7                      | \$2,516 | 7                    | \$2,438 | 9                         | \$3,021 | 10                   | \$2,752 |
| Noncontrolling interests       |                        | 153     |                      | —       |                           | 153     |                      | —       |
|                                |                        | \$2,669 |                      | \$2,438 |                           | \$3,174 |                      | \$2,752 |

(1) None of the gains from property sales for the period were reported in continuing operations.

#### Note 4 – Real Estate – Commitments:

In connection with improvements to leased Properties, NNN has the following funding commitments (dollars in thousands):

|                             | June 30, 2013   |                                 |               |                      |
|-----------------------------|-----------------|---------------------------------|---------------|----------------------|
|                             | # of Properties | Total Commitment <sup>(1)</sup> | Amount Funded | Remaining Commitment |
| Real estate – portfolio     | 48              | \$ 139,165                      | \$ 105,026    | \$ 34,139            |
| Real estate – held for sale | 2               | 1,656                           | 1,540         | 116                  |
|                             | 50              | \$ 140,821                      | \$ 106,566    | \$ 34,255            |

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

#### Note 5 – Impairments – Real Estate:

Management periodically assesses the Company's real estate for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the asset, including accrued rental income, may not be recoverable through operations. Events or circumstances that may occur include significant changes in real estate market conditions and the ability of NNN to re-lease or sell properties that are vacant or become vacant. If an impairment is indicated, it is recognized to the extent the current book value of the respective asset exceeds the fair value of the asset.

As a result of the Company's review of long lived assets, including identifiable intangible assets, NNN recognized the following real estate impairments (dollars in thousands):

|                         | Quarter Ended June 30, |       | Six Months Ended June 30, |       |
|-------------------------|------------------------|-------|---------------------------|-------|
|                         | 2013                   | 2012  | 2013                      | 2012  |
| Continuing operations   | \$145                  | \$—   | \$1,957                   | \$35  |
| Discontinued operations | 1,008                  | 345   | 2,047                     | 345   |
|                         | \$1,153                | \$345 | \$4,004                   | \$380 |

The valuation of impaired assets is determined using widely accepted valuation techniques including discounted cash flow analysis, income capitalization, analysis of recent comparable sales transactions, actual sales negotiations and bona fide purchase offers received from third parties, which are level 3 inputs. NNN may consider a single valuation technique or multiple valuation techniques, as appropriate, when measuring the fair value of its real estate.

#### Note 6 – Commercial Mortgage Residual Interests:

NNN holds the residual interests (“Residuals”) from seven commercial mortgage securitizations. Each of the Residuals is recorded at fair value based upon an independent valuation. Unrealized gains and losses are reported as other

comprehensive income in stockholders' equity and other than temporary losses as a result of a change in the timing, or amount of estimated cash flows are recorded as an other than temporary valuation impairment.

Due to the expected timing of future cash flows relating to the Residuals, the independent valuation adjusted certain of the valuation assumptions. The following table summarizes the key assumptions used in determining the value of the Residuals as of:

|   |                       |                       |   |
|---|-----------------------|-----------------------|---|
|   | June 30, 2013         | December 31, 2012     |   |
| Discount rate   | 25                    | % 25                  | % |
| Average life equivalent CPR <sup>(1)</sup> speeds range | 0.80% to 23.71% CPR   | 0.80% to 24.31% CPR   |   |
| Foreclosures:   |                       |                       |   |
| Frequency curve default model                           | 0.08% - 4.07% range   | 0.09% - 4.49% range   |   |
| Loss severity of loans in foreclosure                   | 20                    | % 20                  | % |
| Yield:  |                       |                       |   |
| LIBOR   | Forward 3-month curve | Forward 3-month curve |   |
| Prime   | Forward curve         | Forward curve         |   |

<sup>(1)</sup> Conditional prepayment rate.

The following table summarizes the recognition of unrealized gains and/or losses recorded as other comprehensive income as well as other than temporary valuation impairments recorded in the condensed consolidated statements of earnings (dollars in thousands):

|   | Quarter Ended June 30, |       | Six Months Ended June 30, |       |
|---|------------------------|-------|---------------------------|-------|
|   | 2013                   | 2012  | 2013                      | 2012  |
| Unrealized gains                          | \$350                  | \$213 | \$1,219                   | \$213 |
| Other than temporary valuation impairment | —                      | 2,718 | —                         | 2,718 |

#### Note 7 – Line of Credit Payable:

NNN's \$500,000,000 revolving credit facility (the "Credit Facility") had a weighted average outstanding balance of \$72,806,000 and a weighted average interest rate of 1.4% during the six months ended June 30, 2013. The Credit Facility matures October 2016, unless the Company exercises its option to extend maturity to October 2017. The Credit Facility bears interest at LIBOR plus 117.5 basis points; however, such interest rate may change pursuant to a tiered interest rate structure based on NNN's debt rating. The Credit Facility also includes an accordion feature to increase the facility size up to \$1,000,000,000, subject to lender approval. As of June 30, 2013, there was no outstanding balance, and \$500,000,000 was available for future borrowings under the Credit Facility.

#### Note 8 - Notes Payable:

In April 2013, NNN filed a prospectus supplement to the prospectus contained in its February 2012 shelf registration statement and issued \$350,000,000 aggregate principal amount of 3.300% Notes due April 2023 (the "2023 Notes"). The 2023 Notes were sold at a discount with an aggregate purchase price of \$347,406,000 with interest payable semi-annually commencing on October 15, 2013. The discount of \$2,594,000 is being amortized to interest expense over the term of the note using the effective interest method. The effective interest rate for the 2023 Notes after accounting for note discount is 3.388%. NNN previously entered into four forward starting swaps with an aggregate notional amount of \$240,000,000. Upon issuance of the 2023 Notes, NNN terminated the forward starting swaps resulting in a liability of \$3,156,000, of which \$3,141,000 was deferred in other comprehensive income. The deferred liability is being amortized to interest expense over the term of the 2023 Notes using the effective interest method. The 2023 Notes are senior unsecured obligations of NNN and are subordinated to all secured indebtedness and to the indebtedness and other liabilities of NNN's subsidiaries. Additionally, the 2023 Notes are redeemable at NNN's option, in whole or part anytime, for an amount equal to (i) the sum of the outstanding principal balance of the notes being redeemed plus accrued interest thereon to the redemption date, and (ii) the make whole amount, if any, as defined in the supplemental indenture dated April 9, 2013, relating to the 2023 Notes.

NNN received approximately \$344,266,000 of proceeds in connection with the issuance of the 2023 Notes, net of debt issuance cost totaling \$5,734,000 consisting primarily of underwriting discounts and commissions, legal and accounting fees, rating agency fees and printing expenses.



## Note 9 – Notes Payable – Convertible:

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

| Terms  | 2026<br>Notes <sup>(1)(2)</sup> |   | 2028<br>Notes <sup>(1)(3)(4)</sup> |                |
|--|---------------------------------|---|------------------------------------|----------------|
| Issue Date                                     | September 2006                  |   | March 2008                         |                |
| Net Proceeds                                   | \$168,650                       |   | \$228,576                          |                |
| Stated Interest Rate                           | 3.950                           | % | 5.125                              | %              |
| Effective Interest Rate <sup>(6)</sup>         | 5.840                           | % | 7.192                              | %              |
| Debt Issuance Costs                            | \$3,850                         |   | \$5,459                            | <sup>(5)</sup> |
| Maturity Date                                  | —                               |   | June 2028                          |                |
| Original Principal                             | \$172,500                       |   | \$234,035                          |                |
| Repurchases Settled                            | (33,800)                        | ) | (11,000)                           | )              |
|  | (138,700)                       | ) | (91)                               | )              |
| Outstanding principal balance at June 30, 2013 | \$—                             |   | \$222,944                          |                |

Debt issuance costs include underwriting discounts and commissions, legal and accounting fees, rating agency fees <sup>(1)</sup> and printing expenses. These costs were deferred and amortized using the effective interest method and are fully amortized at June 30, 2013.

<sup>(2)</sup> The conversion rate per \$1 principal amount was 42.6237 shares of NNN's common stock, which is equivalent to a conversion price of \$23.4611 per share of common stock.

<sup>(3)</sup> The conversion rate per \$1 principal amount was 39.5360 shares of NNN's common stock, which is equivalent to a conversion price of \$25.2934 per share of common stock.

<sup>(4)</sup> NNN repurchased \$11,000 in 2009 for a purchase price of \$8,588 resulting in a gain of \$1,867.

<sup>(5)</sup> Includes \$219 of note costs which were written off in connection with the repurchase of \$11,000 of the 2028 Notes.

<sup>(6)</sup> With the adoption of the accounting guidance on convertible debt securities in 2009, the effective interest rates for the 2026 Notes and the 2028 Notes are 5.840% and 7.192%, respectively.

Each series of convertible notes represents a senior, unsecured obligation of NNN and is subordinated to all secured indebtedness of the Company. Each series of notes is redeemable at the option of NNN, in whole or in part, at a redemption price equal to the sum of (i) the principal amount of the notes being redeemed plus accrued and unpaid interest thereon, through but not including, the redemption date, and (ii) the make whole amount, if any, as defined in the applicable supplemental indenture relating to the notes. In June 2013, NNN called all of the outstanding 5.125% convertible senior notes due 2028 (the "2028 Notes") for redemption on July 11, 2013.

The carrying values of the Company's convertible debt and equity components are summarized in the table below (dollars in thousands):

|  | June 30, 2013 |   | December 31, 2012 |   |
|--|---------------|---|-------------------|---|
| Principal amount of convertible debt   | \$222,944     |   | \$238,572         |   |
| Carrying value of equity component     | (20,711)      | ) | (22,193)          | ) |
| Remaining unamortized debt discount    | —             |   | (2,072)           | ) |
| Net carrying value of convertible debt | \$202,233     |   | \$214,307         |   |

As of June 30, 2013, the debt discount for both the 2028 Notes and the 2026 Notes had been fully amortized.



NNN recorded the following in interest expense relating to the 2026 Notes and the 2028 Notes (dollars in thousands):

|                              | Quarter Ended June 30, |         | Six Months Ended June 30, |          |
|------------------------------|------------------------|---------|---------------------------|----------|
|                              | 2013                   | 2012    | 2013                      | 2012     |
| Contractual interest expense | \$2,516                | \$4,227 | \$5,374                   | \$8,455  |
| Noncash interest charges     | 950                    | 1,063   | 2,072                     | 2,107    |
| Amortization of debt costs   | 260                    | 284     | 566                       | 560      |
| Total interest expense       | \$3,726                | \$5,574 | \$8,012                   | \$11,122 |

The if-converted value of the 2028 Notes exceeded the principal amount by \$80,268,000 as of June 30, 2013. As of December 31, 2012, the if-converted values which exceeded the principal amount were \$5,125,000 and \$51,764,000 for the 2026 Notes and the 2028 Notes, respectively.

