# THE DIVIDENDS YOU'VE COME TO EXPECT.

*Season After Season.*

*2006 Annual Report*

*Season after season, year after year, our shareholders have enjoyed steady, reliable dividends.*

*With a current yield over 5% and annual total returns higher than 12% for the past 1, 3, 5 and 10-year periods, longtime NNN shareholders appreciate the income and wealth-building attributes of our dividend both before and after retirement.*

*While our stock price will fluctuate according to market conditions throughout the course of the year, we carefully manage our risk, enabling us to continue growing the company while simultaneously increasing and protecting our dividend.*

*Our philosophy is simple: remain true to specific real estate fundamentals and control what we can control. The rest will take care of itself.*

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Inside Back Cover:
Shareholder Information

## THE NNN REIT

National Retail Properties, Inc., is a real estate investment trust (REIT) listed on the New York Stock Exchange (ticker symbol: NNN) that invests in single tenant net-leased retail properties nationwide.

NNN has generated consistent returns for more than a decade supported by its strong dividend yield and 17 consecutive years of increased annual dividends. In 2006, NNN acquired more than $300 million in properties, maintained its strong balance sheet, improved per share operating results and received a 96.2 ISS corporate governance rating (based on a scale of 0 to 100).

NNN maintains a conservatively managed, fully diversified retail real estate portfolio with properties subject to long-term, net leases with established tenants such as Barnes & Noble, Best Buy, CVS, Circle K and OfficeMax. As of December 31, 2006, its 710 properties are located in 44 states with a total gross leasable area of approximately 9.3 million square feet. Current occupancy is 98% and these properties are leased to 187 tenants in 33 industry classifications.

NNN is one of only 181 of the more than 10,000 publicly traded companies in America to have increased annual dividends for 17 or more consecutive years.

### ABOUT THAT TICKER SYMBOL

*When looking at our name, there is no question about what we do: we focus on retail properties throughout the United States. However, we sometimes get questions about the meaning of our ticker symbol, NNN.*

*NNN is a common industry abbreviation for 'triple net lease' – which is the primary type of lease we have with our tenants.*

*A triple net lease shifts property operating expenses (i.e., maintenance, taxes, insurance and utilities) to the tenant, so that the rental revenue we receive is not subject to any variable costs, resulting in fewer expenses and providing a more stable cash flow.*

*The benefit for the tenant is that this gives them operational control over the property. For example, they are able to negotiate their own rates on insurance and maintenance items because they pay those costs directly.*

*Our leases typically provide for attractive initial yields as well as potential growth in cash flow through base rent increases and/or percentage rents based upon tenant sales.*

## TO OUR SHAREHOLDERS:

Louis Rukeyser, the noted broadcaster and economic prognosticator, once said: "Always be on the level with people. Not everyone is going to agree with you, but they'll have confidence in you." This quote speaks to the way we approach our business at National Retail Properties (NYSE: NNN).

In our interaction with shareholders, customers, partners and employees we work hard to communicate with them "on the level". Although we might not always agree, it is pivotal that we can be relied upon to do what we say we are going to do. This fundamental principle is not universally adhered to in our industry, however it is important to NNN. This approach is integral to our success and our efforts to build value for shareholders by growing Funds From Operations (FFO) per share.

I am pleased to report that NNN had another record year in 2006, generating total revenue of $150.8 million and FFO of $97.1 million. On a diluted per share basis, our FFO grew by 11.3 percent to $1.67 per share, an all-time high. Also in 2006, we increased our dividend for the seventeenth consecutive year to $1.32 per share.

## PORTFOLIO SUMMARY

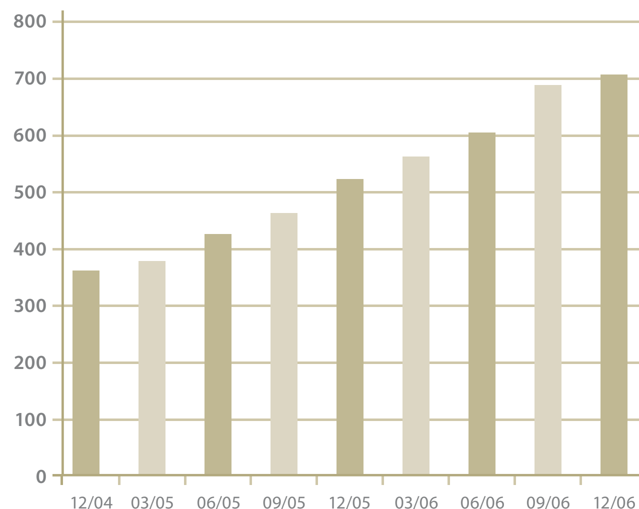
Our high quality portfolio of 710 primarily net-leased retail properties continues to be in excellent shape with an occupancy rate of 98.2 percent as of December 31, 2006. The average lease maturity of our properties is 12 years and we have few leases expiring in 2007. As of year-end, our properties were leased to 187 tenants operating in 32 different retail industry classifications. At the end of 2006, our properties were located in 44 states with a concentration in the Sunbelt where retail growth has dramatically increased.

In the last 24 months our portfolio has nearly doubled from 362 to 710 properties. We now own a fully diversified portfolio of net lease retail properties located throughout the country leased to many of the premier retailers. The retail industry remains healthy and the credit statistics of our portfolio are sound.

We congratulate our largest tenant, Susser Holdings, on their successful initial public offering in October. We are gratified that the confidence that we placed in Susser and their management team when we completed a large sale-leaseback transaction with them in late 2005 has been validated by their reception in the public equity markets. We have an excellent relationship and their stronger credit profile has enabled us to acquire additional Susser properties in December.

In the last two years our concentration of convenience stores has increased and I expect this to continue in 2007. The convenience store industry is highly fragmented with more than 140,000 locations nationwide. We are working with a variety of different operators in this sector and our tenants include the largest and most successful consolidators in the industry. The convenience stores that we are purchasing are generally located at high-traffic intersections with land value approximating 50% of the total cost. Potential alternative tenants for this type of location include bank branches, drugstores and restaurants. Given the caliber of our tenants and the quality of the real estate, we continue to like the risk-reward characteristics of the convenience store industry.

Property Growth



*Increasingly, many* **RETAILERS** *are concluding that owning their own* **REAL ESTATE** *is not the optimal use of their* **CAPITAL.**

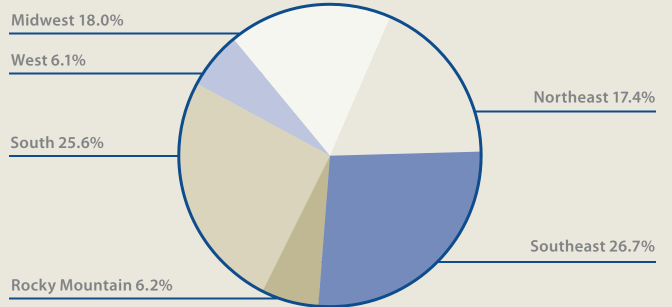
**Annual Total Return Comparison**

(For periods ending December 31, 2006)

| | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|
| National Retail Properties (NNN) | 19.7% | 16.1% | 20.2% | 12.7% |
| S&P 500 Index | 15.8% | 10.4% | 6.2% | 8.4% |
| Nasdaq | 10.4% | 7.2% | 5.0% | 7.0% |
| S&P 600 Index | 15.2% | 15.0% | 12.5% | 11.6% |

**Geographic Diversification**

December 31, 2006




## FRANCHISE REAL ESTATE FUNDING

*NNN helps franchisors and franchisees fund new store expansion, pay off existing debt, fund acquisitions and extract dormant cash out of their companies.*

## ACQUISITIONS & THE COMPETITIVE ENVIRONMENT

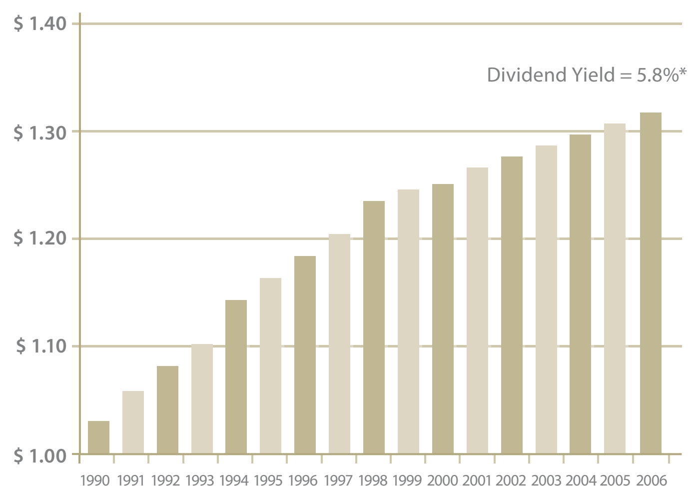
In 2006, we acquired 213 different retail properties for $372 million at an average yield of approximately 8.5%. These new properties strengthened and diversified our tenant base as we added several new high-quality operators. We expanded our geographic footprint by acquiring our first properties in Idaho, Utah and Massachusetts, and returning to Mississippi. Increasingly, it appears that many retailers are coming to the conclusion that owning their real estate is not the optimal use of their capital, which has led to a robust acquisition market. In addition, financial investors have been actively acquiring retailers and they tend to view sale-leaseback financing as an attractive component of their capital structure. We anticipate both of these trends continuing. Cap rates (the initial yield) on net lease transactions stopped declining in early 2006 and appear to have stabilized. With large amounts of capital continuing to seek the stable and predictable returns of investment-quality real estate, we expect to see yields remain at current levels. In such an environment, our team has to work harder to find opportunities where the yield is higher than the aggressive pricing that one-off transactions can command.

Each property that we acquire is individually underwritten by our experienced team and then reviewed by our real estate investment committee prior to acquisition. This is obviously a time-consuming process given our activity level. However it is important to remember that we are in the real estate business and, while we pay a great deal of attention to the ability of the current tenant to pay us our contractual rent, we ultimately may need to rely solely on the real estate characteristics of the site and find another tenant.

In our underwriting we focus on factors such as market rents, the demographics of that specific market, property access and visibility, land value as a percentage of the total property value and a variety of other factors. We believe that the land value of our properties makes up approximately 45% of the value of our real estate portfolio, adding enduring significance to our locations.

A key element of our strategy in the last two years has been to develop relationships with a select group of growing retailers with whom we can execute repeat sale-leaseback transactions. Our acquisition officers, augmented by the efforts of senior management, have made excellent progress on this objective and as we look into 2007, we currently have a pipeline of opportunities with 11 different retailers from whom we have previously acquired properties. We hope to close sale-leaseback transactions with several of these retailers in the first six months of the year.

**Seventeen Consecutive Years of Increased Dividends**
(One of 181 companies)




*Based on the closing price of $22.95 on December 31, 2006

## CAPITAL RECYCLING

An important component of our strategy in 2006 was to finance a large number of our acquisitions through the sale of real estate from our existing investment portfolio and reinvest the proceeds at higher yields. Our team executed this objective flawlessly as we sold $319 million of properties in 2006 at an average yield of 6.6% leading to realized gains of $91 million. The largest transaction in this program was the sale of our office building complex in the Washington, D.C. area leased to the U.S. government where we realized net proceeds of $228 million and a gain of $59 million.

In future years, we will continue to selectively sell real estate and reinvest the proceeds into higher yielding properties; however the amount will be more modest in size. Currently we are budgeting to sell $80 million of properties from our investment portfolio in 2007.

## *ACQUISITIONS*

*Our acquisitions department focuses on purchasing and financing single-tenant, net-leased retail properties nationwide through sale-leaseback transactions. From 2004-2006, our portfolio has nearly doubled from 362 to 710 properties.*

## BALANCE SHEET MANAGEMENT

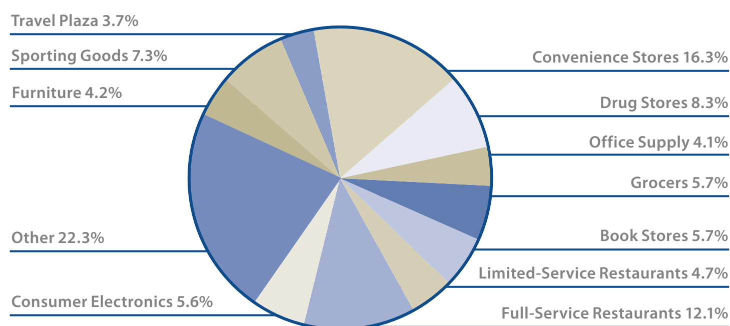
During the last 12 months we made excellent progress at reducing our cost of capital which continues to be a key objective of NNN. In the second half of 2006, we completed two well-received financings in the public markets, issuing $92 million of 7 3/8% Preferred Stock and $172.5 million of Convertible Notes with a coupon of 3.95%. Also, through our dividend reinvestment and stock purchase plan, we issued 3.0 million shares of common stock at an average price of $21.58, raising $65.8 million in 2006.

On January 2, 2007, we redeemed $45 million of our 9% Series A Preferred Stock which was originally issued in 2001. In essence, we used part of the proceeds from the 7 3/8% Preferred issued in October to redeem the 9% Preferred, further lowering our weighted average cost of capital.

As of year-end, our total debt comprised approximately 35% of our total market capitalization and approximately 94% of our debt was at a fixed-rate. Our conservative fiscal policy and strong balance sheet provides us with significant financial flexibility.

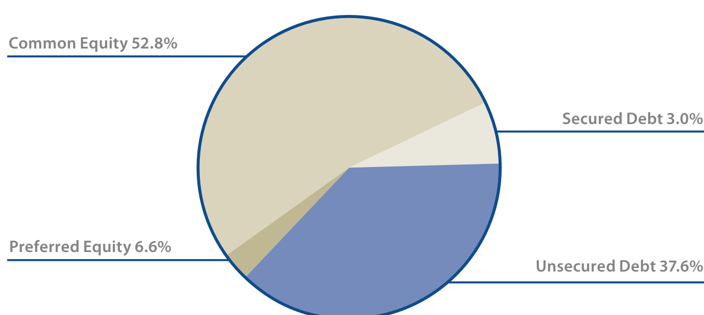
### Line of Trade

(As a percentage of the annual base rent – December 31, 2006)

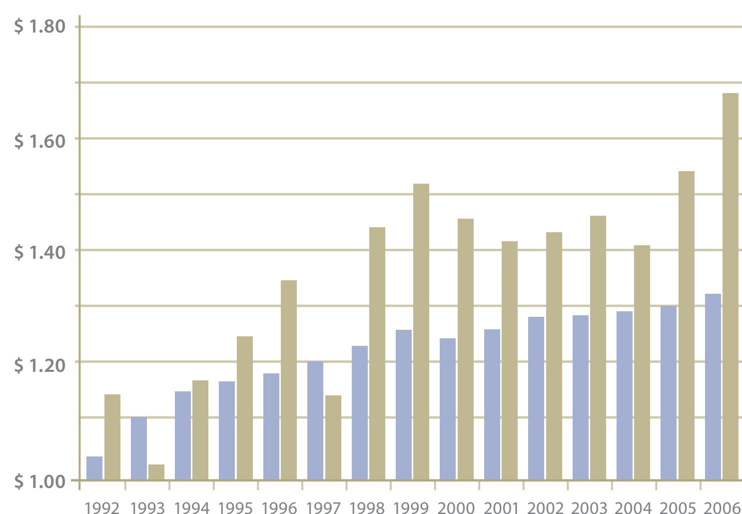



### Balance Sheet

(Gross Book Basis – December 31, 2006)




### FFO vs. Dividends Paid



## HUMAN CAPITAL

Our excellent FFO per share growth in 2006 is due to the efforts of our hard working associates. Our talented employees are our greatest asset and they make an impact on building the value of NNN every day. I appreciate their hard work and the significant contribution that they make to building value for shareholders.

A personal goal of mine over the last 24 months has been for NNN to accomplish 'more with less.' Through their hard work, our associates have more than accomplished that objective: with 16% less people than we employed at the end of the first quarter in 2004, we now own 462 additional individual properties and our funds from operations in 2006 were 33% higher than they were in 2004. I know that our shareholders will want me to congratulate our team on their exemplary efforts.

We have recently made organizational changes to manage our growth and two of the stars on our team have been promoted to Executive Vice President. Paul Bayer and his group are responsible for our portfolio, leasing, collecting the rent and underwriting acquisitions. Chris Tessitore and our in-house legal group have streamlined the process whereby we acquire and sell real estate in addition to handling a variety of other legal matters.

## DEVELOPMENT

*Our development group provides complete turn-key build-to-suit services ranging from market analysis, site selection and acquisition to entitlements, permitting and construction management for a variety of retailers.*

## 2007 AND BEYOND

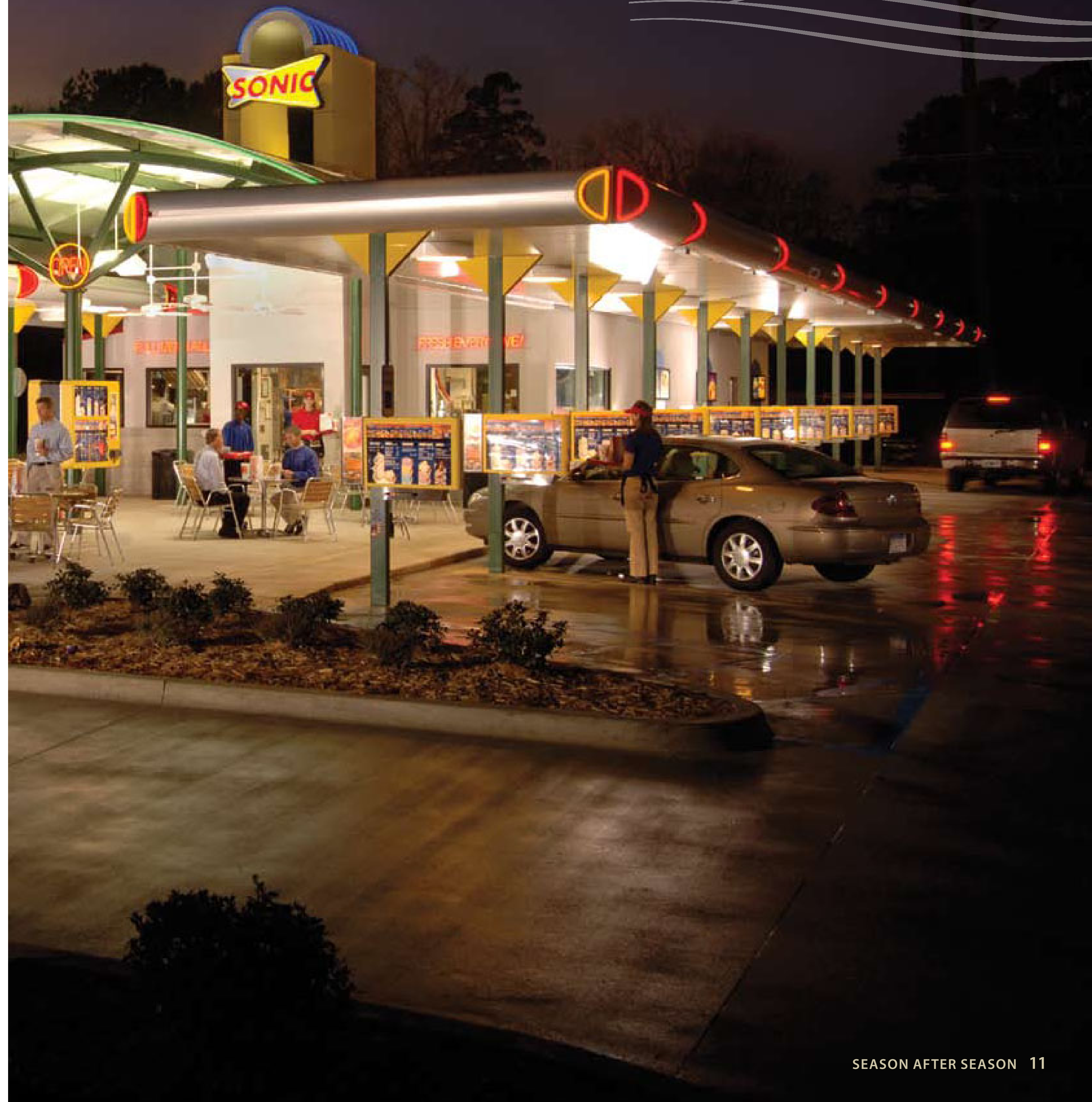
Matching the 11% FFO per share growth of 2006 will be challenging. However, in 2007 we will receive a full year of rent from the properties that we acquired using the proceeds of our capital recycling, our weighted average cost of capital is lower than last year and we have a healthy pipeline of accretive property acquisitions. As a result, we are well-positioned to accomplish our multi-year objective of building value for our shareholders by growing FFO per share. This growth will allow us to continue our long history of increasing our annual dividends.

Thank you for your continued support and investment in NNN.

Sincerely,

Craig Macnab
Chief Executive Officer

*We now own a fully* DIVERSIFIED *portfolio of net lease* RETAIL PROPERTIES *located throughout the country and leased to many of the premier* RETAILERS.



## DIVIDEND REINVESTMENT & DIRECT STOCK PURCHASE

We offer a dividend reinvestment and direct stock purchase plan designed to make purchasing our stock economical and convenient. The plan is open to current shareholders as well as new investors.

### PLAN HIGHLIGHTS:

- You can become a shareholder with a minimum initial investment of only $100. This investment can be made by check or money order.
- Dividends can be reinvested to purchase additional shares on some or all of your common stock.
- Reinvested dividends are currently offered at a 1% discount (subject to change).
- Shares in the amount of $100 to $10,000 may be purchased on an optional monthly basis which may be set up as an automatic deduction from your banking account.
- Additionally, shares in the amount of $100 - $10,000 may be purchased on a one-time basis.
- Unlike other direct stock purchase plans, we do not charge an enrollment fee, fees for investment, or plan maintenance fees, except in the event you decide to sell your common shares.
- Fees for the sale of shares: $15 transaction fee plus a $.10 per share brokerage commission fee.

To learn more about our Dividend Reinvestment and Stock Purchase plan, please review the prospectus posted on our website at www.nnnreit.com or request one by filling out and mailing the enclosed comment card.

NNN *received a corporate governance* RANKING OF 96.2 *(out of 100) from Institutional Shareholder Services. ISS ranks more than* 8,000 COMPANIES *in* 31 COUNTRIES *based on the overall quality of a company's corporate governance practices and board of directors.*

## GREEN CONVENIENCE

*Located in Gainesville, FL and operated by The Pantry Inc., this Kangaroo store is the first convenience store in America to be recognized by the United States Green Building Council for achieving the Leadership in Energy and Environmental Design (LEED) certification. The store, which opened in October, features energy efficient low-voltage fluorescent light fixtures and was built utilizing only low-toxin materials in the construction process.*

# HISTORICAL FINANCIAL HIGHLIGHTS

(dollars in thousands, except per share data)

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| Gross revenues[1] | $ 180,876 | $ 151,831 | $ 133,875 | $ 112,073 | $ 102,067 |
| Earnings from continuing operations | 73,538 | 44,083 | 38,216 | 30,653 | 28,098 |
| Net earnings | 182,505 | 89,400 | 64,934 | 53,473 | 48,058 |
| Total assets | 1,916,785 | 1,733,416 | 1,300,048 | 1,213,778 | 958,300 |
| Total debt | 776,737 | 861,045 | 524,241 | 467,419 | 386,912 |
| Total equity | 1,096,505 | 828,087 | 756,998 | 730,754 | 549,141 |
| Cash dividends declared to: | | | | | |
| Common stockholders | 76,035 | 69,018 | 66,272 | 55,473 | 51,178 |
| Series A Preferred Stock stockholders | 4,376 | 4,008 | 4,008 | 4,008 | 4,010 |
| Series B Convertible Preferred Stock stockholders | 419 | 1,675 | 1,675 | 502 | - |
| Series C Redeemable Preferred Stock stockholders | 923 | - | - | - | - |
| Weighted average common shares: | | | | | |
| Basic | 57,428,063 | 52,984,821 | 51,312,434 | 43,108,213 | 40,383,405 |
| Diluted | 58,079,875 | 54,640,143 | 51,742,518 | 43,896,800 | 40,588,957 |
| Per share information: | | | | | |
| Earnings from continuing operations: | | | | | |
| Basic | 1.18 | 0.72 | 0.63 | 0.61 | 0.60 |
| Diluted | 1.17 | 0.73 | 0.63 | 0.61 | 0.59 |
| Net earnings: | | | | | |
| Basic | 3.08 | 1.58 | 1.15 | 1.14 | 1.09 |
| Diluted | 3.05 | 1.56 | 1.15 | 1.13 | 1.09 |
| Dividends declared to: | | | | | |
| Common stockholders | 1.32 | 1.30 | 1.29 | 1.28 | 1.27 |
| Series A Preferred Stock stockholders | 2.45625 | 2.25 | 2.25 | 2.25 | 2.25 |
| Series B Convertible Preferred Stock stockholders | 41.875 | 167.50 | 167.50 | 50.25 | - |
| Series C Redeemable Preferred Stock depositary stockholders | 0.250955 | - | - | - | - |
| Other data: | | | | | |
| Cash flows provided by (used in): | | | | | |
| Operating activities | 18,561 | 30,930 | 85,800 | 54,215 | 111,589 |
| Investing activities | (106,984) | (242,487) | (69,963) | (256,870) | (15,142) |
| Financing activities | 81,864 | 217,844 | (19,225) | 205,965 | (101,654) |
| Funds from operations – diluted[2] | 97,121 | 81,803 | 73,065 | 61,749 | 54,595 |

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

(2) The National Association of Real Estate Investment Trusts ("NAREIT") developed FFO as a relative non-GAAP financial measure of performance of a REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. FFO is defined by NAREIT and is used by the Company as follows: net earnings (computed in accordance with GAAP) plus depreciation and amortization of assets unique to the real estate industry, excluding gains (or including losses) on the disposition of real estate held for investment, and the Company's share of these items from the Company's unconsolidated partnerships.

# DIRECTORS & OFFICERS

## DIRECTORS

Clifford R. Hinkle
*Chairman*

G. Nicholas Beckwith III
*CEO & Chairman*
*Arch Street Management, LLC*

Kevin B. Habicht
*Chief Financial Officer*
*& Executive Vice President*
*National Retail Properties, Inc.*

Richard B. Jennings†
*President*
*Realty Capital International LLC*

Ted B. Lanier†
*Retired Chairman*
*& Chief Executive Officer*
*Triangle Bank and Trust Company*

Robert C. Legler
*Retired Chairman*
*First Marketing Corporation*

Craig Macnab
*Chief Executive Officer*
*National Retail Properties, Inc.*

Robert Martinez†
*Fortieth Governor of Florida*
*& Senior Policy Advisor*
*Holland & Knight*

## EXECUTIVE OFFICERS

Craig Macnab
*Chief Executive Officer*

Julian E. Whitehurst
*President*
*& Chief Operating Officer*

Kevin B. Habicht
*Chief Financial Officer*
*& Executive Vice President*

Paul E. Bayer
*Executive Vice President*

Christopher P. Tessitore
*Executive Vice President*
*& General Counsel*

† Member audit committee
*(Committees as of February 6, 2007)*

*Pictured above left to right:*
*Robert Martinez, Kevin B. Habicht, Clifford R. Hinkle, Robert C. Legler,*
*Ted B. Lanier, Richard B. Jennings, G. Nicholas Beckwith III, Craig Macnab*

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

# FORM 10-K

*(Mark One)*

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

## For the fiscal year ended December 31, 2006

OR

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

For the transition period from _________ to _________.

Commission file number 001-11290

# NATIONAL RETAIL PROPERTIES, INC.

*(Exact name of registrant as specified in its charter)*

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

450 South Orange Avenue, Suite 900
Orlando, Florida 32801
*(Address of principal executive offices, including zip code)*

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

Securities registered pursuant to Section 12(b) of the Act:

| *Title of each class:* | *Name of exchange on which registered:* |
|---|---|
| Common Stock, $0.01 par value | New York Stock Exchange |
| 7.375% Non-Voting Series C Preferred Stock | New York Stock Exchange |

Securities registered pursuant to section 12(g) of the Act:
None
*(Title of class)*

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

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

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

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

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

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

The aggregate market value of voting common stock held by non-affiliates of the registrant as of June 30, 2006 was $1,144,188,520.

The number of shares of common stock outstanding as of February 14, 2007 was 60,272,926.

***DOCUMENTS INCORPORATED BY REFERENCE:***

Registrant incorporates by reference portions of the National Retail Properties, Inc. Proxy Statement for the 2007 Annual Meeting of Stockholders (Items 10, 11, 12, 13 and 14 of Part III).

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## PART I

*Statements contained in this annual report on Form 10-K, including the documents that are incorporated by reference, that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Also, when the Company uses any of the words "anticipate," "assume," "believe," "estimate," "expect," "intend," or similar expressions, the Company is making forward-looking statements. Although management believes that the expectations reflected in such forward-looking statements are based upon present expectations and reasonable assumptions, the Company's actual results could differ materially from those set forth in the forward-looking statements. Certain factors that could cause actual results or events to differ materially from those the Company anticipates or projects are described in Item 1A. "Risk Factors" of this Annual Report on Form 10-K.*

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

### Item 1. Business

The Company

National Retail Properties, Inc. (formerly known as Commercial Net Lease Realty, Inc.), a Maryland corporation, is a fully integrated real estate investment trust ("REIT") formed in 1984. The terms "Registrant" or "Company" refer to National Retail Properties, Inc. and its majority owned and controlled subsidiaries. These subsidiaries include the wholly owned qualified REIT subsidiaries of National Retail Properties, Inc., as well as the taxable REIT subsidiaries and their majority owned and controlled subsidiaries (the "NNN TRS"). Effective May 1, 2006, Commercial Net Lease Realty, Inc. changed its name to National Retail Properties, Inc.

The Company's operations are divided into two primary business segments: (i) investment assets, including real estate assets, structured finance investments (included in mortgages and notes receivable on the consolidated balance sheets) and mortgage residual interests (collectively, "Investment Assets"), and (ii) inventory real estate assets ("Inventory Assets"). The Investment Assets are operated through National Retail Properties, Inc. and its wholly owned qualified REIT subsidiaries. The Inventory Assets are operated through the NNN TRS.

*Real Estate Assets*

The Company acquires, owns, invests in, manages and develops properties that are leased primarily to retail tenants under long-term net leases ("Investment Properties" or "Investment Portfolio"). As of December 31, 2006, the Company owned 710 Investment Properties, with an aggregate leasable area of 9,341,000 square feet, located in 44 states. Approximately 98 percent of the Company's Investment Portfolio was leased at December 31, 2006. The NNN TRS, directly and indirectly, through investment interests, owns real estate primarily for the purpose of selling the real estate ("Inventory Properties" or "Inventory Portfolio"). As of December 31, 2006, the NNN TRS owned 97 Inventory Properties.

*Structured Finance Investments*

Structured finance agreements (included in mortgages, notes and accrued interest receivable on the consolidated balance sheets) are typically loans secured by a borrower's pledge of ownership interests in the entity that owns the real estate. These agreements are typically subordinated to senior loans secured by first mortgages encumbering the underlying real estate. Subordinated positions are generally subject to a higher risk of nonpayment of principal and interest than the more senior loans. As of December 31, 2006, the structured finance agreements had an outstanding principal balance of $13,917,000.

*Mortgage Residual Interests*

Orange Avenue Mortgage Investments, Inc. ("OAMI"), a majority owned and consolidated subsidiary of the Company, holds the mortgage residual interests ("Residuals") from seven commercial real estate loan securitizations. Each of the Residuals is reported at its market value based upon a third party valuation, with unrealized gains and losses reported as other comprehensive income in stockholders' equity. Losses that are considered other than temporary are reported through earnings. The Residuals had an estimated fair value of $31,512,000 at December 31, 2006.

*NNN TRS*

Prior to January 1, 2005, the Company held a 98.7 percent, non-controlling and non-voting interest in Commercial Net Lease Realty Services, Inc. and its majority owned and controlled subsidiaries (collectively, "Services"). Kevin B. Habicht, an officer and director of the Company, James M. Seneff, Jr. and Gary M. Ralston, each a former officer and director of the Company, (collectively, the "Services Investors"), owned the remaining 1.3 percent interest, which represented 100 percent of the voting interest in Services. Effective January 1, 2005, the Company acquired the remaining 1.3 percent interest in Services, increasing the Company's ownership in Services to 100 percent. Effective November 1, 2005, Commercial Net Lease Realty Services, Inc. merged into National Retail Properties, Inc. CNLRS Exchange I, Inc., a taxable REIT subsidiary ("TRS"), became the TRS holding company for the Company's development and exchange activities. Effective October 2, 2006, CNLRS Exchange I, Inc. changed its name to NNN TRS, Inc.

*Competition*

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

*Employees*

As of December 31, 2006, the Company employed 68 full-time associates including executive and administrative personnel.

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

Business Strategies and Policies

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

*Operating Strategies*

The Company’s strategy is to invest primarily in retail real estate that is typically located along high-traffic commercial corridors near areas of commercial and residential density. Management believes that these types of properties, when leased to national or regional retailers generally pursuant to triple-net leases, provide attractive opportunities for a stable current return and the potential for capital appreciation. Triple-net leases typically require the tenant to pay property operating expenses such as real estate taxes, assessments and other government charges, insurance, utilities, and repairs and maintenance.

In some cases, the Company’s investment in real estate is in the form of structured finance investments, which are typically loans secured by a borrower’s pledge of ownership interests in the entity that owns the real estate. These agreements are typically subordinated to senior loans secured by first mortgages encumbering the underlying real estate. Subordinated positions are generally subject to a higher risk of nonpayment of principal and interest than the more senior loans.

Additionally, the Company may provide mortgage loans which are typically secured by a specific real estate asset owned by the borrower.

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

The Company acquires and develops inventory real estate assets primarily for the purpose of resale.

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

*Investment in Real Estate or Interests in Real Estate*

The Company’s management believes that attractive acquisition opportunities for retail properties will continue to be available and that the Company is suited to take advantage of these opportunities because of its access to capital markets, ability to underwrite and acquire properties, either for cash or securities, and because of management’s experience in seeking out, identifying and evaluating potential acquisitions.

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

- the location and accessibility of the property;
- the geographic area and demographic characteristics of the community, as well as the local real estate market, including potential for growth;

- the size of the property;
- the purchase price;
- the non-financial terms of the proposed acquisition;
- the availability of funds or other consideration for the proposed acquisition and the cost thereof;
- the "fit" of the property with the Company's existing portfolio;
- the potential for, and current extent of, any environmental problems;
- the quality of construction and design and the current physical condition of the property;
- the financial and other characteristics of the existing tenant;
- the tenant's business plan, operating history and management team;
- the tenant's industry; and
- the terms of any existing leases.

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

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

While the Company's current portfolio of, and its business objectives primarily emphasize, equity investments in retail properties, the Company may invest in (i) a wide variety of retail properties or other property and tenant types, (ii) mortgages, participating or convertible mortgages, deeds of trust, mortgage residual interests and other types of real estate interests, or (iii) securities of other REITs, other entities engaged in real estate activities or securities of other issuers, including for the purpose of exercising control over such entities. For example, the Company from time to time has made investments in mortgage loans or held mortgages on properties the Company sold and has made structured finance investments (as discussed above), which are typically loans secured by a pledge of ownership interests in the borrowers (or their subsidiaries) that own the underlying real estate.

*Financing Strategy*

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

The Company typically funds its short-term liquidity requirements including investments in additional retail properties with cash from its $300,000,000 unsecured revolving credit facility ("Credit Facility"). As of December 31, 2006, $28,000,000 was outstanding and approximately $272,000,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling $5,159,000.

For the year ended December 31, 2006, the Company's ratio of total indebtedness to total gross assets (before accumulated depreciation) was approximately 41 percent and the secured indebtedness to total gross assets was approximately three percent. The total debt to total market capitalization was approximately 35 percent. Certain financial agreements to which the Company is a party contain covenants that limit the Company's ability to incur debt under certain circumstances.

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

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

*Strategies and Policy Changes*

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

**Item 1A. Risk Factors.**

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

*Loss of revenues from tenants would reduce the Company's cash flow.*

The Company's five largest tenants accounted for an aggregate of approximately 23 percent of the Company's annual base rent as of December 31, 2006. The default, financial distress or bankruptcy of one or more of the Company's tenants could cause substantial vacancies among the Company's Investment Portfolio. Vacancies reduce the Company's revenues until the Company is able to re-lease the affected properties and could decrease the ultimate sale value of each such vacant property. Upon the expiration of the leases that are currently in place, the Company may not be able to re-lease a vacant property at a comparable lease rate or without incurring additional expenditures in connection with such re-leasing.

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

As of December 31, 2006, an aggregate of approximately 33 percent of the Company's annual base rent is generated from two retail lines of trade, convenience stores and restaurants, each representing more than 10 percent. In addition, as of December 31, 2006, an aggregate of approximately 36 percent of the Company's annual base rent is generated from properties in Texas and Florida, each representing more than 10 percent. Any financial hardship and/or changes in these industries or states could have an adverse effect on the Company's financial results.

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

Factors beyond the Company's control affect the Company's performance and value. Changes in national, regional and local economic and market conditions may affect the Company's economic performance and the value of the Company's real estate assets. Local real estate market conditions may include excess supply and intense competition for tenants, including competition based on rental rates and attractiveness and location of the property.

In addition, other factors may adversely affect the performance and value of the Company's properties, including (i) changes in laws and governmental regulations, including those governing usage, zoning and taxes; (ii) changes in interest rates; and (iii) the availability of financing.

*The Company's real estate investments are illiquid.*

Because real estate investments are relatively illiquid, the Company's ability to adjust the portfolio promptly in response to economic or other conditions is limited. Certain significant expenditures generally do not change in response to economic or other conditions, including: (i) debt service (if any), (ii) real estate taxes, and (iii) operating and maintenance costs. This combination of variable revenue and relatively fixed expenditures may result, under certain market conditions, in reduced income from investment. Such reduction in investment income could have an adverse effect on the Company's financial condition.

*The Company may be subject to unknown environmental liabilities.*

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

The Company has 25 Investment Properties currently under some level of environmental remediation. In general, the seller, the tenant or an adjacent land owner is responsible for the cost of the environmental remediation for each of these Investment Properties. In the event of a bankruptcy or other inability on the part of these parties to cover these costs, the Company may have to cover the costs of remediation, fines or other environmental liabilities at these and other properties. The Company may also own properties where required remediation has not begun or adverse environmental conditions have not yet been detected. This may require remediation or otherwise subject the Company to liability. The Company cannot assure that (i) it will not be required to undertake or pay for removal or remediation of any contamination of the properties currently or previously owned by the Company, (ii) the Company will not be subject to fines by governmental authorities or litigation, or (iii) the costs of such removal, remediation fines or litigation would not be material.

*The Company may not be able to successfully execute its acquisition or development strategies.*

The Company cannot assure that it will be able to implement its investment strategies successfully. Additionally, the Company cannot assure that its property portfolio will expand at all, or if it will

expand at any specified rate or to any specified size. In addition, investment in additional real estate assets is subject to a number of risks. Because the Company expects to invest in markets other than the ones in which its current properties are located or which may be leased to tenants other than those to which the Company has historically leased properties, the Company will also be subject to the risks associated with investment in new markets or with new tenants that may be relatively unfamiliar to the Company's management team.

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

*The Company may not be able to dispose of properties consistent with its operating strategy.*

The Company may be unable to sell properties targeted for disposition (including its Inventory Properties) at a profit if interest rates increase, or adverse market conditions exist, thereby, rendering the Company unable to sell these properties.

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

As of December 31, 2006, the Residuals had a carrying value of $31,512,000. The value of these Residuals is based on delinquency, loan loss, prepayment and interest rate assumptions made by the Company to determine their value. If actual experience differs materially from these assumptions, the actual future cash flow could be less than expected and the value of the Residuals, as well as the Company's earnings, could decline.

*The Company may suffer a loss in the event of a default or bankruptcy of a structured finance loan borrower.*

If a borrower defaults on a structured finance loan and does not have sufficient assets to satisfy the loan, the Company may suffer a loss of principal and interest. In the event of the bankruptcy of a borrower, the Company may not be able to recover against all of the assets of the borrower, or the assets of the borrower may not be sufficient to satisfy the balance due on the loan. In addition, certain of the Company's loans may be subordinate to other debt of a borrower. The structured finance agreements are typically loans secured by a borrower's pledge of its ownership interests in the entity that owns the real estate. These agreements are typically subordinated to senior loans secured by first mortgages encumbering the underlying real estate. Subordinated positions are generally subject to a higher risk of nonpayment of principal and interest than the more senior loans. As of December 31, 2006, the structured finance investments had an outstanding principal balance of $13,917,000. If a borrower defaults on the debt senior to the Company's loan, or in the event of the bankruptcy of a borrower, the Company's loan will be satisfied only after the borrower's senior creditors' claims are satisfied. Where debt senior to the Company's loans exists, the presence of intercreditor arrangements may limit the Company's ability to amend loan documents, assign the loans, accept prepayments, exercise remedies and control decisions made in bankruptcy proceedings relating to borrowers.

Bankruptcy proceedings and litigation can significantly increase the time needed for the Company to acquire underlying collateral in the event of a default, during which time the collateral may decline in value. In addition, there are significant costs and delays associated with the foreclosure process.

*Certain provisions of the leases or structured finance loan agreements may be unenforceable.*

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

*Property ownership through joint ventures and partnerships could limit the Company's control of those investments.*

Joint ventures or partnerships involve risks not otherwise present for direct investments by the Company. It is possible that the Company's co-venturers or partners may have different interests or goals than the Company at any time and they may take actions contrary to the Company's requests, policies or objectives, including the Company's policy with respect to maintaining its qualification as a REIT. Other risks of joint venture investments include impasses on decisions, because no single co-venturer or partner has full control over the joint venture or partnership.

*Competition with numerous other REITs, commercial developers, real estate limited partnerships and other investors may impede the Company's ability to grow.*

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

*Uninsured losses may adversely affect the Company's ability to pay outstanding indebtedness.*

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

*Terrorist attacks, such as the attacks that occurred in New York City and Washington, D.C., on September 11, 2001, and other acts of violence or war may affect the markets in which the Company operates and the Company's results of operations.*

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

Also, the United States has been engaged in armed conflict, which could have an impact on the Company's tenants. The consequences of armed conflict are unpredictable, and the Company may not be able to foresee events that could have an adverse effect on its business.

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

*Vacant properties or bankrupt tenants could adversely affect the Company.*

As of December 31, 2006, the Company owned nine vacant, unleased Investment Properties, which accounted for approximately two percent of the total gross leasable area of the Company's Investment Portfolio and four unleased land parcels. The Company is actively marketing these properties for sale or lease but may not be able to sell or lease these properties on favorable terms or at all. The lost revenues and increased property expenses resulting from the rejection by any bankrupt tenant of any of their respective leases with the Company could have a material adverse effect on the liquidity and results of operations of the Company if the Company is unable to re-lease the Investment Properties at comparable rental rates and in a timely manner. Less than one percent of the total gross leasable area of the Company's Investment Portfolio is leased to one tenant that has filed a voluntary petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. As a result, the tenant has the right to reject or affirm its lease with the Company.

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

As of December 31, 2006, the Company had total mortgage debt and secured notes payable outstanding of approximately $60,392,000, total unsecured notes payable of $662,304,000 and $28,000,000 outstanding on the Credit Facility. The Company's organizational documents do not limit the level or amount of debt that it may incur. If the Company incurs additional indebtedness and permits a higher degree of leverage, debt service requirements would increase and could adversely affect the Company's financial condition and results of operations, as well as the Company's ability to pay principal and interest on the outstanding indebtedness or dividends to its stockholders. In addition, increased leverage could increase the risk that the Company may default on its debt obligations. The Credit Facility contains financial covenants that could limit the amount of distributions to the Company's common and preferred stockholders.

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

- require the Company to dedicate a substantial portion of its cash flow from operations to payments on Company debt, thereby reducing funds available for operations, real estate investments and other appropriate business opportunities that may arise in the future;
- limit the Company's ability to obtain any additional financing it may need in the future for working capital, debt refinancing, capital expenditures, real estate investments, development or other general corporate purposes;
- make it difficult to satisfy the Company's debt service requirements;

- limit the Company's ability to pay dividends on its outstanding common and preferred stock;
- require the Company to dedicate increased amounts of cash flow from operations to payments on its variable rate, unhedged debt if interest rates rise;
- limit the Company's flexibility in planning for, or reacting to, changes in its business and the factors that affect the profitability of its business; and
- limit the Company's flexibility in conducting its business, which may place the Company at a disadvantage compared to competitors with less debt or debt with less restrictive terms.

The Company's ability to make scheduled payments of principal or interest on its debt, or to refinance such debt will depend primarily on its future performance, which to a certain extent is subject to the creditworthiness of its tenants, competition, as well as economic, financial, and other factors beyond its control. There can be no assurance that the Company's business will continue to generate sufficient cash flow from operations in the future to service its debt or meet its other cash needs. If the Company is unable to generate this cash flow from its business, it may be required to refinance all or a portion of its existing debt, sell assets or obtain additional financing to meet its debt obligations and other cash needs.

The Company cannot assure you that any such refinancing, sale of assets or additional financing would be possible on terms and conditions, including but not limited to the interest rate, which the Company would find acceptable.

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

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

- incur or guarantee additional debt;
- make certain distributions, investments and other restricted payments, including dividend payments on its outstanding common and preferred stock;
- limit the ability of restricted subsidiaries to make payments to the Company;
- enter into transactions with certain affiliates;
- create certain liens; and
- consolidate, merge or sell the Company's assets.

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

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

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

In addition, certain covenants in the Company's debt, including its Credit Facility, require the Company and its subsidiaries, among other things, to:

- maintain certain maximum leverage ratios;
- maintain certain minimum interest and debt service coverage ratios;
- limit dividends declared and paid to the Company's common and preferred stockholders; and
- limit investments in certain types of assets.

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

The Company intends to operate in a manner that will allow the Company to continue to qualify as a real estate investment trust ("REIT"). The Company believes it has been organized as, and its past and present operations qualify the Company as a REIT. However, the IRS could successfully assert that the Company is not qualified as such. In addition, the Company may not remain qualified as a REIT in the future. Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial or administrative interpretations and involves the determination of various factual matters and circumstances not entirely within the Company's control.

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

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

To maintain its status as a REIT for U.S. federal income tax purposes, the Company must meet certain requirements, on an on-going basis, including requirements regarding its sources of income, the nature and diversification of its assets, the amounts the Company distributes to its stockholders and the ownership of its shares. The Company may also be required to make distributions to its stockholders when it does not have funds readily available for distribution or at times when the Company's funds are otherwise needed to fund capital expenditures or to fund debt service requirements. The Company generally will not be subject to federal income taxes on amounts distributed to stockholders, providing it distributes 100 percent of its REIT taxable income and meets certain other requirements for qualifying as a REIT. For each of the years in the three-year period ended December 31, 2006, the Company believes it has qualified as a REIT. Notwithstanding the Company's qualification for taxation as a REIT, the Company is subject to certain state taxes on its income and real estate.

## Item 1B. Unresolved Staff Comments.

None.

## Item 2. Properties

### Investment Properties

As of December 31, 2006, the Company owned 710 Investment Properties with an aggregate gross leasable area of 9,341,000 square feet, located in 44 states. Approximately 98 percent of the gross leasable area was leased at December 31, 2006. Reference is made to the Schedule of Real Estate and Accumulated Depreciation and Amortization filed with this report for a listing of the Company's Investment Properties and their respective carrying costs.

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

The following table summarizes the Company's Investment Properties as of December 31, 2006 (dollars in thousands):

| | Size [1] | | | Cost [2] | | |
|---|---|---|---|---|---|---|
| | High | Low | Average | High | Low | Average |
| Land | 2,223,000 | 7,000 | 112,000 | $ 10,197 | $ 25 | $ 1,001 |
| Building | 135,000 | 1,000 | 14,000 | 13,877 | 44 | 1,352 |

[1] Approximate square feet.
[2] Costs vary depending upon size and local demographic factors.

In connection with the development of 11 Investment Properties, the Company has agreed to fund construction commitments (including land costs) of $35,020,000, of which $17,845,000 has been funded as of December 31, 2006.

*Leases*. Although there are variations in the specific terms of the leases, the following is a summary of the general structure of the Company's leases. Generally, the leases of the Investment Properties owned by the Company provide for initial terms of 10 to 20 years. As of December 31, 2006, the weighted average remaining lease term was approximately 12 years. The Investment Properties are generally leased under net leases pursuant to which the tenant typically will bear responsibility for substantially all property costs and expenses associated with ongoing maintenance and operation, including utilities, property taxes and insurance. In addition, the majority of the Company's leases provide that the tenant is responsible for roof and structural repairs. The leases of the Investment Properties provide for annual base rental payments (payable in monthly installments) ranging from $11,000 to $1,635,000 (average of $210,000). Tenant leases generally provide for limited increases in rent as a result of fixed increases, increases in the consumer price index, and/or increases in the tenant's sales volume.

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

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

The following table summarizes the lease expirations of the Company's Investment Portfolio as of December 31, 2006 (dollars in thousands):

| | % of Total[1] | # of Properties | Gross Leasable Area[2] | | % of Total[1] | # of Properties | Gross Leasable Area[2] |
|---|---|---|---|---|---|---|---|
| 2007 | 1.2% | 13 | 206,000 | 2013 | 5.6% | 30 | 690,000 |
| 2008 | 1.8% | 22 | 406,000 | 2014 | 7.3% | 39 | 591,000 |
| 2009 | 2.6% | 25 | 490,000 | 2015 | 4.6% | 22 | 621,000 |
| 2010 | 3.9% | 36 | 383,000 | 2016 | 4.2% | 22 | 508,000 |
| 2011 | 3.8% | 23 | 439,000 | 2017 | 7.2% | 28 | 808,000 |
| 2012 | 4.6% | 30 | 531,000 | Thereafter | 53.2% | 407 | 3,500,000 |

[1] Based on annualized base rent for all leases in place as of December 31, 2006.