As of December 31, 2012, \$15,537,000 of the principal amount of 2026 Notes were outstanding. In January 2013, the Company paid approximately \$20,702,000 in aggregate settlement value for the \$15,537,000 of settled notes. The difference between the amount paid and the principal amount of the settled notes of \$5,028,000 was recognized as a decrease to additional paid-in capital and \$137,000 was recorded as interest expense.

In March 2013, the market price condition on the 2028 Notes was satisfied, and the 2028 Notes became convertible during the quarter beginning April 1, 2013. As of June 30, 2013, \$91,000 principal amount of 2028 Notes had been surrendered for conversion, and \$222,944,000 principal amount of 2028 Notes remained outstanding.

On June 5, 2013, NNN notified the remaining holders of the 2028 Notes that the Company would redeem all outstanding 2028 Notes on July 11, 2013. The Company also announced that holders could elect to convert all or a portion of the 2028 Notes into cash and shares of the Company's common stock.

#### Note 10 – Stockholders' Equity:

Dividends – The following table outlines the dividends declared and paid for each issuance of NNN's stock (in thousands, except per share data):

|   | Six Months Ended June 30, |         |
|---|---------------------------|---------|
|   | 2013                      | 2012    |
| Series C preferred stock <sup>(1)</sup> : |                           |         |
| Dividends                                 | \$—                       | \$1,979 |
| Per share                                 | —                         | 0.5378  |
| Series D preferred stock <sup>(2)</sup> : |                           |         |
| Dividends                                 | 9,523                     | 5,926   |
| Per share                                 | 0.8281                    | 0.5153  |
| Common stock:                             |                           |         |
| Dividends                                 | 90,943                    | 81,511  |
| Per share                                 | 0.790                     | 0.770   |

<sup>1)</sup> The Series C preferred stock was redeemed in March 2012. The dividends paid during the six months ended June 30, 2012 include accumulated and unpaid dividends through the redemption date.

<sup>2)</sup> The Series D preferred stock has no maturity date and will remain outstanding unless redeemed.

In July 2013, NNN declared a dividend of \$0.405 per share, which is payable in August 2013 to its common stockholders of record as of July 31, 2013.

Stock Issuances – In February 2012, NNN filed a shelf registration statement with the Securities and Exchange Commission (the "Commission") which permits the issuance by NNN of an indeterminate amount of debt and equity securities.

In February 2012, NNN issued 11,500,000 depositary shares representing interests in our 6.625% Series D Cumulative Redeemable Preferred Stock ("Series D Preferred Stock") at a price of \$25.00 per depositary share generating gross proceeds of \$287,500,000. In connection with this offering, NNN incurred stock issuance costs

totaling approximately \$9,855,000,

16

---

consisting primarily of underwriters' fees and commissions, rating agency fees, legal and accounting fees and printing expenses.

In March 2012, NNN redeemed all 3,680,000 outstanding depositary shares representing interests in its 7.375% Series C Cumulative Redeemable Preferred Stock ("Series C Preferred Stock"). The Series C Preferred Stock was redeemed at \$25.00 per depositary share, plus accumulated and unpaid distributions through the redemption date, for an aggregate redemption price of \$25.0768229 per depositary share. The excess carrying amount of preferred stock redeemed over the cash paid to redeem the preferred stock was \$3,098,000, representing Series C Preferred Stock issuance costs.

In May 2013, NNN issued 11,500,000 depositary shares representing interests in its 5.700% Series E Cumulative Redeemable Preferred Stock ("Series E Preferred Stock") at a price of \$25.00 per depositary share generating gross proceeds of \$287,500,000. In connection with this offering, NNN incurred stock issuance costs totaling approximately \$9,856,000, consisting primarily of underwriters' fees and commissions, rating agency fees, legal and accounting fees and printing expenses. The first dividend on the Series E Preferred Stock will be payable on September 15, 2013 and will be in the amount of \$0.415625 per depositary share.

At The Market Offerings – In May 2012, NNN established an at-the-market equity program ("2012 ATM") which allowed NNN to sell up to an aggregate of 9,000,000 shares of common stock from time to time through May 2015. The following table outlines the common stock issuances pursuant to the 2012 ATM (dollars in thousands, except per share data):

|                                     | Six Months Ended June 30, |         |
|-------------------------------------|---------------------------|---------|
|                                     | 2013                      | 2012    |
| Shares of common stock              | 4,676,542                 | 394,901 |
| Average price per share (net)       | \$32.60                   | \$26.66 |
| Net proceeds                        | 152,435                   | 10,527  |
| Stock issuance costs <sup>(1)</sup> | 2,161                     | 253     |

<sup>(1)</sup> Stock issuance costs consist primarily of underwriters' fees and commissions, and legal and accounting fees.

In March 2013, NNN established a second ATM equity program ("2013 ATM") which allows NNN to sell up to an aggregate of 9,000,000 shares of common stock from time to time through March 2015. The following table outlines the common stock issuances pursuant to the 2013 ATM (dollars in thousands, except per share data):

|                                     | Six Months Ended June 30, |      |
|-------------------------------------|---------------------------|------|
|                                     | 2013                      | 2012 |
| Shares of common stock              | 2,280,450                 | —    |
| Average price per share (net)       | \$37.83                   | \$—  |
| Net proceeds                        | 86,271                    | —    |
| Stock issuance costs <sup>(1)</sup> | 1,551                     | —    |

<sup>(1)</sup> Stock issuance costs consist primarily of underwriters' fees and commissions, and legal and accounting fees.

Dividend Reinvestment and Stock Repurchase Plan – In February 2012, NNN filed a shelf registration statement with the Commission for its Dividend Reinvestment and Stock Purchase Plan ("DRIP") which permits the issuance by NNN of up to 16,000,000 shares of common stock. The following table outlines the common stock issuances pursuant to NNN's DRIP (dollars in thousands):

|                        | Six Months Ended June 30, |           |
|------------------------|---------------------------|-----------|
|                        | 2013                      | 2012      |
| Shares of common stock | 475,866                   | 1,881,807 |
| Net proceeds           | \$15,881                  | \$49,476  |

#### Note 11 – Income Taxes:

NNN has elected to be taxed as a REIT under the Internal Revenue Code ("Code"), commencing with its taxable year ended December 31, 1984. To qualify as a REIT, NNN must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its REIT taxable income to its stockholders. NNN intends to adhere to these requirements and maintain its REIT status. As a REIT, NNN generally will not be subject to corporate level federal income tax on taxable income that it distributes currently to its

stockholders. NNN may be subject to certain state and local taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income, if any. The

provision for federal income taxes in NNN's consolidated financial statements relates to its TRS operations and any potential taxable built-in gain. NNN did not have significant tax provisions or deferred income tax items during the periods reported hereunder.

In June 2006, the FASB issued guidance which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB guidance included in Income Taxes. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

NNN, in accordance with FASB guidance included in Income Taxes, has analyzed its various federal and state tax filing positions. NNN believes that its income tax filing positions and deductions are well documented and supported. Additionally, NNN believes that its accruals for tax liabilities are adequate. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to the FASB guidance.

NNN has had no increases or decreases in unrecognized tax benefits for current or prior years. 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 as non-operating expenses. The periods that remain open under federal statute are 2009 through 2013. NNN also files in many states with varying open years under statute.

#### Note 12 – Earnings from Discontinued Operations:

NNN classified the revenues and expenses related to properties which were sold or were held for sale as of June 30, 2013, as discontinued operations. The following is a summary of the earnings (loss) from discontinued operations (dollars in thousands):

|  | Quarter Ended June 30, |         | Six Months Ended June 30, |         |   |
|--|------------------------|---------|---------------------------|---------|---|
|  | 2013                   | 2012    | 2013                      | 2012    |   |
| Revenues:  |                        |         |                           |         |   |
| Rental income from operating leases  | \$523                  | \$2,089 | \$1,149                   | \$4,293 |   |
| Earned income from direct financing leases   | —                      | 24      | —                         | 54      |   |
| Real estate expense reimbursement from tenants   | 60                     | 55      | 132                       | 199     |   |
| Interest and other income from real estate transactions                                      | 31                     | 4       | 36                        | 6       |   |
|  | 614                    | 2,172   | 1,317                     | 4,552   |   |
| Operating expenses:  |                        |         |                           |         |   |
| General and administrative   | 212                    | 3       | 214                       | 5       |   |
| Real estate  | 135                    | 178     | 202                       | 527     |   |
| Depreciation and amortization  | 61                     | 389     | 148                       | 847     |   |
| Impairment losses and other charges, net of recoveries                                       | 1,008                  | 345     | 2,047                     | 317     |   |
|  | 1,416                  | 915     | 2,611                     | 1,696   |   |
| Other expenses:  |                        |         |                           |         |   |
| Interest expense   | 145                    | 185     | 308                       | 369     |   |
|  | 145                    | 185     | 308                       | 369     |   |
| Earnings (loss) before gain on disposition of real estate and income tax expense             | (947                   | ) 1,072 | (1,602                    | ) 2,487 |   |
| Gain on disposition of real estate   | 2,669                  | 2,438   | 3,174                     | 2,752   |   |
| Income tax expense   | (363                   | ) (44   | ) (18                     | ) (62   | ) |
| Earnings from discontinued operations attributable to NNN including noncontrolling interests | 1,359                  | 3,466   | 1,554                     | 5,177   |   |
| Earnings attributable to noncontrolling interests  | (160                   | ) (3    | ) (216                    | ) (8    | ) |
| Earnings from discontinued operations attributable to NNN                                    | \$1,199                | \$3,463 | \$1,338                   | \$5,169 |   |



Note 13 – Derivatives:

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

NNN's objective in using derivatives is to add stability to interest expense and to manage its exposure to interest rate movements or other identified risks. To accomplish this objective, NNN primarily uses treasury locks, forward swaps and interest rate swaps as part of its cash flow hedging strategy. Treasury locks and forward starting swaps are used to hedge forecasted debt issuances. Treasury locks designated as cash flow hedges lock in the yield/price of a treasury security. Forward swaps also lock the associated swap spread. Interest rate swaps designated as cash flow hedges hedging the variable cash flows associated with floating rate debt involve the receipt of variable rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount.

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

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

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

In April 2013, NNN terminated four forward starting swaps with an aggregate notional amount of \$240,000,000 that were hedging the risk of changes in forecasted interest payments on a forecasted issuance of long-term debt. When terminated, the fair value of the forward starting swaps, designated as cash flow hedges, was a liability of \$3,156,000, of which \$3,141,000 was deferred in other comprehensive income. The amount reported in accumulated other comprehensive income will be reclassified to interest expense as interest payments are made on the 2023 Notes.