[2] Approximate square feet.

The following table summarizes the diversification of trade of the Company's Investment Portfolio based on the top 10 lines of trade as of December 31, 2006 (dollars in thousands):

| | Top 10 Lines of Trade | 2006[1] | 2005[1] | 2004[1] |
|---|---|---|---|---|
| 1. | Convenience Stores | 16.3% | 12.1% | 0.7% |
| 2. | Restaurants – Full Service | 12.1% | 6.6% | 6.7% |
| 3. | Drug Stores | 8.3% | 10.0% | 11.5% |
| 4. | Sporting Goods | 7.3% | 7.4% | 7.8% |
| 5. | Books | 5.7% | 5.8% | 6.9% |
| 6. | Grocery | 5.7% | 6.3% | 7.7% |
| 7. | Consumer Electronics | 5.6% | 5.9% | 7.1% |
| 8. | Restaurants – Limited Service | 4.7% | 3.0% | 3.1% |
| 9. | Furniture | 4.2% | 4.7% | 5.0% |
| 10. | Office Supplies | 4.1% | 4.4% | 5.2% |
| | Other | 26.0% | 33.8% | 38.3% |
| | | 100.0% | 100.0% | 100.0% |

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

The following table summarizes the diversification by state of the Company's Investment Portfolio as of December 31, 2006:

| | State | # of Properties | % of Annual Base Rent[1] |
|---|---|---|---|
| 1. | Texas | 149 | 22.2% |
| 2. | Florida | 77 | 13.4% |
| 3. | Pennsylvania | 77 | 5.4% |
| 4. | Georgia | 37 | 5.1% |
| 5. | Virginia | 19 | 3.9% |
| 6. | California | 18 | 3.7% |
| 7. | Tennessee | 19 | 3.5% |
| 8. | Illinois | 22 | 3.4% |
| 9. | Missouri | 14 | 3.3% |
| 10. | Ohio | 23 | 3.0% |
| | Other | 255 | 33.1% |
| | | 710 | 100.0% |

[1] Based on annualized base rent for all leases in place as of December 31, 2006.

*Structured Finance Investments*

Structured finance agreements (included in mortgages, notes and accrued interest receivable on the consolidated balance sheets) are typically loans secured by a borrower's pledge of its ownership interest in the entity that owns the real estate. These agreements are typically subordinated to senior loans secured by first mortgages encumbering the underlying real estate. Subordinated positions are generally subject to a higher risk of nonpayment of principal and interest than the more senior loans.

In 2006 and 2005, the Company made structured finance investments of $16,477,000 and $5,988,000, respectively. As of December 31, 2006, the structured finance investments bear a weighted average interest rate of 13.3% per annum, of which 10.1% is payable monthly and the remaining 3.2% accrues and is due at maturity. The principal balance of each structured finance investment is due in full at maturity, which range between November 2007 and January 2009. The structured finance investments are secured by the borrowers' pledge of their respective membership interests in the subsidiaries which own the respective real estate. As of December 31, 2006 and 2005, the outstanding principal balance of the structured finance investments was $13,917,000 and $27,805,000, respectively.

*Mortgage Residual Interests*

OAMI, a majority owned and consolidated subsidiary of the Company holds the residual interests from seven commercial real estate loan securitizations. Each of the Residuals is recorded at fair value based upon a third party valuation, with adjustments subsequent to the initial acquisition of the Company's interest in OAMI recorded through earnings. The Residuals had a fair value of $31,512,000 at December 31, 2006.

*Inventory Assets*

The NNN TRS develops Inventory Properties ("Development Properties" or "Development Portfolio") as well as acquires existing Inventory Properties ("Exchange Properties" or "Exchange Portfolio"). The Company's Inventory Portfolio is held with the intent to sell the properties to purchasers who are looking for replacement like-kind exchange property or to other purchasers with different investment objectives. As of December 31, 2006, NNN TRS owned 29 Development Properties (11 completed, five under construction and 13 land parcels) and 68 Exchange Properties. Reference is made to the Schedule of Real Estate and Accumulated Depreciation and Amortization filed with this report for a listing of the Inventory Properties and their respective carrying costs.

The following table summarizes the 11 completed Development Properties and 68 Exchange Properties as of December 31, 2006 (dollars in thousands):

| | Size [1] | | | Cost [2] | | |
|---|---|---|---|---|---|---|
| | High | Low | Average | High | Low | Average |
| Completed Development Properties: | | | | | | |
| Land | 527,000 | 42,000 | 205,000 | $ 6,149 | $ 387 | $ 1,598 |
| Building | 71,000 | 5,000 | 20,000 | 10,852 | 112 | 3,492 |
| Exchange Properties: | | | | | | |
| Land | 396,000 | 8,000 | 45,000 | 2,927 | 59 | 606 |
| Building | 50,000 | 2,000 | 5,000 | 8,905 | 74 | 955 |

[1] Approximate square feet.
[2] Costs vary depending upon size and local demographic factors.

*Under Construction.* In connection with the development of five Inventory Properties by the NNN TRS, the Company has agreed to fund total construction commitments (including land costs) of $36,728,000, of which $27,263,000 has been funded as of December 31, 2006.

Governmental Regulations Affecting Properties

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

The Company has 25 Investment Properties currently under some level of environmental remediation. In general, the seller, the tenant or an adjacent land owner is responsible for the cost of the environmental remediation for each of these Investment Properties.

*Americans with Disabilities Act of 1990.* The Investment and Inventory Properties, as commercial facilities, are required to comply with Title III of the Americans with Disabilities Act of 1990 (the "ADA"). Investigation of a property may reveal non-compliance with the ADA. The tenants will typically have primary responsibility for complying with the ADA, but the Company may incur costs if the tenant does not comply. As of February 15, 2007, the Company has not been notified by any governmental authority of, nor is the Company's management aware of, any non-compliance with the ADA that the Company's management believes would have a material adverse effect on its business, financial condition or results of operations.

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

## Item 3. Legal Proceedings

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

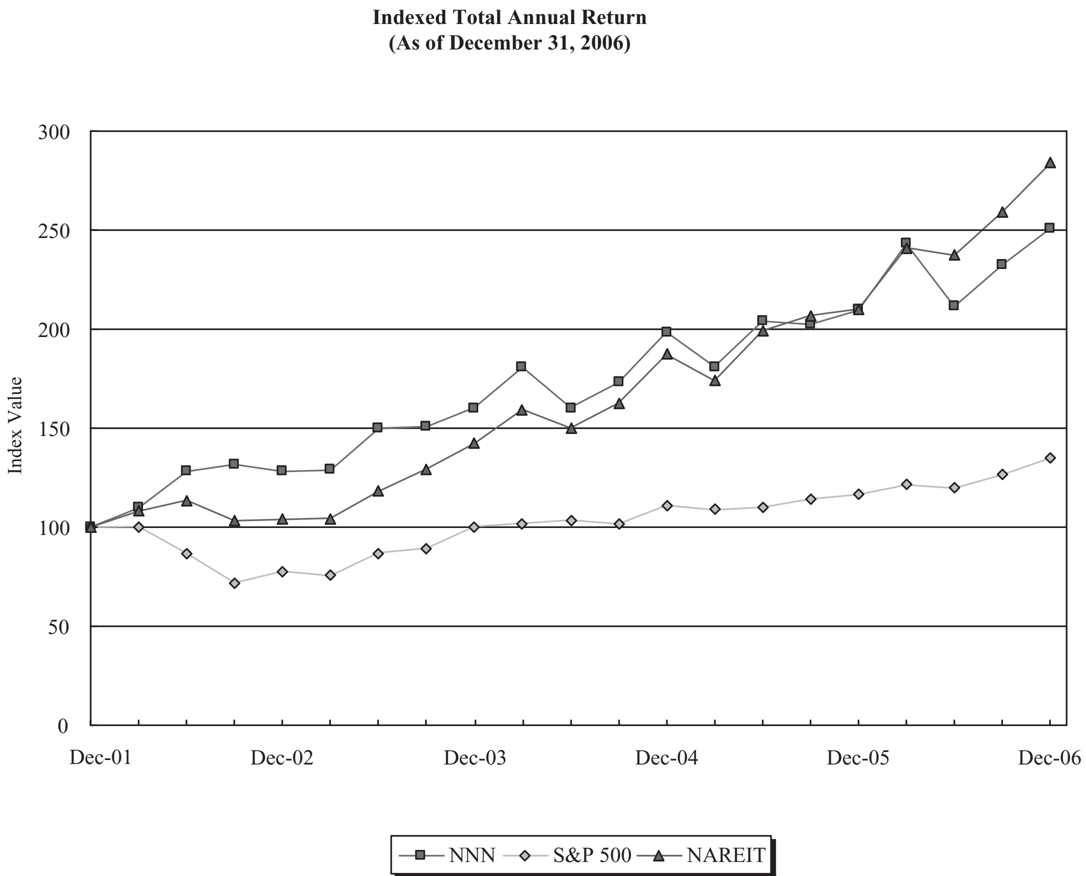
## Item 4. Submission of Matters to a Vote of Security Holders

None.

## PART II

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

The common stock of the Company currently is traded on the New York Stock Exchange ("NYSE") under the symbol "NNN." Set forth below is a line graph comparing the cumulative total stockholder return on the Company's common stock, based on the market price of the common stock and assuming reinvestment of dividends ("NNN"), with the FTSE National Association of Real Estate Investment Trusts Equity Index ("NAREIT") and the S&P 500 Index ("S&P 500") for the five year period commencing December 31, 2001 and ending December 31, 2006. The graph assumes the investment of $100 on December 31, 2001.



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

| 2006 | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Year |
|---|---|---|---|---|---|
| High | $ 23.540 | 23.370 | $ 22.460 | $ 24.100 | $ 24.100 |
| Low | 20.220 | 18.810 | 19.820 | 21.250 | 18.810 |
| Close | 23.300 | 19.950 | 21.600 | 22.950 | 22.950 |
| Dividends paid per share | 0.325 | 0.325 | 0.335 | 0.335 | 1.320 |
| **2005** | | | | | |
| High | $ 20.880 | $ 20.990 | $ 21.650 | $ 20.970 | $ 21.650 |
| Low | 18.000 | 18.300 | 18.530 | 18.060 | 18.000 |
| Close | 18.450 | 20.470 | 20.000 | 20.370 | 20.370 |
| Dividends paid per share | 0.325 | 0.325 | 0.325 | 0.325 | 1.300 |

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

| | 2006 | | 2005 | |
|---|---|---|---|---|
| Ordinary dividends | $ 1.151 | 87.18% | $ 1.068 | 82.19% |
| Qualified dividends | - | - | 0.225 | 17.27% |
| Capital gain | 0.150 | 11.38% | - | - |
| Unrecaptured Section 1250 Gain | 0.019 | 1.44% | 0.002 | 0.17% |
| Nontaxable distributions | - | - | 0.005 | 0.37% |
| | $ 1.320 | 100.00% | $ 1.300 | 100.00% |

The Company intends to pay regular quarterly dividends to its stockholders, although all future distributions will be declared and paid at the discretion of the board of directors and will depend upon cash generated by operating activities, the Company's financial condition, capital requirements, annual distribution requirements under the REIT provisions of the Internal Revenue Code of 1986, as amended, and such other factors as the board of directors deems relevant.

In February 2007 the Company paid dividends to its stockholders of $20,115,000 or $0.335 per share of common stock.

On February 15, 2007, there were 1,526 stockholders of record of common stock.

## Item 6. Selected Financial Data

Historical Financial Highlights
(dollars in thousands, except per share data)

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| Gross revenues[1] | $ 180,876 | $ 151,831 | $ 133,875 | $ 112,073 | $ 102,067 |
| Earnings from continuing operations | 73,538 | 44,083 | 38,216 | 30,653 | 28,098 |
| Net earnings | 182,505 | 89,400 | 64,934 | 53,473 | 48,058 |
| Total assets | 1,916,785 | 1,733,416 | 1,300,048 | 1,213,778 | 958,300 |
| Total debt | 776,737 | 861,045 | 524,241 | 467,419 | 386,912 |
| Total equity | 1,096,505 | 828,087 | 756,998 | 730,754 | 549,141 |
| Cash dividends declared to: | | | | | |
| Common stockholders | 76,035 | 69,018 | 66,272 | 55,473 | 51,178 |
| Series A Preferred Stock stockholders | 4,376 | 4,008 | 4,008 | 4,008 | 4,010 |
| Series B Convertible Preferred Stock stockholders | 419 | 1,675 | 1,675 | 502 | - |
| Series C Redeemable Preferred Stock stockholders | 923 | - | - | - | - |
| Weighted average common shares: | | | | | |
| Basic | 57,428,063 | 52,984,821 | 51,312,434 | 43,108,213 | 40,383,405 |
| Diluted | 58,079,875 | 54,640,143 | 51,742,518 | 43,896,800 | 40,588,957 |
| Per share information: | | | | | |
| Earnings from continuing operations: | | | | | |
| Basic | 1.18 | 0.72 | 0.63 | 0.61 | 0.60 |
| Diluted | 1.17 | 0.73 | 0.63 | 0.61 | 0.59 |
| Net earnings: | | | | | |
| Basic | 3.08 | 1.58 | 1.15 | 1.14 | 1.09 |
| Diluted | 3.05 | 1.56 | 1.15 | 1.13 | 1.09 |
| Dividends declared to: | | | | | |
| Common stockholders | 1.32 | 1.30 | 1.29 | 1.28 | 1.27 |
| Series A Preferred Stock stockholders | 2.45625 | 2.25 | 2.25 | 2.25 | 2.25 |
| Series B Convertible Preferred Stock stockholders | 41.875 | 167.50 | 167.50 | 50.25 | - |
| Series C Redeemable Preferred Stock depositary stockholders | 0.250955 | - | - | - | - |
| Other data: | | | | | |
| Cash flows provided by (used in): | | | | | |
| Operating activities | 18,561 | 30,930 | 85,800 | 54,215 | 111,589 |
| Investing activities | (106,984) | (242,487) | (69,963) | (256,870) | (15,142) |
| Financing activities | 81,864 | 217,844 | (19,225) | 205,965 | (101,654) |
| Funds from operations – diluted[2] | 97,121 | 81,803 | 73,065 | 61,749 | 54,595 |

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

(2) The National Association of Real Estate Investment Trusts ("NAREIT") developed FFO as a relative non-GAAP financial measure of performance of a REIT in order to recognize that income-producing real estate historically has

not depreciated on the basis determined under GAAP. FFO is defined by NAREIT and is used by the Company as follows: net earnings (computed in accordance with GAAP) plus depreciation and amortization of assets unique to the real estate industry, excluding gains (or including losses) on the disposition of real estate held for investment, and the Company's share of these items from the Company's unconsolidated partnerships.

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

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

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

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| Reconciliation of funds from operations: | | | | | |
| Net earnings | $ 182,505 | $ 89,400 | $ 64,934 | $ 53,473 | $ 48,058 |
| Real estate depreciation and amortization: | | | | | |
| Continuing operations | 20,874 | 14,871 | 11,296 | 9,572 | 8,822 |
| Discontinued operations | 1,545 | 5,536 | 4,419 | 2,300 | 1,506 |
| Partnership real estate depreciation | 463 | 606 | 622 | 699 | 479 |
| Partnership gain on sale of asset | (262) | - | - | - | - |
| Gain on disposition of equity investment | (11,373) | - | - | - | - |
| Gain on disposition of investment assets | (91,332) | (9,816) | (2,523) | (287) | (260) |
| Extraordinary gain | - | (14,786) | - | - | - |
| FFO | 102,420 | 85,811 | 78,748 | 65,757 | 58,605 |
| Series A Preferred Stock dividends | (4,376) | (4,008) | (4,008) | (4,008) | (4,010) |
| Series B Convertible Preferred Stock dividends | (419) | (1,675) | (1,675) | (502) | - |
| Series C Redeemable Preferred Stock dividends | (923) | - | - | - | - |
| FFO available to common stockholders – basic | 96,702 | 80,128 | 73,065 | 61,247 | 54,595 |
| Series B Convertible Preferred Stock dividends, if dilutive | 419 | 1,675 | - | 502 | - |
| FFO available to common stockholders – diluted | $ 97,121 | $ 81,803 | $ 73,065 | $ 61,749 | $ 54,595 |

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

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

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

National Retail Properties, Inc., a Maryland corporation, is a fully integrated real estate investment trust ("REIT") formed in 1984. The terms "Registrant" or "Company" refer to National Retail Properties, Inc. and its majority owned and controlled subsidiaries. These subsidiaries include the wholly owned qualified REIT subsidiaries of National Retail Properties, Inc., as well as the taxable REIT subsidiaries and their majority owned and controlled subsidiaries (the "NNN TRS"). Effective May 1, 2006, Commercial Net Lease Realty, Inc. changed its name to National Retail Properties, Inc.

Overview

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

As of December 31, 2006, the Company owned 710 Investment Properties, with an aggregate leasable area of 9,341,000 square feet, located in 44 states. Approximately 98 percent of the Company's Investment Portfolio was leased at December 31, 2006. In addition to the Investment Properties, as of December 31, 2006, the Company had $13,917,000 and $31,512,000 in structured finance investments and mortgage residual interests, respectively. As of December 31, 2006, the NNN TRS owned 97 Inventory Properties.

As of October 31, 2005, the Inventory Assets were operated through Commercial Net Lease Realty Services, Inc. ("Services") and its majority owned and controlled subsidiaries. Effective November 1, 2005, Services merged with and into National Retail Properties, Inc., and a former Services subsidiary, CNLRS Exchange I, Inc., became the holding company for the Company's development and exchange activities. Effective October 2, 2006, CNLRS Exchange I, Inc. changed its name to NNN TRS, Inc.

The NNN TRS, directly and indirectly, through investment interests, owns real estate primarily for the purpose of selling the real estate ("Inventory Properties" or "Inventory Portfolio"). The NNN TRS acquires and develops Inventory Properties ("Development Properties" or "Development Portfolio") and also acquires existing Inventory Properties ("Exchange Properties" or "Exchange Portfolio"). As of December 31, 2006, the NNN TRS owned 29 Development Properties (11 completed inventory, five under construction and 13 land parcels) and 68 Exchange Properties.

The Company's management team focuses on certain key indicators to evaluate the financial condition and operating performance of the Company. The key indicators for the Company include items such

as: the composition of the Company's Investment Portfolio and structured finance investments (such as tenant, geographic and industry classification diversification), the occupancy rate of the Company's Investment Portfolio, certain financial performance ratios and profitability measures, industry trends and performance compared to that of the Company, and returns the Company receives on its invested capital.

The Company has recently increased its investments in the convenience store and restaurant sectors. Both of these sectors represent a large part of the freestanding retail property marketplace which the Company believes represents areas of attractive investment opportunity. Similarly, the Company has some geographic focus in Texas and Florida which the Company believes are areas of above average population growth which provide relatively strong investment opportunity for retailers and retail real estate investments.

Critical Accounting Policies and Estimates

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

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

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

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

> *Operating method* – Leases accounted for using the operating method are recorded at the cost of the real estate. Revenue is recognized as rentals are earned and expenses (including depreciation) are charged to operations as incurred. Buildings are depreciated on the straight-line method over their estimated useful lives (generally 35 to 40 years). Leasehold interests are amortized on the straight-line method over the terms of their respective leases. When scheduled

rentals vary during the lease term, income is recognized on a straight-line basis so as to produce a constant periodic rent over the term of the lease. Accrued rental income is the aggregate difference between the scheduled rents which vary during the lease term and the income recognized on a straight-line basis.

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

Management periodically assesses its real estate for possible impairment whenever events or changes in circumstances indicate that the carrying value of the asset, including accrued rental income, may not be recoverable through operations. Management determines whether an impairment in value has occurred by comparing the estimated future cash flows (undiscounted and without interest charges), including the residual value of the real estate, with the carrying cost of the individual asset. If an impairment is indicated, a loss will be recorded for the amount by which the carrying value of the asset exceeds its fair value.

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

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

*Revenue Recognition.* Rental revenues for non-development real estate assets are recognized when earned in accordance with SFAS 13, "Accounting for Leases," based on the terms of the lease at the time of acquisition of the leased asset. Rental revenues for properties under construction commence upon completion of construction of the leased asset and delivery of the leased asset to the tenant.

*Use of Estimates.* Additional critical accounting policies of the Company include management's estimates and assumptions relating to the reporting of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Additional critical accounting policies include management's estimates of the useful lives used in calculating depreciation expense relating to the Company's real estate assets, the recoverability of the carrying

value of long-lived assets, including the mortgage residual interests, the collectibility of receivables from tenants, including accrued rental income, and capitalized overhead relating to development projects. Actual results could differ from those estimates.

Results of Operations

Property Analysis – Investment Portfolio

*General.* The following table summarizes the Company's Investment Portfolio as of December 31:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Investment Properties Owned: | | | |
| Number | 710 | 524 | 362 |
| Total gross leasable area (square feet) | 9,341,000 | 9,227,000 | 8,542,000 |
| Investment Properties Leased: | | | |
| Number | 697 | 512 | 351 |
| Total gross leasable area (square feet) | 9,173,000 | 9,066,000 | 8,322,000 |
| Percent of total gross leasable area | 98% | 98% | 97% |
| Weighted average remaining lease term (years) | 12 | 11 | 10 |

The following table summarizes the lease expirations of the Company's Investment Portfolio as of December 31, 2006.

| | % of Total[1] | # of Properties | Gross Leasable Area[2] | | % of Total[1] | # of Properties | Gross Leasable Area[2] |
|---|---|---|---|---|---|---|---|
| 2007 | 1.2% | 13 | 206,000 | 2013 | 5.6% | 30 | 690,000 |
| 2008 | 1.8% | 22 | 406,000 | 2014 | 7.3% | 39 | 591,000 |
| 2009 | 2.6% | 25 | 490,000 | 2015 | 4.6% | 22 | 621,000 |
| 2010 | 3.9% | 36 | 383,000 | 2016 | 4.2% | 22 | 508,000 |
| 2011 | 3.8% | 23 | 439,000 | 2017 | 7.2% | 28 | 808,000 |
| 2012 | 4.6% | 30 | 531,000 | Thereafter | 53.2% | 407 | 3,500,000 |

[1] Based on the annualized base rent for all leases in place as of December 31, 2006.
[2] Approximate square feet.

The following table summarizes the diversification of the Company's Investment Portfolio based on the top 10 lines of trade as of December 31, 2006 (dollars in thousands):

| | Top 10 Lines of Trade | 2006[1] | 2005[1] | 2004[1] |
|---|---|---|---|---|
| 1. | Convenience Stores | 16.3% | 12.1% | 0.7% |
| 2. | Restaurants – Full Service | 12.1% | 6.6% | 6.7% |
| 3. | Drug Stores | 8.3% | 10.0% | 11.5% |
| 4. | Sporting Goods | 7.3% | 7.4% | 7.8% |
| 5. | Books | 5.7% | 5.8% | 6.9% |
| 6. | Grocery | 5.7% | 6.3% | 7.7% |
| 7. | Consumer Electronics | 5.6% | 5.9% | 7.1% |
| 8. | Restaurants – Limited Service | 4.7% | 3.0% | 3.1% |
| 9. | Furniture | 4.2% | 4.7% | 5.0% |
| 10. | Office Supplies | 4.1% | 4.4% | 5.2% |
| | Other | 26.0% | 33.8% | 38.3% |
| | | 100.0% | 100.0% | 100.0% |

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

The following table shows the top 10 states in which the Company's Investment Properties are located in as of December 31, 2006 (dollars in thousands):

| | State | Number of Properties | % of Annual Base Rent[1] |
|---|---|---|---|
| 1. | Texas | 149 | 22.2% |
| 2. | Florida | 77 | 13.4% |
| 3. | Pennsylvania | 77 | 5.4% |
| 4. | Georgia | 37 | 5.1% |
| 5. | Virginia | 19 | 3.9% |
| 6. | California | 18 | 3.7% |
| 7. | Tennessee | 19 | 3.5% |
| 8. | Illinois | 22 | 3.4% |
| 9. | Missouri | 14 | 3.3% |
| 10. | Ohio | 23 | 3.0% |
| | Other | 255 | 33.1% |
| | | 710 | 100.0% |

(1) Based on annualized base rent for all leases in place as of December 31, 2006.

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

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Acquisitions: | | | |
| Number of Investment Properties | 213 | 170 | 36 |
| Gross leasable area (square feet) | 1,130,000 | 1,150,000 | 825,000 |
| Total dollars invested [1] | $ 371,898 | $ 332,461 | $ 139,303 |

(1) Includes dollars invested on projects currently under construction.

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

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Number of properties | 30 | 12 | 20 |
| Gross leasable area (square feet) | 1,015,000 | 476,000 | 155,000 |
| Net sales proceeds | 319,361 | 40,377 | 32,544 |
| Net gain | $ 91,332 | $ 9,816 | $ 2,523 |

## Property Analysis – Inventory Portfolio

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

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Development Portfolio: | | | |
| Completed Inventory Properties | 11 | 1 | 4 |
| Properties under construction | 5 | 12 | 7 |
| Land parcels | 13 | 4 | 4 |
| | 29 | 17 | 15 |
| Exchange Portfolio: | | | |
| Inventory Properties | 68 | 46 | 6 |
| Total Inventory Properties | 97 | 63 | 21 |

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

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Development Portfolio: | | | |
| Number of properties acquired | 16 | 58 | 33 |
| Dollars invested [(1)] | $ 82,524 | $ 66,527 | $ 48,318 |
| Exchange Portfolio: | | | |
| Number of properties acquired | 77 | 4 | 8 |
| Dollars invested | $ 118,553 | $ 10,714 | $ 26,366 |
| Total dollars invested | $ 201,077 | $ 134,373 | $ 76,647 |

(1) Includes dollars invested on projects currently under construction.

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

| | 2006 | | 2005 | | 2004 | |
|---|---|---|---|---|---|---|
| | # of Properties | Gain | # of Properties | Gain | # of Properties | Gain |
| Development | 9 | $ 9,698 | 12 | $18,065 | 16 | $20,673 |
| Exchange | 55 | 3,892 | 16 | 2,641 | 8 | 1,912 |
| Intercompany eliminations | - | 190 | - | 921 | - | 817 |
| Minority interest, Development | - | (4,114) | - | (5,999) | - | (6,422) |
| | 64 | $ 9,666 | 28 | $15,628 | 24 | $16,980 |

Business Combinations

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

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

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

and non-controlling interest in each of the LLCs ranging between 36.7 and 44.0 percent and accounted for its investment under the equity method of accounting.

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

Prior to the acquisition of 78.9 percent equity interest in OAMI, the Company received $2,749,000 and $10,562,000 in distributions from the LLCs during the years ended December 31, 2005 and 2004, respectively. For the years ended December 31, 2005 and 2004, the Company recognized $1,467,000 and $5,042,000 of earnings, respectively, from the LLCs.

In connection with the independent valuations of the Residuals' fair value, the Company reduced the carrying value of the Residuals to reflect such fair value at December 31, 2005. The reduction in the Residuals' value that related to the Residuals acquired at the time of the option exercise was recorded as a purchase price allocation adjustment. The reduction in the Residuals' value acquired at the time of the option exercise that related to the period subsequent to the option exercise, as well as the reduction in the value related to the portion of the Residuals owned by NLF, was recorded as an aggregate other than temporary valuation impairment of $8,779,000 and $2,382,000 for the years ended December 31, 2006 and 2005, respectively. Unrealized gains of $1,992,000 were recorded as other comprehensive income in the Statement of Stockholders Equity during the year ended December 31, 2006.

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

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

Revenue from Continuing Operations Analysis

*General.* During the year ended December 31, 2006, the Company's rental income increased primarily due to the acquisition of Investment Properties (See "Results of Operations – Property Analysis – Investment Portfolio – Property Acquisitions"). The Company anticipates any significant increase in rental income will continue to come primarily from additional property acquisitions.

The following summarizes the Company's revenues from continuing operations for each of the years ended December 31 (dollars in thousands):

| | 2006 | 2005 | 2004 | Percent of Total 2006 | Percent of Total 2005 | Percent of Total 2004 | 2006 Versus 2005 Percent Increase (Decrease) | 2005 Versus 2004 Percent Increase (Decrease) |
|---|---|---|---|---|---|---|---|---|
| Rental Income [1] | $ 134,196 | $ 100,836 | $ 84,546 | 89.0% | 85.1% | 88.9% | 33.1% | 19.3% |
| Real estate expense reimbursement from tenants | 4,862 | 4,094 | 2,828 | 3.2% | 3.5% | 3.0% | 18.8% | 44.8% |
| Interest and other income from real estate transactions | 4,462 | 6,143 | 7,695 | 3.0% | 5.2% | 8.1% | (27.4)% | (20.2)% |
| Interest income on mortgage residual interests | 7,268 | 7,349 | - | 4.8% | 6.2% | - | (1.1)% | 100.0% |
| Total revenues | $ 150,788 | $ 118,422 | $ 95,069 | 100.0% | 100.0% | 100.0% | 27.3% | 24.6% |

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

*Revenue from Operations by Source of Income.* The Company has identified two primary business segments, and thus, sources of revenue: (i) earnings from the Company's Investment Assets and (ii) earnings from the Company's Inventory Assets. The revenues generated by each of the Company's two primary operating segments have remained relatively consistent as a percentage of the Company's total revenues from continuing operations. The following table summarizes the revenues from continuing operations for each of the years ended December 31, (dollars in thousands):

| | 2006 | 2005 | 2004 | Percent of Total 2006 | Percent of Total 2005 | Percent of Total 2004 | 2006 Versus 2005 Percent Increase | 2005 Versus 2004 Percent Increase (Decrease) |
|---|---|---|---|---|---|---|---|---|
| Investment Assets | $ 134,334 | $ 113,865 | $ 91,018 | 89.1% | 96.2% | 95.7% | 18.0% | 25.1% |
| Inventory Assets | 16,454 | 4,557 | 4,051 | 10.9% | 3.8% | 4.3% | 261.1% | 12.5% |
| Total revenues | $ 150,788 | $ 118,422 | $ 95,069 | 100.0% | 100.0% | 100.0% | 27.3% | 24.6% |

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

*Rental Income.* The Company's Rental Income increased primarily due to the addition of an aggregate gross leasable area of 1,130,000 square feet to the Company's Investment Portfolio resulting from the acquisition of an additional 213 Investment Properties during the year ended December 31, 2006, of which 38 Investment Properties with an aggregate 272,000 square feet of gross leasable area were acquired in the last three months of 2006. The Investment Portfolio occupancy rate remained relatively stable at approximately 98 percent for each of the years ended December 31, 2006 and 2005.

*Real Estate Expense Reimbursements from Tenants.* Real estate expense reimbursements from tenants remained fairly constant as a percent of total revenues from continuing operations. The increase for the

year ended December 31, 2006 as compared to the year ended December 31, 2005 was attributable to a full year of reimbursements from certain tenants acquired in 2005 and the reimbursements from the newly acquired Investment Properties in 2006.

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

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

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

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

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

***Comparison of Year Ended December 31, 2005 to Year Ended December 31, 2004.***

*Rental Income.* Rental Income increased for the year ended December 31, 2005, as compared to the year ended December 31, 2004, primarily due to the addition of an aggregate gross leasable area of 1,150,000 square feet to the Company’s Investment Portfolio resulting from the acquisition of 170 Investment Properties during the year ended December 31, 2005.

*Real Estate Expense Reimbursements from Tenants*. Real estate expense reimbursements from tenants increased for the year ended December 31, 2005, as compared to the year ended December 31, 2004, primarily due to a full year of expense reimbursements during 2005 from certain tenants acquired during 2004.

*Gain from Disposition of Real Estate, Inventory Portfolio.* The gain on disposition of real estate held for sale included in continuing operations decreased for the year ended December 31, 2005, as

compared to the year ended December 31, 2004, primarily due to the number of properties sold and the varying gross margin on sales of Inventory Properties. The following table summarizes the property dispositions included in continuing operations for the year ended December 31 (dollars in thousands):

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | # of Properties | Gain | # of Properties | Gain |
| Gain | 6 | $ 2,010 | 7 | $ 4,700 |
| Minority interest | - | - | - | (1,717) |
| Gain, net of minority interest | 6 | $ 2,010 | 7 | $ 2,983 |

*Interest and Other Income from Real Estate Transactions.* Interest and other income from real estate transactions decreased for the year ended December 31, 2005, as compared to the year ended December 31, 2004, primarily due to a decrease in interest earned on the structured finance investments for the year ended December 31, 2005. The weighted average outstanding principal balance of the structured finance investments during the year ended December 31, 2005 and 2004 was $27,584,000 and $44,424,000, respectively. However, the decrease was partially offset by the $886,000 and $175,000 of disposition and development fee income received during the year ended December 31, 2005 and 2004, respectively.

Analysis of Expenses from Continuing Operations

*General.* During 2006 operating expenses from continuing operations increased primarily as a result of the acquisition of additional properties but remained generally proportionate to the Company's total revenues from continuing operations. The following summarizes the Company's expenses from continuing operations (dollars in thousands):

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| General and administrative | $ 24,012 | $ 22,418 | $ 21,664 |
| Real estate | 7,088 | 5,938 | 4,986 |
| Depreciation and amortization | 22,971 | 16,792 | 12,975 |
| Impairment – real estate, Investment Portfolio | - | 1,673 | - |
| Impairment – mortgage residual interests valuation adjustment | 8,779 | 2,382 | - |
| Restructuring costs | 1,580 | - | - |
| Transition costs | - | - | 3,741 |
| Total operating expenses | $ 64,430 | $ 49,203 | $ 43,366 |
| | | | |
| Interest and other income | $ (3,815) | $ (2,039) | $ (3,760) |
| Interest expense | 45,874 | 33,309 | 27,972 |
| Total other expenses (revenues) | $ 42,059 | $ 31,270 | $ 24,212 |

| | Percentage of Total Operating Expenses | | | Percentage of Revenues from Continuing Operations | | | 2006 Versus 2005 Percent Increase (Decrease) | 2005 Versus 2004 Percent Increase (Decrease) |
|---|---|---|---|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2006 | 2005 | 2004 | | |
| General and administrative | 37.3% | 45.6% | 50.0% | 15.9% | 18.9% | 22.8% | 7.1% | 3.5% |
| Real estate | 11.0% | 12.1% | 11.5% | 4.7% | 5.0% | 5.2% | 19.4% | 19.1% |
| Depreciation and amortization | 35.7% | 34.1% | 29.9% | 15.2% | 14.2% | 13.6% | 36.8% | 29.4% |
| Impairment – real estate, Investment Portfolio | - | 3.4% | - | - | 1.4% | - | (100.0)% | 100.0% |
| Impairment – mortgage residual interests valuation adjustment | 13.6% | 4.8% | - | 5.8% | 2.0% | - | 268.6% | 100.0% |
| Restructuring costs | 2.4% | - | - | 1.1% | - | - | 100.0% | - |
| Transition costs | - | - | 8.6% | - | - | 3.9% | - | (100.0)% |
| Total operating expenses | 100.0% | 100.0% | 100.0% | 47.2% | 41.5% | 45.5% | 30.9% | 13.5% |
| Interest and other income | (9.1)% | (6.5)% | (15.5)% | (2.5)% | (1.7)% | (4.0)% | 87.1% | (45.8)% |
| Interest expense | 109.1% | 106.5% | 115.5% | 30.4% | 28.1% | 29.4% | 37.7% | 19.1% |
| Total other expenses (revenues) | 100.0% | 100.0% | 100.0% | 27.9% | 26.4% | 25.5% | 34.5% | 29.2% |

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

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

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

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

*Impairment – Real Estate, Investment Portfolio.* The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset

may not be recoverable. Events or circumstances that may occur include changes in real estate market conditions, the ability of the Company to re-lease properties that are currently vacant or become vacant, and the ability to sell properties at an attractive return. Generally, the Company calculates a possible impairment by comparing the future cash flows to the current net book value. Impairments are measured as the amount by which the current book value of the asset exceeds the fair value of the asset.

*Impairment – Mortgage Residual Interests Valuation Adjustment.* In connection with the independent valuations of the Residuals' fair value, the Company reduced the carrying value of the Residuals to reflect such fair value at December 31, 2006 and 2005.

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

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

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

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

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

***Comparison of Year Ended December 31, 2005 to Year Ended December 31, 2004.***

*General and Administrative.* General and administrative expenses increased for the year ended December 31, 2005 compared to the year ended December 31, 2004, primarily as a result of (i) an increase in professional services provided to the Company, and (ii) increases in expenses related to personnel.

*Real Estate.* Real estate expenses for the year ended December 31, 2005 compared to the year ended December 31, 2004, increased primarily due to a decrease in tenant reimbursable real estate expenses and a decrease in property expenses related to vacant properties due to an increased Investment Property occupancy rate from 97 percent as of December 31, 2004 to 98 percent as of December 31, 2005.

*Depreciation and Amortization.* The increase in depreciation and amortization expense for the year ended December 31, 2005 compared to the year ended December 31, 2004, is primarily attributable to (i) the depreciation on the 170 Investment Properties with an aggregate gross leasable area of 1,150,000 square feet acquired during the year ended December 31, 2005, and (ii) a full year of depreciation on the 36 Investment Properties with an aggregate gross leasable area of 825,000 square feet acquired during the year ended December 31, 2004.

*Transition Costs.* During the year ended December 31, 2004, the Company recorded transition costs of $3,741,000, including severance, accelerated vesting of restricted stock and recruitment costs in connection with the appointment of Craig Macnab as Chief Executive Officer in February 2004, and the resignation of Gary M. Ralston as President and Chief Operating Officer in May 2004.

*Interest Expense.* The increase in interest expense for the year ended December 31, 2005 over the year ended December 31, 2004 was primarily attributable to a $69,982,000 increase in the average long-term debt outstanding for the year ended December 31, 2005. Weighted average interest rates remained fairly consistent. The increase in the weighted average debt outstanding is primarily attributable to the increase in Investment and Inventory Property acquisitions and the acquisition of the 78.9 percent equity interest in OAMI. The following represents the changes in debt:

- (i) the increase in the weighted average debt outstanding on the revolving credit facility (increased by $21,905,000),
- (ii) the $32,000,000 secured notes payable acquired in May 2005 in connection with the 78.9 percent equity interest in OAMI,
- (iii) the $20,800,000 variable rate term note assumed in connection with the acquisition of NAPE in June 2005,
- (iv) issuance of $150,000,000 of notes payable in November 2005 with an effective interest rate of 6.185% due in December 2015,
- (v) issuance of $150,000,000 of notes payable in June 2004 with an effective interest rate of 5.910% due in June 2014,
- (vi) repayment of $100,000,000 of notes payable in June 2004 with an effective interest rate of 7.547%, and
- (vii) repayment of the $20,000,000 variable rate term note in November 2004.

Unconsolidated Affiliates

For details on each of the Company's unconsolidated affiliates, see "Capital Resources – Investments in Unconsolidated Affiliates."

During the years ended December 31, 2006, 2005 and 2004, the Company recognized equity in earnings of unconsolidated affiliates of $122,000, $1,209,000, and $4,724,000, respectively. The decrease in equity in earnings of unconsolidated affiliates subsequent to the year ended December 31, 2004, was primarily attributable to the decrease in the income earned on investments in mortgage residual interests as a result of the acquisition of 78.9 percent equity interest in OAMI in May 2005. The Company's interest in the LLCs is no longer accounted for as an equity investment and is now included as a part of OAMI in the Company's consolidated financial statements.

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

Earnings from Discontinued Operations

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company classified as discontinued operations the revenues and expenses related to its Investment Properties that were sold and its leasehold interests that expired subsequent to December 31, 2001, as well as, the revenues and expenses related to any Investment Property that was held for sale at December 31, 2006. The Company also classified as discontinued operations the revenues and expenses of its Inventory Properties that were sold which generated rental revenues, as well as, the revenues and expenses related to its Inventory Properties held for sale which generated rental revenues as of December 31, 2006. The Company records discontinued operations by the Company's identified segments: (i) Investment Assets and (ii) Inventory Assets. The following table summarizes the earnings from discontinued operations for the years ended December 31 (dollars in thousands):

| | 2006 | | | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|---|---|---|
| | # of Sold Properties | Gain | Earnings | # of Sold Properties | Gain | Earnings | # of Sold Properties | Gain | Earnings |
| Investment Assets | 30 | $ 91,332 | $ 100,925 | 12 | $ 9,816 | $ 21,151 | 20 | $ 2,523 | $ 17,171 |
| Inventory Assets, net of minority interest | 58 | 5,275 | 8,042 | 22 | 13,618 | 9,380 | 17 | 13,997 | 9,547 |
| | 88 | $ 96,607 | $ 108,967 | 34 | $ 23,434 | $ 30,531 | 37 | $ 16,520 | $ 26,718 |

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

Extraordinary Gain

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

Impact of Inflation

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

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

Liquidity

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

The Company expects to meet these requirements (other than amounts required for additional property investments and structured finance investments) through cash provided from operations and the Company's revolving credit facility. The Company utilizes its credit facility to meet its short term working capital requirements. As of December 31, 2006, $28,000,000 was outstanding and approximately $272,000,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling $5,159,000. The Company anticipates that any additional investments in properties and structured finance investments during the next 12 months will be funded with cash provided from operations, long-term unsecured debt and the issuance of common or preferred equity, each of which may be initially funded with proceeds from the Company's revolving credit facility. However, there can be no assurance that additional financing or capital will be available, or that the terms will be acceptable or advantageous to the Company.

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

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Cash and cash equivalents: | | | |
| Provided by operating activities | $ 18,561 | $ 30,930 | $ 85,800 |
| Used in investing activities | (106,984) | (242,487) | (69,963) |
| Provided by (used in) financing activities | 81,864 | 217,844 | (19,225) |
| Increase (decrease) | (6,559) | 6,287 | (3,388) |
| January 1 | 8,234 | 1,947 | 5,335 |
| December 31 | $ 1,675 | $ 8,234 | $ 1,947 |

Cash provided by operating activities represents cash received primarily from rental income from tenants, gain on the disposition of Inventory Properties and interest income less general and administrative expenses and interest expense. The change in cash provided by operations for the years ended December 31, 2006, 2005 and 2004, is primarily the result of changes in revenues and expenses as discussed in "Results of Operations." Cash generated from operations is expected to fluctuate in the future.

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

The Company's financing activities for the year ended December 31, 2006 included the following significant transactions:

- $172,500,000 in gross proceeds from the issuance of 3.95% convertible senior notes payable
- $76,035,000 in dividends paid to common stockholders
- $5,718,000 in aggregate dividends paid to Series A, B and C Preferred Stock stockholders
- $134,300,000 in net payments on the Company's Credit Facility
- $92,000,000 in gross proceeds from the issuance of 3,680,000 depositary shares of Series C Preferred Stock
- $65,722,000 in net proceeds from the issuance of 3,046,408 common shares in connection with the Dividend Reinvestment and Stock Purchase Plan ("DRIP")

*Financing Strategy*

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

The Company typically funds its short-term liquidity requirements including investments in additional retail properties with cash from its $300,000,000 unsecured revolving credit facility ("Credit Facility"). As of December 31, 2006, $28,000,000 was outstanding and approximately $272,000,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling $5,159,000.

For the year ended December 31, 2006, the Company's ratio of total indebtedness to total gross assets (before accumulated depreciation) was approximately 41 percent and the secured indebtedness to total gross assets was approximately three percent. The total debt to total market capitalization was approximately 35 percent. Certain financial agreements to which the Company is a party contain covenants that limit the Company's ability to incur debt under certain circumstances. The organizational documents of the Company do not limit the absolute amount or percentage of indebtedness that the Company may incur. Additionally, the Company may change its financing strategy.

*Contractual Obligations and Commercial Commitments*. The information in the following table summarizes the Company's contractual obligations and commercial commitments outstanding as of December 31, 2006. The table presents principal cash flows by year-end of the expected maturity for debt obligations and commercial commitments outstanding as of December 31, 2006. As the table incorporates only those exposures that exist as of December 31, 2006, it does not consider those exposures or positions which may arise after that date.

| | Expected Maturity Date (dollars in thousands) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Total | 2007 | 2008 | 2009 | 2010 | 2011 | Thereafter |
| Long-term debt [1] | $ 749,733 | $ 20,913 | $ 113,190 | $ 21,800 | $ 21,022 | $ 173,598 | $ 399,210 |
| Revolving Credit Facility | 28,000 | - | - | 28,000 | - | - | - |
| Operating lease | 7,076 | 815 | 839 | 865 | 891 | 917 | 2,749 |
| Total contractual cash obligations[2] | $ 784,809 | $ 21,728 | $ 114,029 | $ 50,665 | $ 21,913 | $ 174,515 | $ 401,959 |

(1) Includes amounts outstanding under the mortgages payable, secured notes payable, convertible notes payable, notes payable and financing lease obligation and excludes unamortized note discounts and unamortized interest rate hedge gain.
(2) Excludes $5,989 of accrued interest payable.

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

| | # of Properties | Total Construction Commitment[1] | Amount Funded at December 31, 2006 |
|---|---|---|---|
| Investment Portfolio | 11 | $ 35,020 | $ 17,845 |
| Inventory Portfolio | 5 | 36,728 | 27,263 |
| | 16 | $ 71,748 | $ 45,108 |

(1) Including land costs.

As of December 31, 2006 the Company had outstanding letters of credit totaling $5,159,000 under its revolving credit facility.

As of December 31, 2006, the Company does not have any other contractual cash obligations, such as purchase obligations, financing lease obligations or other long-term liabilities other than those reflected in the table. In addition to items reflected in the table, the Company has preferred stock with cumulative preferential cash distributions, as described below under “Dividends.”

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

Many of the Investment Properties are recently constructed and are generally net leased. Therefore, management anticipates that capital demands to meet obligations with respect to these Investment Properties will be modest for the foreseeable future and can be met with funds from operations and working capital. Certain of the Company’s Investment Properties, are subject to leases under which the Company retains responsibility for certain costs and expenses associated with the Investment Property. Management anticipates the costs associated with the Company’s vacant Investment Properties or those Investment Properties that become vacant will also be met with funds from operations and working capital. The Company may be required to borrow under the Company’s revolving Credit Facility or use other sources of capital in the event of unforeseen significant capital expenditures.

The lost revenues and increased property expenses resulting from the rejection by any bankrupt tenant of any of their respective leases with the Company could have a material adverse effect on the liquidity and results of operations of the Company if the Company is unable to release the Investment Properties at comparable rental rates and in a timely manner. As of January 31, 2007, the Company owns nine vacant, unleased Investment Properties which account for approximately two percent of the total gross leasable area of the Company’s Investment Portfolio and four unleased land parcels. Additionally, less than one percent of the total gross leasable area of the Company’s Investment Portfolio is leased to a tenant that has filed a voluntary petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. As a result, the tenant has the right to reject or affirm its lease with the Company.

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

One of the Company's primary objectives, consistent with its policy of retaining sufficient cash for reserves and working capital purposes and maintaining its status as a REIT, is to distribute a substantial portion of its funds available from operations to its stockholders in the form of dividends. During the years ended December 31, 2006, 2005 and 2004, the Company declared and paid dividends to its common stockholders of $76,035,000, $69,018,000, and $66,272,000 and, respectively, or $1.32, $1.30 and $1.29 per share, respectively, of common stock.

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

| | 2006 | | 2005 | | 2004 | |
|---|---|---|---|---|---|---|
| Ordinary dividends | $ 1.151 | 87.18% | $ 1.068 | 82.19% | $ 0.916 | 70.99% |
| Qualified dividends | - | - | 0.225 | 17.27% | - | - |
| Capital gain | 0.150 | 11.38% | - | - | 0.040 | 3.13% |
| Unrecaptured Section 1250 Gain | 0.019 | 1.44% | 0.002 | 0.17% | 0.041 | 3.21% |
| Nontaxable distributions | - | - | 0.005 | 0.37% | 0.293 | 22.67% |
| | $ 1.320 | 100.00% | $ 1.300 | 100.00% | $ 1.290 | 100.00% |

In February 2007, the Company paid dividends to its common stockholders of $20,115,000, or $0.335 per share of common stock.

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

| Non-Voting Preferred Stock Issuance | Shares Outstanding At December 31, 2006 | Liquidation Preference (per share) | Fixed Annual Cash Distribution (per share) | Dividends Declared and Paid For the Year Ended December 31, 2006 | | 2005 | | 2004 | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Total | Per Share | Total | Per Share | Total | Per Share |
| 9% Series A [1] | 1,781,589 | $ 25.00 | $ 2.25 | $ 4,376 | $ 2.45625 | $ 4,008 | $ 2.25 | $ 4,008 | $ 2.25 |
| 6.7% Series B Convertible [2] | - | 2,500.00 | 167.50 | 419 | 41.875 | 1,675 | 167.50 | 1,675 | 167.50 |
| 7.375% Series C Redeemable [3] | 3,680,000 | 25.00 | 1.84375 | 923 | 0.250955 | - | - | - | - |

(1) Effective January 2, 2007, the Company redeemed all 1,781,589 shares of Series A Preferred Stock, at their redemption price of $25.00 per share plus all accumulated and unpaid dividends through the redemption date of $0.20625 per share, for an aggregate redemption price of $25.20625. Dividends declared and paid in 2006 include $368 of dividends payable.

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

(3) In October 2006, the Company issued 3,680,000 depositary shares, each representing 1/100th of a share of 7.375% Series C Redeemable Preferred Stock. See *"Capital Resources – Debt and Equity Securities."*

In February 2007, the Company declared dividends of $1,696,000 or $0.4609375 per depositary share of Series C Redeemable Preferred Stock payable in March 2007.

*Restricted Cash.* Restricted cash consists of amounts held in restricted accounts in connection with the sale of certain assets of OAMI to a third party (the "Buyer"). The use of the cash is restricted pursuant to agreements with the Buyer and will be released in December 2007 subject to any pending indemnity claims. The amount held in these accounts at December 31, 2006 and 2005 was $36,728,000 and $30,530,000, respectively. The carrying value for restricted cash was $36,587,000 and $30,191,000 at December 31, 2006 and 2005, respectively, and is calculated as the present value of the expected release of monies.