As of June 30, 2013, \$8,656,000 remained in other comprehensive income related to the effective portion of NNN's 2013 and previous interest rate hedges. During the six months ended June 30, 2013 and 2012, NNN reclassified out of comprehensive income \$178,000 and \$114,000, respectively, as an increase to interest expense. Over the next 12 months, NNN estimates that an additional \$557,000 will be reclassified as an increase in interest expense. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on NNN's long-term debt.

NNN does not use derivatives for trading or speculative purposes or currently have any derivatives that are not designated as hedges. NNN had no derivative financial instruments outstanding at June 30, 2013.

## Note 14 – Fair Value Measurements:

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

|   | Six Months Ended<br>June 30, 2013 |
|---|-----------------------------------|
| Balance at beginning of period  | \$13,096                          |
| Total gains (losses) – realized/unrealized:   |                                   |
| Included in earnings  | —                                 |
| Included in other comprehensive income  | 1,219                             |
| Interest income on Residuals  | 1,195                             |
| Cash received from Residuals  | (1,337)                           |
| Purchases, sales, issuances and settlements, net  | —                                 |
| Transfers in and/or out of Level 3  | —                                 |
| Balance at end of period  | \$14,173                          |
| Changes in gains (losses) included in earnings attributable to a change in unrealized gains (losses) relating to assets still held at the end of period | \$—                               |

## Note 15 – Fair Value of Financial Instruments:

NNN believes the carrying value of its Credit Facility approximates fair value based upon its nature, terms and variable interest rate. NNN believes that the carrying value of its cash and cash equivalents, mortgages, notes and other receivables, mortgages payable and other liabilities at June 30, 2013 and December 31, 2012, approximate fair value based upon current market prices of similar issues. At June 30, 2013 and December 31, 2012, the fair value of NNN's notes payable and convertible notes payable, collectively, was \$1,858,854,000 and \$1,585,756,000, respectively, based upon quoted market prices, which is a level one valuation since NNN's debt is publicly traded.

## Note 16 – Subsequent Events:

NNN reviewed its subsequent events and transactions that have occurred after June 30, 2013, the date of the condensed consolidated balance sheet.

In June 2013, NNN called all of the outstanding 2028 Notes for redemption on July 11, 2013. As of June 30, 2013, \$91,000 principal amount of the 2028 Notes had been surrendered for conversion, and \$222,944,000 principal amount of the 2028 Notes remained outstanding. On July 11, 2013, \$130,000 principal amount of 2028 Notes were settled at par plus accrued interest. Holders of the remaining \$222,814,000 principal amount of the 2028 Notes elected to convert into cash and shares of the Company's common stock which is based on the average daily closing price of NNN's common stock price over a period of 20 days commencing after receipt of a note holder's conversion notice. There were no other reportable subsequent events or transactions.



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

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes included in the Annual Report on Form 10-K of National Retail Properties, Inc. for the year ended December 31, 2012. The terms "NNN" and the "Company" refer to National Retail Properties, Inc. and all of its consolidated subsidiaries. NNN has elected to treat certain subsidiaries as taxable real estate investment trust subsidiaries. These subsidiaries and their majority owned and controlled subsidiaries are collectively referred to as the "TRS."

### Forward-Looking Statements

The information herein contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934 (the "Exchange Act"). These statements generally are characterized by the use of terms such as "believe," "expect," "intend," "may," or similar words or expressions. Forward-looking statements are not historical facts or guarantees of future performance and are subject to known and unknown risks. Certain factors that could cause actual results or events to differ materially from those NNN anticipates or projects include, but are not limited to, the following:

- Financial and economic conditions may have an adverse impact on NNN, its tenants, and commercial real estate in general;
- NNN may be unable to obtain debt or equity capital on favorable terms, if at all;
- Loss of revenues from tenants would reduce NNN's cash flow;
- A significant portion of the source of NNN's Property Portfolio annual base rent is heavily concentrated in specific industry classifications, tenants and in specific geographic locations;
- Owning real estate and indirect interests in real estate carries inherent risk;
- NNN's real estate investments are illiquid;
- Costs of complying with changes in governmental laws and regulations may adversely affect NNN's results of operations;
- NNN may be subject to known or unknown environmental liabilities and hazardous materials on properties owned by NNN;
- NNN may not be able to successfully execute its acquisition or development strategies;
- NNN may not be able to dispose of properties consistent with its operating strategy;
- A change in the assumptions used to determine the value of commercial mortgage residual interests could adversely affect NNN's financial position;
- NNN may suffer a loss in the event of a default or bankruptcy of a borrower or a tenant;
- Certain provisions of NNN's leases or loan agreements may be unenforceable;
- Property ownership through joint ventures and partnerships could limit NNN's control of those investments;
- Competition from numerous other REITs, commercial developers, real estate limited partnerships and other investors may impede NNN's ability to grow;
- NNN's loss of key management personnel could adversely affect performance and the value of its common stock;
- Uninsured losses may adversely affect NNN's operating results and asset values;
- Acts of violence, terrorist attacks or war may adversely affect the markets in which NNN operates and NNN's results of operations;
- Vacant properties or bankrupt tenants could adversely affect NNN's business or financial condition;
- The amount of debt NNN has and the restrictions imposed by that debt could adversely affect NNN's business and financial condition;
- NNN is obligated to comply with financial and other covenants in its debt instruments that could restrict its operating activities, and the failure to comply with such covenants could result in defaults that accelerate the payment of such debt;
-

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

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

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

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

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

- Changes in accounting pronouncements could adversely impact NNN's or NNN's tenants' reported financial performance;
- NNN's failure to maintain effective internal control over financial reporting could have a material adverse effect on its business, operating results and share price;
- NNN's ability to pay dividends in the future is subject to many factors;
- Cybersecurity risks and cyber incidents could adversely affect NNN's business and disrupt operations; and
- Future investments in international markets could subject NNN to additional risks.

Additional information related to these risks and uncertainties are included in Item 1A. Risk Factors of NNN's Annual Report on Form 10-K for the year ended December 31, 2012, and may cause NNN's actual future results to differ materially from expected results. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. NNN undertakes no obligation to update or revise such forward-looking statements, whether as a result of new information, future events or otherwise.

#### Overview

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

As of June 30, 2013, NNN owned 1,838 Properties, with an aggregate gross leasable area of approximately 20,218,000 square feet, located in 47 states. Approximately 98 percent of the Properties in the Property Portfolio were leased as of June 30, 2013.

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

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

## Results of Operations

## Property Analysis

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

|  | June 30, 2013 | December 31,<br>2012 | June 30, 2012 |   |
|--|---------------|----------------------|---------------|---|
| Properties Owned:                                  |               |                      |               |   |
| Number   | 1,838         | 1,622                | 1,506         |   |
| Total gross leasable area (square feet)            | 20,218,000    | 19,168,000           | 17,798,000    |   |
| Properties:  |               |                      |               |   |
| Leased and unimproved land                         | 1,803         | 1,588                | 1,478         |   |
| Percent of Properties – leased and unimproved land | 98            | % 98                 | % 98          | % |
| Weighted average remaining lease term (years)      | 12            | 12                   | 12            |   |
| Total gross leasable area (square feet) – leased   | 19,675,000    | 18,524,000           | 17,331,000    |   |

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

| Lines of Trade                   | % of Annual Base Rent <sup>(1)</sup> |                      |               |   |
|----------------------------------|--------------------------------------|----------------------|---------------|---|
|                                  | June 30, 2013                        | December 31,<br>2012 | June 30, 2012 |   |
| 1. Convenience stores            | 19.9                                 | % 19.8               | % 22.6        | % |
| 2. Restaurants - full service    | 9.9                                  | % 10.7               | % 11.4        | % |
| 3. Automotive service            | 7.6                                  | % 7.6                | % 5.9         | % |
| 4. Automotive parts              | 5.2                                  | % 5.6                | % 6.0         | % |
| 5. Restaurants - limited service | 4.9                                  | % 5.2                | % 3.6         | % |
| 6. Banks                         | 4.7                                  | % 0.2                | % 0.2         | % |
| 7. Theaters                      | 4.4                                  | % 4.7                | % 4.6         | % |
| 8. Health and fitness            | 3.7                                  | % 3.7                | % 2.6         | % |
| 9. Sporting goods                | 3.7                                  | % 4.0                | % 4.5         | % |
| 10. Wholesale clubs              | 3.1                                  | % 3.4                | % 3.7         | % |
| Other                            | 32.9                                 | % 35.1               | % 34.9        | % |
|                                  | 100.0                                | % 100.0              | % 100.0       | % |

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

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

|                                       | Quarter Ended June 30, |           | Six Months Ended June 30, |           |
|---------------------------------------|------------------------|-----------|---------------------------|-----------|
|                                       | 2013                   | 2012      | 2013                      | 2012      |
| Acquisitions:                         |                        |           |                           |           |
| Number of Properties                  | 209                    | 27        | 226                       | 94        |
| Gross leasable area (square feet)     | 1,063,000              | 880,000   | 1,225,000                 | 1,473,000 |
| Total dollars invested <sup>(1)</sup> | \$437,676              | \$114,980 | \$480,264                 | \$312,958 |

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

NNN typically funds property acquisitions either through available cash, borrowings under its unsecured revolving Credit Facility (see "Debt – Line of Credit Payable") or by issuing its debt or equity securities in the capital markets.

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

|   | Quarter Ended June 30, |         | Six Months Ended June 30, |          |
|---|------------------------|---------|---------------------------|----------|
|   | 2013                   | 2012    | 2013                      | 2012     |
| Number of properties                      | 7                      | 7       | 9                         | 10       |
| Gross leasable area (square feet)         | 111,000                | 81,000  | 132,000                   | 101,000  |
| Net sales proceeds                        | \$13,046               | \$6,589 | \$16,615                  | \$11,741 |
| Net gain, net of non-controlling interest | \$2,516                | \$2,438 | \$3,021                   | \$2,752  |

NNN typically uses the proceeds from property sales either to pay down the Credit Facility or reinvest in real estate.

#### Analysis of Revenue From Continuing Operations

General. During the quarter and six months ended June 30, 2013, rental income increased primarily due to an increase in rental income from property acquisitions (See "Results of Operations - Property Analysis - Property Acquisitions"). NNN anticipates increases in rental income will continue to come from additional property acquisitions and increases in rents pursuant to lease terms.