Capital Resources

Generally, cash needs for property acquisitions, structured finance investments, capital expenditures, development and other investments have been funded by equity and debt offerings, bank borrowings, the sale of properties and, to a lesser extent, from internally generated funds. Cash needs for other items have been met from operations. Potential future sources of capital include proceeds from the public or private offering of the Company'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 the Company's total outstanding debt as of December 31 (dollars in thousands):

| | 2006 | Percentage of Total | 2005 | Percentage of Total |
|---|---|---|---|---|
| Line of credit payable | $ 28,000 | 3.6% | $ 162,300 | 18.8% |
| Mortgages payable | 35,892 | 4.6% | 151,133 | 17.6% |
| Notes payable – secured | 24,500 | 3.2% | 28,250 | 3.3% |
| Notes payable – convertible | 172,500 | 22.2% | - | - |
| Notes payable | 489,804 | 63.1% | 493,321 | 57.3% |
| Financing lease obligation | 26,041 | 3.3% | 26,041 | 3.0% |
| Total outstanding debt | $ 776,737 | 100.0% | $ 861,045 | 100.0% |

*Line of Credit Payable.* In December 2005, the Company entered into an amended and restated loan agreement for a $300,000,000 revolving credit facility (the "Credit Facility"). The Credit Facility amended the Company's existing loan agreement by (i) increasing the borrowing capacity to $300,000,000 from $225,000,000, (ii) lowering the interest rates of the tiered rate structure from a maximum of 135 points above LIBOR to a maximum rate of 112.5 basis points above LIBOR (based upon the debt rating of the Company, the current interest rate is 80 basis points above LIBOR), (iii) requiring the Company to pay a commitment fee based on a tiered rate structure to a maximum of 25 basis points per annum (based upon the debt rating of the Company, the current commitment fee is 20 basis points), (iv) providing for a competitive bid option for up to 50 percent of the facility amount, (v) extending the expiration date to May 8, 2009 and (vi) amending certain of the financial covenants of the Company. The principal balance is due in full upon expiration of the Credit Facility in May 2009, which the Company may request to be extended for an additional 12 months. As of December 31, 2006, $28,000,000 was outstanding and approximately $272,000,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling $5,159,000.

In accordance with the terms of the Credit Facility, the Company is required to meet certain restrictive financial covenants, which, among other things, require the Company to maintain certain (i) maximum leverage ratios, (ii) debt service coverage, (iii) cash flow coverage and (iv) investment limitations. At December 31, 2006, the Company was in compliance with those covenants. In the event that the Company violates any of these restrictive financial covenants, its access to the debt or equity markets may become impaired.

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

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

*Note Payable.* In connection with the acquisition of NAPE, the Company assumed a $20,800,000 term note payable ("Term Note"), and a line of credit with an outstanding balance of $7,400,000, which was paid in full with proceeds from the Company's existing line of credit in June 2005. The principal balance on the Term Note is due in full upon its expiration in June 2009. The Term Note bears interest based on a tiered rate structure to a maximum rate of 165 basis points above LIBOR. Based on the current debt rating of the Company, the current interest rate is 120 basis points above LIBOR or 6.55% at December 31, 2006. In accordance with the terms of the Term Note, the Company is required to meet certain restrictive financial covenants, which, among other things, require the Company to maintain certain (i) maximum leverage ratios, (ii) debt service coverage and (iii) cash flow coverage.

*Debt and Equity Securities.* The Company 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. The Company has maintained investment grade debt ratings from Standard and Poor's, Moody's Investor Service and Fitch Ratings on its senior, unsecured debt since 1998. In February 2006, the Company filed a shelf registration statement with the Securities and Exchange Commission which permits the issuance by the Company of an indeterminate amount of debt and equity securities.

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

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

(1) The proceeds from the note issuance were used to pay down outstanding indebtedness of the Company's Credit Facility.
(2) The proceeds from the note issuance were used to repay the obligation of the 2004 Notes.
(3) The note discounts are amortized to interest expense over the respective term of each debt obligation using the effective interest method.
(4) Includes the effects of the discount, treasury lock gain and swap gain (as applicable).
(5) The Company entered into a forward starting interest rate swap agreement which fixed a swap rate of 4.61% on a notional amount of $94,000. Upon issuance of the 2014 Notes, the Company terminated the forward starting interest rate swap agreement resulting in a gain of $4,148. The gain has been deferred and is being amortized as an adjustment to interest expense over the term of the 2014 Notes using the effective interest method.

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

In connection with the note offerings, the Company incurred debt issuance costs totaling $4,542,000 consisting primarily of underwriting discounts and commissions, legal and accounting fees, rating agency fees and printing expenses. Debt issuance costs for all note issuances have been deferred and are being amortized over the term of the respective notes using the effective interest method.

In accordance with the terms of the indenture, pursuant to which the Company's notes have been issued, the Company is required to meet certain restrictive financial covenants, which, among other things, require the Company to maintain (i) certain leverage ratios and (ii) certain interest coverage. At December 31, 2006, the Company was in compliance with those covenants. In the event that the Company violates any of the certain restrictive financial covenants, its access to the debt or equity markets may become impaired.

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

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

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

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

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

7.375% Series C Cumulative Redeemable Preferred Stock – In October 2006, the Company filed a prospectus supplement to the prospectus contained in its February 2006 shelf registration statement and issued 3,200,000 depositary shares, each representing 1/100th of a share of 7.375% Series C Cumulative Redeemable Preferred Stock ("Series C Redeemable Preferred Stock"), and received gross proceeds of $80,000,000. Subsequently, the Company issued an additional 480,000 depositary shares in connection with the underwriters' over-allotment option and received gross proceeds of $12,000,000. In connection with this offering, the Company incurred stock issuance costs of approximately $3,098,000, consisting primarily of underwriting commissions and fees, legal and accounting fees and printing expenses.

Holders of the depositary shares are entitled to receive, when and as authorized by the board of directors, cumulative preferential cash dividends at the rate of 7.375 percent of the $25.00 liquidation preference per depositary share per annum (equivalent to a fixed annual amount of $1.84375 per depositary share). The Series C Redeemable Preferred Stock underlying the depositary shares ranks senior to the Company's common stock with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Company. The Company may redeem the Series C Redeemable Preferred Stock underlying the depositary shares on or after October 12, 2011, for cash, at a redemption price of $2,500.00 per share (or $25.00 per depositary share), plus all accumulated, accrued and unpaid dividends.

The Company used $44,540,000 of the net proceeds from the offering to redeem the Series A Preferred Stock in January 2007, and used the remainder of the net proceeds to repay borrowings under the Credit Facility.

Dividend Reinvestment and Stock Purchase Plan – In February 2006, the Company filed a shelf registration statement with the Securities and Exchange Commission for its Dividend Reinvestment and Stock Purchase Plan ("DRIP"), which permits the issuance by the Company of 12,191,394 shares of common stock. The DRIP provides an economical and convenient way for current stockholders and other interested new investors to invest in the Company's common stock. The following outlines the common stock issuances pursuant to the Company's DRIP for each of the years ended December 31 (dollars in thousands):

| | 2006 | 2005 |
|---|---|---|
| Shares of common stock | 3,046,408 | 1,048,746 |
| Net proceeds | $ 65,722 | $ 20,747 |

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

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

*Financing Lease Obligation.* In July 2004, the Company sold five investment properties for approximately $26,041,000 and subsequently leased back the properties under a 10-year financing lease obligation. The Company may repurchase one or more of the properties subject to put and call options included in the financing lease. In accordance with the provisions of SFAS No. 66, "Accounting for Sales of Real Estate," the Company has recognized the sale as a financing transaction.

The 10-year financing lease bears an interest rate of 5.00% annually with monthly interest payments of $109,000 and expires in June 2014 unless either the put or call option is exercised. The Company used the proceeds from two properties to reinvest in other Investment Properties and the remaining proceeds to pay down outstanding indebtedness of the Company's Credit Facility.

*Structured Finance Investments*. Structured finance agreements are typically loans secured by a borrower's pledge of ownership interests in the entity that owns the real estate. These agreements are typically subordinated to senior loans secured by first mortgages encumbering the underlying real estate. Subordinated positions are generally subject to a higher risk of nonpayment of principal and interest than the more senior loans.

As of December 31, 2006, the structured finance investments bear a weighted average interest rate of 13.3% per annum, of which 10.1% is payable monthly and the remaining 3.2% accrues and is due at maturity. The principal balance of each structured finance investment is due in full at maturity, which range between November 2007 and January 2009. The structured finance investments are secured by the borrowers' pledge of their respective membership interests in the certain subsidiaries which own the respective real estate.

The following table summarizes the activity of the structured finance investments for each of the last two years ended December 31 (dollars in thousands):

| | 2006 | 2005 |
|---|---|---|
| Balance at January 1 | $ 27,805 | $ 29,390 |
| New investments | 16,477 | 5,988 |
| Principal repayments | (30,365) | (7,573) |
| Balance at December 31 | $ 13,917 | $ 27,805 |

*Mortgage Residual Interests.* In connection with the independent valuations of the mortgage residual interests' (the "Residuals") fair value, the Company reduced the carrying value of the Residuals to reflect such fair value at December 31, 2006. The reduction in the Residuals' value that related to the Residuals acquired at the time of the option exercise was recorded as a purchase price allocation adjustment. The reduction in the Residuals' value acquired at the time of the option exercise that related to the period subsequent to the option exercise, as well as the reduction in the value related to the portion of the Residuals owned by NLF, were recorded as an aggregate other than temporary valuation impairment of $8,779,000 and $2,382,000, for the years ended December 31, 2006 and 2005, respectively. Unrealized gains of $1,992,000 were recorded as other comprehensive income in the Statement of Stockholders' Equity for the year ended December 31, 2006.

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to interest changes primarily as a result of its variable rate Credit Facility and its long-term, fixed rate debt used to finance the Company's development and acquisition activities, and for general corporate purposes. The Company's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve its objectives, the Company borrows at both fixed and variable rates on its long-term debt. The Company had no outstanding derivatives as of December 31, 2006 and 2005.

The information in the table below summarizes the Company's market risks associated with its debt obligations outstanding as of December 31, 2006 and 2005. The table presents principal cash flows and related interest rates by year for debt obligations outstanding as of December 31, 2006. The variable interest rates shown represent the weighted average rates for the Credit Facility and Term Note at the end of the periods. As the table incorporates only those exposures that exist as of December 31, 2006, it does not consider those exposures or positions which could arise after this date. Moreover, because firm commitments are not presented in the table below, the information presented therein has limited predictive value. As a result, the Company's ultimate realized gain or loss with respect to interest rate fluctuations will depend on the exposures that arise during the period, the Company's hedging strategies at that time and interest rates. If interest rates on the Company's variable rate debt increased by 1%, the Company's interest expense would have increased by approximately three percent for the year ended December 31, 2006.

| | Debt Obligations (dollars in thousands) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Variable Rate Debt | | Fixed Rate Debt | | | | | |
| | Credit Facility & Term Note | | Mortgages | | Unsecured Debt[2][3] | | Secured Debt | |
| | Debt Obligation | Weighted Average Interest Rate[1] | Debt Obligation | Weighted Average Interest Rate | Debt Obligation | Effective Interest Rate | Debt Obligation | Weighted Average Interest Rate |
| 2007 | - | - | 8,413 | 7.12% | - | - | 10,500 | 10.00% |
| 2008 | - | - | 1,190 | 7.04% | 99,956 | 7.16% | 14,000 | 10.00% |
| 2009 | 48,800 | 5.98% | 1,000 | 7.02% | - | - | - | - |
| 2010 | - | - | 1,022 | 7.01% | 19,941 | 8.60% | - | - |
| 2011 | - | - | 1,098 | 7.00% | 172,500 | 3.95% | - | - |
| Thereafter | - | - | 23,169 | 6.99% | 375,148 | 6.21% | - | - |
| Total | $ 48,800 | 5.98% | $ 35,892 | 7.12% | $ 667,545 | 5.84% | $ 24,500 | 10.00% |
| Fair Value: | | | | | | | | |
| December 31, 2006 | $ 48,800 | 5.98% | $ 35,892 | 7.12% | $ 690,198 | 5.84% | $ 24,500 | 10.00% |
| December 31, 2005 | $ 183,100 | 4.81% | $ 151,133 | 6.18% | $ 520,144 | 6.50% | $ 28,250 | 10.00% |

(1) The Credit Facility interest rate varies based upon a tiered rate structure ranging from 55 to 112.5 basis points above LIBOR based upon the debt rating of the Company. The Term Note interest rate varies based upon a tiered rate structure ranging from 85 to 165 basis points above LIBOR based upon the debt rating of the Company.

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

(3) In July 2004, the Company sold five investment properties for $26,041 and subsequently leased back the properties under a 10-year financing lease obligation. The Company may repurchase one or more of the properties subject to put and call options included in the financing lease.

The Company is also exposed to market risks related to the Company's Residuals. Factors that may impact the market value of the Residuals include delinquencies, loan losses, prepayment speeds and interest rates. The Residuals, which are reported at market value, had a carrying value of $31,512,000 and $55,184,000 as of December 31, 2006 and December 31, 2005, respectively. Unrealized gains and losses are reported as other comprehensive income in stockholders' equity. Losses are considered other than temporary and reported as a valuation impairment in earnings from operations if and when there has been a change in the timing or amount of estimated cash flows that leads to a loss in value.

**[Intentionally left blank]**

**Item 8. Financial Statements and Supplementary Data**

## Report of Independent Registered Public Accounting Firm

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that National Retail Properties, Inc. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). National Retail Properties, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that National Retail Properties, Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, National Retail Properties, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of National Retail Properties, Inc. and subsidiaries as of December 31, 2006, and the related consolidated statements of earnings, stockholders' equity, and cash flows for the year then ended, and our report dated February 13, 2007 expressed an unqualified opinion thereon.

Certified Public Accountants

February 13, 2007
Miami, Florida

**Report of Independent Registered Public Accounting Firm**

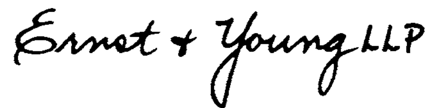
The Board of Directors and Stockholders
National Retail Properties, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheet of National Retail Properties, Inc. and subsidiaries as of December 31, 2006, and the related consolidated statements of earnings, stockholders' equity, and cash flows for the year then ended. Our audit also included the financial statement schedules listed in the index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of National Retail Properties and subsidiaries at December 31, 2006, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of National Retail Properties' internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 13, 2007 expressed an unqualified opinion thereon.




Certified Public Accountants

February 13, 2007
Miami, Florida

**Report of Independent Registered Public Accounting Firm**

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

We have audited the accompanying consolidated balance sheet of National Retail Properties, Inc. and subsidiaries as of December 31, 2005, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2005. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedules III and IV for the years ended December 31, 2005 and 2004. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules for 2005 and 2004 information based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Retail Properties, Inc. and subsidiaries as of December 31, 2005, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the 2005 and 2004 information included in the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

KPMG LLP

Orlando, Florida
February 17, 2006, except as to notes 2, 3, 20, 26 and 27 which are as of February 16, 2007
Certified Public Accountants

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except per share data)

| ASSETS | December 31, 2006 | December 31, 2005 |
|---|---|---|
| Real estate, Investment Portfolio: | | |
| Accounted for using the operating method, net of accumulated depreciation and amortization: | | |
| Held for investment | $ 1,439,002 | $ 1,297,254 |
| Held for sale | 1,994 | 1,139 |
| Accounted for using the direct financing method: | | |
| Held for investment | 70,683 | 94,134 |
| Held for sale | 651 | 1,570 |
| Real estate, Inventory Portfolio, held for sale | 228,159 | 131,074 |
| Mortgages, notes and accrued interest receivable, net of allowance of $634 and $676, respectively | 30,945 | 51,086 |
| Mortgage residual interests | 31,512 | 55,184 |
| Cash and cash equivalents | 1,675 | 8,234 |
| Restricted cash | 36,587 | 30,191 |
| Receivables, net of allowance of $722 and $847, respectively | 7,915 | 8,547 |
| Accrued rental income, net of allowance | 26,413 | 27,999 |
| Debt costs, net of accumulated amortization of $11,339 and $9,567, respectively | 8,180 | 6,096 |
| Other assets | 33,069 | 20,908 |
| Total assets | $ 1,916,785 | $ 1,733,416 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Line of credit payable | $ 28,000 | $ 162,300 |
| Mortgages payable | 35,892 | 151,133 |
| Notes payable – secured | 24,500 | 28,250 |
| Notes payable – convertible | 172,500 | - |
| Notes payable, net of unamortized discount of $996 and $1,133, respectively, and an unamortized interest rate hedge gain of $3,653 at December 31, 2005 | 489,804 | 493,321 |
| Financing lease obligation | 26,041 | 26,041 |
| Accrued interest payable | 5,989 | 5,539 |
| Other liabilities | 30,116 | 20,058 |
| Income tax liability | 6,340 | 13,748 |
| Total liabilities | 819,182 | 900,390 |
| Commitments and contingencies (Note 28) | | |
| Minority interest | 1,098 | 4,939 |
| Stockholders' equity: | | |
| Preferred stock, $0.01 par value. Authorized 15,000,000 shares | | |
| Series A, 1,781,589 shares issued and outstanding, stated liquidation value of $25 per share | 44,540 | 44,540 |
| Series B Convertible, 10,000 shares issued and outstanding at December 31, 2005, stated liquidation value of $2,500 per share | - | 25,000 |
| Series C Redeemable, 3,680,000 depositary shares issued and outstanding at December 31, 2006, stated liquidation value of $25 per share | 92,000 | - |
| Common stock, $0.01 par value. Authorized 190,000,000 shares; 59,823,031 and 55,130,876 shares issued and outstanding at December 31, 2006 and 2005, respectively | 598 | 551 |
| Excess stock, $0.01 par value. Authorized 205,000,000 shares; none issued or outstanding | - | - |
| Capital in excess of par value | 873,885 | 778,485 |
| Retained earnings (accumulated dividends in excess of net earnings) | 80,263 | (20,489) |
| Accumulated other comprehensive income | 5,219 | - |
| Total stockholders' equity | 1,096,505 | 828,087 |
| | $ 1,916,785 | $ 1,733,416 |

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS
Years Ended December 31, 2006, 2005 and 2004
(dollars in thousands, except per share data)

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Revenues: | | | |
| Rental income from operating leases | $ 126,173 | $ 92,714 | $ 76,272 |
| Earned income from direct financing leases | 7,291 | 7,678 | 7,938 |
| Contingent rental income | 732 | 444 | 336 |
| Real estate expense reimbursement from tenants | 4,862 | 4,094 | 2,828 |
| Interest and other income from real estate transactions | 4,462 | 6,143 | 7,695 |
| Interest income on mortgage residual interests | 7,268 | 7,349 | - |
| | 150,788 | 118,422 | 95,069 |
| Disposition of real estate, Inventory Portfolio: | | | |
| Gross proceeds | 36,705 | 13,569 | 20,888 |
| Costs | (28,705) | (11,559) | (16,188) |
| Gain | 8,000 | 2,010 | 4,700 |
| Operating expenses: | | | |
| General and administrative | 24,012 | 22,418 | 21,664 |
| Real estate | 7,088 | 5,938 | 4,986 |
| Depreciation and amortization | 22,971 | 16,792 | 12,975 |
| Impairment – real estate, Investment Portfolio | - | 1,673 | - |
| Impairment – mortgage residual interests valuation adjustment | 8,779 | 2,382 | - |
| Restructuring costs | 1,580 | - | - |
| Transition costs | - | - | 3,741 |
| | 64,430 | 49,203 | 43,366 |
| Earnings from operations | 94,358 | 71,229 | 56,403 |
| Other expenses (revenues): | | | |
| Interest and other income | (3,815) | (2,039) | (3,760) |
| Interest expense | 45,874 | 33,309 | 27,972 |
| | 42,059 | 31,270 | 24,212 |
| Earnings from continuing operations before income tax benefit, minority interest, equity in earnings of unconsolidated affiliates and gain on disposition of equity investment | 52,299 | 39,959 | 32,191 |
| Income tax benefit | 11,143 | 2,778 | 2,544 |
| Minority interest | (1,399) | 137 | (1,243) |
| Equity in earnings of unconsolidated affiliates | 122 | 1,209 | 4,724 |
| Gain on disposition of equity investment | 11,373 | - | - |
| Earnings from continuing operations | 73,538 | 44,083 | 38,216 |
| Earnings from discontinued operations: | | | |
| Real estate, Investment Portfolio | 100,925 | 21,151 | 17,171 |
| Real estate, Inventory Portfolio, net of income tax expense and minority interest | 8,042 | 9,380 | 9,547 |
| | 108,967 | 30,531 | 26,718 |
| Earnings before extraordinary gain | 182,505 | 74,614 | 64,934 |
| Extraordinary gain | - | 14,786 | - |
| Net earnings | 182,505 | 89,400 | 64,934 |
| Other comprehensive income | 5,219 | - | - |
| Total comprehensive income | $ 187,724 | $ 89,400 | $ 64,934 |

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS – CONTINUED
(dollars in thousands, except per share data)

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Net earnings | $ 182,505 | $ 89,400 | $ 64,934 |
| Series A preferred stock dividends | (4,376) | (4,008) | (4,008) |
| Series B Convertible preferred stock dividends | (419) | (1,675) | (1,675) |
| Series C Redeemable preferred stock dividends | (923) | - | - |
| Net earnings available to common stockholders – basic | 176,787 | 83,717 | 59,251 |
| Series B convertible preferred stock dividends, if dilutive | 419 | 1,675 | - |
| Net earnings available to common stockholders – diluted | $ 177,206 | $ 85,392 | $ 59,251 |
| Net earnings per share of common stock: | | | |
| Basic: | | | |
| Continuing operations | $ 1.18 | $ 0.72 | $ 0.63 |
| Discontinued operations | 1.90 | 0.58 | 0.52 |
| Extraordinary gain | - | 0.28 | - |
| Net earnings | $ 3.08 | $ 1.58 | $ 1.15 |
| Diluted: | | | |
| Continuing operations | $ 1.17 | $ 0.73 | $ 0.63 |
| Discontinued operations | 1.88 | 0.56 | 0.52 |
| Extraordinary gain | - | 0.27 | - |
| Net earnings | $ 3.05 | $ 1.56 | $ 1.15 |
| Weighted average number of common shares outstanding: | | | |
| Basic | 57,428,063 | 52,984,821 | 51,312,434 |
| Diluted | 58,079,875 | 54,640,143 | 51,742,518 |

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2006, 2005 and 2004
(dollars in thousands, except per share data)

| | Series A Preferred Stock | Series B Convertible Preferred Stock | Series C Redeemable Preferred Stock | Common Stock | Capital in Excess of Par Value | Retained Earnings (Accumulated Dividends in Excess of Net Earnings) | Accumulated Other Comprehensive Income | Total |
|---|---|---|---|---|---|---|---|---|
| Balances at December 31, 2003 | $ 44,541 | $ 25,000 | $ - | $ 500 | $ 688,880 | $ (28,167) | $ - | $ 730,754 |
| Net earnings | - | - | - | - | - | 64,934 | - | 64,934 |
| Dividends declared and paid: | | | | | | | | |
| $2.25 per share of Series A Preferred Stock | - | - | - | - | - | (4,008) | - | (4,008) |
| $167.50 per share of Series B Convertible Preferred Stock | - | - | - | - | - | (1,675) | - | (1,675) |
| $1.29 per share of common stock | - | - | - | 1 | 1,056 | (66,272) | - | (65,215) |
| Deferred changes in fair value of interest rate swap | - | - | - | - | - | - | 4,148 | 4,148 |
| Reversal of 56 shares of preferred stock and 51 shares of common stock originally offered to the dissenting stockholders in connection with the merger in 2001 | (1) | - | - | - | - | - | - | (1) |
| Issuance of common stock: | | | | | | | | |
| 886,962 shares | - | - | - | 9 | 12,129 | - | - | 12,138 |
| 953,551 shares in exchange for a partnership interest | - | - | - | 9 | 17,440 | - | - | 17,449 |
| Issuance of 205,579 shares of restricted common stock | - | - | - | 2 | (2) | - | - | - |
| Stock issuance costs | - | - | - | - | (6) | - | - | (6) |
| Amortization of deferred compensation | - | - | - | - | 2,628 | - | - | 2,628 |
| Termination and reclass of interest rate swap | - | - | - | - | - | - | (4,148) | (4,148) |
| Balances at December 31, 2004 | 44,540 | 25,000 | - | 521 | 722,125 | (35,188) | - | 756,998 |
| Net earnings | - | - | - | - | - | 89,400 | - | 89,400 |
| Dividends declared and paid: | | | | | | | | |
| $2.25 per share of Series A Preferred Stock | - | - | - | - | - | (4,008) | - | (4,008) |
| $167.50 per share of Series B Convertible Preferred Stock | - | - | - | - | - | (1,675) | - | (1,675) |
| $1.30 per share of common stock | - | - | - | 1 | 2,684 | (69,018) | - | (66,333) |
| Issuance of common stock: | | | | | | | | |
| 1,636,532 shares in connection with business combination | - | - | - | 16 | 31,143 | - | - | 31,159 |
| 180,580 shares | - | - | - | 2 | 2,649 | - | - | 2,651 |
| 912,334 shares under discounted stock purchase program | - | - | - | 9 | 18,063 | - | - | 18,072 |
| Issuance of 216,168 shares of restricted common stock | - | - | - | 2 | (2) | - | - | - |
| Stock issuance costs | - | - | - | - | (8) | - | - | (8) |
| Amortization of deferred compensation | - | - | - | - | 1,831 | - | - | 1,831 |
| Balances at December 31, 2005 | $ 44,540 | $ 25,000 | $ - | $ 551 | $ 778,485 | $ (20,489) | $ - | $ 828,087 |

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY – CONTINUED
Years Ended December 31, 2006, 2005 and 2004
(dollars in thousands, except per share data)

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

(1) Includes $368 dividends paid in January 2007.

(2) Fair value of interest rate swaps net of prior year amortization reclassified from the Company's unsecured notes payable from the unamortized interest rate hedge gain resulting from the termination of the $94,000,000 swap in June 2004.

See accompanying notes to consolidated financial statements.

# NATIONAL RETAIL PROPERTIES, INC.
# and SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Cash flows from operating activities: | | | |
| Net earnings | $ 182,505 | $ 89,400 | $ 64,934 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Stock compensation expense | 3,170 | 1,971 | 978 |
| Depreciation and amortization | 24,524 | 22,350 | 17,398 |
| Impairment – real estate | 693 | 3,729 | - |
| Impairment – mortgage residual interests valuation adjustment | 8,779 | 2,382 | - |
| Amortization of notes payable discount | 137 | 105 | 123 |
| Amortization of deferred interest rate hedge gains | (345) | (326) | (457) |
| Equity in earnings of unconsolidated affiliates | (122) | (1,209) | (5,064) |
| Distributions received from unconsolidated affiliates | 864 | 3,293 | 11,008 |
| Minority interests | 2,622 | (5,854) | 1,828 |
| Gain on disposition of real estate, Investment Portfolio | (91,165) | (9,816) | (2,523) |
| Gain on disposition of equity investment | (11,373) | - | - |
| Gain on disposition of real estate, Inventory Portfolio | (13,781) | (21,627) | (23,402) |
| Extraordinary gain | - | (14,786) | - |
| Deferred income taxes | (8,366) | (1,709) | 2,726 |
| Transition costs | - | - | 1,929 |
| Change in operating assets and liabilities, net of assets acquired and liabilities assumed in business combinations: | | | |
| Additions to real estate, Inventory Portfolio | (195,956) | (137,286) | (74,024) |
| Proceeds from disposition of real estate, Inventory Portfolio | 101,324 | 79,065 | 87,321 |
| Decrease in real estate leased to others using the direct financing method | 2,982 | 2,915 | 2,770 |
| Increase in work in process | (3,315) | (4,355) | (2,093) |
| Increase in mortgages, notes and accrued interest receivable | 795 | 6,465 | 6,243 |
| Decrease (increase) in receivables | 642 | 7,730 | (1,642) |
| Decrease in mortgage residual interests | 16,885 | 11,704 | - |
| Increase in accrued rental income | (5,777) | 593 | (3,438) |
| Decrease (increase) in other assets | (520) | 877 | (1,456) |
| Increase in accrued interest payable | 450 | 913 | 485 |
| Increase (decrease) in other liabilities | 1,951 | (4,365) | 1,646 |
| Increase (decrease) in current tax liability | 958 | (1,229) | 510 |
| Net cash provided by operating activities | 18,561 | 30,930 | 85,800 |
| Cash flows from investing activities: | | | |
| Proceeds from the disposition of real estate, Investment Portfolio | 222,778 | 38,982 | 32,639 |
| Proceeds from the disposition of equity investment | 10,239 | - | - |
| Additions to real estate, Investment Portfolio: | | | |
| Accounted for using the operating method | (351,100) | (267,488) | (134,565) |
| Accounted for using the direct financing method | (1,449) | (309) | - |
| Investment in unconsolidated affiliates | - | - | (4) |
| Increase in mortgages and notes receivable | (18,371) | (17,738) | (6,857) |
| Mortgage and notes payments received | 39,075 | 16,846 | 23,301 |
| Increase in mortgages and other receivables from unconsolidated affiliates | - | - | (115,600) |
| Payments received on mortgages and other receivables from unconsolidated affiliates | - | - | 132,200 |
| Business combination, net of cash acquired | - | 2,183 | 1,068 |
| Restricted cash | (6,396) | (12,764) | - |
| Acquisition of 1.3 percent interest in Services | - | (829) | - |
| Payment of lease costs | (2,790) | (1,253) | (1,491) |
| Other | 1,030 | (117) | (654) |
| Net cash used in investing activities | (106,984) | (242,487) | (69,963) |

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS – CONTINUED
(dollars in thousands)

| | Year Ended December 31, 2006 | 2005 | 2004 |
|---|---|---|---|
| Cash flows from financing activities: | | | |
| Proceeds from line of credit payable | 379,000 | 373,500 | 350,900 |
| Repayment of line of credit payable | (513,300) | (229,100) | (360,800) |
| Proceeds from mortgages payable | - | - | 406 |
| Repayment of mortgages payable | (20,241) | (6,644) | (9,163) |
| Proceeds from notes payable – convertible | 172,500 | - | - |
| Proceeds from notes payable | - | 149,610 | 149,560 |
| Proceeds from forward starting interest rate swap | - | - | 4,148 |
| Repayment of notes payable | (3,750) | (11,150) | (120,000) |
| Payment of debt costs | (3,864) | (3,073) | (1,450) |
| Proceeds from financing lease obligation | - | - | 26,041 |
| Proceeds from issuance of common stock | 70,392 | 23,268 | 13,230 |
| Proceeds from issuance of preferred stock | 88,902 | - | - |
| Payment of Series A Preferred Stock dividends | (4,376) | (4,008) | (4,008) |
| Payment of Series B Convertible Preferred Stock dividends | (419) | (1,675) | (1,675) |
| Payment of Series C Redeemable Preferred Stock dividends | (923) | - | - |
| Payment of common stock dividends | (76,039) | (69,018) | (66,272) |
| Minority interest distributions | (5,817) | (3,858) | (140) |
| Minority interest contributions | 2 | - | - |
| Stock issuance costs | (203) | (8) | (2) |
| Net cash provided by (used in) financing activities | 81,864 | 217,844 | (19,225) |
| Net increase (decrease) in cash and cash equivalents | (6,559) | 6,287 | (3,388) |
| Cash and cash equivalents at beginning of year | 8,234 | 1,947 | 5,335 |
| Cash and cash equivalents at end of year | $ 1,675 | $ 8,234 | $ 1,947 |
| Supplemental disclosure of cash flow information: | | | |
| Interest paid, net of amount capitalized | $ 50,774 | $ 38,684 | $ 33,855 |
| Taxes paid | $ 1,137 | $ 4,494 | $ 60 |
| Supplemental disclosure of non-cash investing and financing activities: | | | |
| Issued 79,500, 223,468 and 205,579 shares of restricted and unrestricted common stock in 2006, 2005 and 2004, respectively, pursuant to the Company's 2000 Performance Incentive Plan, including grants in connection with transition costs | $ 1,763 | $ 4,003 | $ 3,016 |
| Converted 10,000 shares of Series B Convertible Preferred Stock to 1,293,996 shares of common stock | $ 25,000 | $ - | $ - |
| Issued 14,062 shares of common stock in 2006 to directors pursuant to the Company's 2000 Performance Incentive Plan | $ 307 | $ - | $ - |
| Issued 33,379 shares of common stock in 2006 pursuant to the Company's Deferred Director Fee Plan | $ 655 | $ - | $ - |
| Surrender of 30,135 and 29,926 shares of restricted common stock in 2005 and 2004, respectively | $ - | $ 461 | $ 473 |
| Dividends or unvested restricted stock shares | 4 | - | - |
| Change in other comprehensive income | $ 5,219 | $ 1,254 | $ - |
| Change in lease classification | $ 885 | $ 2,158 | $ - |
| Transfer of real estate from Inventory Portfolio to Investment Portfolio | $ 12,933 | $ 4,752 | $ - |
| Note and mortgage notes receivable accepted in connection with real estate transactions | $ 1,582 | $ 2,415 | $ - |
| Acquisition of real estate held for investment and assumption of related mortgage payable | $ - | $ - | $ 7,357 |
| Assignment of mortgage payable in connection with the disposition of real estate | $ 95,000 | $ 406 | $ 2,251 |
| Issued 953,551 shares of common stock in exchange for a partnership interest | $ - | $ - | $ 17,449 |
| Issued 1,636,532 shares of common stock in connection with the acquisition of National Properties Corporation ("NAPE") | $ - | $ 31,160 | $ - |

See accompanying notes to consolidated financial statements.

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

Organization and Nature of Business – National Retail Properties, Inc. (formerly known as Commercial Net Lease Realty, Inc.), a Maryland corporation, is a fully integrated real estate investment trust ("REIT") formed in 1984. The term "Company" refers to National Retail Properties, Inc. and its majority owned and controlled subsidiaries. These subsidiaries include the wholly owned qualified REIT subsidiaries of National Retail Properties, Inc., as well as the taxable REIT subsidiaries and their majority owned and controlled subsidiaries (collectively, the "NNN TRS"). Effective May 1, 2006, Commercial Net Lease Realty, Inc. changed its name to National Retail Properties, Inc.

Prior to January 1, 2005, the Company held a 98.7 percent, non-controlling and non-voting interest in Commercial Net Lease Realty Services, Inc. and its majority owned and controlled subsidiaries ("Services"). Kevin B. Habicht, an officer and director of the Company, James M. Seneff, Jr. and Gary M. Ralston, each a former officer and director of the Company, (collectively the "Services Investors") owned the remaining 1.3 percent interest, which was 100 percent of the voting interest in Services. Effective January 1, 2005, the Company acquired the remaining 1.3 percent interest in Services, increasing the Company's ownership in Services to 100 percent. Effective November 1, 2005, Commercial Net Lease Realty Services, Inc. merged into National Retail Properties, Inc. CNLRS Exchange I, Inc., a taxable REIT subsidiary ("TRS"), became the TRS holding company for the Company's development and exchange activities. Effective October 2, 2006, CNLRS Exchange I, Inc. changed its name to NNN TRS, Inc.

The Company's operations are divided into two primary business segments: (i) investment assets, including real estate assets, structured finance investments (included in mortgages and notes receivable on the consolidated balance sheets) and mortgage residual interests (collectively, "Investment Assets"), and (ii) inventory real estate assets ("Inventory Assets"). The Investment Assets are operated through National Retail Properties, Inc. and its wholly owned qualified REIT subsidiaries. The Company acquires, owns, invests in, manages and develops properties that are leased primarily to retail tenants under long-term net leases ("Investment Properties" or "Investment Portfolio"). As of December 31, 2006, the Company owned 710 Investment Properties, with an aggregate gross leasable area of 9,341,000 square feet, located in 44 states. In addition to the Investment Properties, as of December 31, 2006, the Company had $13,917,000 and $31,512,000 in structured finance investments and mortgage residual interests, respectively. The Inventory Assets are operated through the NNN TRS. The NNN TRS, directly and indirectly, through investment interests, acquires and develops real estate primarily for the purpose of selling the real estate ("Inventory Properties" or "Inventory Portfolio"). As of December 31, 2006, the NNN TRS owned 97 Inventory Properties.

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

The Company's consolidated financial statements include the accounts of each of the respective majority owned and controlled affiliates. All significant intercompany account balances and transactions have been eliminated. The Company applies the equity method of accounting to investments in partnerships and joint ventures that are not subject to control by the Company due to the significance of rights held by other parties.

The NNN TRS develops real estate through various joint venture development affiliate agreements. The NNN TRS consolidates the joint venture development entities listed in the table below based upon either the Company being the primary beneficiary of the respective variable interest entity or the Company having a controlling interest over the respective entity. The Company eliminates significant intercompany balances and transactions and records a minority interest for its other partners' ownership percentage. The following table summarizes each of the investments, as of December 31, 2006:

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

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

In May 2005, the Company (through a wholly owned subsidiary of the Services) exercised its option to purchase 78.9 percent of the common shares of Orange Avenue Mortgage Investments, Inc. ("OAMI") (formerly CNL Commercial Finance, Inc.). As a result, the Company has consolidated OAMI in its consolidated financial statements (see Note 23).

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

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

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

In allocating the fair value of the identified intangible assets and liabilities of an acquired property, above-market and below-market in-place lease values are recorded as other assets or liabilities based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. The capitalized above-market lease values are amortized as a reduction of rental income over the remaining non-cancelable terms of the respective leases. The capitalized below-market lease values are amortized as an increase to rental income over the initial term.

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

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

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

> *Operating method* – Leases accounted for using the operating method are recorded at the cost of the real estate. Revenue is recognized as rentals are earned and expenses (including depreciation) are charged to operations as incurred. Buildings are depreciated on the straight-line method over their estimated useful lives (generally 35 to 40 years). Leasehold interests are amortized on the straight-line method over the terms of their respective leases. When scheduled rentals vary during the lease term, income is recognized on a straight-line basis so as to produce a constant periodic rent over the term of the lease. Accrued rental income is the aggregate difference between the scheduled rents which vary during the lease term and the income recognized on a straight-line basis.
>
> *Direct financing method* – Leases accounted for using the direct financing method are recorded at their net investment (which at the inception of the lease generally represents the cost of the property). Unearned income is deferred and amortized into income over the lease terms so as to produce a constant periodic rate of return on the Company's net investment in the leases.

Management periodically assesses its real estate for possible impairment whenever events or changes in circumstances indicate that the carrying value of the asset, including accrued rental

income, may not be recoverable through operations. Management determines whether an impairment in value has occurred by comparing the estimated future cash flows (undiscounted and without interest charges), including the residual value of the real estate, with the carrying cost of the individual asset. If an impairment is indicated, a loss will be recorded for the amount by which the carrying value of the asset exceeds its fair value.

Real Estate – Inventory Portfolio – The NNN TRS acquires, develops and owns properties that it intends to sell. The properties that are classified as held for sale at any given time may consist of properties that have been acquired in the marketplace with the intent to sell and properties that have been, or are currently being, constructed by the NNN TRS. The NNN TRS records the acquisition of the real estate at cost, including the acquisition and closing costs. The cost of the real estate developed by the NNN TRS includes direct and indirect costs of construction, interest and other miscellaneous costs incurred during the development period until the project is substantially complete and available for occupancy. Real estate held for sale is not depreciated. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the NNN TRS classifies its real estate held for sale as discontinued operations for each property in which rental revenues are generated (see Note 20).

Real Estate Dispositions – When real estate is disposed of, the related cost, accumulated depreciation or amortization and any accrued rental income for operating leases and the net investment for direct financing leases are removed from the accounts and gains and losses from the dispositions are reflected in income. Gains from the disposition of real estate are generally recognized using the full accrual method in accordance with the provisions of SFAS No. 66 "Accounting for Real Estate Sales," provided that various criteria relating to the terms of the sale and any subsequent involvement by the Company with the real estate sold are met. Lease termination fees are recognized when the related leases are cancelled and the Company no longer has a continuing obligation to provide services to the former tenants.

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

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

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

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

Cash accounts maintained on behalf of the Company in demand deposits at commercial banks and money market funds may exceed federally insured levels; however, the Company has not experienced any losses in such accounts. The Company limits investment of temporary cash investments to financial institutions with high credit standing; therefore, management believes it is not exposed to any significant credit risk on cash and cash equivalents.

Restricted Cash – Restricted cash consists of amounts held in restricted escrow accounts in connection with the sale of certain assets of OAMI to a third party (the "Buyer") in December 2004 (prior to the Company exercising its option) (see Note 23). The use of the cash is restricted pursuant to agreements with the Buyer and will be released in December 2007 subject to any pending indemnity claims. The amount held in these accounts at December 31, 2006 and 2005 was $36,728,000 and $30,530,000, respectively. Carrying value for restricted cash was $36,587,000 and $30,191,000 at December 31, 2006 and 2005, respectively, and is calculated as the present value of the expected release of monies.

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

Debt Costs – Debt costs incurred in connection with the Company's $300,000,000 line of credit and mortgages payable have been deferred and are being amortized over the term of the respective loan commitment using the straight-line method, which approximates the effective interest method. Debt costs incurred in connection with the issuance of the Company's notes payable have been deferred and are being amortized over the term of the respective debt obligation using the effective interest method.

Revenue Recognition – Rental revenues for non-development real estate assets are recognized when earned in accordance with SFAS 13, "Accounting for Leases," based on the terms of the lease at the time of acquisition of the leased asset. Rental revenues for properties under construction commence upon completion of construction of the leased asset and delivery of the leased asset to the tenant.

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

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

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Weighted average number of common shares outstanding | 57,698,533 | 53,272,997 | 51,546,814 |
| Unvested restricted stock | (270,470) | (288,176) | (234,380) |
| Weighted average number of common shares outstanding used in basic earnings per share | 57,428,063 | 52,984,821 | 51,312,434 |
| Weighted average number of common shares outstanding used in basic earnings per share | 57,428,063 | 52,984,821 | 51,312,434 |
| Effect of dilutive securities: | | | |
| Restricted stock | 114,367 | 221,337 | 234,380 |
| Common stock options | 107,909 | 128,944 | 192,370 |
| Assumed conversion of Series B Convertible Preferred Stock to common stock | 400,607 | 1,293,996 | - |
| Directors' deferred fee plan | 28,929 | 11,045 | 3,334 |
| Weighted average number of common shares outstanding used in diluted earnings per share | 58,079,875 | 54,640,143 | 51,742,518 |

The Series B Convertible Preferred shares were not included in computing diluted earnings per common share for the year ended December 31, 2004 because their effects would be antidilutive. In April 2006, the Series B Convertible Preferred shares were converted into 1,293,996 shares of common stock and therefore are included in the computation of both basic and diluted weighted average shares outstanding. In addition, the potential dilutive shares related to convertible notes payable were not included in computing earnings per common share because their effects would be antidilutive.

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

Income Taxes – The Company has made an election to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, and related regulations. The Company generally will not be subject to federal income taxes on amounts distributed to stockholders, providing it distributes 100 percent of its real estate investment trust taxable income and meets certain other requirements for qualifying as a REIT. For each of the years in the three-year period ended December 31, 2006, the Company believes it has qualified as a REIT. Notwithstanding the Company's qualification for taxation as a REIT, the Company is subject to certain state taxes on its income and real estate.

The Company and its taxable REIT subsidiaries have made timely TRS elections pursuant to the provisions of the REIT Modernization Act. A TRS is able to engage in activities resulting in

income that previously would have been disqualified from being eligible REIT income under the federal income tax regulations. As a result, certain activities of the Company which occur within its TRS entities are subject to federal and state income taxes (See Note 3). All provisions for federal income taxes in the accompanying consolidated financial statements are attributable to the Company's taxable REIT subsidiaries and to OAMI's built-in-gain tax liability.

Income taxes are accounted for under the asset and liability method as required by SFAS No. 109, "Accounting for Income Taxes." Deferred tax assets and liabilities are recognized for the temporary differences based on estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

New Accounting Standards – In June 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, "Accounting for Income Taxes." This 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. It also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact, if any, of applying the various provisions of FIN 48.

In September 2006, the Securities and Exchange Commission ("SEC") staff issued Staff Accounting Bulletin ("SAB") Topic 1N, "Financial – Statements – Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the current year's financial statements are materially misstated. SAB 108 references both the "iron curtain" and "rollover" approaches to quantifying a current year misstatement for purposes of determining its materiality. The iron curtain approach focuses on how the current year's balance sheet would be affected in correcting a misstatement without considering the year(s) in which the misstatement originated. The rollover approach focuses on the amount of the misstatement that originated in the current year's income statement. SAB 108 states that registrants must quantify the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. Both the iron curtain approach and rollover approach should be used in assessing the materiality of a current year misstatement. SAB 108 provides that once a current year misstatement has been quantified, the guidance in SAB Topic 1M, "Financial Statements - Materiality," ("SAB 99") should be applied to determine whether the misstatement is material and should result in an adjustment to the financial statements. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB 108 did not have a significant impact on the Company's financial position or results of operations.

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

In October 2006, FASB issued FASB Staff Position ("FSP") FAS 123 (R)-5 amending FSP FAS 123 (R)-1. This FSP addresses whether a modification of an instrument in connection with an entity restructuring should be considered a modification for purposes of applying FSP FAS 123 (R)-1, "Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services under FASB Statement No. 123(R)." Prior to FSP FAS 123 (R)-5, entities were required to apply the recognition and measurement provisions of SFAS 123R throughout the life of an instrument, unless the instrument was modified when the holder was no longer an employee. FSP FAS 123 (R)-5 prescribes that there should be no change in recognition or the measurement (due to a change in classification) of those instruments that were originally issued as employee compensation and then modified, and the modification is made to the terms of the instrument solely to reflect an equity restructuring that occurs when the holders are no longer employees if both of the following conditions are met: (i) there is no increase in fair value of the award (or the ratio of intrinsic value to the exercise price of the award is preserved), or the antidilution provision is not added to the terms of the award in contemplation of an equity restructuring, and (ii) all holders of the same class of equity instruments are treated in the same manner. The adoption of this FSP does not have a significant impact on the Company's financial position or results of operations.

In December 2006, FASB issued a FSP on EITF 00-19-2 which addresses an issuer's accounting for registration payment arrangements for financial instruments such as equity shares, warrants or debt instruments. This FSP specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with FASB Statement No. 5, "Accounting for Contingencies" and FASB Interpretation No. 14, "Reasonable Estimation of the Amount of a Loss." The financial instrument(s) subject to the

registration payment arrangement shall be recognized and measured in accordance with other applicable Generally Acceptable Accounting Principles, ("GAAP") without regard to the contingent obligation to transfer consideration pursuant to the registration payment arrangement. An entity should recognize and measure a registration payment arrangement as a separate unit of account from the financial instrument(s) subject to that arrangement. Adoption of this FSP may require additional disclosures relating to the nature of the registration payment, settlement alternatives, current carrying amount of the liability representing the issuer's obligations and the maximum potential amount of consideration, undiscounted that the issuer could be required to transfer. This FSP shall be effective immediately for registration payment arrangements and the financial instruments subject to those arrangements that are entered into or modified subsequent to the date of issuance of this FSP. For registration payment arrangements and financial instruments subject to those arrangements that were entered into prior to the issuance of this FSP, this guidance shall be effective for financial statements issued for fiscal years beginning after December 15, 2006. The adoption of this FSP will not have a significant impact on the Company's financial position or results of operations.

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

Reclassification – Certain items in the prior year's consolidated financial statements and notes to consolidated financial statements have been reclassified to conform to the 2006 presentation. These reclassifications had no effect on stockholders' equity or net earnings.

**Note 2 – Real Estate - Investment Portfolio**:

Leases – The Company generally leases its Investment Properties to established tenants. As of December 31, 2006, 674 of the Investment Property leases have been classified as operating leases and 49 leases have been classified as direct financing leases. For the Investment Property leases classified as direct financing leases, the building portions of the property leases are accounted for as direct financing leases while the land portions of 28 of these leases are accounted for as operating leases. Substantially all leases have initial terms of 10 to 20 years (expiring between 2007 and 2030) and provide for minimum rentals. In addition, the tenant leases generally provide for limited increases in rent as a result of fixed increases, increases in the consumer price index, and/or increases in the tenant's sales volume. Generally, the tenant is also required to pay all property taxes and assessments, substantially maintain the interior and exterior of the building and carry property and liability insurance coverage. Certain of the Company's Investment Properties are subject to leases under which the Company retains responsibility for certain costs and expenses of the property. As of December 31, 2006, the weighted average remaining lease term was approximately 12 years. Generally, the leases of the Investment Properties provide the tenant with one or more multi-year renewal options subject to generally the same terms and conditions as the initial lease.

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

| | 2006 | 2005 |
|---|---|---|
| Land and improvements | $ 692,048 | $ 574,150 |
| Buildings and improvements | 829,565 | 799,291 |
| Leasehold interests | 2,532 | 2,532 |
| | 1,524,145 | 1,375,973 |
| Less accumulated depreciation and amortization | (87,329) | (79,198) |
| | 1,436,816 | 1,296,775 |
| Work in progress | 3,769 | 3,012 |
| | 1,440,585 | 1,299,787 |
| Less impairment | (1,583) | (2,533) |
| | $ 1,439,002 | $ 1,297,254 |

Some leases provide for scheduled rent increases throughout the lease term. Such amounts are recognized on a straight-line basis over the terms of the leases. For the years ended December 31, 2006, 2005 and 2004, the Company recognized collectively in continuing and discontinued operations, $3,160,000, $2,053,000, and $3,452,000, respectively, of such income. At December 31, 2006 and 2005, the balance of accrued rental income, net of allowances of $2,536,000 and $2,057,000, respectively, was $26,510,000 and $30,717,000 (excluding $97,000 and $2,718,000 in deferred rental income), respectively.