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

|   | Quarter Ended June 30, |          |         |         |                             | Six Months Ended June 30, |           |         |         |                             |
|---|------------------------|----------|---------|---------|-----------------------------|---------------------------|-----------|---------|---------|-----------------------------|
|   | 2013                   | 2012     | 2013    | 2012    | Percent Increase (Decrease) | 2013                      | 2012      | 2013    | 2012    | Percent Increase (Decrease) |
|   | Percent of Total       |          |         |         |                             | Percent of Total          |           |         |         |                             |
| Rental Income <sup>(1)</sup>                              | \$92,013               | \$77,340 | 95.7 %  | 95.2 %  | 19.0%                       | \$180,524                 | \$150,302 | 95.7 %  | 94.9 %  | 20.1%                       |
| Real estate expense reimbursement from tenants            | 3,149                  | 2,556    | 3.3 %   | 3.1 %   | 23.2%                       | 6,126                     | 5,366     | 3.3 %   | 3.4 %   | 14.2%                       |
| Interest and other income from real estate transactions   | 371                    | 594      | 0.4 %   | 0.8 %   | (37.5)%                     | 754                       | 1,300     | 0.4 %   | 0.8 %   | (42.0)%                     |
| Interest income on commercial mortgage residual interests | 588                    | 716      | 0.6 %   | 0.9 %   | (17.9)%                     | 1,195                     | 1,471     | 0.6 %   | 0.9 %   | (18.8)%                     |
| Total revenues from continuing operations                 | \$96,121               | \$81,206 | 100.0 % | 100.0 % | 18.4%                       | \$188,599                 | \$158,439 | 100.0 % | 100.0 % | 19.0%                       |

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

Quarter and Six Months Ended June 30, 2013 versus Quarter and Six Months Ended June 30, 2012

Rental Income. Rental Income increased in amount and as a percent of the total revenues from continuing operations for the quarter and six months ended June 30, 2013, as compared to the same periods in 2012. The increase for the

quarter and six months ended June 30, 2013, is primarily due to the acquisition of 226 properties with aggregate gross leasable area of approximately 1,225,000 square feet during the six months ended June 30, 2013 and 232 properties with aggregate gross leasable area of approximately 2,955,000 square feet during 2012.

Real Estate Expense Reimbursement from Tenants. Real estate expense reimbursements from tenants increased for the quarter and six months ended June 30, 2013, as compared to the same periods in 2012, but remained relatively stable as a percentage of total revenues from continuing operations. The increase is primarily attributable to a full year of reimbursements from certain properties acquired in 2012.

## Analysis of Expenses from Continuing Operations

General. Operating expenses from continuing operations increased for the quarter and six months ended June 30, 2013, primarily due to an increase in depreciation expense from certain properties acquired in 2012 and to an increase in stock-based incentive compensation. The following table summarizes NNN's expenses from continuing operations for the quarters ended June 30 (dollars in thousands):

|  | 2013     | 2012     | Percent Increase (Decrease) | Percentage of Total |         | Percentage of Revenues from Continuing Operations |         | 2013 | 2012 |  |
|--|----------|----------|-----------------------------|---------------------|---------|---|---------|------|------|--|
|  |          |          |                             | 2013                | 2012    | 2013  | 2012    |      |      |  |
| General and administrative                             | \$9,412  | \$7,025  | 34.0%                       | 25.9                | % 21.8  | % 9.8   | % 8.7   | %    |      |  |
| Real estate  | 4,301    | 4,040    | 6.5%                        | 11.8                | % 12.5  | % 4.5   | % 5.0   | %    |      |  |
| Depreciation and amortization                          | 22,552   | 18,678   | 20.7%                       | 61.9                | % 57.8  | % 23.5  | % 23.0  | %    |      |  |
| Impairment losses and other charges, net of recoveries | 160      | 2,548    | (93.7)%                     | 0.4                 | % 7.9   | % 0.2   | % 3.1   | %    |      |  |
| Total operating expenses                               | \$36,425 | \$32,291 | 12.8%                       | 100.0               | % 100.0 | % 38.0  | % 39.8  | %    |      |  |
| Interest and other income                              | \$(377)  | \$(361)  | 4.4%                        | (1.6)               | % (1.9) | % (0.4)   | % (0.4) | %    |      |  |
| Interest expense                                       | 23,394   | 19,569   | 19.5%                       | 101.6               | % 101.9 | % 24.3  | % 24.1  | %    |      |  |
| Total other expenses                                   | \$23,017 | \$19,208 | 19.8%                       | 100.0               | % 100.0 | % 23.9  | % 23.7  | %    |      |  |

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

|  | 2013     | 2012     | Percent Increase (Decrease) | Percentage of Total |         | Percentage of Revenues from Continuing Operations |         | 2013 | 2012 |  |
|--|----------|----------|-----------------------------|---------------------|---------|---|---------|------|------|--|
|  |          |          |                             | 2013                | 2012    | 2013  | 2012    |      |      |  |
| General and administrative                             | \$17,676 | \$14,630 | 20.8%                       | 23.8                | % 23.5  | % 9.4   | % 9.2   | %    |      |  |
| Real estate  | 8,218    | 8,549    | (3.9)%                      | 11.1                | % 13.8  | % 4.4   | % 5.4   | %    |      |  |
| Depreciation and amortization                          | 46,270   | 36,388   | 27.2%                       | 62.4                | % 58.5  | % 24.5  | % 23.0  | %    |      |  |
| Impairment losses and other charges, net of recoveries | 1,972    | 2,583    | (23.7)%                     | 2.7                 | % 4.2   | % 1.0   | % 1.6   | %    |      |  |
| Total operating expenses                               | \$74,136 | \$62,150 | 19.3%                       | 100.0               | % 100.0 | % 39.3  | % 39.2  | %    |      |  |
| Interest and other income                              | \$(711)  | \$(720)  | (1.3)%                      | (1.6)               | % (1.9) | % (0.4)   | % (0.5) | %    |      |  |
| Interest expense                                       | 45,221   | 39,387   | 14.8%                       | 101.6               | % 101.9 | % 24.0  | % 24.9  | %    |      |  |
| Total other expenses                                   | \$44,510 | \$38,667 | 15.1%                       | 100.0               | % 100.0 | % 23.6  | % 24.4  | %    |      |  |

## Quarter and Six Months Ended June 30, 2013 versus Quarter and Six Months Ended June 30, 2012

General and Administrative Expenses. General and administrative expenses increased for the quarter and six months ended June 30, 2013, as compared to the same period in 2012 and increased as a percentage of total operating expenses and as a percentage of revenues from continuing operations. The increase in general and administrative expenses is primarily attributable to increases in stock-based incentive compensation and in real estate acquisition costs.

Depreciation and Amortization. Depreciation and amortization expenses increased as a percentage of total operating expenses and as a percentage of revenues from continuing operations for the quarter and six months ended June 30, 2013, as compared to the quarter and six months ended June 30, 2012. The increase is primarily due to depreciation expense from the 226 properties with aggregate gross leasable area of approximately 1,225,000 square feet acquired during the six months ended June 30, 2013 and the 232 properties with aggregate gross leasable area of approximately

2,955,000 square feet acquired during 2012.

25

---



Impairment Charges and Other Losses, Net of Recoveries. NNN reviews long-lived assets for impairment whenever certain events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Events or circumstances that may occur include changes in real estate market conditions, the ability of NNN to re-lease properties that are currently vacant or become vacant, and the ability to sell properties at an attractive price. Generally, NNN evaluates a possible impairment by comparing the subject asset's estimated future cash flows to its current net book value. If an impairment is indicated, an impairment is recognized to the extent the current book value of the respective asset exceeds the fair value of the asset. During the six months ended June 30, 2013 and 2012, NNN recorded \$1,957,000 and \$35,000, respectively, of real estate impairments of which \$145,000 was recorded during the quarter ended June 30, 2013. No real estate impairments were recorded during the quarter ended June 30, 2012. Also, in connection with the independent valuations of the Residuals' fair value, during the six months ended June 30, 2012, NNN recorded an other than temporary valuation adjustment of \$2,718,000 as a reduction of earnings from operations. NNN did not record any temporary valuation adjustments to the Residuals' fair value during the six months ended June 30, 2013. In addition, during the six months ended June 30, 2012, NNN recorded a \$170,000 recovery on a note receivable foreclosure. No recoveries were recorded for the six months ended June 30, 2013.

Interest Expense. Interest expense increased for the quarter and six months ended June 30, 2013, as compared to the same periods in 2012.

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

- (i) the issuance in August 2012 of \$325,000,000 principal amount of notes payable with a maturity of October 2022, and stated interest rate of 3.800%;
- (ii) the repayment in June 2012 of \$50,000,000 principal amount of notes payable with a stated interest rate of 7.750%;
- (iii) the repayment in July 2012 of a mortgage, with a balance of \$18,488,000 at December 31, 2011 and an interest rate of 6.90%;
- (iv) the settlement of \$138,700,000 principal amount of 3.95% convertible notes payable, of which \$123,163,000 was settled in the fourth quarter 2012 and the remaining \$15,537,000 was settled in the first quarter 2013;
- (v) the issuance in April 2013 of \$350,000,000 principal amount of notes payable with a maturity of April 2023, and stated interest rate of 3.300%; and
- (vi) a \$19,860,000 increase in the weighted average debt outstanding on the credit facility partially offset by a slightly lower weighted average interest rate for the six months ended June 30, 2013, as compared to the same period in 2012.

#### Discontinued Operations

Earnings. NNN classified as discontinued operations the revenues and expenses related to its revenue generating Properties that were sold and any revenue generating Properties that were held for sale at June 30, 2013.

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

|                          | 2013                 |         |          | 2012                 |         |          |
|--------------------------|----------------------|---------|----------|----------------------|---------|----------|
|                          | # of Sold Properties | Gain    | Earnings | # of Sold Properties | Gain    | Earnings |
| Properties               | 7                    | \$2,516 | \$1,359  | 7                    | \$2,438 | \$3,466  |
| Noncontrolling interests | —                    | 153     | (160 )   | —                    | —       | (3 )     |
|                          | 7                    | \$2,669 | \$1,199  | 7                    | \$2,438 | \$3,463  |

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

|                          | 2013                 |         |          | 2012                 |         |          |
|--------------------------|----------------------|---------|----------|----------------------|---------|----------|
|                          | # of Sold Properties | Gain    | Earnings | # of Sold Properties | Gain    | Earnings |
| Properties               | 9                    | \$3,021 | \$1,554  | 10                   | \$2,752 | \$5,177  |
| Noncontrolling interests | —                    | 153     | (216 )   | —                    | —       | (8 )     |
|                          | 9                    | \$3,174 | \$1,338  | 10                   | \$2,752 | \$5,169  |

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

#### Liquidity

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

Cash and Cash Equivalents. The table below summarizes NNN's cash flows (in thousands):

|                                  | Six Months Ended June 30, |            |
|----------------------------------|---------------------------|------------|
|                                  | 2013                      | 2012       |
| Cash and cash equivalents:       |                           |            |
| Provided by operating activities | \$124,189                 | \$100,257  |
| Used in investing activities     | (466,752 )                | (281,762 ) |
| Provided by financing activities | 577,403                   | 182,330    |
| Increase                         | 234,840                   | 825        |
| Net cash at beginning of period  | 2,076                     | 2,082      |
| Net cash at end of period        | \$236,916                 | \$2,907    |

Cash provided by operating activities represents cash received primarily from rental income from tenants and interest income less cash used for general and administrative expenses, interest expense and acquisition of certain properties. NNN's cash flow from operating activities, net of cash used in and provided by the acquisition and disposition of certain properties, has been sufficient to pay the distributions for each period presented. NNN generally uses proceeds from its credit facility or from offerings of equity or debt securities in the capital markets to fund the acquisition of its properties. The change in cash provided by operations for the quarter and six months ended June 30, 2013 and 2012, is primarily the result of changes in revenues and expenses as discussed in "Results of Operations." Cash generated from operations is expected to fluctuate in the future.