In connection with the development of 11 Investment Properties, the Company has agreed to fund construction commitments (including land costs) of $35,020,000, of which $17,845,000 has been funded as of December 31, 2006.

The following is a schedule of future minimum lease payments to be received on noncancellable operating leases held for investment at December 31, 2006 (dollars in thousands):

| | |
|---|---|
| 2007 | $ 138,842 |
| 2008 | 137,691 |
| 2009 | 134,995 |
| 2010 | 132,585 |
| 2011 | 128,051 |
| Thereafter | 1,084,105 |
| | $ 1,756,269 |

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

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

| | 2006 | 2005 |
|---|---|---|
| Minimum lease payments to be received | $ 103,938 | $ 145,605 |
| Estimated unguaranteed residual values | 24,793 | 31,110 |
| Less unearned income | (58,048) | (82,581) |
| Net investment in direct financing leases | $ 70,683 | $ 94,134 |

The following is a schedule of future minimum lease payments to be received on direct financing leases held for investment at December 31, 2006 (dollars in thousands):

| | |
|---|---|
| 2007 | $ 9,827 |
| 2008 | 9,831 |
| 2009 | 9,910 |
| 2010 | 9,930 |
| 2011 | 9,916 |
| Thereafter | 54,524 |
| | $ 103,938 |

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

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

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Continuing operations: | | | |
| Real estate | $ - | $ 1,673 | $ - |
| Intangibles[1] | - | 1,328 | - |
| | - | 3,001 | - |
| Discontinued operations: | | | |
| Real estate | 693 | 2,056 | - |
| | $ 693 | $ 2,056 | $ - |

[1] Included in Other Assets on the Consolidated Balance Sheets.

## Note 3 – Real Estate – Inventory Portfolio:

As of December 31, 2006, the NNN TRS owned 97 Inventory Properties: 79 completed inventory, five under construction and 13 land parcels. As of December 31, 2005, the NNN TRS owned 63 Inventory Properties: 47 complete inventory, 12 under construction and four land parcels. The real estate Inventory Portfolio consisted of the following (dollars in thousands):

| | 2006 | 2005 |
|---|---|---|
| Inventory: | | |
| Land | $ 62,554 | $ 26,430 |
| Building | 101,168 | 37,081 |
| | 163,722 | 63,511 |
| Construction projects: | | |
| Land | 42,303 | 44,168 |
| Work in process | 22,134 | 23,395 |
| | 64,437 | 67,563 |
| | $ 228,159 | $ 131,074 |

In connection with the development of five Inventory Properties by the NNN TRS, the Company has agreed to fund construction commitments of $36,728,000, of which $27,263,000, including land costs, has been funded as of December 31, 2006.

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

| | 2006 | | 2005 | | 2004 | |
|---|---|---|---|---|---|---|
| | # of Properties | Gain | # of Properties | Gain | # of Properties | Gain |
| Continuing operations | 6 | $ 8,000 | 6 | $ 2,010 | 7 | $ 4,700 |
| Minority interest | | (3,609) | | - | | (1,717) |
| Total continuing operations | | 4,391 | | 2,010 | | 2,983 |
| Discontinued operations | 58 | 5,590 | 22 | 18,696 | 17 | 17,885 |
| Intersegment eliminations | | 190 | | 921 | | 817 |
| Minority interest | | (505) | | (5,999) | | (4,705) |
| Total discontinued operations | | 5,275 | | 13,618 | | 13,997 |
| | 64 | $ 9,666 | 28 | $ 15,628 | 24 | $ 16,980 |

## Note 4 – Investments in Unconsolidated Affiliate:

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

During the years ended December 31, 2006, 2005 and 2004 the Company received $1,042,000, $471,000 and $446,000, respectively, in distributions from Plaza. For the years ended December 31, 2006, the Company recognized earnings from Plaza of $122,000, and a loss of $218,000 and $276,000 for the years ended December 31, 2005 and 2004, respectively.

Since November 1999, the Company has leased its office space from Plaza. The Company's lease expires in October 2014. In October 2006, the Company amended its lease with Plaza to reduce the square footage leased by the Company. During the years ended December 31, 2006, 2005 and 2004, the Company incurred rental expenses in connection with the lease of $1,024,000, $1,035,000 and $1,018,000, respectively. In May 2000, the Company subleased a portion of its office space to affiliates of James M. Seneff, Jr. In October 2006, the Company terminated these subleases in connection with the Company's amendment. During the years ended December 31, 2006, 2005 and 2004, the Company earned $337,000, $397,000 and $345,000, respectively, in rental and accrued rental income from these affiliates.

The following is a schedule of the Company's future minimum lease payments related to the office space leased from Plaza at December 31, 2006 (dollars in thousands):

| | |
|---|---|
| 2007 | $ 815 |
| 2008 | 839 |
| 2009 | 865 |
| 2010 | 891 |
| 2011 | 917 |
| Thereafter | 2,749 |
| | $ 7,076 |

Since lease renewal periods are exercisable at the option of the tenant, the above table only presents future minimum lease payments due during the initial lease terms. The Company has the option to renew its lease with Plaza for three successive five-year periods subject to similar terms and conditions as the initial lease.

**Note 5 – Mortgages, Notes and Accrued Interest Receivable:**

As of December 31, 2006, the structured finance investments bear a weighted average interest rate of 13.3% per annum, of which 10.1% is payable monthly and the remaining 3.2% accrues and is due at maturity. The principal balance of each structured finance investment is due in full at maturity, which ranges between November 2007 and January 2009. The structured finance investments are secured by the borrowers' pledge of their respective membership interests in the certain subsidiaries which own the respective real estate.

The following table summarizes the activity of the structured finance investments for each of the years ended December 31 (dollars in thousands):

| | 2006 | 2005 |
|---|---|---|
| Balance at January 1 | $ 27,805 | $ 29,390 |
| New investments | 16,477 | 5,988 |
| Principal repayments | (30,365) | (7,573) |
| Balance at December 31 | $ 13,917 | $ 27,805 |

## Note 6 – Mortgage Residual Interests:

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

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

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

(2) The Company owns 78.9 percent of OAMI's investment interest.

Each of the Residuals is recorded at fair value based upon a third party 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. As a result of the increase in historical prepayments of the underlying loans of the Residuals, the third party valuation increased the average life equivalent Constant Prepayment Rate ("CPR") speeds assumption from a range of 18.7% to 22.9% up to a range of 38.7% to 47.6%. As a result of the increase in historical prepayments and subsequently the change in the assumption in future prepayments, the Company recognized an other than temporary valuation impairment of $8,779,000 for the year ended December 31, 2006.

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

| | 2006 | 2005 |
|---|---|---|
| Discount rate | 17% | 17% |
| Average life equivalent CPR speeds range | 38.7% to 47.6% CPR | 18.7% to 22.9% CPR |
| Foreclosures: | | |
| Frequency curve default model | 1.1% maximum rate | 1.1% maximum rate |
| Loss severity of loans in foreclosure | 10% | 30% |
| Yield: | | |
| LIBOR | Forward 3-month curve | Forward 3-month curve |
| Prime | Forward curve | Forward curve |

The following table shows the effects on the key assumptions affecting the fair value of the Residuals at December 31, 2006 (dollars in thousands).

| | Residuals |
|---|---|
| Carrying amount of retained interests | $ 31,512 |
| Discount rate assumption | |
| Fair value at 20% discount rate | $ 30,233 |
| Fair value at 22% discount rate | $ 29,407 |
| Prepayment speed assumption | |
| Fair value of 1% increases above the CPR Index | $ 31,439 |
| Fair value of 2% increases above the CPR Index | $ 31,394 |
| Expected credit losses | |
| Fair value 2% adverse change | $ 31,504 |
| Fair value 3% adverse change | $ 31,499 |
| Yield Assumptions | |
| Fair value of Prime/LIBOR spread contracting 25 basis points | $ 32,270 |
| Fair value of Prime/LIBOR spread contracting 50 basis points | $ 33,029 |

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

**Note 7 – Line of Credit Payable**:

In December 2005, the Company entered into an amended and restated loan agreement for a $300,000,000 revolving credit facility (the “Credit Facility”) which amended the Company’s existing loan agreement by (i) increasing the borrowing capacity to $300,000,000 from $225,000,000, (ii) lowering the interest rates of the tiered rate structure to a maximum rate of 112.5 basis points above LIBOR (based upon the debt rating of the Company, the current interest rate is 80 basis points above LIBOR), (iii) requiring the Company to pay a commitment fee based on a tiered rate structure to a maximum of 25 basis points per annum (based upon the debt rating of the Company the current commitment fee is 20 basis points), (iv) providing for a competitive bid option for up to 50 percent of the facility amount, (v) extending the expiration date to May 8, 2009, and (vi) amending certain of the financial covenants of the Company. The principal balance is due in full upon expiration of the Credit Facility in May 2009, which the Company may request to be extended for an additional 12-month period. As of December 31, 2006 and 2005, $28,000,000 and $162,300,000, respectively, was outstanding under the Credit Facility. The Credit Facility had a weighted average interest rate of 5.91% and 4.77% for the years ended December 31, 2006 and 2005, respectively. In accordance with the terms of the Credit Facility, the Company is required to meet certain restrictive financial covenants, which, among other things, require the Company to maintain certain (i) maximum leverage ratios, (ii) debt service coverage, (iii) cash flow coverage and (iv) investment and dividend limitations. At December 31, 2006, the Company was in compliance with those covenants.

For the years ended December 31, 2006, 2005 and 2004, interest cost incurred was $7,310,000, $2,948,000, and $1,084,000 respectively, of which $2,278,000, $2,563,000 and $271,000, respectively, was capitalized by the Company as a cost of buildings constructed. For December 31, 2006, 2005 and 2004, $5,032,000, $385,000 and $813,000, respectively, were charged to operations.

**Note 8 – Mortgages Payable**:

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

| Entered | Balance | Interest Rate | Maturity [4] | Carrying Value of Encumbered Asset(s) [1] | Outstanding Principal Balance at December 31, 2006 | 2005 |
|---|---|---|---|---|---|---|
| January 1996 | $ 39,450 | 7.435% | February 2006 | $ -[6] | $ - | $ 18,538 |
| June 1996[2] | 1,916 | 8.250% | December 2008 | 1,779[5] | 506 | 729 |
| December 1999 | 350 | 8.500% | December 2009 | 3,314 | 136 | 175 |
| December 2001 | 623 | 9.000% | April 2014 | 1,021 | 398 | 435 |
| December 2001 | 698 | 9.000% | April 2019 | 1,380 | 463 | 482 |
| December 2001 | 485 | 9.000% | April 2019 | 1,357 | 236 | 246 |
| June 2002 | 21,000 | 6.900% | July 2012 | 26,181 | 20,027 | 20,276 |
| November 2003 | 95,000 | 5.420% | November 2013 | -[7] | - | 95,000 |
| February 2004 [2] | 6,952 | 6.900% | January 2017 | 11,894 | 5,907 | 6,299 |
| February 2004 [3] | 12,000 | 7.370% | September 2007 | 28,233 | 7,304 | 7,979 |
| March 2005 [2] | 1,015 | 8.140% | September 2016 | 1,398 | 915 | 974 |
| | | | | $ 76,557 | $ 35,892 | $ 151,133 |

(1) Each loan is secured by a first mortgage lien on certain of the Company's properties. The carrying values of the assets are as of December 31, 2006.

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

(3) The Company assumed this long term fixed rate loan when the company increased its ownership in Net Lease Institutional Realty, L.P. (see Note 14).

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

(5) The Company has a $604,000 letter of credit that also secures the loan.

(6) In February 2006, upon maturity, the Company repaid the outstanding principal balance and the properties were released from the mortgage lien.

(7) In May 2006, the Company disposed of the properties that secured the loan at which time the buyer assumed the mortgage outstanding.

The following is a schedule of the annual maturities of the Company's mortgages payable at December 31, 2006 (dollars in thousands):

| Year | Amount |
|---|---|
| 2007 | $ 8,413 |
| 2008 | 1,190 |
| 2009 | 1,000 |
| 2010 | 1,022 |
| 2011 | 1,098 |
| Thereafter | 23,169 |
| | $ 35,892 |

**Note 9 – Notes Payable – Secured**:

The Company's consolidated financial statements included the following notes payable as a result of the acquisition of OAMI (see Note 22) at December 31 (dollars in thousands):

| | Principal Balance 2006 | Principal Balance 2005 | Stated Rate | Maturity Date |
|---|---|---|---|---|
| 02-1 Notes [1] [2] | $ 10,500 | $ 12,250 | 10% | December 2007 |
| 03-1 Notes [2] [3] | 14,000 | 16,000 | 10% | June 2008 |
| | $ 24,500 | $ 28,250 | | |

[1] Interest is payable quarterly with annual principal payments of $1,750 payable December 31

[2] Secured by certain equity investments in mortgage residual interests of the Company with a carrying value of $8,690

[3] Interest is payable quarterly with annual principal payments of $2,000 payable June 30

Each issuance of notes can be prepaid at the option of OAMI, in whole or in part, without premium or penalty after the pre-payment date, as defined in each respective note.

**Note 10 – Notes Payable**:

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

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

[1] The proceeds from the note issuance were used to pay down outstanding indebtedness of the Company's Credit Facility.

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

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

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

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

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

In connection with the debt offerings, the Company incurred debt issuance costs totaling $4,542,000 consisting primarily of underwriting discounts and commissions, legal and accounting fees, rating agency fees and printing expenses. Debt issuance costs for all note issuances have been deferred and are being amortized over the term of the respective notes using the effective interest method.

In accordance with the terms of the indenture, pursuant to which the Company's notes have been issued, the Company is required to meet certain restrictive financial covenants, which, among other things, require the Company to maintain (i) certain leverage ratios and (ii) certain interest coverage. At December 31, 2006, the Company was in compliance with those covenants.

Term Note – In connection with the acquisition of NAPE, the Company assumed a $20,800,000 term note payable ("Term Note"). The principal balance on the Term Note is due in full upon the expiration in June 2009. The Term Note bears interest based on a tiered rate structure to a maximum rate of 165 basis points above LIBOR, (based on the debt rating of the Company, the current interest rate is 120 basis points above LIBOR or 6.55% at December 31, 2006). The Term Note had a weighted average interest rate of 6.33% and 5.00% for the years ended December 31, 2006 and 2005, respectively. In accordance with the terms of Term Note, the Company is required to meet certain restrictive financial covenants, which among other things, require the Company to maintain certain (i) maximum leverage ratios, (ii) debt service coverage and (iii) cash flow coverage.

**Note 11 – Notes Payable – Convertible**:

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

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

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

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

**Note 12 – Financing Lease Obligation**:

In July 2004, the Company sold five investment properties for approximately $26,041,000 and subsequently leased back the properties under a 10-year financing lease obligation. The Company may repurchase one or more of the properties subject to put and call options included in the financing lease. In accordance with the provisions of SFAS No. 66, "Accounting for Sales of Real Estate," the Company has recorded this transaction as a financing transaction. The 10-year financing lease bears an interest rate of 5% annually with monthly interest payments of $109,000 and expires in June 2014 unless either the put or call option is exercised.

**Note 13 – Preferred Stock**:

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

| Non-Voting Preferred Stock Issuance | Shares Outstanding At December 31, 2006 | Liquidation Preference (per share) | Fixed Annual Cash Distribution (per share) |
|---|---|---|---|
| 9% Series A | 1,781,589 | $ 25.00 | $ 2.25 |
| 6.7% Series B Convertible | - | 2,500.00 | 167.50 |
| 7.375% Series C Redeemable Depositary Shares | 3,680,000 | 25.00 | 1.84375 |

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

In January 2007, the Company redeemed all 1,781,589 shares of Series A Preferred Stock at a redemption price of $25.00 per share, plus all accumulated and unpaid distributions through the redemption date of $0.20625 per share.

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

*7.375% Series C Cumulative Redeemable Preferred Stock.* In October 2006, the Company filed a prospectus supplement to the prospectus contained in its February 2006 shelf registration statement and issued 3,200,000 depositary shares, each representing 1/100$^{th}$ of a share of

7.375% Series C Cumulative Redeemable Preferred Stock ("Series C Preferred Stock"), and received gross proceeds of $80,000,000. In addition, the Company issued an additional 480,000 depositary shares in connection with the underwriters' over-allotment option and received gross proceeds of $12,000,000. In connection with this offering the Company incurred stock issuance costs of approximately $3,098,000, consisting primarily of underwriting commissions and fees, legal and accounting fees and printing expenses.

Holders of the depositary shares are entitled to receive, when and as authorized by the board of directors, cumulative preferential cash dividends at the rate of 7.375 percent of the $25.00 liquidation preference per depositary share per annum (equivalent to a fixed annual amount of $1.84375 per depositary share). The Series C Preferred Stock underlying the depositary shares ranks senior to the Company's common stock with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Company. The Company may redeem the Series C Preferred Stock underlying the depositary shares on or after October 12, 2011, for cash, at a redemption price of $2,500.00 per share (or $25.00 per depositary share), plus all accumulated, accrued and unpaid dividends.

**Note 14 – Common Stock**:

In September 1997, the Company entered into a partnership, Net Lease Institutional Realty, L.P. (the "Partnership"), with the Northern Trust Company, as Trustee of the Retirement Plan for Chicago Transit Authority Employees ("CTA"). Under the terms of the limited partnership agreement of the Partnership, CTA had the option to convert its 80 percent limited partnership interest into shares of the Company's common stock. In October 2003, CTA exercised that right, and based on the terms of and calculation defined in the limited partnership agreement, the Company issued 953,551 shares of common stock to CTA in a private transaction in February 2004 in exchange for CTA's 80 percent limited partnership interest, increasing the Company's ownership in the Partnership to 100 percent. Prior to CTA's exercise, the Company accounted for its 20 percent interest in the Partnership under the equity method of accounting. Net income and losses of the Partnership were allocated to the partners in accordance with their respective percentage interest during the Partnership's term.

In June 2005, the Company issued 1,636,532 shares of common stock pursuant to the acquisition of National Properties Corporation ("NAPE") (see Note 23).

*Dividend Reinvestment and Stock Purchase Plan.* In February 2006, the Company filed a shelf registration statement with the Securities and Exchange Commission for its Dividend Reinvestment and Stock Purchase Plan ("DRIP") which permits the issuance by the Company of 12,191,394 shares of common stock. The Company's DRIP provides an economical and convenient way for current stockholders and other interested new investors to invest in the Company's common stock. The following outlines the common stock issuances pursuant to the Stock Plan for each of the years ended December 31 (dollars in thousands):

| | 2006 | 2005 |
|---|---|---|
| Shares of common stock | 3,046,408 | 1,048,746 |
| Net proceeds | $ 65,722 | $ 20,747 |

**Note 15 – Employee Benefit Plan**:

Effective January 1, 1998, the Company adopted a defined contribution retirement plan (the "Retirement Plan") covering substantially all of the employees of the Company. The

Retirement Plan permits participants to defer up to a maximum of 60 percent of their compensation, as defined in the Retirement Plan, subject to limits established by the Internal Revenue Code. The Company matches up to 60 percent of the participants' contributions based on a tiered rate structure up to a maximum of eight percent of a participant's annual compensation. The Company's contributions to the Retirement Plan for the years ended December 31, 2006, 2005 and 2004 totaled $248,000, $194,000, and $140,000, respectively.

**Note 16 – Dividends**:

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

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Ordinary dividends | $ 1.151 | $ 1.068 | $ 0.916 |
| Qualified dividends | - | 0.225 | - |
| Capital gain | 0.150 | - | 0.040 |
| Unrecaptured Section 1250 Gain | 0.019 | 0.002 | 0.041 |
| Nontaxable distributions | - | 0.005 | 0.293 |
| | $ 1.320 | $ 1.300 | $ 1.290 |

The following presents the characterization for tax purposes of preferred stock dividends per share paid to stockholders for the year ended December 31, 2006.

| | Total | Ordinary Dividends | Capital Gain | Unrecaptured Section 1250 Gain |
|---|---|---|---|---|
| 2006: | | | | |
| Series A | $ 2.25 | $ 1.962 | $ 0.256 | $ 0.032 |
| Series B Convertible | 41.875 | 36.507 | 4.767 | 0.601 |
| Series C Redeemable[(1)] | 0.250955 | 0.218784 | 0.028567 | 0.003604 |
| 2005: | | | | |
| Series A | 2.25 | 2.25 | - | - |
| Series B Convertible | 167.50 | 167.50 | - | - |
| 2004: | | | | |
| Series A | 2.25 | 2.25 | - | - |
| Series B Convertible | 167.50 | 167.50 | - | - |

[(1)] Issued in October 2006.

**Note 17 – Restructuring Costs**:

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

**Note 18 – Transition Costs**:

During the year ended December 31, 2004, the Company recorded a transition cost of $3,741,000 including severance, accelerated vesting of restricted stock, and recruitment costs in connection with the appointment of Craig Macnab as Chief Executive Officer in February 2004, and the resignation of Gary M. Ralston as President and Chief Operating Officer in May 2004.

**Note 19 – Income Taxes**:

For income tax purposes, the Company has taxable REIT subsidiaries in which certain real estate activities are conducted. Additionally, the Company has its 78.9 percent equity interest in OAMI. The Company has consolidated OAMI in its financial statements as a result of the Company's acquisition in May 2005. OAMI, upon making its REIT conversion, has remaining tax liabilities relating to the built-in-gain of its assets. As a result, the Company treats some depreciation expense and certain other items differently for tax than for financial reporting purposes. The principal differences between the Company's effective tax rates for the years ended December 31, 2006, 2005 and 2004, and the statutory rates relate to state taxes and nondeductible expenses such as meals and entertainment expenses.

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

| | 2006 | 2005 |
|---|---|---|
| Temporary differences: | | |
| Built-in-gain | $ (9,480) | $ (14,551) |
| Depreciation | (600) | (315) |
| Stock based compensation | - | 35 |
| Other | 8 | (180) |
| Excess interest expense carryforward | 2,010 | - |
| Net operating loss carryforward | 1,961 | 544 |
| Net deferred income tax asset (liability) | $ (6,101) | $ (14,467) |
| Current income tax asset (payable) | (239) | 719 |
| Income tax asset (liability) | $ (6,340) | $ (13,748) |

In assessing the ability to realize a deferred tax asset, management considers whether it is more likely than not that some portion or the entire deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The net operating loss carryforwards were generated by the Company's taxable REIT subsidiaries. The net operating loss carryforwards expire in 2026. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize all of the benefits of these deductible differences that existed as of December 31, 2006.

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

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Net earnings before income taxes | $ 176,282 | $ 92,361 | $ 68,231 |
| Provision for income tax benefit (expense): | | | |
| Current: | | | |
| Federal | (1,804) | (2,401) | (420) |
| State and local | (339) | (451) | (90) |
| Deferred: | | | |
| Federal | 6,493 | (44) | (2,356) |
| State and local | 1,873 | (65) | (431) |
| Total provision for income taxes | 6,223 | (2,961) | (3,297) |
| Total net earnings | $ 182,505 | $ 89,400 | $ 64,934 |

**Note 20 – Earnings from Discontinued Operations**:

Real Estate – Investment Portfolio – In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company has classified the revenues and expenses related to (i) all Investment Properties that were sold and expired leasehold interests, and (ii) any Investment Property that was held for sale as of December 31, 2006, as discontinued operations. The following is a summary of the earnings from discontinued operations from the Investment Portfolio for each of the years ended December 31 (dollars in thousands):

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Revenues: | | | |
| Rental income from operating leases | $ 13,314 | $ 22,904 | $ 25,787 |
| Earned income from direct financing leases | 1,901 | 2,841 | 3,169 |
| Contingent rental income | 34 | 36 | 74 |
| Real estate expense reimbursement from tenants | 834 | 2,256 | 2,931 |
| Interest and other income from real estate transactions | 308 | 358 | 259 |
| | 16,391 | 28,395 | 32,220 |
| Operating expenses: | | | |
| General and administrative | 93 | (82) | 137 |
| Real estate | 2,484 | 6,411 | 8,027 |
| Depreciation and amortization | 1,545 | 5,536 | 4,419 |
| Impairments – real estate | 693 | 2,056 | - |
| | 4,815 | 13,921 | 12,583 |
| Other expenses (revenues): | | | |
| Interest and other income | - | (15) | (105) |
| Interest expense | 1,816 | 3,154 | 5,094 |
| | 1,816 | 3,139 | 4,989 |
| Earnings before gain on disposition of real estate and loss on extinguishment of mortgage payable | 9,760 | 11,335 | 14,648 |
| Gain on disposition of real estate | 91,332 | 9,816 | 2,523 |
| Loss on extinguishment of mortgage payable | (167) | - | - |
| Earnings from discontinued operations | $ 100,925 | $ 21,151 | $ 17,171 |

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Events or circumstances that may occur include changes in real estate market conditions, the ability of the Company to re-lease properties that are currently vacant or become vacant, and the ability to sell properties at an attractive return. Generally, the Company makes a provision for impairment loss if estimated future undiscounted operating cash flows plus estimated disposition proceeds are less than the current book value. Impairment losses are measured as the amount by which the current book value of the asset exceeds the estimated fair value of the asset. After such review, the Company recognized a $693,000 and $2,056,000 impairment in discontinued operations during the years ended December 31, 2006 and 2005, respectively.

Real Estate – Inventory Portfolio – The Company has classified the revenues and expenses related to (i) its Inventory Properties, which generated rental revenues prior to disposition, and

(ii) the Inventory Properties which had generated rental revenues and were held for sale as of December 31, 2006, as discontinued operations. The following is a summary of the earnings from discontinued operations from the Inventory Portfolio for each of the years ended December 31 (dollars in thousands):

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Revenues: | | | |
| Rental income from operating leases | $ 9,235 | $ 1,986 | $ 2,314 |
| Contingent rental income | - | 6 | 22 |
| Real estate expense reimbursement from tenants | 311 | 69 | 183 |
| Interest and other from real estate transactions | 336 | 899 | 202 |
| | 9,882 | 2,960 | 2,721 |
| Disposition of real estate: | | | |
| Gross proceeds | 80,856 | 70,967 | 66,738 |
| Costs | (75,076) | (51,350) | (48,036) |
| Gain | 5,780 | 19,617 | 18,702 |
| Operating expenses: | | | |
| General and administrative | 57 | 8 | 12 |
| Real estate | 365 | 318 | 364 |
| Depreciation and amortization | 8 | 21 | 5 |
| | 430 | 347 | 381 |
| Other expenses: | | | |
| Interest expense | 1,047 | 815 | 511 |
| Earnings before income tax expense and minority interest | 14,185 | 21,415 | 20,531 |
| Income tax expense | (4,920) | (5,739) | (5,841) |
| Minority interest | (1,223) | (6,296) | (5,143) |
| Earnings from discontinued operations | $ 8,042 | $ 9,380 | $ 9,547 |

**Note 21 – Derivatives**:

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

The Company'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, the Company primarily uses interest rate swaps as part of its cash flow hedging strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount. To date, such derivatives have been used to hedge the variable cash flows associated with floating rate debt and forecasted interest payments of a forecasted issuance of debt.

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

The Company 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, the Company 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 June 2004, the Company terminated its forward-starting interest rate swaps with a notional amount of $94,000,000 that was hedging the risk of changes in forecasted interest payments on a forecasted issuance of long-term debt. The fair value of the interest rate swaps when terminated was an asset of $4,148,000, which was deferred in other comprehensive income. During the year ended December 31, 2005, the Company amortized $326,000 as a reduction to interest expense from unamortized interest rate hedge gain. During the year ended December 31, 2006, the Company reclassified $345,000 out of other comprehensive income as a reduction to interest expense. As of December 31, 2006, $3,308,000 remains in other comprehensive income related to the fair value of the interest rate swaps. The Company estimates an additional $366,000 will be reclassified as a reduction to interest expense during the year ended December 31, 2007 as interest payments are made on the hedged debt. Additionally, the Company does not use derivatives for trading or speculative purposes or currently have any derivatives that are not designated as hedges. The Company has no derivative financial instruments outstanding at December 31, 2006 and 2005.

**Note 22 – Performance Incentive Plan**:

The Company's 2000 Performance Incentive Plan ("2000 Plan") allows the Company to award or grant to key employees, directors and persons performing consulting or advisory services for the Company or its affiliates, stock options, stock awards, stock appreciation rights, Phantom Stock Awards, Performance Awards and Leveraged Stock Purchase Awards, each as defined in the 2000 Plan. The 2000 Plan permits the issuance of up to 3,900,000 shares of common stock. The following summarizes the Company's stock-based compensation activity for each of the years ended December 31:

| | Number of Shares | |
|---|---|---|
| | 2006 | 2005 |
| Outstanding, January 1 | 461,175 | 639,765 |
| Options granted | - | - |
| Options exercised | (224,804) | (173,280) |
| Options surrendered | - | (5,310) |
| Outstanding, December 31 | 236,371 | 461,175 |
| Exercisable, December 31 | 236,371 | 457,000 |

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

| | 2006 | 2005 |
|---|---|---|
| Outstanding, January 1 | $ 15.66 | $ 15.33 |
| Granted during the year | - | - |
| Exercised during the year | 16.43 | 14.48 |
| Outstanding, December 31 | 14.92 | 15.66 |
| Exercisable, December 31 | 14.92 | 15.67 |

The following summarizes the outstanding options and the exercisable options at December 31, 2006:

| | Option Price Range | | |
|---|---|---|---|
| | $10.1875 to $13.6875 | $14.5700 to $17.8750 | Total |
| Outstanding options: | | | |
| Number of shares | 55,734 | 180,637 | 236,371 |
| Weighted-average exercise price | $ 11.32 | $ 16.03 | $ 14.92 |
| Weighted-average remaining contractual life in years | 3.7 | 4.0 | 3.9 |
| Exercisable options: | | | |
| Number of shares | 55,734 | 180,637 | 236,371 |
| Weighted-average exercise price | $ 11.32 | $ 16.03 | $ 14.92 |

One-third of the option grant to each individual becomes exercisable at the end of each of the first three years of service following the date of the grant and the options' maximum term is 10 years. At December 31, 2006, the intrinsic value of options outstanding was $1,899,000. All options outstanding at December 31, 2006, were exercisable. During the years ended December 31, 2006 and 2005, the Company received proceeds totaling $3,694,000 and $2,509,000, respectively, in connection with the exercise of options. The Company issued new common stock to satisfy share option exercises. The total intrinsic value of options exercised during the year ended December 31, 2006 and 2005, was $1,300,000 and $1,026,000, respectively.

Pursuant to the 2000 Plan, the Company has granted and issued shares of restricted stock to certain officers, directors and key associates of the Company. The following summarizes the activity for the year ended December 31, 2006 of such grants.

| | Number of Shares | Weighted Average Share Price |
|---|---|---|
| Non-vested restricted shares, January 1 | 398,441 | $ 17.02 |
| Restricted shares granted | 79,500 | 22.18 |
| Restricted shares vested | (193,252) | 17.06 |
| Restricted shares forfeited | - | - |
| Non-vested restricted shares, December 31 | 284,689 | 18.44 |

In May 2006, the Company accelerated the vesting and immediately vested 33,661 shares of restricted stock held by certain officers and resulted in the recognition of $557,000 of additional compensation expense for the year ended December 31, 2006. These shares would have otherwise vested through January 2009.

During 2005, the Company cancelled 30,135 shares of restricted stock. There were no shares cancelled in 2006.

Compensation expense for the restricted stock which is not tied to performance goals is determined based upon the fair value at the date of grant, assuming a 1.3% forfeiture rate, and is recognized as the greater of the amount amortized over a straight lined basis or the amount vested over the vesting periods. Vesting periods for officers and key associates of the Company range from four to seven years and generally vest yearly on a straight line basis. Vesting periods for directors are over a two year period and vest yearly on a straight line basis. Compensation expense for the restricted stock grants whose vesting is contingent upon certain performance goals of the Company is based upon the fair value of the grant calculated by a third party using a Monte Carlo Simulation model coupled with a binomial lattice model using the following assumptions: (i) average interest rate of 4.43%, (ii) $0.01 increase in annual dividend, (iii) expected life of five years, and (iv) volatility of 21.26%. Volatility is based upon the historical volatility of the Company's stock and other factors. The term is assumed to be the vesting date for each tranche. Vesting of these shares is contingent upon achievement of certain performance goals by January 1, 2010.

The following summarizes other grants made during the year ended December 31, 2006, pursuant to the 2000 Plan.

| | Shares | Weighted Average Share Price |
|---|---|---|
| Other share grants under the 2000 Plan: | | |
| Directors' fees | 14,062 | 21.85 |
| Deferred Directors' fees | 10,678 | 21.98 |
| | 24,740 | 21.91 |
| Shares available under the 2000 Plan for grant, end of period | 1,156,006 | |

The total compensation cost for share-based payments for the years ended December 31, 2006, and 2005, totaled $3,766,000 and $2,156,000, respectively, of such compensation expense. At December 31, 2006, the Company had $3,380,000 of unrecognized compensation cost related to non-vested share-based compensation arrangements under the 2000 Plan. This cost is expected to be recognized over a weighted average period of 2.8 years.

**Note 23 – Business Combinations**:

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

In accordance with SFAS 141, the Company recorded the assets and liabilities of OAMI at fair value. The Company recognized an extraordinary gain of $14,786,000, equal to the excess fair value over the option price, as all assets acquired were financial assets and current assets.

Based upon independent appraisals and management's evaluation, the following table summarizes the estimated fair values of the assets and liabilities of OAMI on May 2, 2005 (dollars in thousands):

| | |
|---|---|
| Mortgage residual interests | $ 68,327 |
| Notes receivable | 3,272 |
| Cash and cash equivalents | 10,285 |
| Restricted cash | 17,427 |
| Other assets | 6,794 |
| Total assets acquired | $ 106,105 |
| Notes payable – secured | $ 32,000 |
| Other liabilities | 1,028 |
| Deferred tax liability | 14,787 |
| Total liabilities assumed | 47,815 |
| Minority interest | 27,315 |
| Net assets | $ 30,975 |

The following table summarizes the extraordinary gain recognized by the Company (dollars in thousands) during the year ended December 31, 2005:

| | |
|---|---|
| Company's share of net assets acquired | $ 24,434 |
| Less option price | (9,379) |
| Basis of option | (269) |
| Extraordinary gain | $ 14,786 |

The Company's net earnings for the year ended December 31, 2005, includes 78.9 percent of OAMI's net earnings since the date of the acquisition in the amount of $1,411,000.

Between June 2001 and July 2003, a wholly owned subsidiary of the Company, Net Lease Funding, Inc. ("NLF"), entered into five limited liability company agreements with OAMI to create five limited liability companies (collectively, the "LLCs"). Kevin B. Habicht, an officer and director of the Company, is an officer, director and indirect stockholder of OAMI. Craig Macnab, an officer and director of the Company and Julian E. Whitehurst, an officer of the Company, are each an officer and director of OAMI. Each of the LLCs holds an interest in mortgage loans and is 100 percent equity financed. Prior to the acquisition of the 78.9 percent equity interest in OAMI, the Company held a non-voting and non-controlling interest in each of the LLCs ranging between 36.7 and 44.0 percent and accounted for its investment under the equity method of accounting (see Note 6).

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

Prior to the acquisition of 78.9 percent equity interest in OAMI, the Company received $2,749,000 and $10,562,000 in distributions from the LLCs during the years ended December 31, 2005 and 2004, respectively. For the years ended December 31, 2005 and 2004, the Company recognized $1,467,000 and $5,042,000 of earnings, respectively, from the LLCs.

In 2003, in connection with a loan to OAMI, the Company pledged a portion of its interest in two of the LLCs as partial collateral for the notes payable-secured (see Note 9).

In connection with the independent valuations of the Residuals' fair value, the Company reduced the carrying value of the Residuals to reflect such fair value at December 31, 2006 and 2005. The reduction in the Residuals' value that related to the Residuals acquired at the time of the option exercise was recorded as a purchase price allocation adjustment. The reduction in the Residuals' value acquired at the time of the option exercise that related to the period subsequent to the option exercise, as well as the reduction in the value related to the portion of the Residuals owned by NLF, was recorded as an aggregate other than temporary valuation impairment of $8,779,000 and $2,382,000 for the years ended December 31, 2006 and 2005, respectively. Unrealized gains of $1,992,000 were recorded as other comprehensive income in the Statement of Stockholders' Equity during the year ended December 31, 2006.

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

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

| | | |
|---|---|---|
| Real estate, Investment Portfolio: | | |
| Accounted for using the operating method | $ | 58,542 |
| Cash and cash equivalents | | 1,276 |
| Other assets | | 6,757 |
| Total assets acquired | $ | 66,575 |
| Note payable | $ | 28,200 |
| Other liabilities | | 6,176 |
| Total liabilities assumed | | 34,376 |
| Net assets acquired | $ | 32,199 |

The Company's net earnings for the year ended December 31, 2005, includes NAPE's net earnings since the date of acquisition in the amount of $1,867,000.

**Note 24 – Fair Value of Financial Instruments**:

The Company believes the carrying value of its Credit Facility approximates fair value based upon its nature, terms and variable interest rate. The Company believes the carrying value of its

financing lease obligation approximates fair value based upon its nature, terms and interest rate. The Company believes that the carrying value of its cash and cash equivalents, restricted cash, mortgages, notes and accrued interest receivable, receivables, mortgages payable, note payable – secured, accrued interest payable and other liabilities at December 31, 2006 and 2005 approximate fair value, based upon current market prices of similar issues. At December 31, 2006 and 2005, the fair value of the Company's notes and convertible notes, collectively, was $664,157,000 and $494,103,000, respectively, based upon the quoted market price.

**Note 25 – Related Party Transactions**:

For additional related party disclosures see Note 4 and Note 23.

In June 2005, James M. Seneff, Jr. and Robert A. Bourne each retired from the Board of Directors ("Retired Directors").

The Company has revolving lines of credit with the NNN TRS that allow for an aggregate borrowing capacity of $280,000,000, as of December 31, 2006. The lines of credit each bear interest at prime times 0.75 plus 4.10% per annum and expire on May 8, 2009 and are secured by a pledge of the real estate and/or the other assets owned by the respective borrower. The outstanding aggregate principal balance of the lines of credit at December 31, 2006 and 2005 was $208,395,000 and $110,067,000, respectively, and bore interest at a rate of 10.29% and 7.50%, respectively, per annum. In connection with the lines of credit from the NNN TRS, the Company earned $16,287,000, $3,511,000 and $3,819,000 in interest and fees during the years ended December 31, 2006, 2005 and 2004, respectively, each of which was eliminated in consolidation.

In 2005 and 2004, the Company provided disposition and development services to an affiliate of the Retired Directors. In connection therewith, the Company received an aggregate of $886,000 and $175,000 in fees during the years ended December 31, 2005 and 2004, respectively. There were no fees recognized during the year ended December 31, 2006.

In September 2000, a wholly owned subsidiary of Services entered into a $15,000,000 line of credit agreement with OAMI. Interest was payable monthly and the principal balance was due in full upon termination of the line of credit. In March 2004, the maturity date of the line of credit agreement was extended to March 31, 2005. In December 2003, the line of credit was amended to have a borrowing capacity of $35,000,000. In May 2004, the line of credit agreement was amended to temporarily increase the available credit to $45,000,000 until September 2004, at which time the available credit decreased to $35,000,000. In December 2004, the credit agreement was terminated. During the years ended December 31, 2004, the Company recognized $1,732,000 of interest and fee income related to the line of credit.

An affiliate of James M. Seneff, Jr., a former director of the Company, provided certain administrative, tax and technology services to the Company. In connection therewith, the Company paid $999,000 in fees relating to these services during the year ended December 31, 2004.

In 2002, the Company extended the maturity dates to dates between June and December 2007 on four mortgages securing an original aggregate principal indebtedness totaling $8,514,000 from affiliates of the Retired Directors. In June 2005, the Company received the outstanding

principal balance for three of the mortgage loans. In July 2005, the Company received the entire outstanding principal balance for the remaining mortgage loan. In connection therewith, the Company recorded $96,000 and $243,000, as interest and other income from real estate transactions during the years ended December 31, 2005 and 2004, respectively.

Prior to January 2005, the Company held a 98.7 percent, non-controlling and non-voting interest in Services. In January 2005, the Company entered into a purchase agreement with Services Investors, which provided that the Company would acquire their collective 1.3 percent interest, which was 100 percent of the voting interest in Services. Effective January 1, 2005, the Company acquired the remaining interest in Services increasing the Company's ownership in Services to 100 percent.

The Company paid the Services Investors $870,000 cash for the 1.3 percent interest, as determined by a third-party valuation. The Company allocated the difference between the purchase price, including transaction costs, and the book value of the 1.3 percent interest to the fair market value of the assets and liabilities acquired. The fair value of the assets and liabilities was determined by the third-party valuation, and the excess purchase price was allocated to the acquired assets on a pro rata basis, in accordance with the third-party valuation report.

**Note 26 – Quarterly Financial Data (unaudited)**:

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

| 2006 | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| Revenues as originally reported [1] | $ 37,026 | $ 37,570 | $ 37,966 | $ 41,578 |
| Reclassified to discontinued operations | (1,378) | (1,362) | (612) | - |
| Adjusted revenue | $ 35,648 | $ 36,208 | $ 37,354 | $ 41,578 |
| Net earnings | $ 23,448 | $ 80,201 | $ 21,455 | $ 57,401 |
| Net earnings per share [2]: | | | | |
| Basic | $ 0.40 | $ 1.38 | $ 0.35 | $ 0.93 |
| Diluted | 0.39 | 1.37 | 0.35 | 0.93 |
| **2005** | | | | |
| Revenues as originally reported [1] | $ 32,612 | $ 36,000 | $ 34,856 | $ 39,734 |
| Reclassified to discontinued operations | (6,952) | (6,855) | (3,757) | (7,216) |
| Adjusted Revenue | $ 25,660 | $ 29,145 | $ 31,099 | $ 32,518 |
| Net earnings before extraordinary gain | $ 26,004 | $ 16,888 | $ 16,530 | $ 15,192 |
| Extraordinary gain | - | 11,805 | - | 2,981 |
| Net earnings | $ 26,004 | $ 28,693 | $ 16,530 | $ 18,173 |
| Net earnings per share [2]: | | | | |
| Basic | $ 0.47 | $ 0.52 | $ 0.28 | $ 0.31 |
| Diluted | 0.47 | 0.51 | 0.28 | 0.31 |

(1) Revenues as originally reported have been adjusted to conform to the 2006 presentation. As a result, the gain (loss) on disposition of real estate, Inventory Portfolio has been reclassified.

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

**Note 27 – Segment Information**:

The Company has identified two primary financial segments: (i) Investment Assets and (ii) Inventory Assets. The following tables represent the segment data and a reconciliation to the Company's consolidated totals for the years ended December 31, 2006, 2005 and 2004 (dollars in thousands):

| | Investment Assets | Inventory Assets | Eliminations (Intercompany) | Consolidated Totals |
|---|---|---|---|---|
| 2006 | | | | |
| External revenues | $ 139,716 | $ 440 | $ - | $ 140,156 |
| Intersegment revenues | 16,379 | - | (16,379) | - |
| Interest revenue | 7,119 | 60 | - | 7,179 |
| Interest revenue on mortgage residuals interests | 7,268 | - | - | 7,268 |
| Gain on the disposition of real estate, Inventory Portfolio | - | 8,000 | - | 8,000 |
| Interest expense | 48,801 | 12,354 | (15,281) | 45,874 |
| Depreciation and amortization | 22,913 | 58 | - | 22,971 |
| Operating expenses | 22,470 | 10,212 | (2) | 32,680 |
| Impairments | 8,779 | - | - | 8,779 |
| Equity in earnings of unconsolidated affiliates | (2,677) | - | 2,799 | 122 |
| Gain on disposition of equity investment | 11,335 | 38 | - | 11,373 |
| Income tax benefit | 5,050 | 6,093 | - | 11,143 |
| Minority interest | 353 | (1,752) | - | (1,399) |
| Earnings (loss) from continuing operations | 81,580 | (9,745) | 1,703 | 73,538 |
| Earnings from discontinued operations | 100,925 | 7,851 | 191 | 108,967 |
| Net earnings | $ 182,505 | $ (1,894) | $ 1,894 | $ 182,505 |
| Assets | $ 1,909,690 | $ 242,066 | $ (234,971) | $ 1,916,785 |
| Additions to long-lived assets: | | | | |
| Real estate | $ 352,549 | $ 195,956 | $ - | $ 548,505 |

| | Investment Assets | Inventory Assets | Eliminations (Intercompany) | Consolidated Totals |
|---|---|---|---|---|
| 2005 | | | | |
| External revenues | $ 105,707 | $ 1,239 | $ - | $ 106,946 |
| Intersegment revenues | 3,511 | - | (3,511) | - |
| Interest revenue | 5,730 | 436 | - | 6,166 |
| Interest revenue on mortgage residuals interests | 7,349 | - | - | 7,349 |
| Gain on the disposition of real estate, Inventory Portfolio | - | 2,010 | - | 2,010 |
| Interest expense | 32,554 | 3,335 | (2,580) | 33,309 |
| Depreciation and amortization | 16,571 | 221 | - | 16,792 |
| Operating expenses | 18,970 | 9,395 | (9) | 28,356 |
| Equity in earnings of unconsolidated affiliates | 2,859 | (40) | (1,610) | 1,209 |
| Impairments | 4,055 | - | - | 4,055 |
| Income tax benefit | 835 | 1,943 | - | 2,778 |
| Minority interest | (378) | 515 | - | 137 |
| Earnings (loss) from continuing operations | 53,463 | (6,848) | (2,532) | 44,083 |
| Earnings from discontinued operations | 21,151 | 8,459 | 921 | 30,531 |
| Extraordinary gain | 14,786 | - | - | 14,786 |
| Net earnings | $ 89,400 | $ 1,611 | $ (1,611) | $ 89,400 |
| Assets | $ 1,726,701 | $ 137,196 | $ (130,481) | $ 1,733,416 |
| Additions to long-lived assets: Real estate | $ 267,797 | $ 137,286 | $ - | $ 405,083 |

| | Investment Assets | Inventory Assets | Eliminations (Intercompany) | Consolidated Totals |
|---|---|---|---|---|
| 2004 | | | | |
| External revenues | $ 88,417 | $ 552 | $ - | $ 88,969 |
| Intersegment revenues | 3,819 | - | (3,819) | - |
| Interest revenue | 7,974 | 1,886 | - | 9,860 |
| Gain on the disposition of real estate, Inventory Portfolio | - | 4,700 | - | 4,700 |
| Interest expense | 28,489 | 2,467 | (2,984) | 27,972 |
| Depreciation and amortization | 12,811 | 164 | - | 12,975 |
| Operating expenses | 19,880 | 10,528 | (17) | 30,391 |
| Equity in earnings of unconsolidated affiliates | 8,733 | (68) | (3,941) | 4,724 |
| Income tax benefit | - | 2,544 | - | 2,544 |
| Minority interest | - | (1,243) | - | (1,243) |
| Earnings (loss) from continuing operations | 47,763 | (4,788) | (4,759) | 38,216 |
| Earnings from discontinued operations | 17,171 | 8,730 | 817 | 26,718 |
| Net earnings | $ 64,934 | $ 3,942 | $ (3,942) | $ 64,934 |
| Assets | $ 1,294,755 | $ 70,980 | $ (65,687) | $ 1,300,048 |
| Additions to long-lived assets: Real estate | $ 134,565 | $ 74,024 | $ - | $ 208,589 |

**Note 28 – Major Tenants**:

For the years ended December 31, 2005 and 2004, the Company recorded rental and earned income from one of the Company's tenants, the United States of America, of $18,827,000 and $18,181,000, respectively. The rental and earned income from the United States of America represented more than 10 percent of the Company's rental and earned income for each of the respective years. As of December 31, 2006, the Company does not have any one tenant that accounts for ten percent or more of its rental and earned income.

**Note 29 – Commitments and Contingencies**:

As of December 31, 2006, the Company had letters of credit totaling $5,159,000 outstanding under its Credit Facility.

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

**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

Process for Assessment and Evaluation of Disclosure Controls and Procedures and Internal Control over Financing Reporting.

The Company carried out an assessment as of December 31, 2006 of the effectiveness of the design and operation of its disclosure controls and procedures and its internal control over financial reporting. This assessment was done under the supervision and with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer. Rules adopted by the Commission require the Company to present the conclusions of the Chief Executive Officer and Chief Financial Officer about the effectiveness of the Company's disclosure controls and procedures and the conclusions of the Company's management about the effectiveness of the Company's internal control over financial reporting as of the end of the period covered by this annual report.

*CEO and CFO Certifications.* Included as Exhibits 31.1 and 31.2 to this Annual Report on Form 10-K are forms of "Certification" of the Company's Chief Executive Officer and Chief Financial Officer. The forms of Certification are required in accordance with Section 302 of the Sarbanes-Oxley Act of 2002. This section of the Annual Report on Form 10-K that you are currently reading is the information concerning the assessment referred to in the Section 302 certifications and this information should be read in conjunction with the Section 302 certifications for a more complete understanding of the topics presented.

*Disclosure Controls and Procedures and Internal Control over Financial Reporting.* Disclosure controls and procedures are designed with the objective of ensuring that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act, such as this Annual Report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures are also designed with the objective of ensuring that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Internal control over financial reporting is a process designed by, or under the supervision of, the Company's Chief Executive Officer and Chief Financial Officer, and affected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles ("GAAP") and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Company's assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the Company's receipts and expenditures are being made in accordance with authorizations of management or the board of directors; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material adverse effect on the Company's financial statements.

*Scope of the Assessments.* The assessment by the Company's Chief Executive Officer and Chief Financial Officer of the Company's disclosure controls and procedures and the assessment by the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the Company's internal control over financial reporting included a review of procedures and discussions with the Company's management and others at the Company. In the course of the assessments, the Company sought to identify data errors, control problems or acts of fraud and to confirm that appropriate corrective action, including process improvements, were being undertaken.

The Company's internal control over financial reporting is also assessed on an ongoing basis by personnel in the Company's Accounting department and by the Company's internal auditors in connection with their internal audit activities. The overall goals of these various assessment activities are to monitor the Company's disclosure controls and procedures and the Company's internal control over financial reporting and to make modifications as necessary. The Company's intent in this regard is that the disclosure controls and procedures and the internal control over financial reporting will be maintained and updated (including with improvements and corrections) as conditions warrant. Among other matters, management sought in its assessment to determine whether there were any "significant deficiencies" or "material weaknesses" in the Company's internal control over financial reporting, or whether management had identified any acts of fraud involving personnel who have a significant role in the Company's internal control over financial reporting. In the Public Company Accounting Oversight Board's Auditing Standard No. 2, a "significant deficiency" is a "control deficiency," or a combination of control deficiencies, that adversely affects the ability to initiate, authorize, record, process or report external financial data reliably in accordance with GAAP such that there is more than a remote likelihood that a misstatement of the annual or interim financial statements that is more than inconsequential will not be prevented or detected. A "control deficiency" exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A "material weakness" is defined in Auditing Standard No. 2 as a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management also sought to deal with other control matters in the assessment, and in each case if a problem was identified, management considered what revision, improvement and/or correction was necessary to be made in accordance with the Company's on-going procedures. The assessments of the Company's disclosure controls and procedures and the Company's internal control over financial reporting is done on a quarterly basis so that the conclusions concerning effectiveness of those controls can be reported in the Company's Quarterly Reports on Form 10-Q and Annual Report on Form 10-K.

Assessment of Effectiveness of Disclosure Controls and Procedures.

Based upon the assessments, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2006, the Company's disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting.

Management, including the Company's Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal control over financial reporting for the

Company. Management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework to assess the effectiveness of the Company's internal control over financial reporting. Based upon the assessments, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2006, the Company's internal control over financial reporting was effective. The Company's independent registered public accounting firm has audited the consolidated financial statements in this Annual Report on Form 10-K and have issued an attestation report on management's assessment of the Company's internal control over financial reporting and its opinion on the effectiveness of internal control over financial reporting, which appears in this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting.

During the three months ended December 31, 2006, there were no changes in the Company's internal control over financial reporting that has materially affected, or are reasonably likely to materially affect, the Company's internal control for financial reporting.

Limitations on the Effectiveness of Controls.

Management, including the Company's Chief Executive Officer and Chief Financial Officer, do not expect that the Company's disclosure controls and procedures or the Company's internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management's override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

**Item 9B. Other Information.**

None.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

Reference is made to the Registrant's definitive proxy statement to be filed with the Commission pursuant to Regulation 14(a); information responsive to this Item is contained in the sections thereof captioned "Proposal I: Election of Directors - Nominees," "Proposal I: Election of Directors - Executive Officers," "Proposal I: Election of Directors - Code of Business Conduct" and "Security Ownership," and the information in such sections is incorporated herein by reference.

### Item 11. Executive Compensation

Reference is made to the Registrant's definitive proxy statement to be filed with the Commission pursuant to Regulation 14(a); information responsive to this Item is contained in the sections thereof captioned "Proposal I: Election of Directors - Compensation of Directors," "Executive Compensation" and "Compensation Committee Report," and the information in such sections are incorporated herein by reference.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Reference is made to the Registrant's definitive proxy statement to be filed with the Commission pursuant to Regulation 14(a); information responsive to this Item is contained in the section thereof captioned "Executive Compensation - Equity Compensation Plan Information," and "Security Ownership," and the information in such sections are incorporated herein by reference.

### Item 13. Certain Relationships and Related Transactions, and Director Independence

Reference is made to the Registrant's definitive proxy statement to be filed with the Commission pursuant to Regulation 14(a); information responsive to this Item is contained in the section thereof captioned "Certain Transactions," and the information in such section is incorporated herein by reference.

### Item 14. Principal Accountant Fees and Services

Reference is made to the Registrant's definitive proxy statement to be filed with the Commission pursuant to Regulation 14(a); information responsive to this Item is contained in the section thereof captioned "Audit Committee Report," and the information in such section is incorporated herein by reference.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report.

(1) Financial Statements

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2006 and 2005

Consolidated Statements of Earnings for the years ended December 31, 2006, 2005 and 2004

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2006, 2005 and 2004

Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules

Schedule III - Real Estate and Accumulated Depreciation and Amortization and Notes as of December 31, 2006

Schedule IV – Mortgage Loans on Real Estate and Notes as of December 31, 2006

All other schedules are omitted because they are not applicable or because the required information is shown in the financial statements or the notes thereto.

(3) Exhibits

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

2. Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession.

2.1 Agreement and Plan of Merger, dated January 14, 2005, among National Retail Properties, Inc., NAPE Acquisition, Inc., National Properties Corporation and Raymond Di Paglia (filed as Exhibit 99.1 to the Registrant's Current Report on Form 8-K dated January 19, 2005, and incorporated herein by reference).

2.2 Real Estate Purchase and Sale Agreement, dated November 28, 2005, between the Company and SSP Partners, as amended (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated December 21, 2005, and incorporated herein by reference).

2.3 Real Estate Purchase and Sale Agreement, dated December 1, 2005, between the Company and SSP Partners, as amended (filed as Exhibit 2.2 to the Registrant's Current Report on Form 8-K dated December 21, 2005, and incorporated herein by reference).

2.4 Real Estate Purchase Contract dated February 9, 2006, among CNLR DC Acquisitions I, LLC, Brookfield Financial Properties, L.P. and the Registrant (filed as Exhibit 10.10 to the Registrant's Form 10-K filed with Securities and Exchange Commission on February 27, 2006, and incorporated herein by reference).

2.5 Amendment to Real Estate Purchase Contract, dated February 14, 2006, by and between CNLR DC Acquisitions I, LLC and Brookfield Financial Properties, L.P. (filed as Exhibit 10.11 to the Registrant's Form 10-K filed with the Securities and Exchange Commission on February 27, 2006, and incorporated herein by reference).

2.6 Second Amendment to Real Estate Purchase Contract, dated February 15, 2006, by and between CNLR DC Acquisitions I, LLC and Brookfield Financial Properties, L.P. (filed as Exhibit 10.12 to the Registrant's Form 10-K filed with the Securities and Exchange Commission on February 27, 2006, and incorporated herein by reference).

2.7 Third Amendment to Real Estate Purchase Contract, dated April 16, 2006, by and between CNLR DC Acquisitions I, LLC and Brookfield Financial Properties, L.P. (filed as Exhibit 2.4 to the Registrant's Current Report on Form 8-K dated May 16, 2006, and incorporated herein by reference).

2.8 Fourth Amendment to Real Estate Purchase Contract, dated May 10, 2006, by and between CNLR DC Acquisitions I, LLC and Brookfield Financial Properties, L.P. (filed as Exhibit 2.5 to the Registrant's Current Report on Form 8-K dated May 16, 2006, and incorporated herein by reference).

2.9 Fifth Amendment to Real Estate Purchase Contract, dated May 12, 2006, by and between CNLR DC Acquisitions I, LLC and Brookfield Financial Properties, L.P. (filed as Exhibit 2.6 to the Registrant's Current Report on Form 8-K dated May 16, 2006, and incorporated herein by reference).

3. Articles of Incorporation and By-laws

3.1 First Amended and Restated Articles of Incorporation of the Registrant, as amended (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated May 1, 2006, and incorporated herein by reference).

3.2 Articles Supplementary Establishing and Fixing the Rights and Preferences of 7.375% Series C Cumulative Preferred Stock, par value $0.01 per share, dated October 11, 2006 (filed as Exhibit 3.2 to the Registrant's Form 8-A dated October 11, 2006 and filed with the Securities and Exchange Commission on October 12, 2006, and incorporated herein by reference).

3.3 Third Amended and Restated Bylaws of the Registrant, as amended (filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K dated May 1, 2006, 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 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 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. 1 dated March 25, 1998, by and among Registrant and First Union National Bank, Trustee, relating to $100,000,000 of 7.125% Notes due 2008 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated March 20, 1998, and incorporated herein by reference).

4.4 Form of 7.125% Note due 2008 (filed as Exhibit 4.3 to the Registrant's Current Report on Form 8-K dated March 20, 1998, and incorporated herein by reference).

4.5 Form of Supplemental Indenture No. 3 dated September 20, 2000, by and among Registrant and First Union National Bank, Trustee, relating to $20,000,000 of 8.5% Notes due 2010 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated September 20, 2000, and incorporated herein by reference).

4.6 Form of 8.5% Notes due 2010 (filed as Exhibit 4.3 to the Registrant's Current Report on Form 8-K dated September 20, 2000, and incorporated herein by reference).

4.7 Form of Supplemental Indenture No. 4 dated as of May 30, 2002, by and among Registrant and Wachovia Bank, National Association, Trustee, relating to $50,000,000 of 7.75% Notes due 2012 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated June 4, 2002, and incorporated herein by reference).

4.8 Form of 7.75% Notes due 2012 (filed as Exhibit 4.3 to the Registrant's Current Report on Form 8-K dated June 4, 2002, and incorporated herein by reference).

4.9 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 incorporated herein by reference).

4.10 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 incorporated herein by reference).

4.11 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 incorporated herein by reference).

4.12 Seventh Supplemental Indenture, dated as of September 13, 2006, between National Retail Properties, Inc. and U.S. Bank National Association (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated September 7, 2006, and incorporated herein by reference).

4.13 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 incorporated herein by reference).

4.14 Form of 3.95% Convertible Senior Notes due 2026 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated September 7, 2006, and incorporated herein by reference).

4.15 Specimen certificate representing the 7.375% Series C Cumulative Redeemable Preferred Stock, par value $.01 per share, of the Registrant (filed as Exhibit 4.4 to the Registrant's Form 8-A dated October 11, 2006 and filed with the Securities and Exchange Commission on October 12, 2006, and incorporated herein by reference).

4.16 Deposit Agreement, among the Registrant, American Stock Transfer & Trust Company, as Depositary, and the holders of depositary receipts (filed as Exhibit 4.18 to the Registrant's Form 10-Q filed with the Securities and Exchange Commission on November 6, 2006, and incorporated herein by reference).

10. Material Contracts

10.1 2000 Performance Incentive Plan (filed as Exhibit 99 to the Registrant's Registration Statement No. 333-64794 on Form S-8 and incorporated herein by reference).

10.2 Form of Restricted Stock Agreement between the Company and the Participant of the Company (filed as Exhibit 10.2 to the Registrant's Form 10-K dated March 14, 2005, and filed with the Securities and Exchange Commission on March 15, 2005, and incorporated herein by reference).

10.3 Employment Agreement dated May 16, 2006, between the Registrant and Craig Macnab (filed as Exhibit 10.3 to the Registrant's Form 10-Q filed with the Securities and Exchange Commission on August 3, 2006, and incorporated herein by reference).

10.4 Employment Agreement dated August 17, 2006, between the Registrant and Julian E. Whitehurst (filed as Exhibit 10.1 to the Registrant's Form 8-K dated August 17, 2006, and filed with the Securities and Exchange Commission on August 22, 2006, and incorporated herein by reference).

10.5 Employment Agreement dated August 17, 2006, as amended, between the Registrant and Kevin B. Habicht (filed as Exhibit 10.2 to the Registrant's Form 8-K dated August 17, 2006, and filed with the Securities and Exchange Commission on August 22, 2006, and incorporated herein by reference).

10.6 Eighth Amended and Restated Line of Credit and Security Agreement, dated December 13, 2005, by and among Registrant, certain lenders and Wachovia Bank, N.A., as the Agent, relating to a $300,000,000 loan (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated December 15, 2005, and incorporated herein by reference).

10.7 Form of Lease Agreement, between an affiliate of National Retail Properties, Inc., as landlord and SSP Partners, as tenant (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated December 21, 2005, and incorporated herein by reference).

10.8 First Amendment to Eighth Amended and Restated Line of Credit and Security Agreement, dated February 20, 2007, by and among Registrant, certain lenders and Wachovia Bank, N.A., as the Agent, relating to a $300,000,000 loan (filed herewith).

12. Statement of Computation of Ratios of Earnings to Fixed Charges (filed herewith).

21. Subsidiaries of the Registrant (filed herewith).

23. Consent of Independent Accountants

23.1 Ernst & Young LLP dated February 13, 2007 (filed herewith).

23.2 KPMG LLP dated February 16, 2007 (filed herewith).

24. Power of Attorney (included on signature page).

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 herewith).

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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, on the 21st day of February, 2007.

NATIONAL RETAIL PROPERTIES, INC.

By: /s/ Craig Macnab
Craig Macnab
Director and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated. Each person whose signature appears below hereby constitutes and appoints each of Craig Macnab and Kevin B. Habicht as his attorney-in-fact and agent, with full power of substitution and resubstitution for him in any and all capacities, to sign any or all amendments to this report and to file same, with exhibits thereto and other documents in connection therewith, granting unto such attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary in connection with such matters and hereby ratifying and confirming all that such attorney-in-fact and agent or his substitutes may do or cause to be done by virtue hereof.

| Signature | Title | Date |
|---|---|---|
| /s/ Clifford R. Hinkle<br>Clifford R. Hinkle | Chairman of the Board of Directors | February 21, 2007 |
| /s/ G. Nicholas Beckwith III<br>G. Nicholas Beckwith III | Director | February 21, 2007 |
| /s/ Richard B. Jennings<br>Richard B. Jennings | Director | February 21, 2007 |
| /s/ Ted B. Lanier<br>Ted B. Lanier | Director | February 21, 2007 |
| /s/ Robert C. Legler<br>Robert C. Legler | Director | February 21, 2007 |
| /s/ Robert Martinez<br>Robert Martinez | Director | February 21, 2007 |
| /s/ Craig Macnab<br>Craig Macnab | Director and Chief Executive Officer | February 21, 2007 |
| /s/ Kevin B. Habicht<br>Kevin B. Habicht | Director, Chief Financial Officer (Principal Financial and Accounting Officer), Executive Vice President, Assistant Secretary and Treasurer | February 21, 2007 |

# NATIONAL RETAIL PROPERTIES, INC. AND SUBSIDIARIES

## SCHEDULE III — REAL ESTATE AND ACCUMULATED DEPRECIATION AND AMORTIZATION
## December 31, 2006

| | | Initial Cost to Company | | Costs Capitalized Subsequent to Acquisition | | Gross Amount at Which Carried at Close of Period (b) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Encum-brances (k) | Land | Building, Improve-ments and Leasehold Interests | Improve-ments | Carrying Costs | Land | Building, Improve-ments and Leasehold Interests | Total | Accumulated Depreciation and Amortization | Date of Con-struction | Date Acquired | Life on Which Depreciation and Amortization in Latest Income Statement is Computed |
| Real Estate Held for Investment the Company has Invested in Under Operating Leases: | | | | | | | | | | | | |
| Academy: | | | | | | | | | | | | |
| Houston, TX | $ — | $1,074,232 | $ — | $ — | $— | $1,074,232 | $ (c) | $1,074,232 | $ (c) | 1994 | 05/95 | (c) |
| Houston, TX | — | 699,165 | — | — | — | 699,165 | (c) | 699,165 | (c) | 1995 | 06/95 | (c) |
| N. Richland Hills, TX | — | 1,307,655 | — | — | — | 1,307,655 | (c) | 1,307,655 | (c) | 1996 | 08/95(f) | (c) |
| Houston, TX | — | 2,098,895 | — | — | — | 2,098,895 | (c) | 2,098,895 | (c) | 1996 | 02/96(f) | (c) |
| Houston, TX | — | 795,005 | — | — | — | 795,005 | (c) | 795,005 | (c) | 1996 | 06/96(f) | (c) |
| Baton Rouge, LA | — | 1,547,501 | — | — | — | 1,547,501 | (c) | 1,547,501 | (c) | 1997 | 08/96(f) | (c) |
| San Antonio, TX | 705,676(t) | 973,123 | — | — | — | 973,123 | (c) | 973,123 | (c) | 1996 | 09/97 | (c) |
| Beaumont, TX | — | 1,423,701 | 2,449,261 | — | — | 1,423,701 | 2,449,261 | 3,872,962 | 477,096 | 1992 | 03/99 | 40 years |
| Houston, TX | — | 2,310,845 | 1,627,872 | — | — | 2,310,845 | 1,627,872 | 3,938,717 | 317,096 | 1976 | 03/99 | 40 years |
| Pasadena, TX | — | 899,768 | 2,180,574 | — | — | 899,768 | 2,180,574 | 3,080,342 | 424,758 | 1994 | 03/99 | 40 years |
| College Station, TX | — | 1,407,855 | 2,230,756 | — | — | 1,407,855 | 2,230,756 | 3,638,611 | 85,977 | 2002 | 06/05 | 40 years |
| Franklin, TN | — | 1,807,096 | 2,108,278 | — | — | 1,807,096 | 2,108,278 | 3,915,374 | 108,342 | 1999 | 06/05 | 30 years |
| Ace Hardware and Lighting: | | | | | | | | | | | | |
| Bourbonnais, IL | — | 298,192 | 1,329,492 | — | — | 298,192 | 1,329,492 | 1,627,684 | 192,895 | 1997 | 11/98 | 37.4 years |
| Advanced Auto Parts: | | | | | | | | | | | | |
| Miami, FL | — | 867,177 | — | 1,035,275 | — | 867,177 | 1,035,275 | 1,902,452 | 39,901 | 2005 | 12/04(g) | 40 years |
| AJ Petroleum: | | | | | | | | | | | | |
| Deerfield Beach, FL | — | 2,531,533 | 1,292,535 | — | — | 2,531,533 | 1,292,535 | 3,824,068 | 33,660 | 1980 | 12/05 | 40 years |
| Lake Placid, FL | — | 769,522 | 273,756 | — | — | 769,522 | 273,756 | 1,043,278 | 7,129 | 1990 | 12/05 | 40 years |
| Albertsons: | | | | | | | | | | | | |
| Sonora, CA | — | 587,782 | 1,620,311 | — | — | 587,782 | 1,620,311 | 2,208,093 | 129,962 | 1984 | 03/99 | 40 years |
| American Payday Loans: | | | | | | | | | | | | |
| Des Moines, IA | — | 108,421 | 379,067 | — | — | 108,421 | 379,067 | 487,488 | 14,610 | 1979 | 06/05 | 40 years |
| AmerUs Group Warehouse: | | | | | | | | | | | | |
| Des Moines, IA | — | 28,465 | 85,396 | — | — | 28,465 | 85,396 | 113,861 | 13,165 | 1949 | 06/05 | 10 years |
| Amoco: | | | | | | | | | | | | |
| Miami, FL | — | 969,156 | — | — | — | 969,156 | — | 969,156 | — | (i) | 05/03 | (i) |
| Sunrise, FL | — | 949,185 | — | — | — | 949,185 | — | 949,185 | — | (i) | 06/03 | (i) |
| Amscot: | | | | | | | | | | | | |
| Tampa, FL | — | 1,159,733 | 352,305 | — | — | 1,159,733 | 352,305 | 1,512,038 | 10,643 | 1981 | 10/05 | 40 years |
| Orlando, FL | — | 764,473 | — | 865,674 | — | 764,473 | 865,674 | 1,630,147 | 13,526 | 2006 | 12/05 | 40 years |
| Orlando, FL | — | 664,213 | 1,010,821 | — | — | 664,213 | 1,010,821 | 1,675,034 | 5,265 | 2006 | 12/05 | 40 years |
| Orlando, FL | — | 358,354 | — | 922,218 | — | 358,354 | 922,218 | 1,280,572 | 10,567 | 2006 | 02/06(g) | 40 years |
| Orlando, FL | — | 546,475 | — | 937,758 | — | 546,475 | 937,758 | 1,484,233 | 8,791 | 2006 | 02/06(g) | 40 years |
| Clearwater, FL | | 455,524 | 331,614 | — | — | 455,524 | 331,614 | 787,138 | 2,418 | 1967 | 09/06(g) | 40 years |
| Applebee's: | | | | | | | | | | | | |
| Ballwin, MO | — | 1,496,173 | 1,403,581 | — | — | 1,496,173 | 1,403,581 | 2,899,754 | 176,910 | 1995 | 12/01 | 40 years |
| Arby's: | | | | | | | | | | | | |
| Albuquerque, NM | — | 442,991 | 507,790 | — | — | 442,991 | 507,790 | 950,781 | 64,003 | 1993 | 12/01 | 40 years |
| Colorado Springs, CO | — | 205,957 | 533,540 | — | — | 205,957 | 533,540 | 739,497 | 67,248 | 1998 | 12/01 | 40 years |
| Santa Fe, NM | — | 450,358 | 341,960 | — | — | 450,358 | 341,960 | 792,318 | 43,101 | 1992 | 12/01 | 40 years |
| Thomson, GA | — | 267,842 | 503,550 | — | — | 267,842 | 503,550 | 771,392 | 63,468 | 1997 | 12/01 | 40 years |
| Washington Courthouse, OH | — | 156,875 | 545,841 | — | — | 156,875 | 545,841 | 702,716 | 68,798 | 1998 | 12/01 | 40 years |
| Whitmore Lake, MI | — | 170,515 | 468,916 | — | — | 170,515 | 468,916 | 639,431 | 59,103 | 1993 | 12/01 | 40 years |
| Ashley Furniture: | | | | | | | | | | | | |
| Altamonte Springs, FL | — | 2,906,409 | 4,877,225 | 315,000 | — | 2,906,409 | 5,192,225 | 8,098,634 | 1,171,151 | 1997 | 09/97 | 40 years |
| Louisville, KY | — | 1,666,700 | 4,989,452 | — | — | 1,666,700 | 4,989,452 | 6,656,152 | 223,486 | 2005 | 03/05 | 40 years |

See accompanying report of independent registered public accounting firm.

| | Encum-brances (k) | Initial Cost to Company | | Costs Capitalized Subsequent to Acquisition | | Gross Amount at Which Carried at Close of Period (b) | | | Accumulated Depreciation and Amortization | Date of Con-struction | Date Acquired | Life on Which Depreciation and Amortization in Latest Income Statement is Computed |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Land | Building, Improve-ments and Leasehold Interests | Improve-ments | Carrying Costs | Land | Building, Improve-ments and Leasehold Interests | Total | | | | |
| Babies "R" Us: | | | | | | | | | | | | |
| Arlington, TX | — | 830,689 | 2,611,867 | — | — | 830,689 | 2,611,867 | 3,442,556 | 686,159 | 1996 | 06/96 | 40 years |
| Independence, MO | — | 1,678,794 | 2,301,909 | — | — | 1,678,794 | 2,301,909 | 3,980,703 | 290,136 | 1996 | 12/01 | 40 years |
| Barnes & Noble: | | | | | | | | | | | | |
| Brandon, FL | — | 1,476,407 | 1,527,150 | — | — | 1,476,407 | 1,527,150 | 3,003,557 | 457,308 | 1995 | 08/94(f) | 40 years |
| Denver, CO | — | 3,244,785 | 2,722,087 | — | — | 3,244,785 | 2,722,087 | 5,966,872 | 833,751 | 1994 | 09/94 | 40 years |
| Houston, TX | — | 3,307,562 | 2,396,024 | — | — | 3,307,562 | 2,396,024 | 5,703,586 | 673,890 | 1995 | 10/94(f) | 40 years |
| Plantation, FL | 4,885,291(p) | 3,616,357 | — | — | — | 3,616,457 | (c) | 3,616,457 | (c) | 1996 | 05/95(f) | (c) |
| Freehold, NJ (r) | — | 2,917,219 | 2,260,663 | — | — | 2,917,219 | 2,260,663 | 5,177,882 | 617,287 | 1995 | 01/96 | 40 years |
| Dayton, OH | — | 1,412,614 | 3,223,467 | — | — | 1,412,614 | 3,223,467 | 4,636,081 | 775,647 | 1996 | 05/97 | 40 years |
| Redding, CA | — | 497,179 | 1,625,702 | — | — | 497,179 | 1,625,702 | 2,122,881 | 387,798 | 1997 | 06/97 | 40 years |
| Memphis, TN | 1,023,924(t) | 1,573,875 | 2,241,639 | — | — | 1,573,875 | 2,241,639 | 3,815,514 | 163,453 | 1997 | 09/97 | 40 years |
| Marlton, NJ | — | 2,831,370 | 4,318,554 | — | — | 2,831,370 | 4,318,554 | 7,149,924 | 877,206 | 1995 | 11/98 | 40 years |
| Bassett Furniture: | | | | | | | | | | | | |
| Fairview Heights, IL | — | 1,257,729 | 2,622,952 | — | — | 1,257,729 | 2,622,952 | 3,880,681 | 79,235 | 1980 | 10/05 | 40 years |
| Beall's: | | | | | | | | | | | | |
| Sarasota, FL | 1,371,327(t) | 1,077,802 | 1,795,174 | — | — | 1,077,802 | 1,795,174 | 2,872,976 | 137,028 | 1996 | 09/97 | 40 years |
| Beautiful America Dry Cleaners: | | | | | | | | | | | | |
| Orlando, FL | 70,882(u) | 40,200 | 110,531 | — | — | 40,200 | 110,531 | 150,731 | 7,944 | 2001 | 02/04 | 40 years |
| Bed, Bath & Beyond: | | | | | | | | | | | | |
| Richmond, VA | 2,800,106(p) | 1,184,144 | 2,842,759 | — | — | 1,184,144 | 2,842,759 | 4,026,903 | 325,732 | 1997 | 06/98 | 40 years |
| Glendale, AZ | — | 1,082,092 | — | 2,758,452 | — | 1,082,092 | 2,758,452 | 3,840,544 | 514,336 | 1999 | 12/98(g) | 40 years |
| Midland, MI | — | 231,356 | — | 2,702,271 | — | 231,356 | 2,702,271 | 2,933,627 | 8,873 | 2006 | 07/03 | 40 years |
| Bedford Furniture: | | | | | | | | | | | | |
| Everett, PA | — | 226,366 | 1,159,833 | 7,830 | — | 226,366 | 817,667 | 1,044,033 | 127,110 | 1998 | 11/98 | 40 years |
| Beneficial: | | | | | | | | | | | | |
| Eden Prairie, MN | — | 75,736 | 210,628 | 94,277 | — | 75,736 | 304,905 | 380,641 | 34,848 | 1997 | 12/01 | 40 years |
| Bennigan's: | | | | | | | | | | | | |
| Milford, CT (r) | — | 921,200 | 697,298 | — | — | 921,200 | 697,298 | 1,618,498 | 87,888 | 1985 | 12/01 | 40 years |
| Altamonte Springs, FL | — | 1,088,282 | 924,425 | — | — | 1,088,282 | 924,425 | 2,012,707 | 116,516 | 1979 | 12/01 | 40 years |
| Schaumburg, IL | — | 2,064,964 | 1,311,190 | — | — | 2,064,964 | 1,311,190 | 3,376,154 | 165,265 | 1998 | 12/01 | 40 years |
| Wichita Falls, TX | — | 818,611 | 1,107,418 | — | — | 818,611 | 1,107,418 | 1,926,029 | 139,581 | 1982 | 12/01 | 40 years |
| Best Buy: | | | | | | | | | | | | |
| Brandon, FL | — | 2,985,156 | 2,772,137 | — | — | 2,985,156 | 2,772,137 | 5,757,293 | 684,371 | 1996 | 02/97 | 40 years |
| Evanston, IL | — | 1,850,996 | — | — | — | 1,850,996 | (c) | 1,850,996 | (c) | 1994 | 02/97 | (c) |
| Cuyahoga Falls, OH | — | 3,708,980 | 2,359,377 | — | — | 3,708,980 | 2,359,377 | 6,068,357 | 562,809 | 1970 | 06/97 | 40 years |
| Rockville, MD | — | 6,233,342 | 3,418,783 | — | — | 6,233,342 | 3,418,783 | 9,652,125 | 808,400 | 1995 | 07/97 | 40 years |
| Fairfax, VA | — | 3,052,477 | 3,218,018 | — | — | 3,052,477 | 3,218,018 | 6,270,495 | 754,223 | 1995 | 08/97 | 40 years |
| St. Petersburg, FL | 4,468,254(p) | 4,031,744 | 2,610,980 | — | — | 4,031,744 | 2,610,980 | 6,642,724 | 341,914 | 1997 | 09/97 | 35 years |
| Pittsburgh, PA | — | 2,330,847 | 2,292,932 | — | — | 2,330,847 | 2,292,932 | 4,623,779 | 489,636 | 1997 | 06/98 | 40 years |
| Denver, CO | — | 8,881,890 | 4,372,684 | — | — | 8,881,890 | 4,372,684 | 13,254,574 | 605,798 | 1991 | 06/01 | 40 years |
| Billy Bob's: | | | | | | | | | | | | |
| Gresham, OR | — | 817,311 | 108,294 | — | — | 817,311 | 108,294 | 925,605 | 13,650 | 1993 | 12/01 | 40 years |
| BJ's Wholesale Club: | | | | | | | | | | | | |
| Orlando, FL | 5,487,413(u) | 3,137,500 | 8,626,657 | — | — | 3,137,500 | 8,626,657 | 11,764,157 | 620,042 | 2001 | 02/04 | 40 years |
| Blockbuster Video: | | | | | | | | | | | | |
| Conyers, GA | — | 320,029 | 556,282 | — | — | 320,029 | 556,282 | 876,311 | 132,696 | 1997 | 06/97 | 40 years |
| Alice, TX | — | 318,285 | 578,268 | — | — | 318,285 | 578,268 | 896,553 | 72,886 | 1995 | 12/01 | 40 years |
| Gainesville, GA | — | 294,882 | 611,570 | — | — | 294,882 | 611,570 | 906,452 | 77,083 | 1997 | 12/01 | 40 years |
| Glasgow, KY | — | 302,859 | 560,904 | — | — | 302,859 | 560,904 | 863,763 | 70,697 | 1997 | 12/01 | 40 years |
| Kingsville, TX | — | 498,849 | 457,695 | — | — | 498,849 | 457,695 | 956,544 | 57,687 | 1995 | 12/01 | 40 years |
| Mobile, AL | — | 491,453 | 498,488 | — | — | 491,453 | 498,488 | 989,941 | 62,830 | 1997 | 12/01 | 40 years |
| Mobile, AL | — | 843,121 | 562,498 | — | — | 843,121 | 562,498 | 1,405,619 | 70,898 | 1997 | 12/01 | 40 years |
| BMW: | | | | | | | | | | | | |
| Duluth, GA | — | 4,433,613 | 4,080,186 | — | — | 4,034,588 | 4,080,186 | 8,114,774 | 514,273 | 1984 | 12/01 | 40 years |

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|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Land | Building, Improve-ments and Leasehold Interests | Improve-ments | Carrying Costs | Land | Building, Improve-ments and Leasehold Interests | Total | | | | |
| Borders Books & Music: | | | | | | | | | | | | |
| Wilmington, DE | — | 3,030,764 | 6,061,538 | — | — | 2,994,400 | 6,061,538 | 9,055,938 | 1,822,535 | 1994 | 12/94 | 40 years |
| Richmond, VA | — | 2,177,310 | 2,599,587 | — | — | 2,177,310 | 2,599,587 | 4,776,897 | 751,353 | 1995 | 06/95 | 40 years |
| Ft. Lauderdale, FL | 4,706,561(p) | 3,164,984 | 3,319,234 | — | — | 3,164,984 | 3,319,234 | 6,484,218 | 461,005 | 1995 | 02/96 | 33 years |
| Bangor, ME | — | 1,546,915 | 2,486,761 | — | — | 1,546,915 | 2,486,761 | 4,033,676 | 654,502 | 1996 | 06/96 | 40 years |
| Altamonte Springs, FL | — | 1,947,198 | — | — | — | 1,947,198 | (c) | 1,947,198 | (c) | 1997 | 09/97 | (c) |
| Boston Market: | | | | | | | | | | | | |
| Burton, MI | — | 619,778 | 707,242 | — | — | 619,778 | 707,242 | 1,327,020 | 89,142 | 1997 | 12/01 | 40 years |
| Geneva, IL | — | 1,125,347 | 1,036,952 | — | — | 1,125,347 | 893,485 | 2,018,832 | 114,860 | 1996 | 12/01 | 40 years |
| North Olmsted, OH | — | 601,800 | 460,521 | — | — | 601,800 | 389,065 | 990,865 | 50,156 | 1996 | 12/01 | 40 years |
| Novi, MI | — | 835,669 | 651,108 | — | — | 835,669 | 297,567 | 1,133,236 | 43,035 | 1995 | 12/01 | 40 years |
| Orland Park, IL | — | 562,384 | 556,201 | — | — | 562,384 | 377,244 | 939,628 | 50,347 | 1995 | 12/01 | 40 years |
| Warren, OH | — | 562,446 | 467,592 | — | — | 562,446 | 467,592 | 1,030,038 | 58,936 | 1997 | 12/01 | 40 years |
| Wheaton, IL | — | 1,115,457 | 1,014,184 | — | — | 1,115,457 | 872,736 | 1,988,193 | 112,213 | 1995 | 12/01 | 40 years |
| Buffalo Wild Wings: | | | | | | | | | | | | |
| Michigan City, IN | — | 162,538 | 492,007 | — | — | 162,538 | 492,007 | 654,545 | 62,013 | 1996 | 12/01 | 40 years |
| Burger King: | | | | | | | | | | | | |
| Colonial Heights, VA | — | 662,345 | 609,787 | — | — | 662,345 | 609,787 | 1,272,132 | 76,858 | 1997 | 12/01 | 40 years |
| Carino's: | | | | | | | | | | | | |
| Beaumont, TX | — | 439,076 | 1,363,447 | — | — | 439,076 | 1,363,447 | 1,802,523 | 171,851 | 2000 | 12/01 | 40 years |
| Lewisville, TX | — | 1,369,836 | 1,018,659 | — | — | 1,369,836 | 1,018,659 | 2,388,495 | 128,394 | 1994 | 12/01 | 40 years |
| Lubbock, TX | — | 1,007,432 | 1,205,512 | — | — | 1,007,432 | 1,205,512 | 2,212,944 | 151,945 | 1995 | 12/01 | 40 years |
| Carl's Jr: | | | | | | | | | | | | |
| Chandler, AZ | — | 729,291 | 644,148 | — | — | 729,291 | 644,148 | 1,373,439 | 49,653 | 1984 | 06/05 | 20 years |
| Tucson, AZ | — | 681,386 | 536,023 | — | — | 681,386 | 536,023 | 1,217,409 | 82,636 | 1988 | 06/05 | 10 years |
| CarMax: | | | | | | | | | | | | |
| Albuquerque, NM | — | 10,197,135 | — | 8,128,062 | — | 10,197,135 | 8,128,062 | 18,325,197 | 431,803 | 2004 | 04/04(f) | 40 years |
| Cash Advance: | | | | | | | | | | | | |
| Mesa,AZ | — | 43,043 | 112,764 | — | — | 43,043 | 112,764 | 155,807 | 14,213 | 1997 | 12/01 | 40 years |
| Certified Auto Sales: | | | | | | | | | | | | |
| Albuquerque, NM | — | 1,112,876 | — | 1,418,552 | — | 1,112,876 | 1,418,552 | 2,531,428 | 51,718 | 2005 | 04/04(f) | 40 years |
| Champps: | | | | | | | | | | | | |
| Alpharetta, GA | — | 3,032,965 | 1,641,820 | — | — | 3,032,965 | 1,641,820 | 4,674,785 | 206,937 | 1999 | 12/01 | 40 years |
| Irving, TX | — | 1,760,020 | 1,724,220 | — | — | 1,760,020 | 1,724,220 | 3,484,240 | 217,323 | 2000 | 12/01 | 40 years |
| Charhut: | | | | | | | | | | | | |
| Sunrise, FL | — | 286,834 | 423,837 | — | — | 286,834 | 423,837 | 710,671 | 27,676 | 1979 | 05/04 | 40 years |
| Checkers: | | | | | | | | | | | | |
| Orlando, FL | — | 256,568 | — | — | — | 256,568 | (c) | 256,568 | (c) | 1988 | 07/92 | (c) |
| Children's Pediatric Center: | | | | | | | | | | | | |
| Houston, TX | — | 421,897 | 1,915,483 | — | — | 421,897 | 1,915,483 | 2,337,380 | 49,882 | 1995 | 12/05 | 40 years |
| Chili's: | | | | | | | | | | | | |
| Camden, SC | — | 626,897 | 1,887,732 | — | — | 626,897 | 1,887,732 | 2,514,629 | 60,958 | 2005 | 09/05 | 40 years |
| Milledgeville, GA | — | 516,118 | 1,996,627 | — | — | 516,118 | 1,996,627 | 2,512,745 | 64,474 | 2005 | 09/05 | 40 years |
| Sumter, SC | — | 800,329 | 1,717,221 | — | — | 800,329 | 1,717,221 | 2,517,550 | 44,719 | 2004 | 12/05 | 40 years |
| Chili Verde Restaurant: | | | | | | | | | | | | |
| Indianapolis, IN | — | 639,584 | 1,015,173 | — | — | 639,584 | 1,015,173 | 1,654,757 | 127,954 | 1996 | 12/01 | 40 years |
| China Star: | | | | | | | | | | | | |
| Montgomery, AL | — | 1,418,158 | 1,140,080 | — | — | 1,418,158 | 1,044,075 | 2,462,233 | 140,174 | 1999 | 12/01 | 40 years |
| Circuit City: | | | | | | | | | | | | |
| Gastonia, NC | — | 2,548,040 | 3,879,911 | — | — | 2,548,040 | 3,879,911 | 6,427,951 | 198,037 | 2004 | 12/04 | 40 years |
| St. Peters, MO | — | 1,740,807 | 5,406,298 | — | — | 1,740,807 | 5,406,298 | 7,147,105 | 197,104 | 2005 | 06/05(g) | 40 years |
| East Palo Alto, CA | — | 2,271,634 | 3,404,843 | — | — | 2,271,634 | 3,404,843 | 5,676,477 | 663,235 | 1998 | 12/98(f) | 40 years |
| Claim Jumper: | | | | | | | | | | | | |
| Roseville, CA | — | 1,556,732 | 2,013,650 | — | — | 1,556,732 | 2,013,650 | 3,570,382 | 253,804 | 2000 | 12/01 | 40 years |
| Tempe, AZ | — | 2,530,892 | 2,920,575 | — | — | 2,530,892 | 2,920,575 | 5,451,467 | 368,114 | 2000 | 12/01 | 40 years |

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|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Land | Building, Improve-ments and Leasehold Interests | Improve-ments | Carrying Costs | Land | Building, Improve-ments and Leasehold Interests | Total | | | | |
| Colonial Bank: | | | | | | | | | | | | |
| Tampa, FL | — | 604,683 | 884,940 | — | — | 604,683 | 884,940 | 1,489,623 | 29,580 | 1995 | 12/95 | 40 years |
| CompUSA: | | | | | | | | | | | | |
| Baton Rouge, LA (r) | — | 609,069 | 913,603 | — | — | 609,069 | 913,603 | 1,522,672 | 251,302 | 1995 | 12/95 | 40 years |
| Roseville, MN | — | 1,599,311 | 1,419,396 | — | — | 1,599,311 | 1,419,396 | 3,018,707 | 36,963 | 1994 | 12/05 | 40 years |
| CORA Rehabilitation Clinics: | | | | | | | | | | | | |
| Orlando, FL | 141,763(u) | 80,400 | 221,063 | — | — | 80,400 | 221,063 | 301,463 | 15,888 | 2001 | 02/04 | 40 years |
| Corpus Christi Flea Market: | | | | | | | | | | | | |
| Corpus Christi, TX | — | 223,998 | 2,158,955 | — | — | 223,998 | 2,158,955 | 2,382,953 | 420,546 | 1983 | 03/99 | 40 years |
| CVS: | | | | | | | | | | | | |
| San Antonio, TX | — | 440,985 | — | — | — | 440,985 | (c) | 440,985 | (c) | 1993 | 12/93 | (c) |
| Amarillo, TX | — | 650,864 | — | — | — | 650,864 | (c) | 650,864 | (c) | 1994 | 12/94 | (c) |
| Lafayette, LA | — | 967,528 | — | — | — | 967,528 | (c) | 967,528 | (c) | 1995 | 01/96 | (c) |
| Midwest City, OK | — | 673,369 | 1,103,351 | — | — | 673,369 | 1,103,351 | 1,776,720 | 298,602 | 1996 | 03/96 | 40 years |
| Irving, TX | — | 1,000,222 | — | — | — | 1,000,222 | (c) | 1,000,222 | (c) | 1996 | 12/96 | (c) |
| Pantego, TX | — | 1,016,062 | 1,448,911 | — | — | 1,016,062 | 1,448,911 | 2,464,973 | 346,626 | 1997 | 06/97 | 40 years |
| Ellenwood, GA | 394,670(t) | 616,289 | 921,173 | — | — | 616,289 | 921,173 | 1,537,462 | 67,169 | 1996 | 09/97 | 40 years |
| Flower Mound, TX | 398,757(t) | 932,233 | 881,448 | — | — | 932,233 | 881,448 | 1,813,681 | 64,272 | 1996 | 09/97 | 40 years |
| Ft. Worth, TX | 484,462(t) | 558,657 | — | — | — | 558,657 | (c) | 558,657 | (c) | 1996 | 09/97 | (c) |
| Arlington, TX | — | 2,078,542 | — | 1,396,508 | — | 2,078,542 | 1,396,508 | 3,475,050 | 292,393 | 1998 | 11/97(g) | 40 years |
| Leavenworth, KS | — | 726,438 | — | 1,330,830 | — | 726,438 | 1,330,830 | 2,057,268 | 284,188 | 1998 | 11/97(g) | 40 years |
| Lewisville, TX | — | 789,237 | — | 1,335,426 | — | 789,237 | 1,335,426 | 2,124,663 | 276,823 | 1998 | 04/98(g) | 40 years |
| Forest Hill, TX | — | 692,165 | — | 1,174,549 | — | 692,165 | 1,174,549 | 1,866,714 | 245,921 | 1998 | 04/98(g) | 40 years |
| Del City, OK | — | 1,387,362 | — | — | — | 1,387,362 | (c) | 1,387,362 | (c) | 1998 | 05/98 | (c) |
| Garland, TX | — | 1,476,838 | — | 1,400,278 | — | 1,476,838 | 1,400,278 | 2,877,116 | 284,432 | 1998 | 06/98(g) | 40 years |
| Garland, TX | — | 522,461 | — | 1,418,531 | — | 522,461 | 1,418,531 | 1,940,992 | 285,183 | 1998 | 06/98(g) | 40 years |
| Oklahoma City, OK | — | 1,581,480 | — | 1,471,105 | — | 1,581,480 | 1,471,105 | 3,052,585 | 292,688 | 1999 | 08/98(g) | 40 years |
| Dallas, TX | — | 2,617,656 | — | 2,570,569 | — | 2,617,656 | 2,570,569 | 5,188,225 | 206,181 | 2003 | 06/99 | 40 years |
| Gladstone, MO | 136,500 | 1,851,374 | — | 1,739,568 | — | 1,851,374 | 1,739,568 | 3,590,942 | 277,244 | 2000 | 12/99(g) | 40 years |
| Fridley, MN | — | 939,073 | 1,637,329 | — | — | 939,073 | 1,637,329 | 2,576,402 | 210,422 | 1983 | 12/01(v) | 40 years |
| DD's Discounts: | | | | | | | | | | | | |
| Moreno Valley, CA | — | 516,154 | 1,123,471 | 712,917 | — | 516,154 | 1,836,388 | 2,352,542 | 260,710 | 1983 | 03/99 | 40 years |
| Dave & Buster's: | | | | | | | | | | | | |
| Hilliard, OH | — | 934,210 | 4,689,004 | — | — | 934,210 | 4,689,004 | 5,623,214 | 14,653 | 1998 | 11/06 | 40 years |
| Denny's: | | | | | | | | | | | | |
| Columbus, TX | — | 428,429 | 816,644 | — | — | 428,429 | 816,644 | 1,245,073 | 102,931 | 1997 | 12/01 | 40 years |
| Alexandria, VA | — | 603,730 | 195,658 | — | — | 603,730 | 195,658 | 799,388 | 2,853 | 1981 | 09/06 | 20 years |
| Amarillo, TX | — | 589,996 | 632,121 | — | — | 589,996 | 632,121 | 1,222,117 | 9,218 | 1982 | 09/06 | 20 years |
| Arlington Heights, IL | — | 469,593 | 227,673 | — | — | 469,593 | 227,673 | 697,266 | 3,320 | 1977 | 09/06 | 20 years |
| Austintown, OH | — | 466,124 | 397,387 | — | — | 466,124 | 397,387 | 863,511 | 5,795 | 1980 | 09/06 | 20 years |
| Boardman Township, OH | — | 497,083 | 257,518 | — | — | 497,083 | 257,518 | 754,601 | 3,755 | 1977 | 09/06 | 20 years |
| Campbell, CA | — | 459,751 | 238,205 | — | — | 459,751 | 238,205 | 697,956 | 3,474 | 1976 | 09/06 | 20 years |
| Carson, CA | — | 1,245,768 | 157,375 | — | — | 1,245,768 | 157,375 | 1,403,143 | 2,295 | 1975 | 09/06 | 20 years |
| Chelais, WA | — | 414,994 | 287,174 | — | — | 414,994 | 287,174 | 702,168 | 4,188 | 1977 | 09/06 | 20 years |
| Chubbock, ID | — | 350,461 | 394,243 | — | — | 350,461 | 394,243 | 744,704 | 5,749 | 1983 | 09/06 | 20 years |
| Clackamus, OR | — | 468,281 | 407,268 | — | — | 468,281 | 407,268 | 875,549 | 5,939 | 1993 | 09/06 | 20 years |
| Collinsville, IL | — | 675,704 | 282,912 | — | — | 675,704 | 282,912 | 958,616 | 4,126 | 1979 | 09/06 | 20 years |
| Colorado Springs, CO | — | 321,006 | 376,744 | — | — | 321,006 | 376,744 | 697,750 | 5,692 | 1984 | 09/06 | 20 years |
| Colorado Springs, CO | — | 585,425 | 390,275 | — | — | 585,425 | 390,275 | 975,700 | 5,494 | 1978 | 09/06 | 20 years |
| Corpus Christi, TX | — | 344,821 | 775,618 | — | — | 344,821 | 775,618 | 1,120,439 | 11,311 | 1980 | 09/06 | 20 years |
| Dallas, TX | — | 497,170 | 149,862 | — | — | 497,170 | 149,862 | 647,032 | 2,186 | 1979 | 09/06 | 20 years |
| Enfield ,CT | — | 684,235 | 228,981 | — | — | 684,235 | 228,981 | 913,216 | 3,339 | 1976 | 09/06 | 20 years |
| Fairfax, VA | — | 768,438 | 682,921 | — | — | 768,438 | 682,921 | 1,451,359 | 9,959 | 1979 | 09/06 | 20 years |
| Federal Way, WA | — | 542,951 | 192,650 | — | — | 542,951 | 192,650 | 735,601 | 2,809 | 1977 | 09/06 | 20 years |
| Florissant, MO | — | 442,700 | 237,959 | — | — | 442,700 | 237,959 | 680,659 | 3,470 | 1977 | 09/06 | 20 years |
| Ft. Worth, TX | — | 392,306 | 314,262 | — | — | 392,306 | 314,262 | 706,568 | 4,583 | 1974 | 09/06 | 20 years |
| Hermitage, PA | — | 320,918 | 419,980 | — | — | 320,918 | 419,980 | 740,898 | 6,125 | 1980 | 09/06 | 20 years |
| Hialeah, FL | — | 432,479 | 175,245 | — | — | 432,479 | 175,245 | 607,724 | 2,556 | 1978 | 09/06 | 20 years |

See accompanying report of independent registered public accounting firm.