Changes in cash for investing activities are primarily attributable to the acquisitions and dispositions of Properties. NNN's financing activities for the six months ended June 30, 2013, included the following significant transactions:

\$174,200,000 in net payments on NNN's Credit Facility,

- \$277,644,000 in net proceeds from the issuance of 11,500,000 depositary shares representing interests in NNN's 5.700% Series E Cumulative Redeemable Preferred Stock (the "Series E Preferred Stock") in May,
- \$15,881,000 in net proceeds from the issuance of 475,866 shares of common stock in connection with the Dividend Reinvestment and Stock Purchase Plan ("DRIP"),
- \$238,706,000 in net proceeds from the issuance of approximately 6,956,992 shares of common stock in connection with the at-the-market ("ATM") equity program,
- \$90,943,000 in dividends paid to common stockholders,
- \$9,523,000 in dividends paid to holders of the depositary shares of NNN's Series D Preferred Stock,
- \$344,266,000 in net proceeds from the issuance of the 3.30% notes payable in April, and

\$20,565,000 paid in the first quarter to settle the remaining \$15,537,000 principal amount of the 3.95% convertible notes payable.

Contractual Obligations and Commercial Commitments. As of June 30, 2013, NNN has agreed to fund construction commitments in connection with the improvements of leased Properties as outlined in the table below (dollars in thousands):

|                             | June 30, 2013   |                                 |               |                      |
|-----------------------------|-----------------|---------------------------------|---------------|----------------------|
|                             | # of Properties | Total Commitment <sup>(1)</sup> | Amount Funded | Remaining Commitment |
| Real estate – portfolio     | 48              | \$ 139,165                      | \$105,026     | \$34,139             |
| Real estate – held for sale | 2               | 1,656                           | 1,540         | 116                  |
|                             | 50              | \$ 140,821                      | \$106,566     | \$34,255             |

<sup>(1)</sup> Includes land, construction costs and tenant improvements.

As of June 30, 2013, NNN did not have any material contractual cash obligations, such as purchase obligations, financing lease obligations or other long-term liabilities other than those reflected in the table above and previously disclosed under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in NNN's Annual Report on Form 10-K for the year ended December 31, 2012. In addition to items reflected in the table, NNN has issued preferred stock with cumulative preferential cash distributions, as described below under "Dividends."

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

Generally, the Properties are leased under long-term net leases, which generally require the tenant to pay all property taxes and assessments, substantially maintain the interior and exterior of the property and carry property and liability insurance coverage. Therefore, management anticipates that capital demands to meet obligations with respect to these Properties will be modest for the foreseeable future and can be met with funds from operations and working capital. Certain of NNN's Properties are subject to leases under which NNN retains responsibility for specific costs and expenses associated with the Property. Management anticipates that the costs associated with NNN's vacant Properties or those Properties that become vacant will also be met with funds from operations and working capital. NNN may be required to borrow under its credit facility or use other sources of capital in the event of unforeseen significant capital expenditures.

The lost revenues and increased property expenses resulting from vacant properties or uncollectibility of lease revenues could have a material adverse effect on the liquidity and results of operations if NNN is unable to re-lease the Properties at comparable rental rates and in a timely manner. As of June 30, 2013, NNN owned 35 vacant, un-leased Properties which accounted for approximately two percent of total Properties held in NNN's Property Portfolio.

NNN generally monitors the financial performance of its significant tenants on an ongoing basis.

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

One of NNN's primary objectives, consistent with its policy of retaining sufficient cash for reserves and working capital purposes and maintaining its status as a REIT, is to distribute a substantial portion of its funds available from operations to its stockholders in the form of dividends.

The following table outlines the dividends declared and paid for each issuance of NNN's stock (in thousands, except per share data):

|   | Six Months Ended June 30, |         |
|---|---------------------------|---------|
|   | 2013                      | 2012    |
| Series C preferred stock <sup>(1)</sup> : |                           |         |
| Dividends                                 | \$—                       | \$1,979 |
| Per share                                 | —                         | 0.5378  |
| Series D preferred stock <sup>(2)</sup> : |                           |         |
| Dividends                                 | 9,523                     | 5,926   |
| Per share                                 | 0.8281                    | 0.5153  |
| Common stock:                             |                           |         |
| Dividends                                 | 90,943                    | 81,511  |
| Per share                                 | 0.790                     | 0.770   |

1) The Series C preferred stock was redeemed in March 2012. The dividends paid during the six months ended June 30, 2012 include accumulated and unpaid dividends through the redemption date.

2) The Series D preferred stock has no maturity date and will remain outstanding unless redeemed.

In July 2013, NNN declared a dividend of \$0.405 per share which is payable in August 2013 to its common stockholders of record as of July 31, 2013.

#### Capital Resources

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

#### Debt

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

|                             | June 30, 2013 | Percentage of<br>Total | December 31,<br>2012 | Percentage of<br>Total |
|-----------------------------|---------------|------------------------|----------------------|------------------------|
| Line of credit payable      | \$—           | —                      | \$174,200            | 11.0%                  |
| Mortgages payable           | 10,048        | 0.6%                   | 10,602               | 0.7%                   |
| Notes payable – convertible | 222,944       | 12.8%                  | 236,500              | 14.9%                  |
| Notes payable               | 1,513,587     | 86.6%                  | 1,165,662            | 73.4%                  |
| Total outstanding debt      | \$1,746,579   | 100.0%                 | \$1,586,964          | 100.0%                 |

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

Line of Credit Payable. NNN's \$500,000,000 revolving credit facility (the "Credit Facility") had a weighted average outstanding balance of \$72,806,000 and a weighted average interest rate of 1.4% during the six months ended June 30, 2013. The Credit Facility matures October 2016, unless the Company exercises its to extend maturity to October 2017. The Credit Facility bears interest at LIBOR plus 117.5 basis points; however, such interest rate may change pursuant to a tiered interest rate structure based on NNN's debt rating. The Credit Facility also includes an accordion feature to increase the facility size up to \$1,000,000,000, subject to lender approval. As of June 30, 2013, there was no

outstanding balance, and \$500,000,000 was available for future borrowings under the Credit Facility.

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

| Terms  | 2026<br>Notes <sup>(1)(2)</sup> |   | 2028<br>Notes <sup>(1)(3)(4)</sup> |                |
|--|---------------------------------|---|------------------------------------|----------------|
| Issue Date                                     | September 2006                  |   | March 2008                         |                |
| Net Proceeds                                   | \$168,650                       |   | \$228,576                          |                |
| Stated Interest Rate                           | 3.950                           | % | 5.125                              | %              |
| Effective Interest Rate <sup>(6)</sup>         | 5.840                           | % | 7.192                              | %              |
| Debt Issuance Costs                            | \$3,850                         |   | \$5,459                            | <sup>(5)</sup> |
| Maturity Date                                  | —                               |   | June 2028                          |                |
| Original Principal                             | \$172,500                       |   | \$234,035                          |                |
| Repurchases                                    | (33,800                         | ) | (11,000                            | )              |
| Settled  | (138,700                        | ) | (91                                | )              |
| Outstanding principal balance at June 30, 2013 | \$—                             |   | \$222,944                          |                |

Debt issuance costs include underwriting discounts and commissions, legal and accounting fees, rating agency fees <sup>(1)</sup> and printing expenses. These costs were deferred and amortized using the effective interest method and are fully amortized at June 30, 2013.

<sup>(2)</sup> The conversion rate per \$1 principal amount was 42.6237 shares of NNN's common stock, which is equivalent to a conversion price of \$23.4611 per share of common stock.

<sup>(3)</sup> The conversion rate per \$1 principal amount was 39.5360 shares of NNN's common stock, which is equivalent to a conversion price of \$25.2934 per share of common stock.

<sup>(4)</sup> NNN repurchased \$11,000 in 2009 for a purchase price of \$8,588 resulting in a gain of \$1,867.

<sup>(5)</sup> Includes \$219 of note costs which were written off in connection with the repurchase of \$11,000 of the 2028 Notes.

<sup>(6)</sup> With the adoption of the accounting guidance on convertible debt securities in 2009, the effective interest rates for the 2026 Notes and the 2028 Notes are 5.840% and 7.192%, respectively.

Each series of convertible notes represents a senior, unsecured obligation of NNN and is subordinated to all secured indebtedness of the Company. Each series of notes is redeemable at the option of NNN, in whole or in part, at a redemption price equal to the sum of (i) the principal amount of the notes being redeemed plus accrued and unpaid interest thereon, through but not including, the redemption date, and (ii) the make whole amount, if any, as defined in the applicable supplemental indenture relating to the notes. In June 2013, NNN called all of the outstanding 5.125% convertible senior notes due 2028 (the "2028 Notes") for redemption on July 11, 2013.

The carrying values of the Company's convertible debt and equity components are summarized in the table below (dollars in thousands):

|  | June 30, 2013 |   | December 31, 2012 |   |
|--|---------------|---|-------------------|---|
| Principal amount of convertible debt   | \$222,944     |   | \$238,572         |   |
| Carrying value of equity component     | (20,711       | ) | (22,193           | ) |
| Remaining unamortized debt discount    | —             |   | (2,072            | ) |
| Net carrying value of convertible debt | \$202,233     |   | \$214,307         |   |

As of June 30, 2013, the debt discount for both the 2028 Notes and the 2026 Notes had been fully amortized.

NNN recorded the following in interest expense relating to the 2026 Notes and the 2028 Notes (dollars in thousands):

|                              | Quarter Ended June 30, |         | Six Months Ended June 30, |          |
|------------------------------|------------------------|---------|---------------------------|----------|
|                              | 2013                   | 2012    | 2013                      | 2012     |
| Contractual interest expense | \$2,516                | \$4,227 | \$5,374                   | \$8,455  |
| Noncash interest charges     | 950                    | 1,063   | 2,072                     | 2,107    |
| Amortization of debt costs   | 260                    | 284     | 566                       | 560      |
| Total interest expense       | \$3,726                | \$5,574 | \$8,012                   | \$11,122 |





The if-converted value of the 2028 Notes exceeded the principal amount by \$80,268,000 as of June 30, 2013. As of December 31, 2012, the if-converted values, which exceeded the principal amount, were \$5,125,000 and \$51,764,000 for the 2026 Notes and the 2028 Notes, respectively.