| | Encum- brances (k) | Initial Cost to Company | | Costs Capitalized Subsequent to Acquisition | | Gross Amount at Which Carried at Close of Period (b) | | | Accumulated Depreciation and Amortization | Date of Con- struction | Date Acquired | Life on Which Depreciation and Amortization in Latest Income Statement is Computed |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Land | Building, Improve- ments and Leasehold Interests | Improve- ments | Carrying Costs | Land | Building, Improve- ments and Leasehold Interests | Total | | | | |
| Houston, TX | — | 503,797 | 347,749 | — | — | 503,797 | 347,749 | 851,546 | 5,071 | 1976 | 09/06 | 20 years |
| Indianapolis, IN | — | 325,937 | 511,345 | — | — | 325,937 | 511,345 | 837,282 | 7,455 | 1978 | 09/06 | 20 years |
| Indianapolis, IN | — | 310,383 | 589,689 | — | — | 310,383 | 589,689 | 900,072 | 7,042 | 1981 | 09/06 | 20 years |
| Indianapolis, IN | — | 358,295 | 766,627 | — | — | 358,295 | 766,627 | 1,124,922 | 11,180 | 1978 | 09/06 | 20 years |
| Indianapolis, IN | — | 222,629 | 482,909 | — | — | 222,629 | 482,909 | 705,538 | 7,457 | 1979 | 09/06 | 20 years |
| Indianapolis, IN | — | 231,236 | 511,175 | — | — | 231,236 | 511,175 | 742,411 | 8,600 | 1974 | 09/06 | 20 years |
| Kernersville, NC | — | 406,544 | 557,465 | — | — | 406,544 | 557,465 | 964,009 | 8,130 | 2000 | 09/06 | 20 years |
| Lafayette, IN | — | 423,516 | 773,096 | — | — | 423,516 | 773,096 | 1,196,612 | 11,274 | 1978 | 09/06 | 20 years |
| Laurel, MD | — | 527,596 | 379,327 | — | — | 527,596 | 379,327 | 906,923 | 5,532 | 1976 | 09/06 | 20 years |
| Little Rock, AR | — | 671,665 | 76,507 | — | — | 671,665 | 76,507 | 748,172 | 1,116 | 1979 | 09/06 | 20 years |
| Little Rock, AR | — | 702,789 | 179,699 | — | — | 702,789 | 179,699 | 882,488 | 2,621 | 1979 | 09/06 | 20 years |
| Maplewood, MN | — | 630,007 | 271,268 | — | — | 630,007 | 271,268 | 901,275 | 3,956 | 1983 | 09/06 | 20 years |
| Merrivile, IN | — | 368,152 | 813,167 | — | — | 368,152 | 813,167 | 1,181,319 | 11,859 | 1976 | 09/06 | 20 years |
| Middleburg Heights, OH | — | 496,963 | 259,581 | — | — | 496,963 | 259,581 | 756,544 | 3,786 | 1976 | 09/06 | 20 years |
| N. Miami, FL | — | 855,381 | 151,216 | — | — | 855,381 | 151,216 | 1,006,597 | 2,205 | 1977 | 09/06 | 20 years |
| Nampa, ID | — | 356,591 | 729,175 | — | — | 356,591 | 729,175 | 1,085,766 | 2,362 | 1979 | 09/06 | 20 years |
| North Palm Beach, FL | — | 450,257 | 161,978 | — | — | 450,257 | 161,978 | 612,235 | 10,634 | 1977 | 09/06 | 20 years |
| North Richland Hills, TX | — | 500,352 | 129,840 | — | — | 500,352 | 129,840 | 630,192 | 1,894 | 1970 | 09/06 | 20 years |
| Novi, MI | — | 545,175 | 305,344 | — | — | 545,175 | 305,344 | 850,519 | 4,453 | 1979 | 09/06 | 20 years |
| Omaha, NE | — | 496,452 | 314,303 | — | — | 496,452 | 314,303 | 810,755 | 4,584 | 1994 | 09/06 | 20 years |
| Parma, OH | — | 370,120 | 238,145 | — | — | 370,120 | 238,145 | 608,265 | 3,473 | 1977 | 09/06 | 20 years |
| Pompano Beach, FL | — | 436,153 | 393,590 | — | — | 436,153 | 393,590 | 829,743 | 5,740 | 1976 | 09/06 | 20 years |
| Portland, OR | — | 764,431 | 161,462 | — | — | 764,431 | 161,462 | 925,893 | 2,355 | 1977 | 09/06 | 20 years |
| Provo, UT | — | 519,038 | 216,015 | — | — | 519,038 | 216,015 | 735,053 | 3,150 | 1978 | 09/06 | 20 years |
| Pueblo, CO | — | 475,420 | 301,725 | — | — | 475,420 | 301,725 | 777,145 | 4,400 | 1980 | 09/06 | 20 years |
| Raleigh, NC | — | 1,094,361 | 482,297 | — | — | 1,094,361 | 482,297 | 1,576,658 | 7,034 | 1984 | 09/06 | 20 years |
| Santa Ana, CA | — | 515,866 | 279,400 | — | — | 515,866 | 279,400 | 795,266 | 4,075 | 1977 | 09/06 | 20 years |
| Sherman, TX | — | 232,670 | 126,149 | — | — | 232,670 | 126,149 | 358,819 | 1,840 | 1969 | 09/06 | 20 years |
| Southfield, MI | — | 401,401 | 330,496 | — | — | 401,401 | 330,496 | 731,897 | 4,820 | 1980 | 09/06 | 20 years |
| St. Louis, MO | — | 519,641 | 265,824 | — | — | 519,641 | 265,824 | 785,465 | 3,877 | 1973 | 09/06 | 20 years |
| Sugarland, TX | — | 315,186 | 334,027 | — | — | 315,186 | 334,027 | 649,213 | 4,871 | 1997 | 09/06 | 20 years |
| Tacoma, WA | — | 580,288 | 200,559 | — | — | 580,288 | 200,559 | 780,847 | 2,925 | 1984 | 09/06 | 20 years |
| Tulsa, OK | — | 324,751 | 313,897 | — | — | 324,751 | 313,897 | 638,648 | 4,232 | 1978 | 09/06 | 20 years |
| Tuscon, AZ | — | 922,401 | 290,221 | — | — | 922,401 | 290,221 | 1,212,622 | 4,578 | 1979 | 09/06 | 20 years |
| W. Palm Beach, FL | — | 619,003 | 160,924 | — | — | 619,003 | 160,924 | 779,927 | 2,347 | 1984 | 09/06 | 20 years |
| Weathersfield, CT | — | 883,538 | 176,136 | — | — | 883,538 | 176,136 | 1,059,674 | 2,569 | 1978 | 09/06 | 20 years |
| Worcester, MA | — | 383,194 | 492,602 | — | — | 383,194 | 492,602 | 875,796 | 7,184 | 1978 | 09/06 | 20 years |
| Boise, ID | — | 514,340 | 476,967 | — | — | 514,340 | 476,967 | 991,307 | 991 | 1983 | 12/06 | 20 years |
| Dick's Sporting Goods: | | | | | | | | | | | | |
| Taylor, MI | — | 1,920,032 | 3,526,868 | — | — | 1,920,032 | 3,526,868 | 5,446,900 | 907,789 | 1996 | 08/96 | 40 years |
| White Marsh, MD | — | 2,680,532 | 3,916,889 | — | — | 2,680,532 | 3,916,889 | 6,597,420 | 1,008,178 | 1996 | 08/96 | 40 years |
| Dollar Tree: | | | | | | | | | | | | |
| Garland, TX | — | 239,014 | 626,170 | — | — | 239,014 | 626,170 | 865,184 | 86,098 | 1994 | 02/94 | 40 years |
| Copperas Cove, TX | — | 241,650 | 511,624 | 194,167 | — | 241,650 | 705,791 | 947,441 | 126,962 | 1972 | 11/98 | 40 years |
| Moreno Valley, CA | — | 242,896 | 528,692 | 69,277 | — | 242,896 | 597,969 | 840,865 | 84,893 | 1983 | 03/99 | 40 years |
| Donato's: | | | | | | | | | | | | |
| Medina, OH | — | 405,113 | 463,582 | — | — | 405,113 | 463,582 | 868,695 | 58,430 | 1996 | 12/01 | 40 years |
| Dr. Clean Dry Cleaners: | | | | | | | | | | | | |
| Monticello, NY | — | 19,625 | 71,570 | — | — | 19,625 | 71,570 | 91,195 | 3,206 | 1996 | 03/05 | 40 years |
| Eckerd: | | | | | | | | | | | | |
| Millville, NJ | — | 417,603 | — | — | — | 417,603 | (c) | 417,603 | (c) | 1994 | 03/94 | (c) |
| Atlanta, GA | — | 445,593 | — | — | — | 445,593 | (c) | 445,593 | (c) | 1994 | 03/94 | (c) |
| Mantua, NJ | — | 344,022 | — | — | — | 344,022 | (c) | 344,022 | (c) | 1994 | 06/94 | (c) |
| Glassboro, NJ | — | 534,243 | — | — | — | 534,243 | (c) | 534,243 | (c) | 1994 | 12/94 | (c) |
| Douglasville, GA | — | 413,438 | 995,209 | — | — | 413,438 | 995,209 | 1,408,647 | 271,747 | 1996 | 01/96 | 40 years |
| Conyers, GA | — | 574,666 | 998,900 | — | — | 574,666 | 998,900 | 1,573,566 | 238,279 | 1997 | 06/97 | 40 years |
| Chattanooga, TN | — | 474,267 | — | — | — | 457,659 | (c) | 457,659 | (c) | 1997 | 09/97 | (c) |
| Augusta, GA | — | 568,606 | 1,326,748 | — | — | 568,606 | 1,326,748 | 1,895,354 | 299,900 | 1997 | 12/97 | 40 years |
| Riverdale, GA | — | 1,088,896 | 1,707,448 | — | — | 1,088,896 | 1,707,448 | 2,796,344 | 385,954 | 1997 | 12/97 | 40 years |
| Warner Robins, GA | — | 707,488 | — | 1,227,330 | — | 707,488 | 1,227,330 | 1,934,818 | 244,188 | 1999 | 03/98(g) | 40 years |

See accompanying report of independent registered public accounting firm.

| | Encum- branches (k) | Initial Cost to Company | | Costs Capitalized Subsequent to Acquisition | | Gross Amount at Which Carried at Close of Period (b) | | | Accumulated Depreciation and Amortization | Date of Con- struction | Date Acquired | Life on Which Depreciation and Amortization in Latest Income Statement is Computed |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Land | Building, Improve- ments and Leasehold Interests | Improve- ments | Carrying Costs | Land | Building, Improve- ments and Leasehold Interests | Total | | | | |
| Vineland, NJ | — | 2,068,089 | — | — | — | 2,068,089 | (c) | 2,068,089 | (c) | 1999 | 09/98 | (c) |
| Falls Church, VA | — | 3,127,139 | — | 2,424,664 | — | 3,127,139 | 2,412,036(q) | 5,539,175 | 286,429 | 2002 | 10/01 | 40 years |
| West Mifflin, PA | — | 1,401,632 | 2,043,862 | — | — | 1,401,632 | 2,043,862 | 3,445,494 | 249,095 | 1999 | 02/02 | 40 years |
| Norfolk, VA | — | 2,742,194 | 1,796,508 | — | — | 2,742,194 | 1,796,508 | 4,538,702 | 218,949 | 2001 | 02/02 | 40 years |
| Thorndale, PA | — | 2,260,618 | 2,472,039 | — | — | 2,260,618 | 2,472,039 | 4,732,657 | 301,279 | 2001 | 02/02 | 40 years |
| El Meskal: | | | | | | | | | | | | |
| Hammond, LA | — | 247,600 | 813,514 | 61,688 | — | 247,600 | 627,002 | 874,602 | 93,429 | 1997 | 12/01 | 40 years |
| El Paso Barbeque: | | | | | | | | | | | | |
| Tuscon, AZ | — | 993,637 | — | — | — | 993,637 | — | 993,637 | — | (e) | 12/06 | (e) |
| Enterprise Rent-A-Car: | | | | | | | | | | | | |
| Wilmington, NC | — | 218,126 | 327,329 | — | — | 218,126 | 327,329 | 545,455 | 41,257 | 1981 | 12/01 | 40 years |
| Family Dollar: | | | | | | | | | | | | |
| Cohoes, NY | — | 95,644 | 515,502 | — | — | 95,644 | 515,502 | 611,146 | 29,534 | 1994 | 09/04 | 40 years |
| Hudson Falls, NY | — | 51,055 | 379,789 | — | — | 51,055 | 379,789 | 430,844 | 21,759 | 1993 | 09/04 | 40 years |
| Monticello, NY | — | 96,445 | 351,721 | — | — | 96,445 | 351,721 | 448,166 | 15,754 | 1996 | 03/05 | 40 years |
| Fantastic Sams: | | | | | | | | | | | | |
| Eden Prairie, MN | — | 64,916 | 180,538 | 80,809 | — | 64,916 | 261,347 | 326,263 | 29,870 | 1997 | 12/01 | 40 years |
| Fazoli's Restaurant: | | | | | | | | | | | | |
| Bay City, MI | — | 647,055 | 633,899 | — | — | 647,055 | 633,899 | 1,280,954 | 79,897 | 1997 | 12/01 | 40 years |
| Food 4 Less: | | | | | | | | | | | | |
| Chula Vista, CA | — | 3,568,862 | — | — | — | 3,568,862 | (c) | 3,568,862 | (c) | 1995 | 11/98 | (c) |
| Fresh Market: | | | | | | | | | | | | |
| Gainesville, FL | — | 317,386 | 1,248,404 | — | — | 317,386 | 1,248,404 | 1,565,790 | 100,132 | 1982 | 03/99 | 40 years |
| Furr's Family Dining: | | | | | | | | | | | | |
| Las Cruces, NM | — | 947,476 | — | 2,181,954 | | 947,476 | 2,181,954 | 3,129,430 | 15,911 | 2006 | 01/06 | 40 years |
| Tuscon, AZ | — | 1,167,503 | — | — | — | 1,167,503 | — | 1,167,503 | — | (e) | 07/06 | (e) |
| Gander Mountain: | | | | | | | | | | | | |
| Amarillo, TX | — | 1,513,714 | 5,781,294 | — | — | 1,513,714 | 5,781,294 | 7,295,008 | 307,131 | 2004 | 11/04 | 40 years |
| Gate Petroleum: | | | | | | | | | | | | |
| Concord, NC | — | 852,225 | 1,200,862 | — | — | 852,225 | 1,200,862 | 2,053,087 | 46,283 | 2001 | 06/05 | 40 years |
| Rocky Mountain, NC | — | 258,764 | 1,164,438 | — | — | 258,764 | 1,164,438 | 1,423,202 | 44,879 | 2000 | 06/05 | 40 years |
| GCS Wireless: | | | | | | | | | | | | |
| Orlando, FL | 64,975(u) | 36,850 | 101,320 | — | — | 36,850 | 101,320 | 138,170 | 7,282 | 2001 | 02/04 | 40 years |
| Gen-X Clothing: | | | | | | | | | | | | |
| Federal Way, WA | — | 2,037,392 | 1,661,577 | 257,414 | — | 2,037,392 | 1,918,991 | 3,956,383 | 375,463 | 1998 | 06/98 | 40 years |
| Golden Corral: | | | | | | | | | | | | |
| Abbeville, LA | — | 98,577 | 362,416 | — | — | 98,577 | 362,416 | 460,993 | 230,393 | 1985 | 04/85 | 35 years |
| Lake Placid, FL | — | 115,113 | 305,074 | 43,797 | — | 115,113 | 348,871 | 463,984 | 199,859 | 1985 | 05/85 | 35 years |
| Tampa, FL | — | 1,329,793 | 1,390,502 | — | — | 1,329,793 | 1,390,502 | 2,720,295 | 175,261 | 1998 | 12/01 | 40 years |
| Dallas, TX | — | 1,138,129 | 1,024,747 | — | — | 1,138,129 | 1,024,747 | 2,162,876 | 129,161 | 1994 | 12/01 | 40 years |
| Temple Terrace, FL | — | 1,187,614 | 1,339,000 | — | — | 1,187,614 | 1,339,000 | 2,526,614 | 168,770 | 1997 | 12/01 | 40 years |
| Goodyear Truck & Tire: | | | | | | | | | | | | |
| Wichita, KS | — | 213,640 | 686,700 | — | — | 213,640 | 686,700 | 900,340 | 52,933 | 1989 | 06/05 | 20 years |
| GymKix: | | | | | | | | | | | | |
| Copperas Cove, TX | — | 203,908 | 431,715 | 171,477 | — | 203,908 | 603,192 | 807,100 | 108,067 | 1972 | 11/98 | 40 years |
| H&R Block: | | | | | | | | | | | | |
| Swansea, IL | — | 45,842 | 132,440 | 69,029 | — | 45,842 | 201,469 | 247,311 | 24,238 | 1997 | 12/01 | 40 years |
| Hancock Fabrics: | | | | | | | | | | | | |
| Arlington, TX | — | 317,838 | 1,680,428 | 242,483 | — | 317,838 | 1,922,911 | 2,240,749 | 417,570 | 1996 | 06/96 | 38 years |
| Hastings: | | | | | | | | | | | | |
| Nacogdoches, TX | — | 397,074 | 1,257,402 | — | — | 397,074 | 1,257,402 | 1,654,476 | 255,409 | 1997 | 11/98 | 40 years |
| Haverty's: | | | | | | | | | | | | |
| Clearwater, FL | — | 1,184,438 | 2,526,207 | 44,005 | — | 1,184,438 | 2,570,212 | 3,754,650 | 866,385 | 1992 | 05/93 | 40 years |
| Orlando, FL | — | 820,397 | 2,184,721 | 176,425 | — | 820,397 | 2,361,146 | 3,181,543 | 750,321 | 1992 | 05/93 | 40 years |

See accompanying report of independent registered public accounting firm.

| | Encum-brances (k) | Initial Cost to Company: Land | Initial Cost to Company: Building, Improve-ments and Leasehold Interests | Costs Capitalized Subsequent to Acquisition: Improve-ments | Costs Capitalized Subsequent to Acquisition: Carrying Costs | Gross Amount at Which Carried at Close of Period (b): Land | Gross Amount at Which Carried at Close of Period (b): Building, Improve-ments and Leasehold Interests | Gross Amount at Which Carried at Close of Period (b): Total | Accumulated Depreciation and Amortization | Date of Con-struction | Date Acquired | Life on Which Depreciation and Amortization in Latest Income Statement is Computed |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Pensacola, FL | 505,603 | 633,125 | 1,595,405 | — | — | 603,111 | 1,595,405 | 2,198,516 | 419,237 | 1994 | 06/96 | 40 years |
| Bowie, MD | — | 1,965,508 | 4,221,074 | — | — | 1,965,508 | 4,221,074 | 6,186,582 | 817,719 | 1997 | 12/97 | 38.5 years |
| Healthy Pet: | | | | | | | | | | | | |
| Suwannee, GA | — | 175,183 | 1,038,492 | — | — | 175,183 | 1,038,492 | 1,213,675 | 1,082 | 1997 | 12/06 | 40 years |
| Heilig-Meyers: | | | | | | | | | | | | |
| Baltimore, MD | — | 469,781 | 813,073 | — | — | 469,781 | 813,073 | 1,282,854 | 165,155 | 1968 | 11/98 | 40 years |
| Glen Burnie, MD | — | 631,712 | 931,931 | — | — | 631,712 | 931,931 | 1,563,643 | 189,251 | 1968 | 11/98 | 40 years |
| Hollywood Video: | | | | | | | | | | | | |
| Cincinnati, OH | — | 282,200 | 520,623 | 261,238 | — | 543,438 | 520,623 | 1,064,061 | 65,620 | 1998 | 12/01 | 40 years |
| Clifton, CO | — | 245,462 | 732,477 | — | — | 245,462 | 732,477 | 977,939 | 92,323 | 1998 | 12/01 | 40 years |
| Lafayette, LA | — | 603,190 | 1,149,251 | — | — | 603,190 | 1,149,251 | 1,752,441 | 29,928 | 1999 | 12/05 | 40 years |
| Montgomery, AL | — | 592,730 | 1,186,705 | — | — | 592,730 | 1,186,705 | 1,779,435 | 30,904 | 1998 | 12/05 | 40 years |
| Ridgeland, MS | — | 778,874 | 933,314 | — | — | 778,874 | 933,314 | 1,712,188 | 24,305 | 1997 | 12/05 | 40 years |
| Home Depot: | | | | | | | | | | | | |
| Sunrise, FL | — | 5,148,657 | — | — | — | 5,148,657 | — | 5,148,657 | — | (i) | 05/03 | (i) |
| HomeGoods: | | | | | | | | | | | | |
| Fairfax, VA | — | 977,839 | 1,414,261 | 937,301 | — | 977,839 | 2,351,562 | 3,329,401 | 291,972 | 1995 | 12/95 | 40 years |
| Hooters: | | | | | | | | | | | | |
| Tampa, FL | — | 783,923 | 504,768 | — | — | 783,923 | 504,768 | 1,288,691 | 63,622 | 1993 | 12/01 | 40 years |
| Hope Rehab: | | | | | | | | | | | | |
| Houston, TX | — | 112,150 | 509,179 | — | — | 112,150 | 509,179 | 621,329 | 13,260 | 1995 | 12/05 | 40 years |
| Horizon Travel Plaza: | | | | | | | | | | | | |
| Midland City, AL | — | 728,990 | 2,538,232 | — | — | 728,990 | 2,538,232 | 3,267,222 | 2,644 | 2006 | 12/06 | 40 years |
| Humana: | | | | | | | | | | | | |
| Sunrise, FL | — | 800,271 | 252,717 | — | — | 800,271 | 252,717 | 1,052,988 | 16,529 | 1984 | 05/04 | 40 years |
| Hy-Vee: | | | | | | | | | | | | |
| St. Joseph, MO | — | 1,579,583 | 2,849,246 | — | — | 1,579,583 | 2,849,246 | 4,428,829 | 305,707 | 1991 | 09/02 | 40 years |
| International House of Pancakes: | | | | | | | | | | | | |
| Sunset Hills, MO | — | 271,853 | — | — | — | 271,853 | (c) | 271,853 | (c) | 1993 | 10/93 | (c) |
| Matthews, NC | — | 380,043 | — | — | — | 380,043 | (c) | 380,043 | (c) | 1993 | 12/93 | (c) |
| Midwest City, OK | — | 407,268 | — | — | — | 407,268 | — | 407,268 | — | (i) | 11/00 | (i) |
| Ankeny, IA | — | 692,956 | 515,035 | — | — | 692,956 | 515,035 | 1,207,991 | 26,467 | 2002 | 06/05 | 30 years |
| Jack-in-the-Box: | | | | | | | | | | | | |
| Plano, TX | — | 1,055,433 | 1,236,590 | — | — | 1,055,433 | 1,236,590 | 2,292,023 | 47,660 | 2001 | 06/05 | 40 years |
| Jacobson Industrial: | | | | | | | | | | | | |
| Des Moines, IA | — | 60,517 | 112,390 | — | — | 60,517 | 112,390 | 172,907 | 8,663 | 1973 | 06/05 | 20 years |
| Jared Jewelers: | | | | | | | | | | | | |
| Richmond, VA | — | 955,134 | 1,336,152 | — | — | 955,134 | 1,336,152 | 2,291,286 | 168,410 | 1998 | 12/01 | 40 years |
| Brandon, FL | — | 1,196,900 | 1,182,150 | — | — | 1,196,900 | 1,182,150 | 2,379,050 | 136,825 | 2001 | 05/02 | 40 years |
| Lithonia, GA | — | 1,270,517 | 1,215,818 | — | — | 1,270,517 | 1,215,818 | 2,486,335 | 140,722 | 2001 | 05/02 | 40 years |
| Houston, TX | — | 1,675,739 | 1,439,597 | — | — | 1,675,739 | 1,439,597 | 3,115,336 | 145,459 | 1999 | 12/02 | 40 years |
| Jo-Ann Etc: | | | | | | | | | | | | |
| Corpus Christi, TX | — | 818,448 | 896,395 | 12,222 | — | 818,448 | 908,617 | 1,727,065 | 297,583 | 1967 | 11/93 | 40 years |
| Kane Realty: | | | | | | | | | | | | |
| Raleigh, NC | — | 793,017 | — | 810,059(j) | — | 1,603,076 | — | 1,603,076 | (j) | (i) | 12/01 | (i) |
| Kangaroo Express: | | | | | | | | | | | | |
| Belleview, FL | — | 471,029 | 1,451,277 | — | — | 471,029 | 1,451,277 | 1,922,306 | 13,606 | 2006 | 08/06 | 40 years |
| Carthage, NC | — | 485,461 | 353,643 | — | — | 485,461 | 353,643 | 839,104 | 3,315 | 1989 | 08/06 | 40 years |
| Jacksonville, FL | — | 807,477 | 1,239,085 | — | — | 807,477 | 1,239,085 | 2,046,562 | 11,616 | 1975 | 08/06 | 40 years |
| Jacksonville, FL | — | 684,639 | 1,361,897 | — | — | 684,639 | 1,361,897 | 2,046,536 | 12,768 | 1969 | 08/06 | 40 years |
| Sanford, NC | — | 666,330 | 660,594 | — | — | 666,330 | 660,594 | 1,326,924 | 6,193 | 2000 | 08/06 | 40 years |
| Sanford, NC | — | 1,638,444 | 1,370,558 | — | — | 1,638,444 | 1,370,558 | 3,009,002 | 12,849 | 2003 | 08/06 | 40 years |
| Siler City, NC | — | 586,174 | 645,290 | — | — | 586,174 | 645,290 | 1,231,464 | 6,050 | 1998 | 08/06 | 40 years |
| West End, NC | — | 426,114 | 516,010 | — | — | 426,114 | 516,010 | 942,124 | 4,838 | 1999 | 08/06 | 40 years |

See accompanying report of independent registered public accounting firm.

| | Encum-brances (k) | Initial Cost to Company | | Costs Capitalized Subsequent to Acquisition | | Gross Amount at Which Carried at Close of Period (b) | | | Accumulated Depreciation and Amortization | Date of Con-struction | Date Acquired | Life on Which Depreciation and Amortization in Latest Income Statement is Computed |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Land | Building, Improve-ments and Leasehold Interests | Improve-ments | Carrying Costs | Land | Building, Improve-ments and Leasehold Interests | Total | | | | |
| Destin, FL | — | 1,365,569 | 1,192,192 | — | — | 1,365,569 | 1,192,192 | 2,557,761 | 8,693 | 2000 | 09/06 | 40 years |
| Niceville, FL | — | 1,433,652 | 1,124,109 | — | — | 1,433,652 | 1,124,109 | 2,557,761 | 8,197 | 2000 | 09/06 | 40 years |
| Interlachen, FL | — | 518,814 | — | — | — | 518,814 | — | 518,814 | — | (e) | 10/06 | (e) |
| Kill Devil Hills, NC | — | 679,169 | 552,393 | — | — | 679,169 | 552,393 | 1,231,562 | 2,881 | 1990 | 10/06 | 40 years |
| Kill Devil Hills, NC | — | 490,309 | 741,222 | — | — | 490,309 | 741,222 | 1,231,531 | 3,868 | 1995 | 10/06 | 40 years |
| Clarksville, TN | — | 521,023 | 709,784 | — | — | 521,023 | 709,784 | 1,230,807 | 739 | 1999 | 12/06 | 40 years |
| Clarksville, TN | — | 275,897 | 954,910 | — | — | 275,897 | 954,910 | 1,230,807 | 995 | 1999 | 12/06 | 40 years |
| Gallatin,TN | — | 474,297 | 756,510 | — | — | 474,297 | 756,510 | 1,230,807 | 494 | 1999 | 12/06 | 40 years |
| Naples, FL | — | 3,194,938 | 1,403,297 | — | — | 3,194,938 | 1,403,297 | 4,598,235 | 1,462 | 2001 | 12/06 | 40 years |
| Oxford, MS | — | 440,413 | 1,096,748 | — | — | 440,413 | 1,096,748 | 1,537,161 | 1,142 | 1998 | 12/06 | 40 years |
| Kash N' Karry: | | | | | | | | | | | | |
| Brandon, FL | 3,166,503(p) | 322,476 | 1,221,661 | — | — | 322,476 | 1,221,661 | 1,544,137 | 97,987 | 1983 | 03/99 | 40 years |
| Palm Harbor, FL | — | 335,851 | 1,925,276 | — | — | 335,851 | 1,925,276 | 2,261,127 | 154,423 | 1983 | 03/99 | 40 years |
| Sarasota, FL | — | 470,600 | 1,343,746 | — | — | 470,600 | 1,343,746 | 1,814,346 | 107,780 | 1983 | 03/99 | 40 years |
| Keg Steakhouse: | | | | | | | | | | | | |
| Bellingham, WA(r) | — | 397,443 | 455,605 | — | — | 397,443 | 455,605 | 853,048 | 57,425 | 1981 | 12/01 | 40 years |
| Lynnwood, WA | — | 1,255,513 | 649,236 | — | — | 1,255,513 | 649,236 | 1,904,749 | 81,831 | 1992 | 12/01 | 40 years |
| Tacoma, WA | — | 526,792 | 794,722 | — | — | 526,792 | 794,722 | 1,321,514 | 100,168 | 1981 | 12/01 | 40 years |
| KFC: | | | | | | | | | | | | |
| Erie, PA | — | 516,508 | 496,092 | — | — | 516,508 | 496,092 | 1,012,600 | 62,528 | 1996 | 12/01 | 40 years |
| Marysville, WA | — | 646,779 | 545,592 | — | — | 646,779 | 545,592 | 1,192,371 | 68,767 | 1996 | 12/01 | 40 years |
| Evansville, IN | — | 369,740 | 766,635 | — | — | 369,740 | 766,635 | 1,136,375 | 11,979 | 2004 | 05/06 | 40 years |
| Kohl's: | | | | | | | | | | | | |
| Florence, AL | — | 817,661 | — | 1,046,515 | — | 817,661 | 1,046,515 | 1,864,176 | 6,541 | (i) | 06/04 | 40 years |
| Kum & Go: | | | | | | | | | | | | |
| Omaha, NE | — | 392,847 | 214,280 | — | — | 392,847 | 214,280 | 607,127 | 16,517 | 1979 | 06/05 | 20 years |
| Light Restaurant: | | | | | | | | | | | | |
| Columbus, OH | — | 1,032,008 | 1,107,250 | — | — | 1,032,008 | 1,107,250 | 2,139,258 | 139,560 | 1998 | 12/01 | 40 years |
| Lil' Champ: | | | | | | | | | | | | |
| Gainesville, FL | — | 900,422 | — | — | — | 900,422 | — | 900,422 | — | (e) | 07/05 | (e) |
| Jacksonville, FL | — | 2,225,177 | 315,315 | — | — | 2,225,177 | 315,315 | 2,540,492 | 10,839 | 2006 | 08/05 | 40 years |
| Ocala, FL | — | 845,827 | — | — | — | 845,827 | — | 845,827 | — | (e) | 02/06 | (e) |
| Logan's Roadhouse: | | | | | | | | | | | | |
| Alexandria, LA | — | 1,217,567 | 3,048,693 | — | — | 1,217,567 | 3,048,693 | 4,266,260 | 9,527 | 1998 | 11/06 | 40 years |
| Beckley, WV | — | 1,396,024 | 2,404,817 | — | — | 1,396,024 | 2,404,817 | 3,800,841 | 7,515 | 2006 | 11/06 | 40 years |
| Cookeville, TN | — | 1,262,430 | 2,270,596 | — | — | 1,262,430 | 2,270,596 | 3,533,026 | 7,096 | 1997 | 11/06 | 40 years |
| Fort Wayne, IN | — | 1,274,315 | 2,109,860 | — | — | 1,274,315 | 2,109,860 | 3,384,175 | 6,593 | 2003 | 11/06 | 40 years |
| Greenwood, IN | — | 1,341,188 | 2,105,213 | — | — | 1,341,188 | 2,105,213 | 3,446,401 | 6,579 | 2000 | 11/06 | 40 years |
| Hurst, TX | — | 1,857,628 | 1,915,877 | — | — | 1,857,628 | 1,915,877 | 3,773,505 | 5,987 | 1999 | 11/06 | 40 years |
| Jackson, TN | — | 1,199,765 | 2,246,330 | — | — | 1,199,765 | 2,246,330 | 3,446,095 | 7,020 | 1994 | 11/06 | 40 years |
| Lake Charles, LA | — | 1,284,898 | 2,202,447 | — | — | 1,284,898 | 2,202,447 | 3,487,345 | 6,883 | 1998 | 11/06 | 40 years |
| McAllen, TX | — | 1,607,806 | 2,177,715 | — | — | 1,607,806 | 2,177,715 | 3,785,521 | 6,805 | 2005 | 11/06 | 40 years |
| Opelika, AL | — | 1,028,484 | 1,753,045 | — | — | 1,028,484 | 1,753,045 | 2,781,529 | 5,478 | 2005 | 11/06 | 40 years |
| Roanoke, VA | — | 2,302,414 | 1,947,141 | — | — | 2,302,414 | 1,947,141 | 4,249,555 | 6,085 | 1998 | 11/06 | 40 years |
| San Marcos, TX | — | 836,979 | 1,453,300 | — | — | 836,979 | 1,453,300 | 2,290,279 | 4,541 | 2000 | 11/06 | 40 years |
| Sanford, FL | — | 1,677,782 | 1,730,390 | — | — | 1,677,782 | 1,730,390 | 3,408,172 | 5,407 | 1999 | 11/06 | 40 years |
| Smyrna, TN | — | 1,334,998 | 2,047,465 | — | — | 1,334,998 | 2,047,465 | 3,382,463 | 6,398 | 2002 | 11/06 | 40 years |
| Warner Robins, GA | — | 905,301 | 1,533,748 | — | — | 905,301 | 1,533,748 | 2,439,049 | 4,793 | 2004 | 11/06 | 40 years |
| Franklin, TN | — | 2,519,485 | 1,704,790 | — | — | 2,519,485 | 1,704,790 | 4,224,275 | 1,776 | 1995 | 12/06 | 40 years |
| Southaven, MS | — | 1,297,767 | 1,338,118 | — | — | 1,297,767 | 1,338,118 | 2,635,885 | 1,394 | 2005 | 12/06 | 40 years |
| Lowe's: | | | | | | | | | | | | |
| Memphis, TN | — | 3,214,835 | 9,169,885 | — | — | 3,214,835 | 9,169,885 | 12,384,720 | 1,042,223 | 2001 | 06/02 | 40 years |
| Magic China Café: | | | | | | | | | | | | |
| Orlando, FL | 70,882(u) | 40,200 | 110,531 | — | — | 40,200 | 110,531 | 150,731 | 7,944 | 2001 | 02/04 | 40 years |
| Magic Dollar: | | | | | | | | | | | | |
| Memphis, TN | — | 549,309 | 539,643 | 364,460 | — | 549,309 | 904,103 | 1,453,412 | 152,879 | 1998 | 11/98 | 40 years |

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| | | Initial Cost to Company | | Costs Capitalized Subsequent to Acquisition | | Gross Amount at Which Carried at Close of Period (b) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Encum-brances (k) | Land | Building, Improve-ments and Leasehold Interests | Improve-ments | Carrying Costs | Land | Building, Improve-ments and Leasehold Interests | Total | Accumulated Depreciation and Amortization | Date of Con-struction | Date Acquired | Life on Which Depreciation and Amortization in Latest Income Statement is Computed |
| Majestic Liquors: | | | | | | | | | | | | |
| Arlington, TX | — | 1,235,214 | 1,222,434 | — | — | 1,235,214 | 1,222,434 | 2,457,648 | 57,301 | 1990 | 02/05 | 40 years |
| Coffee City, TX | — | 1,330,427 | 3,858,445 | — | — | 1,330,427 | 3,858,445 | 5,188,872 | 180,864 | 1996 | 02/05 | 40 years |
| Ft. Worth, TX | — | 1,461,333 | 1,673,229 | — | — | 1,461,333 | 1,673,229 | 3,134,562 | 78,432 | 1999 | 02/05 | 40 years |
| Ft. Worth, TX | — | 1,651,570 | 2,017,770 | — | — | 1,651,570 | 2,017,770 | 3,669,340 | 94,583 | 2000 | 02/05 | 40 years |
| Ft. Worth, TX | — | 2,505,249 | 2,138,400 | — | — | 2,505,249 | 2,138,400 | 4,643,649 | 100,237 | 1988 | 02/05 | 40 years |
| Ft. Worth, TX | — | 977,290 | 2,368,447 | — | — | 977,290 | 2,368,447 | 3,345,737 | 111,021 | 1997 | 02/05 | 40 years |
| Ft. Worth, TX | — | 611,366 | 1,608,555 | — | — | 611,366 | 1,608,555 | 2,219,921 | 75,401 | 1974 | 02/05 | 40 years |
| Hudson Oaks, TX | — | 361,371 | 1,029,053 | — | — | 361,371 | 1,029,053 | 1,390,424 | 48,237 | 1993 | 02/05 | 40 years |
| Granbury, TX | — | 786,159 | 1,233,984 | — | — | 786,159 | 1,233,984 | 2,020,143 | 24,422 | 2006 | 05/05(g) | 40 years |
| Dallas, TX | — | 1,554,411 | 1,228,778 | — | — | 1,554,411 | 1,228,778 | 2,783,189 | 47,359 | 1982 | 06/05 | 40 years |
| Dallas, TX | — | 2,407,203 | 2,050,580 | 248,000 | — | 2,407,203 | 2,298,580 | 4,705,783 | 81,693 | 1971 | 06/05 | 40 years |
| Merchant's Tires: | | | | | | | | | | | | |
| Hampton, VA | — | 179,835 | 426,895 | — | — | 179,835 | 426,895 | 606,730 | 19,121 | 1986 | 03/05 | 40 years |
| Newport News, VA | — | 233,812 | 259,046 | — | — | 233,812 | 259,046 | 492,858 | 11,603 | 1986 | 03/05 | 40 years |
| Norfolk, VA | — | 398,132 | 507,743 | — | — | 398,132 | 507,743 | 905,875 | 22,743 | 1986 | 03/05 | 40 years |
| Rockville, MD | — | 1,030,156 | 306,147 | — | — | 1,030,156 | 306,147 | 1,336,303 | 13,713 | 1974 | 03/05 | 40 years |
| Washington, DC | — | 623,607 | 577,948 | — | — | 623,607 | 577,948 | 1,201,555 | 25,887 | 1983 | 03/05 | 40 years |
| Mi Pueblo Foods: | | | | | | | | | | | | |
| Watsonville, CA | — | 805,056 | 1,648,934 | — | — | 805,056 | 1,648,934 | 2,453,990 | 132,258 | 1984 | 03/99 | 40 years |
| Michaels: | | | | | | | | | | | | |
| Fairfax, VA | — | 986,131 | 1,426,254 | 706,501 | — | 986,131 | 2,132,755 | 3,118,886 | 292,242 | 1995 | 12/95 | 40 years |
| Grapevine, TX | — | 1,017,934 | 2,066,715 | — | — | 1,017,934 | 2,066,715 | 3,084,649 | 441,330 | 1998 | 06/98 | 40 years |
| Plymouth Meeting, PA | — | 2,911,111 | — | 2,250,620 | — | 2,911,111 | 2,250,620 | 5,161,731 | 433,713 | 1999 | 10/98(g) | 40 years |
| Mortgage Marketing: | | | | | | | | | | | | |
| Swansea, IL | — | 91,709 | 264,956 | — | — | 91,709 | 264,956 | 356,665 | 33,424 | 1997 | 12/01 | 40 years |
| Mountain Jack's: | | | | | | | | | | | | |
| Centerville, OH | — | 850,625 | 1,059,430 | — | — | 850,625 | 1,059,430 | 1,910,055 | 133,532 | 1986 | 12/01 | 40 years |
| Mr. E's Music Supercenter: | | | | | | | | | | | | |
| Arlington, TX | — | 435,002 | 2,299,881 | 334,059 | — | 435,002 | 2,633,940 | 3,068,942 | 563,439 | 1996 | 06/96 | 40 years |
| Muchas Gracias Mexican Restaurant: | | | | | | | | | | | | |
| Salem, OR | — | 555,951 | 735,651 | — | — | 555,951 | 735,651 | 1,291,602 | 92,773 | 1996 | 12/06 | 40 years |
| New Covenant Church: | | | | | | | | | | | | |
| Augusta, GA | — | 176,656 | 674,253 | — | — | 176,656 | 674,253 | 850,909 | 84,984 | 1998 | 12/01 | 40 years |
| Office Depot: | | | | | | | | | | | | |
| Arlington, TX | — | 596,024 | 1,411,432 | — | — | 596,024 | 1,411,432 | 2,007,456 | 455,694 | 1991 | 01/94 | 40 years |
| Richmond, VA | — | 888,772 | 1,948,036 | — | — | 888,772 | 1,948,036 | 2,836,808 | 515,680 | 1996 | 05/96 | 40 years |
| Hartsdale, NY | 1,730,026(t) | 4,508,753 | 2,327,448 | — | — | 4,508,753 | 2,327,448 | 6,836,201 | 169,645 | 1996 | 09/97 | 40 years |
| OfficeMax: | | | | | | | | | | | | |
| Dallas, TX | — | 1,118,500 | 1,709,891 | — | — | 1,118,500 | 1,709,891 | 2,828,391 | 555,832 | 1993 | 12/93 | 40 years |
| Cincinnati, OH | — | 543,489 | 1,574,551 | — | — | 543,489 | 1,574,551 | 2,118,040 | 491,373 | 1994 | 07/94 | 40 years |
| Evanston, IL | — | 1,867,831 | 1,757,618 | — | — | 1,867,831 | 1,757,618 | 3,625,449 | 508,000 | 1995 | 06/95 | 40 years |
| Altamonte Springs, FL | — | 1,689,793 | 3,050,160 | — | — | 1,689,793 | 3,050,160 | 4,739,953 | 829,522 | 1995 | 01/96 | 40 years |
| Cutler Ridge, FL | — | 989,370 | 1,479,119 | — | — | 989,370 | 1,479,119 | 2,468,489 | 388,577 | 1995 | 06/96 | 40 years |
| Sacramento, CA | — | 1,144,167 | 2,961,206 | — | — | 1,144,167 | 2,961,206 | 4,105,373 | 740,498 | 1996 | 12/96 | 40 years |
| Salinas, CA | — | 1,353,217 | 1,829,325 | — | — | 1,353,217 | 1,829,325 | 3,182,542 | 451,614 | 1995 | 02/97 | 40 years |
| Redding, CA | — | 667,174 | 2,181,563 | — | — | 667,174 | 2,181,563 | 2,848,737 | 520,394 | 1997 | 06/97 | 40 years |
| Kelso, WA | — | 868,003 | — | 1,805,539 | — | 868,003 | 1,805,539 | 2,673,542 | 404,365 | 1998 | 09/97(g) | 40 years |
| Lynchburg, VA | — | 561,509 | — | 1,851,326 | — | 561,509 | 1,851,326 | 2,412,835 | 383,764 | 1998 | 02/98 | 40 years |
| Leesburg, FL | — | 640,019 | — | 1,929,028 | — | 640,019 | 1,929,028 | 2,569,047 | 387,815 | 1998 | 08/98 | 40 years |
| Dover, NJ | — | 1,138,296 | 3,238,083 | — | — | 1,138,296 | 3,238,083 | 4,376,379 | 657,735 | 1995 | 11/98 | 40 years |
| Griffin, GA | — | 685,470 | — | 1,801,905 | — | 685,470 | 1,801,905 | 2,487,375 | 347,242 | 1999 | 11/98(g) | 40 years |
| Tigard, OR | — | 1,539,873 | 2,247,321 | — | — | 1,539,873 | 2,247,321 | 3,787,194 | 456,487 | 1995 | 11/98 | 40 years |
| Orlando Metro Gymnastics: | | | | | | | | | | | | |
| Orlando, FL | — | 427,661 | 1,344,660 | — | — | 427,661 | 1,344,660 | 1,772,321 | 65,832 | 2003 | 01/05 | 40 years |
| Party City: | | | | | | | | | | | | |
| Memphis, TN | — | 266,383 | — | 1,136,334 | — | 266,383 | 1,136,334 | 1,402,717 | 214,246 | 1999 | 06/99 | 40 years |

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| | | Initial Cost to Company | | Costs Capitalized Subsequent to Acquisition | | Gross Amount at Which Carried at Close of Period (b) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Encum-brances (k) | Land | Building, Improve-ments and Leasehold Interests | Improve-ments | Carrying Costs | Land | Building, Improve-ments and Leasehold Interests | Total | Accumulated Depreciation and Amortization | Date of Con-struction | Date Acquired | Life on Which Depreciation and Amortization in Latest Income Statement is Computed |
| Perfect Teeth: | | | | | | | | | | | | |
| Rio Rancho, NM | — | 61,517 | 122,142 | — | — | 61,517 | 122,142 | 183,659 | 15,408 | 1997 | 12/01 | 40 years |
| Perkins Restaurant: | | | | | | | | | | | | |
| Des Moines, IA | — | 255,874 | 136,103 | — | — | 255,874 | 136,103 | 391,977 | 20,983 | 1976 | 06/05 | 10 years |
| Des Moines, IA | — | 225,922 | 203,330 | — | — | 225,922 | 203,330 | 429,252 | 31,347 | 1976 | 06/05 | 10 years |
| Des Moines, IA | — | 269,938 | 218,248 | — | — | 269,938 | 218,248 | 488,186 | 33,647 | 1977 | 06/05 | 10 years |
| Newton, IA | — | 353,816 | 401,630 | — | — | 353,816 | 401,630 | 755,446 | 61,918 | 1979 | 06/05 | 10 years |
| Urbandale, IA | — | 376,690 | 581,414 | — | — | 376,690 | 581,414 | 958,104 | 44,817 | 1979 | 06/05 | 20 years |
| Petco: | | | | | | | | | | | | |
| Grand Forks, ND | — | 306,629 | 909,671 | — | — | 306,629 | 909,671 | 1,216,300 | 205,647 | 1996 | 12/97 | 40 years |
| PETsMART: | | | | | | | | | | | | |
| Chicago, IL | — | 2,724,138 | 3,565,721 | — | — | 2,724,138 | 3,565,721 | 6,289,859 | 739,135 | 1998 | 09/98 | 40 years |
| Picture Factory: | | | | | | | | | | | | |
| Sarasota, FL | — | 1,167,618 | 1,903,810 | 218,564 | — | 1,167,618 | 2,122,374 | 3,289,992 | 149,037 | 1996 | 09/97 | 40 years |
| Pier 1 Imports: | | | | | | | | | | | | |
| Anchorage, AK | — | 928,321 | 1,662,584 | — | — | 928,321 | 1,662,584 | 2,590,905 | 450,522 | 1995 | 02/96 | 40 years |
| Memphis, TN | — | 713,319 | 821,770 | — | — | 713,319 | 821,770 | 1,535,089 | 196,026 | 1997 | 09/96(f) | 40 years |
| Sanford, FL | — | 738,051 | 803,082 | — | — | 738,051 | 803,082 | 1,541,133 | 176,511 | 1998 | 06/97(f) | 40 years |
| Knoxville, TN | — | 467,169 | 734,833 | — | — | 467,169 | 734,833 | 1,202,002 | 146,201 | 1999 | 01/98(f) | 40 years |
| Mason, OH | — | 593,571 | 885,047 | — | — | 593,571 | 885,047 | 1,478,618 | 166,868 | 1999 | 06/98(f) | 40 years |
| Harlingen, TX | — | 316,640 | 756,406 | — | — | 316,640 | 756,406 | 1,073,046 | 136,310 | 1999 | 11/98(f) | 40 years |
| Valdosta, GA | — | 390,838 | 805,912 | — | — | 390,838 | 805,912 | 1,196,750 | 143,553 | 1999 | 01/99(f) | 40 years |
| Pizza Hut: | | | | | | | | | | | | |
| Monroeville, AL | — | 547,300 | 44,237 | — | — | 547,300 | 44,237 | 591,537 | 5,575 | 1976 | 12/01 | 40 years |
| Pizza Place, The: | | | | | | | | | | | | |
| Cohoes, NY | — | 16,396 | 88,372 | — | — | 16,396 | 88,372 | 104,768 | 5,063 | 1994 | 09/04 | 40 years |
| Pueblo Viejo Restaurant: | | | | | | | | | | | | |
| Chandler, AZ | — | 654,765 | 765,164 | 7,500 | — | 654,765 | 772,664 | 1,427,429 | 102,647 | 1997 | 12/01 | 40 years |
| Popeye's: | | | | | | | | | | | | |
| Snellville, GA | — | 642,169 | 436,512 | — | — | 642,169 | 436,512 | 1,078,681 | 55,019 | 1995 | 12/01 | 40 years |
| Pull-A-Part: | | | | | | | | | | | | |
| Birmingham, AL | — | 1,164,780 | 2,090,094 | — | — | 1,164,780 | 2,090,094 | 3,254,874 | 19,595 | 1964 | 08/06 | 40 years |
| Augusta, GA | — | 1,414,381 | — | — | — | 1,414,381 | — | 1,414,381 | (e) | (e) | 08/06 | (e) |
| Conley, GA | — | 1,685,604 | 1,387,170 | — | — | 1,685,604 | 1,387,170 | 3,072,774 | 13,005 | 1999 | 08/06 | 40 years |
| Norcross, GA | — | 1,831,129 | 1,040,317 | — | — | 1,831,129 | 1,040,317 | 2,871,446 | 9,753 | 1998 | 08/06 | 40 years |
| Louisville, KY | — | 3,205,591 | 1,531,842 | — | — | 3,205,591 | 1,531,842 | 4,737,433 | 14,361 | 2006 | 08/06 | 40 years |
| Harvey, LA | — | 1,881,371 | — | — | — | 1,881,371 | — | 1,881,371 | (e) | (e) | 08/06 | (e) |
| Charlotte, NC | — | 2,912,842 | 1,724,045 | — | — | 2,912,842 | 1,724,045 | 4,636,887 | 16,163 | 2006 | 08/06 | 40 years |
| Knoxville, TN | — | 961,067 | — | — | — | 961,067 | — | 961,067 | (e) | (e) | 08/06 | (e) |
| Nashville, TN | — | 2,164,234 | 1,414,129 | — | — | 2,164,234 | 1,414,129 | 3,578,363 | 13,257 | 2006 | 08/06 | 40 years |
| Lafayette, LA | — | 1,020,544 | — | — | — | 1,020,544 | — | 1,020,544 | (e) | (e) | 08/06 | (e) |
| Cleveland, OH | — | 4,541,398 | — | — | — | 4,541,398 | — | 4,541,398 | (e) | (e) | 08/06 | (e) |
| Montgomery, AL | — | 919,737 | — | — | — | 919,737 | — | 919,737 | (e) | (e) | 11/06 | (e) |
| Jackson, MS | — | 1,300,560 | — | — | — | 1,300,560 | — | 1,300,560 | (e) | (e) | 12/06 | (e) |
| QuikTrip: | | | | | | | | | | | | |
| Alpharetta, GA | — | 1,048,309 | 606,916 | — | — | 1,048,309 | 606,916 | 1,655,225 | 23,391 | 1996 | 06/05 | 40 years |
| Clive, IA | — | 623,473 | 556,970 | — | — | 623,473 | 556,970 | 1,180,443 | 28,622 | 1994 | 06/05 | 30 years |
| Des Moines, IA | — | 258,759 | 792,448 | — | — | 258,759 | 792,448 | 1,051,207 | 40,723 | 1990 | 06/05 | 30 years |
| Des Moines, IA | — | 379,435 | 455,322 | — | — | 379,435 | 455,322 | 834,757 | 23,398 | 1996 | 06/05 | 30 years |
| Gainesville, GA | — | 592,192 | 912,962 | — | — | 592,192 | 912,962 | 1,505,154 | 46,916 | 1989 | 06/05 | 30 years |
| Herculaneum, MO | — | 856,001 | 1,612,887 | — | — | 856,001 | 1,612,887 | 2,468,888 | 82,884 | 1991 | 06/05 | 30 years |
| Johnston, IA | — | 394,289 | 385,119 | — | — | 394,289 | 385,119 | 779,408 | 19,791 | 1991 | 06/05 | 30 years |
| Lee's Summit, MO | — | 373,770 | 1,224,099 | — | — | 373,770 | 1,224,099 | 1,597,869 | 47,179 | 1999 | 06/05 | 40 years |
| Norcross, GA | — | 948,051 | 293,896 | — | — | 948,051 | 293,896 | 1,241,947 | 15,103 | 1993 | 06/05 | 30 years |
| Norcross, GA | — | 844,216 | 296,867 | — | — | 844,216 | 296,867 | 1,141,083 | 15,256 | 1989 | 06/05 | 30 years |
| Norcross, GA | — | 966,145 | 202,430 | — | — | 966,145 | 202,430 | 1,168,575 | 10,403 | 1994 | 06/05 | 30 years |
| Olathe, KS | — | 792,656 | 1,391,981 | — | — | 792,656 | 1,391,981 | 2,184,637 | 53,649 | 1999 | 06/05 | 40 years |

See accompanying report of independent registered public accounting firm.

| | Encum-brances (k) | Initial Cost to Company | | Costs Capitalized Subsequent to Acquisition | | Gross Amount at Which Carried at Close of Period (b) | | | Accumulated Depreciation and Amortization | Date of Con-struction | Date Acquired | Life on Which Depreciation and Amortization in Latest Income Statement is Computed |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Land | Building, Improve-ments and Leasehold Interests | Improve-ments | Carrying Costs | Land | Building, Improve-ments and Leasehold Interests | Total | | | | |
| Tulsa, OK | — | 1,224,843 | 649,917 | — | — | 1,224,843 | 649,917 | 1,874,760 | 33,398 | 1990 | 06/05 | 30 years |
| Urbandale, IA | — | 339,566 | 764,025 | — | — | 339,566 | 764,025 | 1,103,591 | 29,447 | 1993 | 06/05 | 40 years |
| Wichita, KS | — | 127,250 | 542,934 | — | — | 127,250 | 542,934 | 670,184 | 27,901 | 1990 | 06/05 | 30 years |
| Wichita, KS | — | 118,012 | 453,891 | — | — | 118,012 | 453,891 | 571,903 | 23,324 | 1989 | 06/05 | 30 years |
| Woodstock, GA | — | 488,383 | 1,041,883 | — | — | 488,383 | 1,041,883 | 1,530,266 | 40,156 | 1997 | 06/05 | 40 years |
| Quizno's: | | | | | | | | | | | | |
| Rio Rancho, NM | — | 48,566 | 96,428 | 13,398 | — | 48,566 | 109,826 | 158,392 | 13,431 | 1997 | 12/01 | 40 years |
| Qwest Corporation Service Center: | | | | | | | | | | | | |
| Cedar Rapids, IA | — | 184,490 | 628,943 | — | — | 184,490 | 628,943 | 813,433 | 48,481 | 1976 | 06/05 | 20 years |
| Decorah, IA | — | 71,899 | 271,620 | — | — | 71,899 | 271,620 | 343,519 | 41,875 | 1974 | 06/05 | 10 years |
| Rally's: | | | | | | | | | | | | |
| Toledo, OH | — | 125,882 | 319,770 | — | — | 125,882 | 319,770 | 445,652 | 119,616 | 1989 | 07/92 | 38.8 years |
| Red Lion Chinese Restaurant: | | | | | | | | | | | | |
| Cohoes, NY | — | 27,327 | 147,286 | — | — | 27,327 | 147,286 | 174,613 | 8,438 | 1994 | 09/04 | 40 years |
| Reliable: | | | | | | | | | | | | |
| St. Louis, MO | — | 2,077,893 | 13,871,728 | — | — | 2,077,893 | 13,871,728 | 15,949,621 | 847,581 | 1975 | 05/04 | 40 years |
| Rent-A-Center: | | | | | | | | | | | | |
| Rio Rancho, NM | — | 145,698 | 289,284 | 40,193 | — | 145,698 | 329,477 | 475,175 | 40,616 | 1997 | 12/01 | 40 years |
| Rite Aid: | | | | | | | | | | | | |
| Mobile, AL | — | 1,136,618 | 1,694,187 | — | — | 1,136,618 | 1,694,187 | 2,830,805 | 213,538 | 2000 | 12/01 | 40 years |
| Orange Beach, AL | — | 1,409,980 | 1,996,043 | — | — | 1,409,980 | 1,996,043 | 3,406,023 | 251,585 | 2000 | 12/01 | 40 years |
| Albany, NY | — | 24,707 | 867,257 | — | — | 24,707 | 867,257 | 891,964 | 49,687 | 1994 | 09/04 | 40 years |
| Albany, NY | — | 33,794 | 823,923 | — | — | 33,794 | 823,923 | 857,717 | 47,204 | 1992 | 09/04 | 40 years |
| Cohoes, NY | — | 107,451 | 579,237 | — | — | 107,451 | 579,237 | 686,688 | 33,185 | 1994 | 09/04 | 40 years |
| Hudson Falls, NY | — | 56,737 | 780,091 | — | — | 56,737 | 780,091 | 836,828 | 44,693 | 1990 | 09/04 | 40 years |
| Saratoga Springs, NY | — | 762,303 | 590,978 | — | — | 762,303 | 590,978 | 1,353,281 | 33,858 | 1980 | 09/04 | 40 years |
| Ticonderoga, NY | — | 88,867 | 688,622 | — | — | 88,867 | 688,622 | 777,489 | 39,452 | 1993 | 09/04 | 40 years |
| Monticello, NY | 914,666 | 664,400 | 768,795 | — | — | 664,400 | 768,795 | 1,433,195 | 34,436 | 1996 | 03/05 | 40 years |
| Rite Rug: | | | | | | | | | | | | |
| Columbus, OH | — | 1,596,197 | 934,236 | 13,345 | — | 1,604,615 | 939,163 | 2,543,778 | 49,859 | 1970 | 11/04 | 40 years |
| Roadhouse Grill: | | | | | | | | | | | | |
| Cheektowaga, NY | — | 689,040 | 386,251 | — | — | 689,040 | 386,251 | 1,075,291 | 48,684 | 1994 | 12/01 | 40 years |
| Road Ranger: | | | | | | | | | | | | |
| Belvidere, IL | — | 748,237 | 1,256,106 | — | — | 748,237 | 1,256,106 | 2,004,344 | 17,010 | 1997 | 06/06 | 40 years |
| Brazil, IN | — | 2,199,280 | 907,034 | — | — | 2,199,280 | 907,034 | 3,106,314 | 12,283 | 1990 | 06/06 | 40 years |
| Cherry Valley, IL | — | 1,409,312 | 1,897,360 | — | — | 1,409,312 | 1,897,360 | 3,306,672 | 25,693 | 1991 | 06/06 | 40 years |
| Cottage Grove, WI | — | 2,174,548 | 1,733,398 | — | — | 2,174,548 | 1,733,398 | 3,907,946 | 23,473 | 1990 | 06/06 | 40 years |
| Decatur, IL | — | 815,213 | 1,314,354 | — | — | 815,213 | 1,314,354 | 2,129,568 | 17,798 | 2002 | 06/06 | 40 years |
| Dekalb, IL | — | 747,109 | 1,657,951 | — | — | 747,109 | 1,657,951 | 2,405,060 | 22,451 | 2000 | 06/06 | 40 years |
| Elk Run Heights, IA | — | 1,537,734 | 2,470,191 | — | — | 1,537,734 | 2,470,191 | 4,007,925 | 33,451 | 1989 | 06/06 | 40 years |
| Lake Station, IN | — | 3,171,775 | 1,111,643 | — | — | 3,171,775 | 1,111,643 | 4,283,418 | 15,053 | 1987 | 06/06 | 40 years |
| Mendota, IL | — | 959,012 | 1,295,780 | — | — | 959,012 | 1,295,780 | 2,254,792 | 17,547 | 1996 | 06/06 | 40 years |
| Oakdale, WI | — | 1,844,068 | 1,663,137 | — | — | 1,844,068 | 1,663,137 | 3,507,205 | 22,522 | 1998 | 06/06 | 40 years |
| Rockford, IL | — | 1,094,045 | 1,661,684 | — | — | 1,094,045 | 1,661,684 | 2,755,729 | 22,502 | 1996 | 06/06 | 40 years |
| Rockford, IL | — | 623,214 | 1,331,082 | — | — | 623,214 | 1,331,082 | 1,954,296 | 18,025 | 2000 | 06/06 | 40 years |
| Springfield, IL | — | 704,648 | 1,500,279 | — | — | 704,648 | 1,500,279 | 2,204,927 | 20,316 | 1997 | 06/06 | 40 years |
| Springfield, IL | — | 1,794,961 | 1,862,562 | — | — | 1,794,961 | 1,862,562 | 3,657,523 | 25,222 | 1978 | 06/06 | 40 years |
| Robb & Stucky: | | | | | | | | | | | | |
| Ft. Myers, FL | — | 2,188,440 | 6,225,401 | — | — | 2,188,440 | 6,225,401 | 8,413,841 | 1,422,944 | 1997 | 12/97 | 40 years |
| Roger & Mary's: | | | | | | | | | | | | |
| Kenosha, WI | — | 1,917,606 | 3,431,364 | — | — | 1,917,606 | 3,431,364 | 5,348,970 | 842,429 | 1992 | 02/97 | 40 years |
| Ross Dress For Less: | | | | | | | | | | | | |
| Coral Gables, FL | — | 1,782,346 | 1,661,174 | — | — | 1,782,346 | 1,661,174 | 3,443,520 | 383,763 | 1994 | 06/96 | 40 years |
| Lodi, CA | — | 613,710 | 1,414,592 | — | — | 613,710 | 1,414,592 | 2,028,302 | 113,462 | 1984 | 03/99 | 40 years |

See accompanying report of independent registered public accounting firm.

| | Encum-brances (k) | Initial Cost to Company | | Costs Capitalized Subsequent to Acquisition | | Gross Amount at Which Carried at Close of Period (b) | | | Accumulated Depreciation and Amortization | Date of Con-struction | Date Acquired | Life on Which Depreciation and Amortization in Latest Income Statement is Computed |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Land | Building, Improve-ments and Leasehold Interests | Improve-ments | Carrying Costs | Land | Building, Improve-ments and Leasehold Interests | Total | | | | |
| Schlotzsky's Deli: | | | | | | | | | | | | |
| Phoenix, AZ | — | 706,306 | 315,469 | — | — | 706,306 | 315,469 | 1,021,775 | 39,762 | 1995 | 12/01 | 40 years |
| Scottsdale, AZ | — | 717,138 | 310,610 | — | — | 717,138 | 310,610 | 1,027,748 | 39,150 | 1995 | 12/01 | 40 years |
| 7-Eleven: | | | | | | | | | | | | |
| Land O' Lakes, FL | — | 1,076,572 | — | 816,944 | — | 1,076,572 | 816,944 | 1,893,516 | 162,538 | 1999 | 10/98(g) | 40 years |
| Tampa, FL | — | 1,080,670 | — | 917,432 | — | 1,080,670 | 917,432 | 1,998,102 | 178,708 | 1999 | 12/98(g) | 40 years |
| Shek's Express: | | | | | | | | | | | | |
| Eden Prairie, MN | — | 64,916 | 261,347 | — | — | 64,916 | 261,347 | 326,263 | 29,870 | 1997 | 12/01 | 40 years |
| Shoes on a Shoestring: | | | | | | | | | | | | |
| Albuquerque, NM | — | 1,441,777 | 2,335,475 | — | — | 1,441,777 | 2,335,475 | 3,777,252 | 557,108 | 1997 | 06/97 | 40 years |
| Shop-a-Snak: | | | | | | | | | | | | |
| Jasper, AL | — | 551,417 | 747,418 | — | — | 551,417 | 747,418 | 1,298,835 | 11,678 | 1998 | 05/06 | 40 years |
| Bessemer, AL | — | 563,863 | 742,457 | — | — | 563,863 | 742,457 | 1,306,320 | 11,601 | 2002 | 05/06 | 40 years |
| Birmingham, AL | — | 489,664 | 769,343 | — | — | 489,664 | 769,343 | 1,259,007 | 12,021 | 1992 | 05/06 | 40 years |
| Birmingham, AL | — | 438,536 | 704,005 | — | — | 438,536 | 704,005 | 1,142,541 | 11,000 | 1989 | 05/06 | 40 years |
| Birmingham, AL | — | 361,182 | 744,195 | — | — | 361,182 | 744,195 | 1,105,377 | 11,628 | 1989 | 05/06 | 40 years |
| Chelsea, AL | — | 391,275 | 627,502 | — | — | 391,275 | 627,502 | 1,018,777 | 9,805 | 1981 | 05/06 | 40 years |
| Homewood, AL | — | 467,950 | 656,964 | — | — | 467,950 | 656,964 | 1,124,914 | 10,265 | 1990 | 05/06 | 40 years |
| Hoover, AL | — | 712,752 | 864,527 | — | — | 712,752 | 864,527 | 1,577,279 | 13,508 | 1998 | 05/06 | 40 years |
| Hoover, AL | — | 764,461 | 1,156,598 | — | — | 764,461 | 1,156,598 | 1,921,059 | 18,072 | 2005 | 05/06 | 40 years |
| Hoover, AL | — | 445,980 | 671,989 | — | — | 445,980 | 671,989 | 1,117,969 | 10,499 | 1989 | 05/06 | 40 years |
| Trussville, AL | — | 271,728 | 541,741 | — | — | 271,728 | 541,741 | 813,469 | 8,465 | 1992 | 05/06 | 40 years |
| Tuscaloosa, AL | — | 385,947 | 732,669 | — | — | 385,947 | 732,669 | 1,118,616 | 11,448 | 1991 | 05/06 | 40 years |
| Tuscaloosa, AL | — | 525,165 | 462,868 | — | — | 525,165 | 462,868 | 988,033 | 7,232 | 1991 | 05/06 | 40 years |
| Tuscaloosa, AL | — | 431,917 | 559,403 | — | — | 431,917 | 559,403 | 991,320 | 8,741 | 1991 | 05/06 | 40 years |
| Shop & Save: | | | | | | | | | | | | |
| Homestead, PA | — | 1,139,419 | — | 2,158,167(s) | — | 1,139,419 | 2,158,167 | 3,297,586 | 97,776 | 1994 | 02/97 | 40 years |
| Skipper's Fish & Chips: | | | | | | | | | | | | |
| Spokane, WA | — | 470,840 | 530,289 | — | — | 470,840 | 530,289 | 1,001,129 | 66,838 | 1996 | 12/01 | 40 years |
| Soaks Express Car Wash: | | | | | | | | | | | | |
| Ankeny, IA | — | 661,958 | — | — | — | 661,958 | — | 661,958 | — | (e) | 06/05 | (e) |
| Sofa Express: | | | | | | | | | | | | |
| Buford, GA | — | 1,925,129 | 5,034,846 | — | — | 1,925,129 | 5,034,846 | 6,959,975 | 309,433 | 2004 | 07/04 | 40 years |
| Spa and Nails Club: | | | | | | | | | | | | |
| Orlando, FL | 70,882(u) | 40,200 | 110,531 | — | — | 40,200 | 110,531 | 150,731 | 7,944 | 2001 | 02/04 | 40 years |
| Spencer's A/C & Appliances: | | | | | | | | | | | | |
| Glendale, AZ | — | 341,713 | 982,429 | — | — | 341,713 | 982,429 | 1,324,142 | 182,740 | 1999 | 12/98(g) | 40 years |
| Sports Authority: | | | | | | | | | | | | |
| Dallas, TX | — | 1,311,440 | — | — | — | 1,311,440 | (c) | 1,311,440 | (c) | 1994 | 03/94 | (c) |
| Tampa, FL | — | 2,127,503 | 1,521,730 | — | — | 2,127,503 | 1,521,730 | 3,649,233 | 399,771 | 1994 | 06/96 | 40 years |
| Sarasota, FL | 725,280(t) | 1,427,840 | 1,702,852 | — | — | 1,427,840 | 1,702,852 | 3,130,692 | 124,166 | 1996 | 09/97 | 40 years |
| Memphis, TN | — | 820,340 | — | 2,573,264 | — | 820,340 | 2,573,264 | 3,393,604 | 528,055 | 1998 | 12/97(g) | 40 years |
| Little Rock, AR | — | 3,113,375 | 2,660,206 | — | — | 3,113,375 | 2,660,206 | 5,773,581 | 551,438 | 1997 | 09/98 | 40 years |
| Woodbridge, NJ | — | 3,749,990 | 5,982,660 | — | — | 3,749,990 | 5,982,660 | 9,732,650 | 592,032 | 1994 | 01/03 | 40 years |
| Bradenton, FL | — | 1,526,340 | 4,139,363 | — | — | 1,526,340 | 4,139,363 | 5,665,703 | 306,140 | 1997 | 01/04 | 40 years |
| Sportsman's Warehouse: | | | | | | | | | | | | |
| Sioux Falls, SD | — | 2,619,810 | 1,929,895 | — | — | 2,619,810 | 1,929,895 | 4,549,705 | 99,175 | 1998 | 06/05 | 30 years |
| Steak & Ale: | | | | | | | | | | | | |
| Jacksonville, FL | — | 986,565 | 855,523 | — | — | 986,565 | 855,523 | 1,842,088 | 107,832 | 1996 | 12/01 | 40 years |
| Stone Mountain Chevrolet: | | | | | | | | | | | | |
| Lilburn, GA | — | 3,027,056 | 4,685,189 | — | — | 3,027,056 | 4,685,189 | 7,712,245 | 278,183 | 2004 | 08/04 | 40 years |
| Stop & Go: | | | | | | | | | | | | |
| Grand Prairie, TX | — | 421,254 | 684,568 | — | — | 421,254 | 684,568 | 1,105,822 | 86,284 | 1986 | 12/01 | 40 years |
| Kennedale, TX | — | 399,988 | 692,190 | — | — | 399,988 | 692,190 | 1,092,178 | 87,244 | 1985 | 12/01 | 40 years |

See accompanying report of independent registered public accounting firm.

| | Encum-brances (k) | Initial Cost to Company: Land | Initial Cost to Company: Building, Improve-ments and Leasehold Interests | Costs Capitalized Subsequent to Acquisition: Improve-ments | Costs Capitalized Subsequent to Acquisition: Carrying Costs | Gross Amount at Which Carried at Close of Period (b): Land | Gross Amount at Which Carried at Close of Period (b): Building, Improve-ments and Leasehold Interests | Gross Amount at Which Carried at Close of Period (b): Total | Accumulated Depreciation and Amortization | Date of Con-struction | Date Acquired | Life on Which Depreciation and Amortization in Latest Income Statement is Computed |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Stripes: | | | | | | | | | | | | |
| Brownsville, TX | — | 1,842,992 | 1,418,941 | — | — | 1,842,992 | 1,418,941 | 3,261,933 | 36,952 | 2000 | 12/05 | 40 years |
| Brownsville, TX | — | 1,181,713 | 1,105,326 | — | — | 1,181,713 | 1,105,326 | 2,287,039 | 28,785 | 2000 | 12/05 | 40 years |
| Brownsville, TX | — | 2,915,173 | 1,800,409 | — | — | 2,915,173 | 1,800,409 | 4,715,582 | 46,886 | 2000 | 12/05 | 40 years |
| Brownsville, TX | — | 2,416,656 | 1,828,304 | — | — | 2,416,656 | 1,828,304 | 4,244,960 | 47,612 | 2000 | 12/05 | 40 years |
| Brownsville, TX | — | 1,015,092 | 1,307,774 | — | — | 1,015,092 | 1,307,774 | 2,322,866 | 34,057 | 2003 | 12/05 | 40 years |
| Brownsville, TX | — | 1,038,788 | 1,144,916 | — | — | 1,038,788 | 1,144,916 | 2,183,704 | 29,816 | 2004 | 12/05 | 40 years |
| Brownsville, TX | — | 1,392,201 | 1,443,817 | — | — | 1,392,201 | 1,443,817 | 2,836,018 | 37,599 | 2005 | 12/05 | 40 years |
| Brownsville, TX | — | 1,279,447 | 1,014,702 | — | — | 1,279,447 | 1,014,702 | 2,294,149 | 26,425 | 1990 | 12/05 | 40 years |
| Brownsville, TX | — | 2,529,864 | 1,124,953 | — | — | 2,529,864 | 1,124,953 | 3,654,817 | 29,296 | 1990 | 12/05 | 40 years |
| Brownsville, TX | — | 2,033,467 | 1,287,564 | — | — | 2,033,467 | 1,287,564 | 3,321,031 | 33,530 | 1995 | 12/05 | 40 years |
| Brownsville, TX | — | 933,149 | 699,086 | — | — | 933,149 | 699,086 | 1,632,235 | 18,205 | 1999 | 12/05 | 40 years |
| Corpus Christi, TX | — | 1,384,743 | 1,418,948 | — | — | 1,384,743 | 1,418,948 | 2,803,691 | 36,952 | 1982 | 12/05 | 40 years |
| Corpus Christi, TX | — | 852,629 | 1,416,208 | — | — | 852,629 | 1,416,208 | 2,268,837 | 36,880 | 2005 | 12/05 | 40 years |
| Corpus Christi, TX | — | 1,399,622 | 1,530,910 | — | — | 1,399,622 | 1,530,910 | 2,930,532 | 39,867 | 1984 | 12/05 | 40 years |
| Corpus Christi, TX | — | 703,182 | 1,036,506 | — | — | 703,182 | 1,036,506 | 1,739,688 | 26,992 | 1986 | 12/05 | 40 years |
| Donna, TX | — | 1,003,876 | 1,126,591 | — | — | 1,003,876 | 1,126,591 | 2,130,466 | 29,338 | 1995 | 12/05 | 40 years |
| Edinburg, TX | — | 1,317,408 | 1,623,891 | — | — | 1,317,408 | 1,623,891 | 2,941,299 | 42,289 | 1999 | 12/05 | 40 years |
| Edinburg, TX | — | 970,145 | 1,286,006 | — | — | 970,145 | 1,286,006 | 2,256,151 | 33,490 | 2003 | 12/05 | 40 years |
| Falfurias, TX | — | 4,243,940 | 4,458,007 | — | — | 4,243,940 | 4,458,007 | 8,701,947 | 116,094 | 2002 | 12/05 | 40 years |
| Freer, TX | — | 1,150,862 | 1,158,251 | — | — | 1,150,862 | 1,158,251 | 2,309,113 | 30,163 | 1984 | 12/05 | 40 years |
| George West, TX | — | 1,243,224 | 695,074 | — | — | 1,243,224 | 695,074 | 1,938,298 | 18,101 | 1996 | 12/05 | 40 years |
| Harlingen, TX | — | 906,427 | 952,530 | — | — | 906,427 | 952,530 | 1,858,957 | 24,806 | 1991 | 12/05 | 40 years |
| Harlingen, TX | — | 753,595 | 1,152,311 | — | — | 753,595 | 1,152,311 | 1,905,906 | 30,008 | 1999 | 12/05 | 40 years |
| Harlingen, TX | — | 755,002 | 600,721 | — | — | 755,002 | 600,721 | 1,355,723 | 15,644 | 1987 | 12/05 | 40 years |
| La Feria, TX | — | 900,096 | 1,346,774 | — | — | 900,096 | 1,346,774 | 2,246,870 | 35,072 | 1988 | 12/05 | 40 years |
| Laredo, TX | — | 1,552,558 | 1,774,827 | — | — | 1,552,558 | 1,774,827 | 3,327,385 | 46,220 | 2000 | 12/05 | 40 years |
| Laredo, TX | — | 840,629 | 738,907 | — | — | 840,629 | 738,907 | 1,579,536 | 19,242 | 2001 | 12/05 | 40 years |
| Laredo, TX | — | 736,451 | 670,332 | — | — | 736,451 | 670,332 | 1,406,783 | 17,457 | 1984 | 12/05 | 40 years |
| Laredo, TX | — | 459,027 | 459,946 | — | — | 459,027 | 459,946 | 918,973 | 11,978 | 1983 | 12/05 | 40 years |
| Laredo, TX | — | 1,494,871 | 1,400,482 | — | — | 1,494,871 | 1,400,482 | 2,895,353 | 36,471 | 1993 | 12/05 | 40 years |
| Laredo, TX | — | 675,128 | 533,047 | — | — | 675,128 | 533,047 | 1,208,175 | 13,881 | 1993 | 12/05 | 40 years |
| Lawton, OK | — | 696,670 | 964,441 | — | — | 696,670 | 964,441 | 1,661,111 | 25,116 | 1984 | 12/05 | 40 years |
| Los Indios, TX | — | 1,386,972 | 1,456,932 | — | — | 1,386,972 | 1,456,932 | 2,843,904 | 37,941 | 2005 | 12/05 | 40 years |
| McAllen, TX | — | 975,217 | 1,029,752 | — | — | 975,217 | 1,029,752 | 2,004,969 | 26,817 | 2003 | 12/05 | 40 years |
| McAllen, TX | — | 987,020 | 893,376 | — | — | 987,020 | 893,376 | 1,880,396 | 23,265 | 1999 | 12/05 | 40 years |
| Mission, TX | — | 880,169 | 1,101,301 | — | — | 880,169 | 1,101,301 | 1,981,470 | 28,680 | 1999 | 12/05 | 40 years |
| Mission, TX | — | 1,125,457 | 1,213,398 | — | — | 1,125,457 | 1,213,398 | 2,338,855 | 31,599 | 2003 | 12/05 | 40 years |
| Olmito, TX | — | 3,687,971 | 2,880,099 | — | — | 3,687,971 | 2,880,099 | 6,568,070 | 75,003 | 2002 | 12/05 | 40 years |
| Pharr, TX | — | 981,840 | 1,177,948 | — | — | 981,840 | 1,177,948 | 2,159,788 | 30,676 | 1988 | 12/05 | 40 years |
| Pharr, TX | — | 784,402 | 804,743 | — | — | 784,402 | 804,743 | 1,589,145 | 20,956 | 2000 | 12/05 | 40 years |
| Pharr, TX | — | 2,426,134 | 1,880,867 | — | — | 2,426,134 | 1,880,867 | 4,307,001 | 48,981 | 2003 | 12/05 | 40 years |
| Port Isabel, TX | — | 2,062,009 | 1,298,501 | — | — | 2,062,009 | 1,298,501 | 3,360,510 | 33,815 | 1994 | 12/05 | 40 years |
| Portland, TX | — | 655,735 | 914,512 | — | — | 655,735 | 914,512 | 1,570,247 | 23,815 | 1983 | 12/05 | 40 years |
| Progresso, TX | — | 1,768,974 | 1,811,221 | — | — | 1,768,974 | 1,811,221 | 3,580,195 | 47,167 | 1999 | 12/05 | 40 years |
| Riviera, TX | — | 2,351,060 | 2,158,069 | — | — | 2,351,060 | 2,158,069 | 4,509,129 | 56,200 | 2005 | 12/05 | 40 years |
| San Benito, TX | — | 1,103,210 | 1,586,235 | — | — | 1,103,210 | 1,586,235 | 2,689,445 | 41,308 | 2005 | 12/05 | 40 years |
| San Benito, TX | — | 790,629 | 1,857,158 | — | — | 790,629 | 1,857,158 | 2,647,787 | 48,364 | 1994 | 12/05 | 40 years |
| San Juan, TX | — | 1,123,838 | 1,171,582 | — | — | 1,123,838 | 1,171,582 | 2,295,420 | 30,510 | 1996 | 12/05 | 40 years |
| San Juan, TX | — | 1,424,383 | 1,545,557 | — | — | 1,424,383 | 1,545,557 | 2,969,940 | 40,249 | 2004 | 12/05 | 40 years |
| South Padre Island, TX | — | 1,366,721 | 1,388,764 | — | — | 1,366,721 | 1,388,764 | 2,755,485 | 36,166 | 1988 | 12/05 | 40 years |
| Wichita Falls, TX | — | 905,117 | 1,350,908 | — | — | 905,117 | 1,350,908 | 2,256,025 | 35,179 | 2000 | 12/05 | 40 years |
| Wichita Falls, TX | — | 484,202 | 827,999 | — | — | 484,202 | 827,999 | 1,312,201 | 21,563 | 1983 | 12/05 | 40 years |
| Wichita Falls, TX | — | 439,646 | 751,484 | — | — | 439,646 | 751,484 | 1,191,130 | 19,570 | 1984 | 12/05 | 40 years |
| Palm View, TX | — | 835,383 | 1,372,061 | — | — | 835,383 | 1,372,061 | 2,207,444 | 7,146 | 2005 | 10/06 | 40 years |
| Harlingen, TX | — | 638,186 | 1,806,562 | — | — | 638,186 | 1,806,562 | 2,444,748 | 1,882 | 2006 | 12/06 | 40 years |
| Rio Grande City | — | 1,871,354 | 1,612,282 | — | — | 1,871,354 | 1,612,282 | 3,483,636 | 1,679 | 2006 | 12/06 | 40 years |
| San Juan, TX | — | 815,902 | 1,433,890 | — | — | 815,902 | 1,433,890 | 2,249,792 | 1,494 | 2006 | 12/06 | 40 years |
| Zapata, TX | — | 1,332,662 | 1,772,564 | — | — | 1,332,662 | 1,772,564 | 3,105,226 | 1,842 | 2006 | 12/06 | 40 years |
| Subway: | | | | | | | | | | | | |
| Eden Prairie, MN | — | 54,097 | 150,449 | 67,341 | — | 54,097 | 217,790 | 271,887 | 24,891 | 1997 | 12/01 | 40 years |
| Albany, NY | — | 2,734 | 66,667 | — | — | 2,734 | 66,667 | 69,401 | 3,819 | 1992 | 09/04 | 40 years |
| Cohoes, NY | — | 21,862 | 117,829 | — | — | 21,862 | 117,829 | 139,691 | 6,750 | 1994 | 09/04 | 40 years |

See accompanying report of independent registered public accounting firm.

| | Encum-brances (k) | Initial Cost to Company: Land | Initial Cost to Company: Building, Improve-ments and Leasehold Interests | Costs Capitalized Subsequent to Acquisition: Improve-ments | Costs Capitalized Subsequent to Acquisition: Carrying Costs | Gross Amount at Which Carried at Close of Period (b): Land | Gross Amount at Which Carried at Close of Period (b): Building, Improve-ments and Leasehold Interests | Gross Amount at Which Carried at Close of Period (b): Total | Accumulated Depreciation and Amortization | Date of Con-struction | Date Acquired | Life on Which Depreciation and Amortization in Latest Income Statement is Computed |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SuperValu: | | | | | | | | | | | | |
| Huntington, WV | — | 1,254,238 | 760,602 | — | — | 1,254,238 | 760,602 | 2,014,840 | 187,774 | 1971 | 02/97 | 40 years |
| Maple Heights, OH | — | 1,034,758 | 2,874,414 | — | — | 1,034,758 | 2,874,414 | 3,909,172 | 709,621 | 1985 | 02/97 | 40 years |
| Warwick, RI | — | 1,699,330 | — | — | — | 1,699,330 | (c) | 1,699,330 | (c) | 1992 | 02/97 | (c) |
| Swansea Quick Cash: | | | | | | | | | | | | |
| Swansea, IL | — | 45,815 | 132,365 | — | — | 45,815 | 132,365 | 178,180 | 16,685 | 1997 | 12/01 | 40 years |
| Taco Bell: | | | | | | | | | | | | |
| Ocala, FL | — | 275,023 | 754,990 | — | — | 275,023 | 754,990 | 1,030,013 | 95,160 | 2001 | 12/01 | 40 years |
| Ormond Beach, FL | — | 632,337 | 525,616 | — | — | 632,337 | 525,616 | 1,157,953 | 66,249 | 2001 | 12/01 | 40 years |
| Phoenix, AZ | — | 593,718 | 282,777 | — | — | 593,718 | 282,777 | 876,495 | 35,642 | 1995 | 12/01 | 40 years |
| Bedford, IN | — | 796,772 | 936,942 | — | — | 796,772 | 936,942 | 1,733,714 | 14,640 | 1989 | 05/06 | 40 years |
| Columbus, IN | — | 1,256,948 | 2,054,570 | — | — | 1,256,948 | 2,054,570 | 3,311,518 | 32,103 | 1990 | 05/06 | 40 years |
| Columbus, IN | — | 690,142 | 1,212,681 | — | — | 690,142 | 1,212,681 | 1,902,823 | 18,948 | 2005 | 05/06 | 40 years |
| Evansville, IN | — | 221,196 | 828,023 | — | — | 221,196 | 828,023 | 1,049,219 | 12,938 | 2003 | 05/06 | 40 years |
| Evansville, IN | — | 308,068 | 1,300,511 | — | — | 308,068 | 1,300,511 | 1,608,579 | 20,321 | 2000 | 05/06 | 40 years |
| Evansville, IN | — | 524,368 | 1,815,101 | — | — | 524,368 | 1,815,101 | 2,339,469 | 28,361 | 2005 | 05/06 | 40 years |
| Fishers, IN | — | 989,998 | 486,260 | — | — | 989,998 | 486,260 | 1,476,258 | 7,598 | 1998 | 05/06 | 40 years |
| Greensburg, IN | — | 648,296 | 1,079,007 | — | — | 648,296 | 1,079,007 | 1,727,303 | 16,859 | 1998 | 05/06 | 40 years |
| Indianapolis, IN | — | 1,031,743 | 1,649,975 | — | — | 1,031,743 | 1,649,975 | 2,681,718 | 25,781 | 2004 | 05/06 | 40 years |
| Indianapolis, IN | — | 547,218 | 703,287 | — | — | 547,218 | 703,287 | 1,250,505 | 10,989 | 2004 | 05/06 | 40 years |
| Madisonville, KY | — | 682,108 | 1,192,867 | — | — | 682,108 | 1,192,867 | 1,874,975 | 18,639 | 1999 | 05/06 | 40 years |
| Owensboro, KY | — | 638,693 | 1,326,161 | — | — | 638,693 | 1,326,161 | 1,964,854 | 20,721 | 2005 | 05/06 | 40 years |
| Shelbyville, IN | — | 670,216 | 1,755,847 | — | — | 670,216 | 1,755,847 | 2,426,063 | 27,435 | 1998 | 05/06 | 40 years |
| Speedway, IN | — | 407,707 | 1,426,319 | — | — | 407,707 | 1,426,319 | 1,834,026 | 22,286 | 2003 | 05/06 | 40 years |
| Terre Haute, IN | — | 1,037,327 | 1,655,660 | — | — | 1,037,327 | 1,655,660 | 2,692,987 | 25,870 | 2003 | 05/06 | 40 years |
| Terre Haute, IN | — | 1,313,692 | 2,249,313 | — | — | 1,313,692 | 2,249,313 | 3,563,005 | 35,145 | 2003 | 05/06 | 40 years |
| Vincennes, IN | — | 501,783 | 879,791 | — | — | 501,783 | 879,791 | 1,381,574 | 13,747 | 2004 | 05/06 | 40 years |
| Taco Bron Restaurant: | | | | | | | | | | | | |
| Tucson, AZ | — | 827,002 | 305,209 | 17,814 | — | 844,816 | 305,209 | 1,150,025 | 43,946 | 1974 | 12/01 | 40 years |
| Texas Roadhouse: | | | | | | | | | | | | |
| Grand Junction, CO | — | 584,237 | 920,143 | — | — | 584,237 | 920,143 | 1,504,380 | 115,976 | 1997 | 12/01 | 40 years |
| Thornton, CO | — | 598,556 | 1,019,164 | — | — | 598,556 | 1,019,164 | 1,617,720 | 128,457 | 1998 | 12/01 | 40 years |
| TGI Friday's: | | | | | | | | | | | | |
| Corpus Christi, TX | — | 1,209,702 | 1,532,125 | — | — | 1,209,702 | 1,532,125 | 2,741,827 | 193,112 | 1995 | 12/01 | 40 years |
| Thomasville: | | | | | | | | | | | | |
| Buford, GA | — | 1,266,527 | 2,405,629 | — | — | 1,266,527 | 2,405,629 | 3,672,156 | 147,846 | 2004 | 07/04 | 40 years |
| Top's: | | | | | | | | | | | | |
| Lacey, WA | — | 2,777,449 | 7,082,150 | — | — | 2,777,449 | 7,082,150 | 9,859,599 | 1,748,406 | 1992 | 02/97 | 40 years |
| Uni-Mart: | | | | | | | | | | | | |
| Avis, PA | — | 391,801 | 326,046 | — | — | 391,801 | 326,046 | 717,847 | 22,415 | 1976 | 08/05 | 20 years |
| Bear Creek, PA | — | 190,558 | 230,193 | — | — | 190,558 | 230,193 | 420,751 | 15,826 | 1980 | 08/05 | 20 years |
| Bloomsburg, PA | — | 206,402 | 501,424 | — | — | 206,402 | 501,424 | 707,826 | 34,472 | 1981 | 08/05 | 20 years |
| Bloomsburg, PA | — | 540,561 | 146,127 | — | — | 540,561 | 146,127 | 686,688 | 10,046 | 1967 | 08/05 | 20 years |
| Bloomsburg, PA | — | 515,108 | 888,074 | — | — | 515,108 | 888,074 | 1,403,182 | 61,055 | 1998 | 08/05 | 20 years |
| Chambersburg, PA | — | 75,678 | 197,035 | — | — | 75,678 | 197,035 | 272,713 | 13,546 | 1990 | 08/05 | 20 years |
| Coraopolis, PA | — | 475,572 | 347,360 | — | — | 475,572 | 347,360 | 822,932 | 23,881 | 1983 | 08/05 | 20 years |
| Dallas, PA | — | 890,855 | 1,435,745 | — | — | 890,855 | 1,435,745 | 2,326,601 | 98,707 | 1995 | 08/05 | 20 years |
| East Brady, PA | — | 269,433 | 583,204 | — | — | 269,433 | 583,204 | 852,637 | 40,095 | 1987 | 08/05 | 20 years |
| Emporium, PA | — | 380,032 | 568,625 | — | — | 380,032 | 568,625 | 948,657 | 39,093 | 1996 | 08/05 | 20 years |
| Hazleton, PA | — | 670,271 | 377,355 | — | — | 670,271 | 377,355 | 1,047,626 | 25,943 | 1974 | 08/05 | 20 years |
| Hazleton, PA | — | 2,529,165 | 727,550 | — | — | 2,529,165 | 727,550 | 3,256,715 | 50,019 | 2001 | 08/05 | 20 years |
| Johnsonburg, PA | — | 780,536 | 503,662 | — | — | 780,536 | 503,662 | 1,284,198 | 34,626 | 1978 | 08/05 | 20 years |
| Larksville, PA | — | 245,870 | 333,875 | — | — | 245,870 | 333,875 | 579,745 | 22,953 | 1990 | 08/05 | 20 years |
| Luzerne, PA | — | 170,866 | 415,295 | — | — | 170,866 | 415,295 | 586,161 | 28,551 | 1989 | 08/05 | 20 years |
| Moosic, PA | — | 323,126 | 308,844 | — | — | 323,126 | 308,844 | 631,970 | 21,233 | 1980 | 08/05 | 20 years |
| Pleasant Gap, PA | — | 331,885 | 592,844 | — | — | 331,885 | 592,844 | 924,729 | 40,757 | 1996 | 08/05 | 20 years |
| Port Vue, PA | — | 824,158 | 117,629 | — | — | 824,158 | 117,629 | 941,787 | 8,087 | 1953 | 08/05 | 20 years |
| Punxsutawney, PA | — | 252,648 | 541,842 | — | — | 252,648 | 541,842 | 794,490 | 37,251 | 1983 | 08/05 | 20 years |
| Ridgway, PA | — | 382,341 | 258,740 | — | — | 382,341 | 258,740 | 641,081 | 17,788 | 1975 | 08/05 | 20 years |

See accompanying report of independent registered public accounting firm.

| | Encum-branes (k) | Initial Cost to Company | | Costs Capitalized Subsequent to Acquisition | | Gross Amount at Which Carried at Close of Period (b) | | | Accumulated Depreciation and Amortization | Date of Con-struction | Date Acquired | Life on Which Depreciation and Amortization in Latest Income Statement is Computed |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Land | Building, Improve-ments and Leasehold Interests | Improve-ments | Carrying Costs | Land | Building, Improve-ments and Leasehold Interests | Total | | | | |
| Shamokin, PA | — | 323,994 | 506,335 | — | — | 323,994 | 506,335 | 830,329 | 34,811 | 1956 | 08/05 | 20 years |
| Shippensburg, PA | — | 203,610 | 330,098 | — | — | 203,610 | 330,098 | 533,708 | 22,694 | 1989 | 08/05 | 20 years |
| St. Clair, PA | — | 212,150 | 475,086 | — | — | 212,150 | 475,086 | 687,236 | 32,662 | 1984 | 08/05 | 20 years |
| St. Mary's, PA | — | 274,323 | 260,942 | — | — | 274,323 | 260,942 | 535,265 | 17,940 | 1979 | 08/05 | 20 years |
| Taylor, PA | — | 180,533 | 526,884 | — | — | 180,533 | 526,884 | 707,417 | 36,223 | 1973 | 08/05 | 20 years |
| White Haven, PA | — | 485,984 | 866,602 | — | — | 485,984 | 866,602 | 1,352,586 | 59,579 | 1990 | 08/05 | 20 years |
| Wilkes-Barre, PA | — | 178,104 | 471,437 | — | — | 178,104 | 471,437 | 649,541 | 32,411 | 1989 | 08/05 | 20 years |
| Wilkes-Barre, PA | — | 171,040 | 422,438 | — | — | 171,040 | 422,438 | 593,478 | 29,042 | 1999 | 08/05 | 20 years |
| Wilkes-Barre, PA | — | 875,774 | 1,956,613 | — | — | 875,774 | 1,956,613 | 2,832,387 | 134,517 | 1998 | 08/05 | 20 years |
| Williamsport, PA | — | 908,758 | 122,164 | — | — | 908,758 | 122,164 | 1,030,922 | 8,399 | 1950 | 08/05 | 20 years |
| Yeagertown, PA | — | 142,061 | 180,073 | — | — | 142,061 | 180,073 | 322,134 | 12,380 | 1977 | 08/05 | 20 years |
| Ashland, PA | — | 355,322 | 545,140 | — | — | 355,322 | 545,140 | 900,462 | 35,207 | 1977 | 09/05 | 20 years |
| Bear Creek, PA | — | 689,374 | 274,920 | — | — | 689,374 | 274,920 | 964,294 | 17,755 | 1980 | 09/05 | 20 years |
| Mountaintop, PA | — | 422,770 | 616,488 | — | — | 422,770 | 616,488 | 1,039,258 | 39,815 | 1987 | 09/05 | 20 years |
| Abbottstown, PA | — | 110,362 | 400,101 | — | — | 110,362 | 400,101 | 510,462 | 9,586 | 2000 | 01/06 | 40 years |
| Beech Creek, PA | — | 476,516 | 612,664 | — | — | 476,516 | 612,664 | 1,089,180 | 14,678 | 1988 | 01/06 | 40 years |
| Canisteo, NY | — | 141,912 | 485,183 | — | — | 141,912 | 485,183 | 627,095 | 11,624 | 1983 | 01/06 | 40 years |
| Carlisle, PA | — | 347,858 | 411,491 | — | — | 347,858 | 411,491 | 759,349 | 9,859 | 1988 | 01/06 | 40 years |
| Curwensville, PA | — | 226,015 | 607,989 | — | — | 226,015 | 607,989 | 834,004 | 14,566 | 1983 | 01/06 | 40 years |
| Dansville, PA | — | 179,736 | 359,203 | — | — | 179,736 | 359,203 | 538,939 | 8,606 | 1988 | 01/06 | 40 years |
| Effort, PA | — | 1,297,431 | 1,201,954 | — | — | 1,297,431 | 1,201,954 | 2,499,385 | 28,796 | 2000 | 01/06 | 40 years |
| Ellwood City, PA | — | 196,089 | 526,155 | — | — | 196,089 | 526,155 | 722,244 | 12,606 | 1987 | 01/06 | 40 years |
| Export, PA | — | 221,840 | 214,852 | — | — | 221,840 | 214,852 | 436,692 | 5,147 | 1988 | 01/06 | 40 years |
| Hastings, PA | — | 199,089 | 455,379 | — | — | 199,089 | 455,379 | 654,468 | 10,910 | 1989 | 01/06 | 40 years |
| Howard, PA | — | 136,416 | 374,695 | — | — | 136,416 | 374,695 | 511,111 | 8,977 | 1987 | 01/06 | 40 years |
| Hughesville, PA | — | 290,136 | 566,229 | — | — | 290,136 | 566,229 | 856,365 | 13,566 | 1977 | 01/06 | 40 years |
| Jersey Shore, PA | — | 514,708 | 381,372 | — | — | 514,708 | 381,372 | 896,080 | 9,137 | 1960 | 01/06 | 40 years |
| Leeper, PA | — | 285,510 | 643,886 | — | — | 285,510 | 643,886 | 929,396 | 15,426 | 1987 | 01/06 | 40 years |
| Lewisberry, PA | — | 412,356 | 533,848 | — | — | 412,356 | 533,848 | 946,204 | 12,790 | 1988 | 01/06 | 40 years |
| McSherrytown, PA | — | 134,501 | 364,946 | — | — | 134,501 | 364,946 | 499,447 | 8,743 | 1988 | 01/06 | 40 years |
| Mercersburg, PA | — | 672,259 | 746,309 | — | — | 672,259 | 746,309 | 1,418,568 | 17,880 | 1988 | 01/06 | 40 years |
| Milesburg, PA | — | 133,831 | 372,913 | — | — | 133,831 | 372,913 | 506,744 | 8,934 | 1987 | 01/06 | 40 years |
| Minersville, PA | — | 679,595 | 581,718 | — | — | 679,595 | 581,718 | 1,261,313 | 13,937 | 1974 | 01/06 | 40 years |
| Montoursville, PA | — | 158,346 | 415,372 | — | — | 158,346 | 415,372 | 573,718 | 9,951 | 1988 | 01/06 | 40 years |
| Nanticoke, PA | — | 174,583 | 482,239 | — | — | 174,583 | 482,239 | 656,822 | 11,554 | 1988 | 01/06 | 40 years |
| New Florence, PA | — | 298,364 | 812,449 | — | — | 298,364 | 812,449 | 1,110,813 | 19,464 | 1989 | 01/06 | 40 years |
| Newstead, NY | — | 254,635 | 835,411 | — | — | 254,635 | 835,411 | 1,090,046 | 20,015 | 1990 | 01/06 | 40 years |
| Nuangola, PA | — | 1,062,388 | 1,202,832 | — | — | 1,062,388 | 1,202,832 | 2,265,220 | 28,818 | 2000 | 01/06 | 40 years |
| Phillipsburg, PA | — | 428,193 | 268,962 | — | — | 428,193 | 268,962 | 697,155 | 6,444 | 1978 | 01/06 | 40 years |
| Pittsburgh, PA | — | 905,332 | 1,346,177 | — | — | 905,332 | 1,346,177 | 2,251,509 | 32,252 | 1967 | 01/06 | 40 years |
| Plainfield, PA | — | 243,945 | 382,518 | — | — | 243,945 | 382,518 | 626,463 | 9,164 | 1988 | 01/06 | 40 years |
| Plains, PA | — | 204,417 | 401,264 | — | — | 204,417 | 401,264 | 605,681 | 9,614 | 1994 | 01/06 | 40 years |
| Punxsutawney, PA | — | 293,717 | 649,800 | — | — | 293,717 | 649,800 | 943,517 | 15,568 | 1983 | 01/06 | 40 years |
| Reynoldsville, PA | — | 113,312 | 327,933 | — | — | 113,312 | 327,933 | 441,245 | 7,856 | 1983 | 01/06 | 40 years |
| Summerville, PA | — | 92,798 | 271,832 | — | — | 92,798 | 271,832 | 364,630 | 6,513 | 1988 | 01/06 | 40 years |
| Warriors Mark, PA | — | 148,499 | 404,981 | — | — | 148,499 | 404,981 | 553,480 | 9,703 | 1995 | 01/06 | 40 years |
| Williamsport, PA | — | 295,036 | 378,715 | — | — | 295,036 | 378,715 | 673,751 | 9,073 | 1988 | 01/06 | 40 years |
| Zelienople, PA | — | 160,219 | 437,168 | — | — | 160,219 | 437,168 | 597,387 | 10,486 | 1988 | 01/06 | 40 years |
| United Rentals: | | | | | | | | | | | | |
| Carrollton, TX | — | 477,893 | 534,807 | — | — | 477,893 | 534,807 | 1,012,700 | 27,297 | 1981 | 12/04 | 40 years |
| Cedar Park, TX | — | 535,091 | 829,241 | — | — | 535,091 | 829,241 | 1,364,332 | 42,326 | 1990 | 12/04 | 40 years |
| Clearwater, FL | — | 1,173,292 | 1,810,665 | — | — | 1,173,292 | 1,810,665 | 2,983,957 | 92,419 | 2001 | 12/04 | 40 years |
| Fort Collins, CO | — | 2,057,322 | 977,971 | — | — | 2,057,322 | 977,971 | 3,035,293 | 49,917 | 1975 | 12/04 | 40 years |
| Irving, TX | — | 708,389 | 910,786 | — | — | 708,389 | 910,786 | 1,619,175 | 46,488 | 1984 | 12/04 | 40 years |
| La Porte, TX | — | 1,114,553 | 2,125,426 | — | — | 1,114,553 | 2,125,426 | 3,239,979 | 108,485 | 2000 | 12/04 | 40 years |
| Littleton, CO | — | 1,743,092 | 1,943,650 | — | — | 1,743,092 | 1,943,650 | 3,686,742 | 99,207 | 2002 | 12/04 | 40 years |
| Oklahoma City, OK | — | 744,145 | 1,264,885 | — | — | 744,145 | 1,264,885 | 2,009,030 | 64,562 | 1997 | 12/04 | 40 years |
| Perrysberg, OH | — | 641,867 | 1,119,085 | — | — | 641,867 | 1,119,085 | 1,760,952 | 57,120 | 1979 | 12/04 | 40 years |
| Plano, TX | — | 1,030,426 | 1,148,065 | — | — | 1,030,426 | 1,148,065 | 2,178,491 | 58,599 | 1996 | 12/04 | 40 years |
| Temple, TX | — | 1,159,775 | 1,360,379 | — | — | 1,159,775 | 1,360,379 | 2,520,154 | 69,436 | 1998 | 12/04 | 40 years |
| Ft. Worth, TX | — | 510,490 | 1,127,796 | — | — | 510,490 | 1,127,796 | 1,638,286 | 55,215 | 1997 | 01/05 | 40 years |