As of December 31, 2012, \$15,537,000 of the principal amount of 2026 Notes were outstanding. In January 2013, the Company paid approximately \$20,702,000 in aggregate settlement value for the \$15,537,000 of settled notes. The difference between the amount paid and the principal amount of the settled notes of \$5,028,000 was recognized as a decrease to additional paid-in capital and \$137,000 was recorded as interest expense.

In March 2013, NNN announced that the market price condition on its 2028 Notes had been satisfied, and that the 2028 Notes would be convertible during the calendar quarter beginning April 1, 2013. Pursuant to the terms of the indenture, the conversion rate is subject to certain adjustments during the period in which the 2028 Notes are convertible.

In June 2013, NNN called all of the outstanding 2028 Notes for redemption on July 11, 2013. As of June 30, 2013, \$91,000 principal amount of the 2028 Notes had been surrendered for conversion, and \$222,944,000 principal amount of the 2028 Notes remained outstanding. On July 11, 2013, \$130,000 principal amount of the 2028 Notes were settled at par plus accrued interest. Holders of the remaining balance of \$222,814,000 principal amount of 2028 Notes elected to convert into cash and shares of the Company's common stock which is based on the average daily closing price of NNN's common stock price over a period of 20 days commencing after receipt of a note holder's conversion notice. Notes Payable. In April 2013, NNN filed a prospectus supplement to the prospectus contained in its February 2012 shelf registration statement and issued aggregate \$350,000,000 principal amount of 3.300% Notes due April 2023 (the "2023 Notes"). The 2023 Notes were sold at a discount with an aggregate purchase price of \$347,406,000 with interest payable semi-annually commencing on October 15, 2013. The discount of \$2,594,000 is being amortized to interest expense over the term of the note using the effective interest method. The effective interest rate for the 2023 Notes after accounting for note discount is 3.388%. NNN previously entered into four forward starting swaps with an aggregate notional amount of \$240,000,000. Upon issuance of the 2023 Notes, NNN terminated the forward starting swaps resulting in a liability of 3,156,000, of which \$3,141,000 was deferred in other comprehensive income. The deferred liability is being amortized over the term of the 2023 Notes using the effective interest method.

The 2023 Notes are senior unsecured obligations of NNN and are subordinated to all secured indebtedness and to the indebtedness and other liabilities of NNN's subsidiaries. Additionally, the 2023 Notes are redeemable at NNN's option, in whole or part anytime, for an amount equal to (i) the sum of the outstanding principal balance of the notes being redeemed plus accrued interest thereon to the redemption date, and (ii) the make whole amount, if any, as defined in the supplemental indenture dated April 9, 2013, relating to the 2023 Notes.

NNN received approximately \$344,266,000 of proceeds in connection with the issuance of the 2023 Notes, net of debt issuance cost totaling \$5,734,000 consisting primarily of underwriting discounts and commissions, legal and accounting fees, rating agency fees and printing expenses.

#### 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.

**Securities Offering.** In February 2012, NNN filed a shelf registration statement with the Securities and Exchange Commission (the "Commission") which was automatically effective and permits the issuance by NNN of an indeterminate amount of debt and equity securities.

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

**7.375% Series C Cumulative Redeemable Preferred Stock.** In October 2006, NNN issued 3,680,000 depositary shares, each representing 1/100<sup>th</sup> of a share of Series C Preferred Stock.

In March 2012, NNN redeemed all 3,680,000 outstanding depositary shares representing interests in its Series C Preferred Stock. The Series C Preferred Stock was redeemed at \$25.00 per depositary share, plus accumulated and unpaid distributions through the redemption date, for an aggregate redemption price of \$25.0768229 per depositary share. The excess carrying amount of preferred stock redeemed over the cash paid to redeem the preferred stock was

\$3,098,000 of Series C Preferred Stock issuance costs.

31

---

6.625% Series D Cumulative Redeemable Preferred Stock. In February 2012, NNN consummated an underwritten public offering of 11,500,000 depositary shares (including 1,500,000 shares issued in connection with the underwriters over-allotment), each representing a 1/100<sup>th</sup> interest in a share of Series D Preferred Stock, and received gross proceeds of \$287,500,000. In connection with this offering, the Company incurred stock issuance costs of approximately \$9,855,000, consisting primarily of underwriting commissions and fees, rating agency fees, legal and accounting fees and printing expenses. NNN used these net offering proceeds to redeem the 7.375% Series C Preferred Stock for an aggregate redemption price of \$92,000,000, excluding accumulated dividends of \$283,000. NNN used the remainder of the net proceeds for general corporate purposes, including repaying outstanding indebtedness under its Credit Facility.

Holders of the Series D depositary shares are entitled to receive, when and as authorized by the Board of Directors, cumulative preferential cash dividends at the rate of 6.625% of the \$25.00 liquidation preference per depositary share per annum (equivalent to a fixed annual amount of \$1.65625 per depositary share). The Series D Preferred Stock underlying the depositary shares ranks senior to NNN's common stock with respect to dividend rights and rights upon liquidation, dissolution or winding up of NNN. The Series D Preferred Stock has no maturity date and will remain outstanding unless redeemed. NNN may redeem the Series D Preferred Stock underlying the depositary shares on or after September 23, 2017, for cash, at a redemption price of \$2,500.00 per share (or \$25.00 per depositary share), plus all accumulated and unpaid dividends. In addition, upon a change of control, as defined in the articles supplementary fixing the rights and preferences of the Series D Preferred Stock, NNN may redeem the Series D Preferred Stock underlying the depositary shares at a redemption price of \$2,500.00 per share (or \$25.00 per depositary share), plus all accumulated and unpaid dividends, and in limited circumstances the holders of depositary shares may convert some or all of their Series D Preferred Stock into shares of NNN's common stock at conversion rates provided in the related articles supplementary. As of July 30, 2013, the Series D Preferred Stock was not redeemable or convertible.

5.700% Series E Cumulative Redeemable Preferred Stock. In May 2013, NNN closed an underwritten public offering of 11,500,000 depositary shares (including 1,500,000 shares issued in connection with the underwriters over-allotment), each representing a 1/100<sup>th</sup> interest in a share of its newly designated 5.700% Series E Cumulative Redeemable Preferred Stock, and received gross proceeds of \$287,500,000. In connection with this offering, the Company incurred stock issuance costs of approximately \$9,856,000, consisting primarily of underwriting commissions and fees, rating agency fees, legal and accounting fees and printing expenses. The Company used the net proceeds from the offering for general corporate purposes and funding property acquisitions.

Holders of the Series E depositary shares are entitled to receive, when and as authorized by the Board of Directors, cumulative preferential cash dividends at the rate of 5.700% of the \$25.00 liquidation preference per depositary share per annum (equivalent to a fixed annual amount of \$1.425 per depositary share). The Series E Preferred Stock underlying the depositary shares ranks senior to NNN's common stock with respect to dividend rights and rights upon liquidation, dissolution or winding up of NNN. The Series E Preferred Stock has no maturity date and will remain outstanding unless redeemed. NNN may redeem the Series E Preferred Stock underlying the depositary shares on or after May 30, 2018, for cash, at a redemption price of \$2,500.00 per share (or \$25.00 per depositary share), plus all accumulated and unpaid dividends. In addition, upon a change of control, as defined in the articles supplementary fixing the rights and preferences of the Series E Preferred Stock, NNN may redeem the Series E Preferred Stock underlying the depositary shares at a redemption price of \$2,500.00 per share (or \$25.00 per depositary share), plus all accumulated and unpaid dividends, and in limited circumstances the holders of depositary shares may convert some or all of their Series E Preferred Stock into shares of NNN's common stock at conversion rates provided in the related articles supplementary. As of July 30, 2013, the Series E Preferred Stock was not redeemable or convertible. The first dividend on the Series E Preferred Stock will be payable on September 15, 2013 and will be in the amount of \$0.415625 per depositary share.

Common Stock Issuances. In May 2012, NNN established an at-the-market equity program ("2012 ATM") which allowed NNN to sell up to an aggregate of 9,000,000 shares of common stock from time to time through May 2015. The following outlines the common stock issuances pursuant to the 2012 ATM (dollars in thousands, except per share data):

|                                     | Six Months Ended June 30, |         |
|-------------------------------------|---------------------------|---------|
|                                     | 2013                      | 2012    |
| Shares of common stock              | 4,676,542                 | 394,901 |
| Average price per share (net)       | \$32.60                   | \$26.66 |
| Net proceeds                        | 152,435                   | 10,527  |
| Stock issuance costs <sup>(1)</sup> | 2,161                     | 253     |

<sup>(1)</sup> Stock issuance costs consist primarily of underwriters' fees and commissions, and legal and accounting fees.

In March 2013, NNN established a second ATM equity program ("2013 ATM") which allows NNN to sell up to an aggregate of 9,000,000 shares of common stock from time to time through March 2015. The following outlines the common stock issuances pursuant to the 2013 ATM (dollars in thousands, except per share data):

|                                     | Six Months Ended June 30, |      |
|-------------------------------------|---------------------------|------|
|                                     | 2013                      | 2012 |
| Shares of common stock              | 2,280,450                 | —    |
| Average price per share (net)       | \$37.83                   | \$—  |
| Net proceeds                        | 86,271                    | —    |
| Stock issuance costs <sup>(1)</sup> | 1,551                     | —    |

<sup>(1)</sup> Stock issuance costs consist primarily of underwriters' fees and commissions, and legal and accounting fees.

In February 2012, NNN filed a shelf registration statement which was automatically effective with the Commission for its DRIP, which permits the issuance by NNN of up to 16,000,000 shares of common stock. NNN's DRIP provides an economical and convenient way for current stockholders and other interested new investors to invest in NNN's common stock. The following outlines the common stock issuances pursuant to NNN's DRIP (dollars in thousands):

|                        | Six Months Ended June 30, |           |
|------------------------|---------------------------|-----------|
|                        | 2013                      | 2012      |
| Shares of common stock | 475,866                   | 1,881,807 |
| Net proceeds           | \$15,881                  | \$49,476  |

#### Commercial Mortgage Residual Interests

The following table summarizes the key assumptions used in determining the value of the Residuals as of:

|   | June 30, 2013         |   | December 31, 2012     |   |
|---|-----------------------|---|-----------------------|---|
| Discount rate   | 25                    | % | 25                    | % |
| Average life equivalent CPR <sup>(1)</sup> speeds range | 0.80% to 23.71% CPR   |   | 0.80% to 24.31% CPR   |   |
| Foreclosures:   |                       |   |                       |   |
| Frequency curve default model                           | 0.08% - 4.07% range   |   | 0.09% - 4.49% range   |   |
| Loss severity of loans in foreclosure                   | 20                    | % | 20                    | % |
| Yield:  |                       |   |                       |   |
| LIBOR   | Forward 3-month curve |   | Forward 3-month curve |   |
| Prime   | Forward curve         |   | Forward curve         |   |

<sup>(1)</sup> Conditional prepayment rate

The following table summarizes the recognition of unrealized gains and/or losses recorded as other comprehensive income as well as other than temporary valuation impairments recorded in condensed consolidated statements of earnings (dollars in thousands):

|   | Quarter Ended June 30, |       | Six Months Ended June 30, |       |
|---|------------------------|-------|---------------------------|-------|
|   | 2013                   | 2012  | 2013                      | 2012  |
| Unrealized gains                          | \$350                  | \$213 | \$1,219                   | \$213 |
| Other than temporary valuation impairment | —                      | 2,718 | —                         | 2,718 |

#### Recent Accounting Pronouncements

Refer to Note 1 to the June 30, 2013, Condensed Consolidated Financial Statements.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

NNN is exposed to interest rate risk primarily as a result of its variable rate Credit Facility and its fixed rate debt which are used to finance NNN's development and acquisition activities, as well as for general corporate purposes. NNN's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to reduce overall borrowing costs. To achieve its objectives, NNN borrows at both fixed and variable rates on its long-term debt. As of June 30, 2013, NNN had no outstanding derivatives.

The information in the table below summarizes NNN's market risks associated with its debt obligations outstanding as of June 30, 2013 and December 31, 2012. The table presents principal payments and related interest rates by year for debt obligations outstanding as of June 30, 2013. The table incorporates only those debt obligations that existed as of June 30, 2013, and it does not consider those debt obligations or positions which could arise after this date. NNN's Credit Facility had a zero outstanding balance at June 30, 2013, and \$174,200,000 outstanding at December 31, 2012. 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 quarter, NNN's hedging strategies at that time and interest rates. If interest rates on NNN's variable rate debt increased by one percent, NNN's interest expense would have increased by less than one percent for the six months ended June 30, 2013.

## Debt Obligations (dollars in thousands)

|                   | Fixed Rate Debt<br>Mortgages <sup>(1)</sup> |   |   | Unsecured Debt <sup>(2)</sup> |                               |   |
|-------------------|---|---|---|-------------------------------|-------------------------------|---|
|                   | Debt<br>Obligation                          | Weighted<br>Average<br>Effective<br>Interest Rate |   | Debt<br>Obligation            | Effective<br>Interest<br>Rate |   |
| 2013              | \$573                                       | 6.98  | % | \$222,944                     | 7.19                          | % |
| 2014              | 1,158                                       | 6.90  | % | 149,947                       | 5.91                          | % |
| 2015              | 1,207                                       | 6.86  | % | 149,881                       | 6.19                          | % |
| 2016              | 6,842                                       | 5.95  | % | —                             | —                             |   |
| 2017              | 146   | 8.03  | % | 249,550                       | 6.92                          | % |
| Thereafter        | 122   | 9.00  | % | 964,209                       | 4.29                          | % |
| Total             | \$10,048                                    | 6.36  | % | \$1,736,531                   | 5.35                          | % |
| Fair Value:       |   |   |   |                               |                               |   |
| June 30, 2013     | \$10,048                                    |   |   | \$1,858,854                   |                               |   |
| December 31, 2012 | \$10,602                                    |   |   | \$1,585,756                   |                               |   |

(1) NNN's mortgages payable include unamortized premiums.

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

NNN is also exposed to market risks related to the Residuals. Factors that may impact the market value of the Residuals include delinquencies, loan losses, prepayment speeds and interest rates. The Residuals, which are reported at market value based upon an independent valuation, had a carrying value of \$14,173,000 and \$13,096,000 as of June 30, 2013 and December 31, 2012, respectively. Unrealized gains and losses are reported as other comprehensive income in stockholders' equity. Losses considered other than temporary are reported as valuation impairments 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.



Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. An evaluation was performed under the supervision and with the participation of NNN's management, including NNN's Chief Executive Officer and Chief Financial Officer, of the effectiveness as of June 30, 2013 of the design and operation of NNN's disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as of the end of the period covered by this report.

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



## PART II. OTHER INFORMATION

Item 1. Legal Proceedings. Not applicable.

Item Risk Factors. There were no material changes in NNN's risk factors disclosed in Item 1A. Risk Factors of 1A. NNN's Annual Report on Form 10-K for the year ended December 31, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds. Not applicable.

Item 3. Defaults Upon Senior Securities. Not applicable.

Item 4. Mine Safety Disclosures. Not applicable.

Item 5. Other Information. Not applicable.

Item 6. Exhibits

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

### 3. Articles of Incorporation and Bylaws

3.1 First Amended and Restated Articles of Incorporation of the Registrant, as amended (filed as Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 3, 2012, and incorporated herein by reference).

3.2 Articles Supplementary Establishing and Fixing the Rights and Preferences of 6.625% Series D Cumulative Preferred Stock, par value \$0.01 per share, dated February 21, 2012 (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated February 23, 2012, incorporated herein by reference).

3.3 Articles Supplementary Establishing and Fixing the Rights and Preferences of 5.700% Series E Cumulative Preferred Stock, par value \$0.01 per share, dated May 29, 2013 (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated May 30, 2013, incorporated herein by reference).

3.4 Third Amended and Restated Bylaws of the Registrant, as amended (filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on May 1, 2006, and incorporated herein by reference; second amendment filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 14, 2007, and incorporated herein by reference).

### 4. Instruments Defining the Rights of Security Holders, Including Indentures

4.1 Specimen Certificate of Common Stock, par value \$0.01 per share, of the Registrant (filed as Exhibit 3.4 to the Registrant's Registration Statement No. 1-11290 on Form 8-B filed with the Securities and Exchange Commission and incorporated herein by reference).

4.2 Indenture, dated as of March 25, 1998, between the Registrant and First Union National Bank, as trustee (filed as Exhibit 4.4 to the Registrant's Registration Statement on Form S-3 (Registration No. 333-132095) filed with the Securities and Exchange Commission on

February 28, 2006, and incorporated herein by reference).

- 4.3 Form of Supplemental Indenture No. 5 dated as of June 18, 2004, by and among Registrant and Wachovia Bank, National Association, Trustee, relating to \$150,000,000 of 6.25% Notes due 2014 (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated June 15, 2004 and filed with the Securities and Exchange Commission on June 18, 2004, and incorporated herein by reference).
- 4.4 Form of 6.25% Notes due 2014 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated June 15, 2004 and filed with the Securities and Exchange Commission on June 18, 2004, and incorporated herein by reference).
- 4.5 Form of Supplemental Indenture No. 6 dated as of November 17, 2005, by and among Registrant and Wachovia Bank, National Association, Trustee, relating to \$150,000,000 of 6.15% Notes due 2015 (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated November 14, 2005 and filed with the Securities and Exchange Commission on November 17, 2005, and incorporated herein by reference).

- 4.6 Form of 6.15% Notes due 2015 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated November 14, 2005 and filed with the Securities and Exchange Commission on November 17, 2005, and incorporated herein by reference).
- 4.7 Specimen certificate representing the 6.625% Series D Cumulative Redeemable Preferred Stock, par value \$.01 per share, of the Registrant (filed as Exhibit 4.4 to the Registrant's Registration Statement on Form 8-A dated February 22, 2012 and filed with the Securities and Exchange Commission on February 22, 2012, and incorporated herein by reference).
- 4.8 Deposit Agreement, among the Registrant, American Stock Transfer & Trust Company, as Depository, and the holders of depository receipts (filed as Exhibit 4.20 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 4, 2012, and incorporated herein by reference).
- 4.9 Form of Supplemental Indenture No. 8 between National Retail Properties, Inc. and U.S. Bank National Association relating to 6.875% Notes due 2017 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on September 4, 2007, and incorporated herein by reference).
- 4.10 Form of 6.875% Notes due 2017 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on September 4, 2007, and incorporated herein by reference).
- 4.11 Form of Ninth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 5.125% Convertible Senior Notes due 2028 (filed as Exhibit 4.1 to Registrants' Current Report on Form 8-K dated February 27, 2008 and filed with the Securities and Exchange Commission on March 4, 2008, and incorporated herein by reference).
- 4.12 Form of 5.125% Convertible Senior Notes due 2028 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated February 27, 2008 and filed with the Securities and Exchange Commission on March 4, 2008, and incorporated herein by reference).
- 4.13 Form of Tenth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 5.500% Notes due 2021 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K dated July 6, 2011 and filed with the Securities and Exchange Commission on July 6, 2011, and incorporated herein by reference).
- 4.14 Form of 5.500% Notes due 2021 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated July 6, 2011 and filed with the Securities and Exchange Commission on July 6, 2011, and incorporated herein by reference).
- 4.15 Form of 3.800% Notes due 2022 (filed as Exhibit 4.2 to Registrant's Current Report on Form 8-K dated August 14, 2012, filed with the Securities and Exchange Commission on August 14, 2012 and incorporated herein by reference).
- 4.16 Form of Eleventh Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 3.80% Notes due 2022 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K dated August 14, 2012, filed with the Securities and

Exchange Commission on August 14, 2012 and incorporated herein by reference).

4.17 Form of Twelfth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 3.300% Notes due 2023 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K dated April 9, 2013, filed with the Securities and Exchange Commission on April 15, 2013 and incorporated herein by reference).

4.18 Form of 3.300% Notes due 2022 (filed as Exhibit 4.2 to Registrant's Current Report on Form 8-K dated April 9, 2013, filed with the Securities and Exchange Commission on April 15, 2013 and incorporated herein by reference).

#### 10. Material Contracts

10.1 2007 Performance Incentive Plan (filed as Annex A to the Registrant's 2007 Annual Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 3, 2007, and incorporated herein by reference).

10.2 Form of Restricted Stock Agreement between NNN and the Participant of NNN (filed as Exhibit 10.2 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2005, and incorporated herein by reference).

- 10.3 Employment Agreement dated as of December 1, 2008, between the Registrant and Craig Macnab (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).
- 10.4 Employment Agreement dated as of December 1, 2008, between the Registrant and Julian E. Whitehurst (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).
- 10.5 Employment Agreement dated as of December 1, 2008, between the Registrant and Kevin B. Habicht (filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).
- 10.6 Employment Agreement dated as of December 1, 2008, between the Registrant and Paul E. Bayer (filed as Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).
- 10.7 Employment Agreement dated as of December 1, 2008, between the Registrant and Christopher P. Tessitore (filed as Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).
- 10.8 Form of Indemnification Agreement (as entered into between the Registrant and each of its directors and executive officers) (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on June 12, 2009, and incorporated herein by reference).
- 10.9 Amendment to Employment Agreement dated as of November 8, 2010, between the Registrant and Craig Macnab (filed as Exhibit 10.10 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2011, and incorporated herein by reference).
- 10.10 Amendment to Employment Agreement dated as of November 8, 2010, between the Registrant and Julian E. Whitehurst (filed as Exhibit 10.11 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2011, and incorporated herein by reference).
- 10.11 Amendment to Employment Agreement dated as of November 8, 2010, between the Registrant and Kevin B. Habicht (filed as Exhibit 10.12 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2011, and incorporated herein by reference).
- 10.12 Amendment to Employment Agreement dated as of November 8, 2010, between the Registrant and Paul E. Bayer (filed as Exhibit 10.13 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2011, and incorporated herein by reference).

- 10.13 Amendment to Employment Agreement dated as of November 8, 2010, between the Registrant and Christopher P. Tessitore (filed as Exhibit 10.14 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2011, and incorporated herein by reference).
- 10.14 Amended and Restated Credit Agreement, dated as of May 25, 2011, by and among the Registrant, certain lenders and Wells Fargo Bank, National Association, as the Administrative Agent (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 6, 2011, and incorporated herein by reference).
- 10.15 Form of Restricted Award Agreement - Performance between NNN and the Participant of NNN (filed as Exhibit 10.15 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 4, 2012, and incorporated herein by reference).
- 10.16 Form of Restricted Award Agreement - Service between NNN and the Participant of NNN (filed as Exhibit 10.16 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 4, 2012, and incorporated herein by reference).
- 10.17 Form of Restricted Award Agreement - Special Grant between NNN and the Participant of NNN (filed as Exhibit 10.17 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 4, 2012, and incorporated herein by reference).
- 10.18 First Amendment to Amended and Restated Credit Agreement, dated as of October 31, 2012, by and among the Registrant, certain lenders and Wells Fargo Bank, National Association, as the Administrative Agent (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 1, 2012, and incorporated herein by reference).

31. Section 302 Certifications

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

32. Section 906 Certifications

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

99. Additional Exhibits

99.1 Certification of Chief Executive Officer pursuant to Section 303A.12(a) of the New York Stock Exchange Listed Company Manual (filed as Exhibit 99.1 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 22, 2013).

101. Interactive Data File

101.1 The following materials from National Retail Properties, Inc. Quarterly Report on Form 10-Q for the period ended June 30, 2013, formatted in Extensible Business Reporting Language: (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of comprehensive income, (iii) condensed consolidated statements of cash flows, and (iv) notes to condensed consolidated financial statements. As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934 (filed herewith).

SIGNATURES

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

DATED this 1st day of August, 2013.

NATIONAL RETAIL PROPERTIES, INC.

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

By: /s/ Kevin B. Habicht  
Kevin B. Habicht  
Chief Financial Officer, Executive Vice  
President and Director



Exhibit Index

3. Articles of Incorporation and Bylaws

3.1 First Amended and Restated Articles of Incorporation of the Registrant, as amended (filed as Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 3, 2012, and incorporated herein by reference).

3.2 Articles Supplementary Establishing and Fixing the Rights and Preferences of 6.625% Series D Cumulative Preferred Stock, par value \$0.01 per share, dated February 21, 2012 (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated February 23, 2012, incorporated herein by reference).

3.3 Articles Supplementary Establishing and Fixing the Rights and Preferences of 5.700% Series E Cumulative Preferred Stock, par value \$0.01 per share, dated May 29, 2013 (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated May 30, 2013, incorporated herein by reference).

3.4 Third Amended and Restated Bylaws of the Registrant, as amended (filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on May 1, 2006, and incorporated herein by reference; second amendment filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 14, 2007, and incorporated herein by reference).

4. Instruments Defining the Rights of Security Holders, Including Indentures

4.1 Specimen Certificate of Common Stock, par value \$0.01 per share, of the Registrant (filed as Exhibit 3.4 to the Registrant's Registration Statement No. 1-11290 on Form 8-B filed with the Securities and Exchange Commission and incorporated herein by reference).

4.2 Indenture, dated as of March 25, 1998, between the Registrant and First Union National Bank, as trustee (filed as Exhibit 4.4 to the Registrant's Registration Statement on Form S-3 (Registration No. 333-132095) filed with the Securities and Exchange Commission on February 28, 2006, and incorporated herein by reference).

4.3 Form of Supplemental Indenture No. 5 dated as of June 18, 2004, by and among Registrant and Wachovia Bank, National Association, Trustee, relating to \$150,000,000 of 6.25% Notes due 2014 (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated June 15, 2004 and filed with the Securities and Exchange Commission on June 18, 2004, and incorporated herein by reference).

4.4 Form of 6.25% Notes due 2014 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated June 15, 2004 and filed with the Securities and Exchange Commission on June 18, 2004, and incorporated herein by reference).

4.5 Form of Supplemental Indenture No. 6 dated as of November 17, 2005, by and among Registrant and Wachovia Bank, National Association, Trustee, relating to \$150,000,000 of 6.15% Notes due 2015 (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated November 14, 2005 and filed with the Securities and Exchange Commission on November 17, 2005, and

incorporated herein by reference).

4.6 Form of 6.15% Notes due 2015 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated November 14, 2005 and filed with the Securities and Exchange Commission on November 17, 2005, and incorporated herein by reference).

4.7 Specimen certificate representing the 6.625% Series D Cumulative Redeemable Preferred Stock, par value \$.01 per share, of the Registrant (filed as Exhibit 4.4 to the Registrant's Registration Statement on Form 8-A dated February 22, 2012 and filed with the Securities and Exchange Commission on February 22, 2012, and incorporated herein by reference).

4.8 Deposit Agreement, among the Registrant, American Stock Transfer & Trust Company, as Depositary, and the holders of depositary receipts (filed as Exhibit 4.20 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 4, 2012, and incorporated herein by reference).

4.9 Form of Supplemental Indenture No. 8 between National Retail Properties, Inc. and U.S. Bank National Association relating to 6.875% Notes due 2017 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on September 4, 2007, and incorporated herein by reference).

4.10 Form of 6.875% Notes due 2017 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on September 4, 2007, and incorporated herein by reference).

4.11 Form of Ninth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 5.125% Convertible Senior Notes due 2028 (filed as Exhibit 4.1 to Registrants' Current Report on Form 8-K dated February 27, 2008 and filed with the Securities and Exchange Commission on March 4, 2008, and incorporated herein by reference).

4.12 Form of 5.125% Convertible Senior Notes due 2028 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated February 27, 2008 and filed with the Securities and Exchange Commission on March 4, 2008, and incorporated herein by reference).

4.13 Form of Tenth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 5.500% Notes due 2021 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K dated July 6, 2011 and filed with the Securities and Exchange Commission on July 6, 2011, and incorporated herein by reference).

4.14 Form of 5.500% Notes due 2021 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated July 6, 2011 and filed with the Securities and Exchange Commission on July 6, 2011, and incorporated herein by reference).

4.15 Form of 3.800% Notes due 2022 (filed as Exhibit 4.2 to Registrant's Current Report on Form 8-K dated August 14, 2012, filed with the Securities and Exchange Commission on August 14, 2012 and incorporated herein by reference).

4.16 Form of Eleventh Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 3.80% Notes due 2022 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K dated August 14, 2012, filed with the Securities and Exchange Commission on August 14, 2012 and incorporated herein by reference).

4.17 Form of Twelfth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 3.300% Notes due 2023 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K dated April 9, 2013, filed with the Securities and Exchange Commission on April 15, 2013 and incorporated herein by reference).

4.18 Form of 3.300% Notes due 2022 (filed as Exhibit 4.2 to Registrant's Current Report on Form 8-K dated April 9, 2013, filed with the Securities and Exchange Commission on April 15, 2013 and incorporated herein by reference).

## 10. Material Contracts

10.1 2007 Performance Incentive Plan (filed as Annex A to the Registrant's 2007 Annual Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 3, 2007, and incorporated herein by reference).

10.2 Form of Restricted Stock Agreement between NNN and the Participant of NNN (filed as Exhibit 10.2 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2005, and incorporated herein by reference).

10.3 Employment Agreement dated as of December 1, 2008, between the Registrant and Craig Macnab (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).

10.4 Employment Agreement dated as of December 1, 2008, between the Registrant and Julian E. Whitehurst (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).

10.5 Employment Agreement dated as of December 1, 2008, between the Registrant and Kevin B. Habicht (filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).

10.6 Employment Agreement dated as of December 1, 2008, between the Registrant and Paul E. Bayer (filed as Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).

10.7 Employment Agreement dated as of December 1, 2008, between the Registrant and Christopher P. Tessitore (filed as Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).

- 10.8 Form of Indemnification Agreement (as entered into between the Registrant and each of its directors and executive officers) (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on June 12, 2009, and incorporated herein by reference).
- 10.9 Amendment to Employment Agreement, dated as of November 8, 2010, between the Registrant and Craig Macnab (filed as Exhibit 10.10 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2011, and incorporated herein by reference).
- 10.10 Amendment to Employment Agreement dated as of November 8, 2010, between the Registrant and Julian E. Whitehurst (filed as Exhibit 10.11 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2011, and incorporated herein by reference).
- 10.11 Amendment to Employment Agreement dated as of November 8, 2010, between the Registrant and Kevin B. Habicht (filed as Exhibit 10.12 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2011, and incorporated herein by reference).
- 10.12 Amendment to Employment Agreement dated as of November 8, 2010, between the Registrant and Paul E. Bayer (filed as Exhibit 10.13 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2011, and incorporated herein by reference).
- 10.13 Amendment to Employment Agreement dated as of November 8, 2010, between the Registrant and Christopher P. Tessitore (filed as Exhibit 10.14 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2011, and incorporated herein by reference).
- 10.14 Amended and Restated Credit Agreement, dated as of May 25, 2011, by and among the Registrant, certain lenders and Wells Fargo Bank, National Association, as the Administrative Agent (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 6, 2011, and incorporated herein by reference).
- 10.15 Form of Restricted Award Agreement - Performance between NNN and the Participant of NNN (filed as Exhibit 10.15 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 4, 2012, and incorporated herein by reference).
- 10.16 Form of Restricted Award Agreement - Service between NNN and the Participant of NNN (filed as Exhibit 10.16 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 4, 2012, and incorporated herein by reference).
- 10.17 Form of Restricted Award Agreement - Service between NNN and the Participant of NNN (filed as Exhibit 10.17 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 4, 2012, and incorporated herein by reference).
- 10.18 First Amendment to Amended and Restated Credit Agreement, dated as of October 31, 2012, by and among the Registrant, certain lenders and Wells Fargo Bank, National Association, as the

Administrative Agent (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 1, 2012, and incorporated herein by reference).

31. Section 302 Certifications

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

32. Section 906 Certifications

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

99. Additional Exhibits

99.1 Certification of Chief Executive Officer pursuant to Section 303A.12(a) of the New York Stock Exchange Listed Company Manual (filed as Exhibit 99.1 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 22, 2013).

101. Interactive Data File

101.1 The following materials from National Retail Properties, Inc. Quarterly Report on Form 10-Q for the period ended June 30, 2013, formatted in Extensible Business Reporting Language: (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of comprehensive income, (iii) condensed consolidated statements of cash flows, and (iv) notes to condensed consolidated financial statements. As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934 (filed herewith).