See accompanying report of independent registered public accounting firm.

| | | Initial Cost to Company | | Costs Capitalized Subsequent to Acquisition | | Gross Amount at Which Carried at Close of Period (b) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Encum-brances (k) | Land | Building, Improve-ments and Leasehold Interests | Improve-ments | Carrying Costs | Land | Building, Improve-ments and Leasehold Interests | Total | Accumulated Depreciation and Amortization | Date of Con-struction | Date Acquired | Life on Which Depreciation and Amortization in Latest Income Statement is Computed |
| Ft. Worth, TX | — | 1,427,764 | — | — | — | 1,427,764 | — | 1,427,764 | — | (i) | 01/05 | (i) |
| Fairfax, VA | — | 2,950,886 | 64,222 | — | — | 2,950,886 | 64,222 | 3,015,108 | 2,743 | 1972 | 04/05 | 40 years |
| Melbourne, FL | — | 746,558 | 607,128 | — | — | 746,558 | 607,128 | 1,353,686 | 24,665 | 1970 | 05/05 | 40 years |
| United Trust Bank: | | | | | | | | | | | | |
| Bridgeview, IL | — | 673,238 | 744,154 | — | — | 673,238 | 744,154 | 1,417,392 | 93,794 | 1997 | 12/01 | 40 years |
| Vacant Land: | | | | | | | | | | | | |
| Longwood, FL | — | 587,251 | — | — | — | 587,251 | — | 587,251 | — | (e) | 03/06 | (e) |
| Florence, AL | — | 351,261 | — | — | — | 351,261 | — | 351,261 | — | (e) | 06/04 | (e) |
| Florence, AL | — | 1,077,210 | — | — | — | 1,077,210 | — | 1,077,210 | — | (e) | 06/04 | (e) |
| Florence, AL | — | 303,063 | — | — | — | 303,063 | — | 303,063 | — | (e) | 06/04 | (e) |
| Vacant Property: | | | | | | | | | | | | |
| Mesa, AZ | — | 152,609 | 399,801 | — | — | 152,609 | 399,801 | 552,410 | 50,391 | 1997 | 12/01 | 40 years |
| Dallas, GA | — | 1,287,630 | 1,952,791 | — | — | 1,287,630 | 1,952,791 | 3,240,421 | 176,973 | 1997 | 05/03 | 40 years |
| Woodstock, GA | — | 1,937,017 | 1,284,901 | — | — | 1,937,017 | 1,284,901 | 3,221,918 | 116,444 | 1997 | 05/03 | 40 years |
| Bonham, TX | — | 54,999 | 202,085 | — | — | 54,999 | 202,085 | 257,084 | 12,420 | 1984 | 07/04 | 40 years |
| Atlanta, TX | — | 88,457 | 368,317 | — | — | 88,457 | 368,317 | 456,774 | 235,306 | 1985 | 01/85 | 35 years |
| Red Oak, TX | — | 73,290 | 520,950 | — | — | 73,290 | 520,950 | 594,240 | 65,661 | 1986 | 12/01 | 40 years |
| Corpus Christi, TX | — | 893,270 | 978,344 | 76,664 | — | 893,270 | 1,055,008 | 1,948,278 | 345,761 | 1967 | 11/93 | 40 years |
| Foothill Ranch, CA | — | 1,456,113 | 2,505,022 | — | — | 1,456,113 | 2,505,022 | 3,961,135 | 626,592 | 1995 | 12/96 | 40 years |
| Fenton, MO | — | 307,068 | 496,410 | — | — | 307,068 | 496,410 | 803,478 | 218,586 | 1985 | 07/92 | 33 years |
| Value City: | | | | | | | | | | | | |
| Florissant, MO | — | 2,490,210 | 2,937,449 | — | — | 2,490,210 | 2,937,449 | 5,427,659 | 272,327 | 1996 | 04/03 | 40 years |
| Value City Furniture: | | | | | | | | | | | | |
| White Marsh, MD | — | 3,762,030 | — | 3,006,391 | — | 3,762,030 | 3,006,391 | 6,768,421 | 660,780 | 1998 | 03/98(g) | 40 years |
| Walgreens: | | | | | | | | | | | | |
| Sunrise, FL | — | 1,957,974 | 1,400,970 | — | — | 1,957,974 | 1,400,970 | 3,358,944 | 126,962 | 1994 | 05/03 | 40 years |
| Tulsa, OK | — | 1,193,187 | 3,055,724 | — | — | 1,193,187 | 3,055,724 | 4,248,911 | 117,773 | 2003 | 06/05 | 40 years |
| Wal-Mart: | | | | | | | | | | | | |
| Aransas Pass, TX | — | 190,505 | 2,640,175 | — | — | 190,505 | 2,640,175 | 2,830,680 | 514,284 | 1983 | 03/99 | 40 years |
| Beeville, TX | — | 507,231 | 2,315,424 | — | — | 507,231 | 2,315,424 | 2,822,655 | 451,025 | 1983 | 03/99 | 40 years |
| Corpus Christi, TX | — | 630,043 | 3,131,407 | — | — | 630,043 | 3,131,407 | 3,761,450 | 609,972 | 1983 | 03/99 | 40 years |
| Sealy, TX | — | 1,344,244 | 1,483,362 | — | — | 1,344,244 | 1,483,362 | 2,827,606 | 288,947 | 1982 | 03/99 | 40 years |
| Winfield, AL | — | 419,811 | 1,684,505 | — | — | 419,811 | 1,684,505 | 2,104,316 | 328,128 | 1983 | 03/99 | 40 years |
| Waremart: | | | | | | | | | | | | |
| Eureka, CA | — | 3,135,036 | 5,470,606 | — | — | 3,135,036 | 5,470,606 | 8,605,642 | 1,350,556 | 1965 | 02/97 | 40 years |
| Washington Bike Center: | | | | | | | | | | | | |
| Fairfax, VA | — | 192,830 | 278,892 | 83,773 | — | 192,830 | 362,665 | 555,495 | 46,807 | 1995 | 12/95 | 40 years |
| Wendy's Old Fashioned Hamburger: | | | | | | | | | | | | |
| Sacramento, CA | — | 585,872 | — | — | — | 585,872 | — | 585,872 | — | (i) | 02/98 | (i) |
| New Kensington, PA | — | 501,136 | 333,445 | — | — | 501,136 | 333,445 | 834,581 | 42,028 | 1980 | 12/01 | 40 years |
| Whataburger: | | | | | | | | | | | | |
| Albuquerque, NM | — | 624,318 | 418,975 | — | — | 624,318 | 418,975 | 1,043,293 | 52,808 | 1995 | 12/01 | 40 years |
| Brunswick, GA | — | 290,860 | — | — | — | 290,860 | — | 290,860 | — | (e) | 12/06 | (e) |
| Wherehouse Music: | | | | | | | | | | | | |
| Homewood, AL | — | 1,031,974 | 696,950 | — | — | 1,031,974 | 696,950 | 1,728,924 | 87,845 | 1997 | 12/01 | 40 years |
| Independence, MO | — | 502,623 | 1,209,307 | — | — | 502,623 | 1,209,307 | 1,711,930 | 31,492 | 1994 | 12/05 | 40 years |
| Winn-Dixie: | | | | | | | | | | | | |
| Columbus, GA | — | 1,023,371 | 1,874,875 | — | — | 1,023,371 | 1,874,875 | 2,898,246 | 162,098 | 1984 | 07/03 | 40 years |
| Zheng China Buffet: | | | | | | | | | | | | |
| Southfield, MI | — | 366,448 | 643,759 | 38,660 | — | 405,108 | 643,759 | 1,048,867 | 93,026 | 1976 | 12/01 | 40 years |
| Ziebart: | | | | | | | | | | | | |
| Maplewood, MN | — | 307,846 | 311,313 | — | — | 307,846 | 311,313 | 619,159 | 14,593 | 1990 | 02/05 | 40 years |
| Middleburg Heights, OH | — | 199,234 | 148,106 | — | — | 199,234 | 148,106 | 347,340 | 7,097 | 1961 | 02/05 | 40 years |
| Zio's Restaurant: | | | | | | | | | | | | |
| Aurora, CO | — | 1,168,258 | 1,104,939 | — | — | 1,168,258 | 1,104,939 | 2,273,197 | 57,705 | 2000 | 06/05 | 30 years |
| Leasehold Interests: | — | 2,532,133 | — | — | — | 2,532,133 | — | 2,532,133 | 1,335,498 | — | (n) | (m) |
| | $34,324,403 | $695,064,749 | $765,073,623 | $66,524,726 | $— | $695,719,022 | $828,866,461 | $1,524,585,483 | $87,359,317 | | | |

See accompanying report of independent registered public accounting firm.

| | | Initial Cost to Company | | Costs Capitalized Subsequent to Acquisition | | Gross Amount at Which Carried at Close of Period (b) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Encum- brances (k) | Land | Building, Improve- ments and Leasehold Interests | Improve- ments | Carrying Costs | Land | Building, Improve- ments and Leasehold Interests | Total | Accumulated Depreciation and Amortization | Date of Con- struction | Date Acquired | Life on Which Depreciation and Amortization in Latest Income Statement is Computed |
| Real Estate Held for Investment the Company has Invested in Under Direct Financing Leases: | | | | | | | | | | | | |
| Academy: | | | | | | | | | | | | |
| Houston, TX | $ — | $ — | $1,924,740 | $ — | $— | $— | $(c) | $(c) | $(c) | 1994 | 05/95 | (c) |
| Houston, TX | — | — | 1,867,519 | — | — | — | (c) | (c) | (c) | 1995 | 06/95 | (c) |
| N. Richland Hills, TX | — | — | 2,253,408 | — | — | — | (c) | (c) | (c) | 1996 | 08/95(f) | (c) |
| Houston, TX | — | — | 2,112,335 | — | — | — | (c) | (c) | (c) | 1996 | 02/96(f) | (c) |
| Houston, TX | — | — | 1,910,697 | — | — | — | (c) | (c) | (c) | 1996 | 06/96(f) | (c) |
| Baton Rouge, LA | — | — | 2,405,466 | — | — | — | (c) | (c) | (c) | 1997 | 08/96(f) | (c) |
| San Antonio, TX | — | — | 1,961,017 | — | — | — | (c) | (c) | (c) | 1996 | 09/97(f) | (c) |
| Barnes and Noble: | | | | | | | | | | | | |
| Plantation, FL | — | — | 3,498,559 | — | — | — | (c) | (c) | (c) | 1996 | 05/95 | (c) |
| Best Buy: | | | | | | | | | | | | |
| Evanston, IL | — | — | 3,400,057 | — | — | — | (c) | (c) | (c) | 1994 | 02/97 | (c) |
| Borders Books & Music: | | | | | | | | | | | | |
| Altamonte Springs, FL | — | — | 3,267,579 | — | — | — | (c) | (c) | (c) | 1997 | 09/97 | (c) |
| Checkers: | | | | | | | | | | | | |
| Orlando, FL | — | — | 286,910 | — | — | — | (c) | (c) | (c) | 1988 | 07/92 | (c) |
| CVS: | | | | | | | | | | | | |
| San Antonio, TX | — | — | 783,974 | — | — | — | (c) | (c) | (c) | 1993 | 12/93 | (c) |
| Amarillo, TX | — | — | 869,846 | — | — | — | (c) | (c) | (c) | 1994 | 12/94 | (c) |
| Amarillo, TX | — | 158,851 | 855,348 | — | — | (d) | (d) | (d) | (d) | 1994 | 12/94 | (d) |
| Lafayette, LA | — | — | 949,128 | — | — | — | (c) | (c) | (c) | 1995 | 01/96 | (c) |
| Irving, TX | — | — | 1,228,436 | — | — | — | (c) | (c) | (c) | 1996 | 12/96 | (c) |
| Oklahoma City, OK | — | (l) | 1,365,125 | — | — | (l) | (c) | (c) | (c) | 1997 | 06/97 | (c) |
| Oklahoma City, OK | — | (l) | 1,419,093 | — | — | (l) | (c) | (c) | (c) | 1997 | 06/97 | (c) |
| Del City, OK | — | — | 1,376,025 | — | — | — | (c) | (c) | (c) | 1998 | 05/98 | (c) |
| Ft. Worth, TX | — | — | 1,135,067 | — | — | — | (c) | (c) | (c) | 1996 | 09/97 | (c) |
| Haltom City, TX | 470,432(t) | 413,918 | 1,660,859 | — | — | (d) | (d) | (d) | (d) | 1996 | 09/97 | (d) |
| Denny's: | | | | | | | | | | | | |
| Stockton, CA | — | 939,974 | 508,573 | — | — | (d) | (d) | (d) | (d) | 1982 | 09/06 | (d) |
| Eckerd: | | | | | | | | | | | | |
| Millville, NJ | — | — | 828,942 | — | — | — | (c) | (c) | (c) | 1994 | 03/94 | (c) |
| Atlanta, GA | — | — | 668,390 | — | — | — | (c) | (c) | (c) | 1994 | 03/94 | (c) |
| Mantua, NJ | — | — | 951,795 | — | — | — | (c) | (c) | (c) | 1994 | 06/94 | (c) |
| Vineland, NJ | — | — | — | 1,901,335 | — | — | (c) | (c) | (c) | 1999 | 03/99(h) | (c) |
| Glassboro, NJ | — | — | 887,497 | — | — | — | (c) | (c) | (c) | 1994 | 12/94 | (c) |
| East Point, GA | — | 336,610 | 1,173,529 | — | — | (d) | (d) | (d) | (d) | 1996 | 12/96 | (d) |
| Chattanooga, TN | — | — | 1,344,240 | — | — | — | (c) | (c) | (c) | 1997 | 09/97 | (c) |
| Kennett Square, PA | — | (l) | — | 1,984,435 | — | (l) | (c) | (c) | (c) | 2000 | 12/00 | (c) |
| Arlington, VA | — | — | 3,201,489 | — | — | — | (c) | (c) | (c) | 2002 | 02/02 | (c) |
| Food 4 Less: | | | | | | | | | | | | |
| Chula Vista, CA | — | — | 4,266,181 | — | — | — | (c) | (c) | (c) | 1995 | 11/98 | (c) |
| Food Lion: | | | | | | | | | | | | |
| Keystone Heights, FL | — | 88,604 | 1,845,988 | — | — | (d) | (d) | (d) | (d) | 1993 | 05/93 | (d) |
| Chattanooga, TN | — | 336,488 | 1,701,072 | — | — | (d) | (d) | (d) | (d) | 1993 | 10/93 | (d) |
| Lynchburg, VA | — | 128,216 | 1,674,167 | — | — | (d) | (d) | (d) | (d) | 1994 | 01/94 | (d) |
| Martinsburg, WV | — | 448,648 | 1,543,573 | — | — | (d) | (d) | (d) | (d) | 1994 | 08/94 | (d) |
| Heilig-Meyers: | | | | | | | | | | | | |
| Marlow Heights, MD | — | 415,926 | 1,397,178 | — | — | (d) | (d) | (d) | (d) | 1968 | 11/98 | (d) |
| York, PA | — | 279,312 | 1,109,609 | — | — | (d) | (d) | (d) | (d) | 1997 | 11/98 | (d) |
| International House of Pancakes: | | | | | | | | | | | | |
| Sunset Hills, MO | — | — | 736,345 | — | — | — | (c) | (c) | (c) | 1993 | 10/93 | (c) |
| Matthews, NC | — | — | 655,668 | — | — | — | (c) | (c) | (c) | 1993 | 12/93 | (c) |

See accompanying report of independent registered public accounting firm.

| | | Initial Cost to Company | | Costs Capitalized Subsequent to Acquisition | | Gross Amount at Which Carried at Close of Period (b) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Encum-brances (k) | Land | Building, Improve-ments and Leasehold Interests | Improve-ments | Carrying Costs | Land | Building, Improve-ments and Leasehold Interests | Total | Accumulated Depreciation and Amortization | Date of Con-struction | Date Acquired | Life on Which Depreciation and Amortization in Latest Income Statement is Computed |
| Jared Jewelers: | | | | | | | | | | | | |
| Glendale, AZ | — | (l) | 1,599,105 | — | — | (l) | (c) | (c) | (c) | 1998 | 12/01 | (c) |
| Lewisville, TX | 236,347 | (l) | 1,502,903 | — | — | (l) | (c) | (c) | (c) | 1998 | 12/01 | (c) |
| Oviedo, FL | 462,780 | (l) | 1,500,145 | — | — | (l) | (c) | (c) | (c) | 1998 | 12/01 | (c) |
| Phoenix, AZ | 398,427 | (l) | 1,241,825 | — | — | (l) | (c) | (c) | (c) | 1998 | 12/01 | (c) |
| Toledo, OH | — | (l) | 1,457,625 | — | — | (l) | (c) | (c) | (c) | 1998 | 12/01 | (c) |
| Kash N' Karry: | | | | | | | | | | | | |
| Valrico, FL | — | 1,234,519 | 3,255,257 | — | — | (d) | (d) | (d) | (d) | 1997 | 06/02 | (d) |
| Sports Authority: | | | | | | | | | | | | |
| Dallas, TX | — | — | 2,658,975 | — | — | — | (c) | (c) | (c) | 1994 | 03/94 | (c) |
| SuperValu: | | | | | | | | | | | | |
| Warwick, RI | — | — | 2,978,154 | — | — | — | (c) | (c) | (c) | 1992 | 02/97 | (c) |
| Uni-Mart: | | | | | | | | | | | | |
| Olean, NY | — | 41,774 | 267,667 | — | — | (d) | (d) | (d) | (d) | 1990 | 08/05 | (d) |
| | $1,567,986 | $4,822,841 | $77,487,083 | $3,885,770 | $— | $ — | $ — | $ — | $— | | | |
| Real Estate Held for Sale the Company has Invested in: | | | | | | | | | | | | |
| AJ Petroleum: | | | | | | | | | | | | |
| Brandon, FL | $ — | 516,188 | $ 342,694 | $ — | — | $ 516,188 | $ 342,694 | $ 858,882 | — | 1971 | 12/05 | — |
| Hollywood, FL | — | 417,487 | 318,173 | — | — | 417,487 | 318,173 | 735,660 | — | 1961 | 12/05 | — |
| Hollywood, FL | — | 645,533 | 387,651 | — | — | 645,533 | 387,651 | 1,033,184 | — | 1960 | 12/05 | — |
| Century Bank: | | | | | | | | | | | | |
| Farmers Branch, TX | — | 2,202,250 | 111,597 | — | — | 2,202,250 | 111,597 | 2,313,847 | — | 1993 | 02/06 | — |
| Chili's: | | | | | | | | | | | | |
| Austin, TX | — | 824,514 | 595,250 | — | — | 824,514 | 595,250 | 1,419,764 | — | 1993 | 02/06 | — |
| Dave & Buster's: | | | | | | | | | | | | |
| Addison, IL | — | 2,927,300 | 8,904,957 | — | — | 2,927,300 | 8,904,957 | 11,832,257 | — | 1995 | 11/06 | — |
| Denny's: | | | | | | | | | | | | |
| Arlington, TX | — | 606,540 | 504,282 | — | — | 606,540 | 504,282 | 1,110,822 | — | 1990 | 02/06 | — |
| La-Z Boy: | | | | | | | | | | | | |
| Newington, CT | — | 1,543,425 | 3,588,416 | — | — | 1,543,425 | 3,588,416 | 5,131,841 | — | (e) | 08/05 | (e) |
| Logan's Roadhouse: | | | | | | | | | | | | |
| Johnson City, TN | — | 1,406,893 | 2,062,633 | — | — | 1,406,893 | 2,062,633 | 3,469,526 | — | 1996 | 11/06 | — |
| Florence, AL | — | 1,810,838 | 2,532,741 | — | — | 1,810,838 | 2,532,741 | 4,343,579 | — | 1996 | 11/06 | — |
| Tuscaloosa, AL | — | 1,549,033 | 2,198,023 | — | — | 1,549,033 | 2,198,023 | 3,747,056 | — | 1997 | 11/06 | — |
| Fairfax, VA | — | 1,589,903 | 1,289,834 | — | — | 1,589,903 | 1,289,834 | 2,879,737 | — | 1998 | 11/06 | — |
| Tampa, FL | — | 1,176,322 | 1,306,418 | — | — | 1,176,322 | 1,306,418 | 2,482,740 | — | 1999 | 11/06 | — |
| Houston, TX | — | 698,654 | 1,138,942 | — | — | 698,654 | 1,138,942 | 1,837,596 | — | 2000 | 11/06 | — |
| Waco, TX | — | 1,189,018 | 1,604,071 | — | — | 1,189,018 | 1,604,071 | 2,793,089 | — | 2004 | 11/06 | — |
| Killean, TX | — | 1,246,030 | 1,635,630 | — | — | 1,246,030 | 1,635,630 | 2,881,660 | — | 2004 | 11/06 | — |
| Long John Silver's: | | | | | | | | | | | | |
| Houston, TX | — | 418,562 | 751,259 | — | — | 418,562 | 751,259 | 1,169,821 | — | (i) | 12/05 | (i) |
| Power Center: | | | | | | | | | | | | |
| Big Flats, NY | — | 2,248,422 | 7,159,309 | — | — | 2,248,422 | 7,159,309 | 9,407,731 | — | 2006 | 08/05 | — |
| Bismarck, ND | — | 1,838,965 | 10,262,109 | — | — | 1,838,965 | 10,262,109 | 12,101,074 | — | 2006 | 10/04 | — |
| Midland, MI | — | 1,085,180 | 1,634,602 | — | — | 1,085,180 | 1,634,602 | 2,719,782 | — | 2005 | 05/05 | — |
| Whiting, NJ | — | 3,656,873 | — | — | — | 3,656,873 | — | 3,656,873 | — | (e) | 06/05 | (e) |
| Topsham, ME | — | 6,148,981 | 10,852,400 | — | — | 6,148,981 | 10,852,400 | 17,001,381 | | (e) | 08/06 | (e) |
| Rite Aid: | | | | | | | | | | | | |
| Fredricksburg, VA | — | 1,611,109 | — | — | — | 1,611,109 | — | 1,611,109 | — | (e) | 09/06 | (e) |
| Road Ranger: | | | | | | | | | | | | |
| Rockford, IL | — | 635,452 | 1,118,486 | — | — | 635,452 | 1,118,486 | 1,753,938 | — | 1988 | 06/06 | — |
| Rockford, IL | — | 898,673 | 1,456,340 | — | — | 898,673 | 1,456,340 | 2,355,013 | — | 2001 | 06/06 | — |
| Rockford, IL | — | 1,465,863 | 1,189,686 | — | — | 1,465,863 | 1,189,686 | 2,655,550 | — | 1996 | 06/06 | — |
| Freeport, IL | — | 594,629 | 1,109,178 | — | — | 594,629 | 1,109,178 | 1,703,807 | — | 2002 | 06/06 | — |

See accompanying report of independent registered public accounting firm.

| | Encum-brances (k) | Initial Cost to Company | | Costs Capitalized Subsequent to Acquisition | | Gross Amount at Which Carried at Close of Period (b) | | | Accumulated Depreciation and Amortization | Date of Con-struction | Date Acquired | Life on Which Depreciation and Amortization in Latest Income Statement is Computed |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Land | Building, Improve-ments and Leasehold Interests | Improve-ments | Carrying Costs | Land | Building, Improve-ments and Leasehold Interests | Total | | | | |
| Stock Building Supply: | | | | | | | | | | | | |
| Hillman, MI | — | 166,886 | 822,950 | — | — | 166,886 | 822,950 | 989,836 | — | 1952 | 10/06 | — |
| Stripes: | | | | | | | | | | | | |
| Brownsville, TX | — | 800,356 | 535,129 | — | — | 800,356 | 535,129 | 1,335,485 | — | 1980 | 12/05 | — |
| Corpus Christi, TX | — | 1,308,398 | 2,151,142 | — | — | 1,308,398 | 2,151,142 | 3,459,540 | — | 1995 | 12/05 | — |
| Corpus Christi, TX | — | 606,629 | 643,379 | — | — | 606,629 | 643,379 | 1,250,008 | — | 1976 | 12/05 | — |
| Corpus Christi, TX | — | 565,233 | 1,010,988 | — | — | 565,233 | 1,010,988 | 1,576,221 | — | 1984 | 12/05 | — |
| Corpus Christi, TX | — | 1,082,047 | 871,812 | — | — | 1,082,047 | 871,812 | 1,953,859 | — | 1978 | 12/05 | — |
| Corpus Christi, TX | — | 530,990 | 808,203 | — | — | 530,990 | 808,203 | 1,339,193 | — | 1983 | 12/05 | — |
| Corpus Christi, TX | — | 282,667 | 593,006 | — | — | 282,667 | 593,006 | 875,673 | — | 1982 | 12/05 | — |
| Elsa, TX | — | 544,357 | 863,706 | — | — | 544,357 | 863,706 | 1,408,063 | — | 2006 | 10/06 | — |
| Victoria, TX | — | 1,977,940 | 1,076,322 | — | — | 1,977,940 | 1,076,322 | 3,054,262 | — | 2002 | 12/06 | — |
| Weslaco, TX | — | 683,444 | 1,078,464 | — | — | 683,444 | 1,078,464 | 1,761,908 | — | 1996 | 12/05 | — |
| Taco Bell: | | | | | | | | | | | | |
| Evansville, IN | — | 388,992 | 1,029,134 | — | — | 388,992 | 1,029,134 | 1,418,126 | — | 1985 | 05/06 | — |
| Martinsville, IN | — | 1,143,755 | 869,544 | | — | 1,143,755 | 869,544 | 2,013,299 | — | 1986 | 05/06 | — |
| Connersville, IN | — | 308,484 | 1,465,430 | — | — | 308,484 | 1,465,430 | 1,773,914 | — | 1998 | 05/06 | — |
| Brazil, IN | — | 971,568 | 1,009,606 | — | — | 971,568 | 1,009,606 | 1,981,174 | — | 1998 | 05/06 | — |
| Princeton, IN | — | 511,044 | 942,850 | | — | 511,044 | 942,850 | 1,453,894 | — | 1992 | 05/06 | — |
| Henderson, KY | — | 741,453 | 843,526 | — | — | 741,453 | 843,526 | 1,584,979 | — | 1992 | 05/06 | — |
| Elwood, IN | — | 407,315 | 892,351 | — | — | 407,315 | 892,351 | 1,299,666 | — | 1998 | 05/06 | — |
| Robinson, IL | — | 841,261 | 740,651 | | — | 841,261 | 740,651 | 1,581,912 | — | 1994 | 05/06 | — |
| Owensboro, KY | — | 866,818 | 1,371,287 | | — | 866,818 | 1,371,287 | 2,238,105 | — | 1994 | 05/06 | — |
| Washington, IN | — | 410,558 | 863,675 | | — | 410,558 | 863,675 | 1,274,233 | — | 1995 | 05/06 | — |
| Linton, IN | — | 731,387 | 987,502 | — | — | 731,387 | 987,502 | 1,718,889 | — | 1996 | 05/06 | — |
| Spencer, IN | — | 296,273 | 697,599 | | — | 296,273 | 697,599 | 993,872 | — | 1999 | 05/06 | — |
| Anderson, IN | — | 671,931 | 1,077,434 | — | — | 671,931 | 1,077,434 | 1,749,365 | — | 1998 | 05/06 | — |
| Vincennes, IN | — | 239,917 | 1,270,897 | — | — | 239,917 | 1,270,897 | 1,510,814 | — | 2000 | 05/06 | — |
| Uni-Mart: | | | | | | | | | | | | |
| Cuba, NY | — | 374,010 | 179,259 | — | — | 374,010 | 179,259 | 553,269 | — | 1961 | 08/05 | — |
| Bradford, PA | — | 184,231 | 761,512 | — | — | 184,231 | 761,512 | 945,743 | — | 1983 | 08/05 | — |
| Bradford, PA | — | 84,803 | 443,237 | — | — | 84,803 | 443,237 | 528,040 | — | 1988 | 08/05 | — |
| Harrisburg, PA | — | 148,741 | 293,940 | — | — | 148,741 | 293,940 | 442,681 | — | 1989 | 08/05 | — |
| Kane, PA | — | 156,967 | 913,017 | — | — | 156,967 | 913,017 | 1,069,984 | — | 1984 | 08/05 | — |
| Springdale, PA | — | 426,789 | 74,490 | — | — | 426,789 | 74,490 | 501,279 | — | 1953 | 08/05 | — |
| Midway, PA | — | 310,893 | 708,427 | — | — | 310,893 | 708,427 | 1,019,320 | — | 1990 | 01/06 | — |
| Clairton, PA | — | 215,405 | 700,821 | — | — | 215,405 | 700,821 | 916,226 | — | 1986 | 01/06 | — |
| Lewistown, PA | — | 58,687 | 218,925 | — | — | 58,687 | 218,925 | 277,612 | — | 1970 | 07/06 | — |
| Houtzdale, PA | — | 311,707 | 729,052 | — | — | 311,707 | 729,052 | 1,040,759 | | 1977 | 01/06 | — |
| Altoona, PA | — | 146,196 | 316,157 | — | — | 146,196 | 316,157 | 462,353 | — | 1974 | 07/06 | — |
| Burgettstown, PA | — | 202,043 | 427,963 | — | — | 202,043 | 427,963 | 630,006 | — | 1975 | 07/06 | — |
| Burnham, PA | — | 264,741 | 510,262 | — | — | 264,741 | 510,262 | 775,003 | — | 1978 | 07/06 | — |
| Duncannon, PA | — | 104,667 | 297,745 | — | — | 104,667 | 297,745 | 402,412 | — | 1973 | 07/06 | — |
| Hummelstown, PA | — | 255,604 | 501,965 | — | — | 255,604 | 501,965 | 757,569 | — | 1970 | 07/06 | — |
| Knox, PA | — | 90,979 | 230,616 | — | — | 90,979 | 230,616 | 321,595 | — | 1982 | 07/06 | — |
| Lemoyne, PA | — | 205,302 | 504,841 | — | — | 205,302 | 504,841 | 710,143 | — | 1988 | 07/06 | — |
| Linglestown, PA | — | 224,572 | 467,058 | — | — | 224,572 | 467,058 | 691,630 | — | 1973 | 07/06 | — |
| Mechanicsburg, PA | — | 120,639 | 357,897 | — | — | 120,639 | 357,897 | 478,536 | — | 1972 | 07/06 | — |
| Port Royal, PA | — | 238,052 | 635,213 | — | — | 238,052 | 635,213 | 873,265 | — | 1989 | 07/06 | — |
| Richfield, PA | — | 225,501 | 372,010 | — | — | 225,501 | 372,010 | 597,511 | — | 1989 | 07/06 | — |
| Shamokin, PA | — | 90,084 | 293,742 | — | — | 90,084 | 293,742 | 383,826 | — | 1975 | 07/06 | — |
| Sunbury, PA | — | 76,499 | 309,471 | — | — | 76,499 | 309,471 | 385,970 | — | 1971 | 07/06 | — |
| Williamsport, PA | — | 98,308 | 274,070 | — | — | 98,308 | 274,070 | 372,378 | — | 1971 | 07/06 | — |
| Williamsport, PA | — | 140,467 | 277,093 | — | — | 140,467 | 277,093 | 417,560 | — | 1971 | 07/06 | — |
| Vacant Land: | | | | | | | | | | | | |
| Grand Prairie, TX | — | 386,807 | — | — | — | 386,807 | — | 386,807 | — | (e) | 12/02 | (e) |
| Whiting, NJ | — | 733,707 | — | — | — | 733,707 | — | 733,707 | — | (e) | 06/05 | (e) |
| Whiting, NJ | — | 499,330 | — | — | — | 499,330 | — | 499,330 | — | (e) | 06/05 | (e) |
| Fairfield Township, OH | — | 3,198,359 | — | — | — | 3,198,359 | — | 3,198,359 | — | (e) | 08/06 | (e) |

See accompanying report of independent registered public accounting firm.

| | Encum-brances (k) | Initial Cost to Company | | Costs Capitalized Subsequent to Acquisition | | Gross Amount at Which Carried at Close of Period (b) | | | Accumulated Depreciation and Amortization | Date of Con-struction | Date Acquired | Life on Which Depreciation and Amortization in Latest Income Statement is Computed |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Land | Building, Improve-ments and Leasehold Interests | Improve-ments | Carrying Costs | Land | Building, Improve-ments and Leasehold Interests | Total | | | | |
| Bonita Springs, FL | — | 148,614 | — | — | — | 148,614 | — | 148,614 | — | (e) | 09/06 | (e) |
| Topsham, ME | — | 552,156 | — | — | — | 552,156 | — | 552,156 | — | (e) | 02/06 | (e) |
| Lapeer, MI | — | 1,465,113 | — | — | — | 1,465,113 | — | 1,465,113 | — | (e) | 09/06 | (e) |
| Lapeer, MI | — | 452,538 | — | — | — | 452,538 | — | 452,538 | — | (e) | 09/06 | (e) |
| Lapeer, MI | — | 233,589 | — | — | — | 233,589 | — | 233,589 | — | (e) | 06/06 | (e) |
| Topsham, ME | — | 311,714 | — | — | — | 311,714 | — | 311,714 | — | (e) | 02/06 | (e) |
| Independence, KY | — | 1,309,073 | — | — | — | 1,309,073 | — | 1,309,073 | — | (e) | 08/06 | (e) |
| Rockwall, TX | — | 17,256,753 | — | — | — | 17,256,753 | — | 17,256,753 | — | (e) | 02/06 | (e) |
| Harlingen, TX | — | 2,562,836 | — | — | — | 2,562,836 | — | 2,562,836 | — | (e) | 10/06 | (e) |
| Plano, TX | — | 9,157,846 | — | — | — | 9,157,846 | — | 9,157,846 | — | (e) | 12/05 | (e) |
| Vacant Property: | | | | | | | | | | | | |
| North Richland Hills, TX | — | 583,650 | 179,510 | — | — | 583,650 | 179,510 | 763,160 | — | 1989 | 02/06 | — |
| Irving, TX | — | 504,900 | 405,177 | — | — | 504,900 | 405,177 | 910,077 | — | 1987 | 02/06 | — |
| Mesquite, TX | — | 548,190 | 365,713 | — | — | 548,190 | 365,713 | 913,903 | — | 1988 | 02/06 | — |
| Waxahachie, TX | — | 662,760 | 545,257 | — | — | 662,760 | 545,257 | 1,208,017 | — | 1995 | 02/06 | — |
| Wawa: | | | | | | | | | | | | |
| Whiting, NJ | — | 1,297,846 | — | — | — | 1,297,846 | — | 1,297,846 | — | (e) | 06/05 | (e) |
| Ziebart: | | | | | | | | | | | | |
| Lansing, MI | — | 203,019 | 302,498 | — | — | 203,019 | 302,498 | 505,517 | — | 1974 | 03/06 | — |
| | $— | $104,857,027 | $101,168,207 | $— | $— | $104,857,027 | $101,168,207 | $206,025,233 | $— | | | |

See accompanying report of independent registered public accounting firm.

## NATIONAL RETAIL PROPERTIES, INC. AND SUBSIDIARIES

## NOTES TO SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION AND AMORTIZATION
## December 31, 2006
## (dollars in thousands)

(a) Transactions in real estate and accumulated depreciation during 2006, 2005, and 2004 are summarized as follows:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Land, buildings, and leasehold interests: | | | |
| Balance at the beginning of year | $1,508,664 | $1,129,126 | $ 982,076 |
| Acquisitions, completed construction and tenant improvements | 558,766 | 469,384 | 240,699 |
| Disposition of land, buildings, and leasehold interests | (310,223) | (87,446) | (93,649) |
| Provision for loss on impairment of real estate | (693) | (2,400) | — |
| Balance at the close of year | $1,756,514 | $1,508,664 | $1,129,126 |
| Accumulated depreciation and amortization: | | | |
| Balance at the beginning of year | $ 79,197 | $ 61,802 | $ 49,109 |
| Disposition of land, buildings, and leasehold interests | (12,413) | (1,665) | (2,119) |
| Depreciation and amortization expense | 20,575 | 19,060 | 14,812 |
| Balance at the close of year | $ 87,359 | $ 79,197 | $ 61,802 |

(b) As of December 31, 2006, the leases are treated as either operating or financing leases for federal income tax purposes. As of December 31, 2006, the aggregate cost of the properties owned by the Company that under operating leases were $1,672,154 and financing leases were $10,711.

(c) For financial reporting purposes, the portion of the lease relating to the building has been recorded as a direct financing lease; therefore, depreciation is not applicable.

(d) For financial reporting purposes, the lease for the land and building has been recorded as a direct financing lease; therefore, depreciation is not applicable.

(e) The Company owns only the land for this property.

(f) Date acquired represents acquisition date of land. Pursuant to lease agreement, the Company purchased the buildings from the tenants upon completion of construction, generally within 12 months from the acquisition of the land.

(g) Date acquired represents acquisition date of land. The Company developed the buildings, generally completing construction within 12 months from the acquisition date of the land.

(h) Date acquired represents date of building construction completion. The land has been recorded as operating lease.

(i) The Company owns only the land for this property, which is subject to a ground lease between the Company and the tenant. The tenant funded the improvements on the property.

(j) In 2005, the Company amended this property's lease to a ground lease, and thus reclassed the building's net book value to land only. Therefore, depreciation is not applicable.

(k) Encumbered properties for which the portion of the lease relating to the land is accounted for as an operating lease and the portion of the lease relating to the building is accounted for as a direct financing lease, the total amount of the encumbrance is listed with the land portion of the property.

(l) The Company owns only the building for this property. The land is subject to a ground lease between the Company and an unrelated third party.

(m) The leasehold interests are amortized over the life of the respective leases which range from 12 years to 12.5 years.

(n) The leasehold interest sites were acquired between August 1999 and August 2001.

(o) In 2002, this property was contributed down to a wholly-owned subsidiary of the Company at the property's net book value.

(p) Property is encumbered as a part of the Company's $21,000 long-term, fixed rate mortgage and security agreement.

(q) In 2002, this property was owned by a wholly-owned limited liability entity that was dissolved into the Company.

(r) The tenant of this property has subleased the property. The tenant continues to be responsible for complying with all the terms of the lease agreement and is continuing to pay rent on this property to the Company.

(s) In 2005, there was a lease amendment to this property, resulting in a reclassification from a direct financing lease to an operating lease.

(t) Property is encumbered as a part of the Company's $12,000 long-term, fixed rate mortgage and security agreement.

(u) Property is encumbered as a part of the Company's $6,952 long-term, fixed rate mortgage and security agreement.

(v) In 2005, this property was distributed from a taxable REIT subsidiary to the Company at the property's net book value.

See accompanying report of independent registered public accounting firm.

## NATIONAL RETAIL PROPERTIES, INC. AND SUBSIDIARIES

### SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE
### December 31, 2006
### (dollars in thousands)

| Description | Interest Rate | Maturity Date | Periodic Payment Terms | Prior Liens | Face Amount of Mortgages | Carrying Amount of Mortgages (e) | Principal Amount of Loans Subject to Delinquent Principal or Interest |
|---|---|---|---|---|---|---|---|
| First mortgages on properties: | | | | | | | |
| National City, CA | 11.5% | 2009 | (b) | — | $ 2,765 | $ 751 | $— |
| San Jose, CA | 11.5% | 2009 | (b) | — | 2,565 | 772 | — |
| Bellingham, WA | 7.2% | 2013 | (b) | — | 2,605 | 2,518 | — |
| Lake Jackson, TX | 7.5% | 2008 | (b) | — | 1,875 | 1,783 | — |
| Sports Authority, NJ | 9.0% | 2022 | (b) | — | 6,000 | 5,841 | — |
| Jackson, MS | 4.5% | 2012 | (b) | — | 1,000 | — | — |
| Topsham, ME | 4.5% | 2008 | (c) | — | 5,750 | — | — |
| Des Moines, IA | 8.0% | 2010 | (d) | — | 400 | 380 | — |
| Terre Haute, IN | 7.0% | 2011 | (c) | — | 1,582 | 1,582 | — |
| | | | | | $24,542 | $13,627(a) | $— |

(a) The following shows the changes in the carrying amounts of mortgage loans during the years:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Balance at beginning of year | $19,418 | $11,528 | $19,773 |
| New mortgage loans | 1,582(f) | 13,150(f) | — |
| Deductions during the year: | | | |
| Collections of principal | (7,373) | (5,260) | (8,245) |
| Balance at the close of year | $13,627 | $19,418 | $11,528 |

(b) Principal and interest is payable at level amounts over the life of the loan.

(c) Interest only payments are due monthly. Principal is due at maturity.

(d) Principal and interest is payable at level amounts over the life of the loan with a principal balloon payment at maturity.

(e) Mortgages held by the Company and its subsidiaries for federal income tax purposes for the years ended December 31, 2006, 2005 and 2004 were $13,627, $19,418 and $11,528, respectively.

(f) Mortgages totaling $1,582 and $13,150 were accepted in connection with real estate transactions for the year ended December 31, 2006 and 2005, respectively.

See accompanying report of independent registered public accounting firm.

**Exhibit 12**

## NATIONAL RETAIL PROPERTIES, INC. AND SUBSIDIARIES

## CONSOLIDATED RATIOS OF EARNINGS TO FIXED CHARGES

The following table sets forth the Company's consolidated ratios of earnings to fixed charges for the periods as shown (dollars in thousands).

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| Net Earnings, before Extraordinary Item | $182,505 | $ 74,614 | $64,934 | $53,473 | $48,058 |
| Fixed Charges: | | | | | |
| Interest on Indebtedness | 48,947 | 37,035 | 33,454 | 28,356 | 27,239 |
| Amortization of Discount Relating to Indebtedness | 136 | 104 | 123 | 146 | 127 |
| Amortization of Treasury Lock Gain | (345) | (326) | (457) | (596) | (554) |
| Amortization of Deferred Charges | 1,613 | 1,508 | 1,260 | 1,334 | 963 |
| | 50,351 | 38,321 | 34,380 | 29,240 | 27,775 |
| Net Earnings Before Fixed Charges | $232,856 | $112,935 | $99,314 | $82,713 | $75,833 |
| Divided by Fixed Charges | | | | | |
| Fixed Charges | $ 50,351 | $ 38,321 | $34,380 | $29,240 | $27,775 |
| Capitalized and Deferred Interest | 2,278 | 2,563 | 271 | 102 | (600) |
| | $ 52,629 | $ 40,884 | $34,651 | $29,342 | $27,175 |
| Ratio of Net Earnings to Fixed Charges | 4.42 | 2.76 | 2.87 | 2.82 | 2.79 |
| Net Earnings Before Fixed Charges | $232,856 | $112,935 | $99,314 | $82,713 | $75,833 |
| Gain of Disposition of DC Office Buildings (May 2006) | (59,496) | — | — | — | — |
| | $173,360 | $112,935 | $99,314 | $82,713 | $75,833 |
| Ratio of Net Earnings to Fixed Charges adjusted for DC Office Bldgs | 3.29 | 2.76 | 2.87 | 2.82 | 2.79 |
| Preferred Stock Dividends | | | | | |
| Series A Preferred Stock | $ 4,376 | $ 4,008 | $ 4,008 | $ 4,008 | $ 4,010 |
| Series B Convertible Preferred Stock | 419 | 1,675 | 1,675 | 502 | — |
| Series C Redeemable Preferred Stock | 923 | — | — | — | — |
| Total Preferred Stock Dividends | $ 5,718 | $ 5,683 | $ 5,683 | $ 4,510 | $ 4,010 |
| Combined Fixed Charges and Preferred Stock Dividends | $ 58,347 | $ 46,567 | $40,334 | $33,852 | $31,185 |
| Ratio of Net Earnings to Combined Fixed Charges and Preferred Stock Dividends | 3.99 | 2.43 | 2.46 | 2.44 | 2.43 |
| Ratio of Net Earnings to Combined Fixed Charges and Preferred Stock Dividends adjusted for DC Office Bldgs | 2.97 | 2.43 | 2.46 | 2.44 | 2.43 |

Exhibit 21

**NATIONAL RETAIL PROPERTIES INC.**
**SUBSIDIARIES OF THE REGISTRANT**
**December 31, 2006**

| Subsidiary | Jurisdiction of Formation |
|---|---|
| CCMH I, LLC | Delaware |
| CCMH II, LLC | Delaware |
| CCMH III, LLC | Delaware |
| CCMH IV, LLC | Delaware |
| CCMH V, LLC | Delaware |
| CCMH VI, LLC | Delaware |
| CNL Commercial Mortgage Funding, Inc. | Delaware |
| CNL SBA License, Inc. | Delaware |
| CNLR DC Acquisitions I, LLC | Delaware |
| CNLRS Acquisitions, Inc. | Maryland |
| CNLRS BEP, L.P. | Texas |
| CNLRS Bismarck ND, LLC | Delaware |
| CNLRS Equity Ventures BEP, Inc. | Maryland |
| CNLRS Equity Ventures Plano, Inc. | Maryland |
| CNLRS Equity Ventures Rockwall, Inc. | Maryland |
| CNLRS Equity Ventures, Inc. | Maryland |
| CNLRS P&P, L.P. | Texas |
| CNLRS RGI Bonita Springs, LLC | Delaware |
| CNLRS Rockwall, L.P. | Texas |
| CNLRS WG Long Beach MS, LLC | Delaware |
| CNLRS Yosemite Park CO, LLC | Delaware |
| Gator Pearson, LLC | Delaware |
| NAPE Acquisition, Inc. | Maryland |
| National Retail Properties Trust | Maryland |
| National Retail Properties, L.P. | Delaware |
| Net Lease Funding, Inc. | Maryland |
| Net Lease Institutional Realty, L.P. | Delaware |
| Net Lease Realty I, Inc. | Maryland |
| Net Lease Realty III, Inc. | Maryland |
| Net Lease Realty VI, LLC | Delaware |
| NNN Acquisitions, Inc. | Maryland |
| NNN BJ's Orlando FL, LLC | Florida |
| NNN Development, Inc. | Maryland |
| NNN Equity Ventures Harrison Crossing, Inc. | Maryland |
| NNN Equity Ventures, Inc. | Maryland |
| NNN Equity Ventures Preston Park, Inc. | Delaware |
| NNN GP Corp. | Delaware |
| NNN Harrison Crossing, L.P. | Texas |
| NNN LP Corp. | Delaware |
| NNN Brokerage Services, Inc. | Maryland |
| NNN RAD Monticello NY, LLC | Delaware |
| NNN Ster Florida LLC | Florida |
| NNN Ster Paradise Valley Arizona LLC | Arizona |
| NNN Ster Texas L.P. | Texas |
| NNN Texas GP Corp. | Delaware |
| NNN TRS, Inc. | Maryland |
| NorthStar Brokerage Services, Inc. | Maryland |
| Orange Avenue Mortgage Investments, Inc. | Delaware |
| WG Grand Prairie TX, LLC | Delaware |

Exhibit 31.1

**CERTIFICATION PURSUANT TO SECTION 302**
**OF THE SARBANES-OXLEY ACT OF 2002**

I, Craig Macnab, Chief Executive Officer of National Retail Properties, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of National Retail Properties, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operation and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent first fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

| February 21, 2007 | /s/ Craig Macnab |
|---|---|
| Date | Name: Craig Macnab<br>Title: Chief Executive Officer |

Exhibit 31.2

**CERTIFICATION PURSUANT TO SECTION 302**
**OF THE SARBANES-OXLEY ACT OF 2002**

I, Kevin B. Habicht, Chief Financial Officer of National Retail Properties, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of National Retail Properties, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operation and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent first fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

| February 21, 2007 | /s/ Kevin B. Habicht |
| --- | --- |
| Date | Name: Kevin B. Habicht<br>Title: Chief Financial Officer |

Exhibit 32.1

**CERTIFICATION PURSUANT TO SECTION 906**
**OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Craig Macnab, Chief Executive Officer, certifies that (1) this Annual Report of National Retail Properties, Inc. (the "Company") on Form 10-K for the period ended December 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (this "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (2) the information contained in this Report fairly presents, in all material respects, the financial condition of the Company as of December 31, 2006 and 2005 and its results of operations for the years ended December 31, 2006, 2005 and 2004.

| February 21, 2007 | /s/ Craig Macnab |
|---|---|
| Date | Name: Craig Macnab<br>Title: Chief Executive Officer |

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

**CERTIFICATION PURSUANT TO SECTION 906**
**OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Kevin B. Habicht, Chief Financial Officer, certifies that (1) this Annual Report of National Retail Properties, Inc. (the "Company") on Form 10-K for the period ended December 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (this "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (2) the information contained in this Report fairly presents, in all material respects, the financial condition of the Company as of December 31, 2006 and 2005 and its results of operations for the years ended December 31, 2006, 2005 and 2004.

| February 21, 2007 | /s/ Kevin B. Habicht |
|---|---|
| Date | Name: Kevin B. Habicht |
| | Title: Chief Financial Officer |

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Form Last Updated by the NYSE on April 28, 2006

# NYSE Regulation

## Domestic Company
## Section 303A
## Annual CEO Certification

As the Chief Executive Officer of National Retail Properties, Inc. – NNN and as required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual, I hereby certify that as of the date hereof, I am not aware of any violation by the Company of NYSE's corporate governance listing standards, other than has been notified to the Exchange pursuant to Section 303A.12(b) and disclosed as Exhibit H to the Company's Domestic Section 303A Annual Written Affirmation.

This certification is:

☒ Without qualification

or

☐ With qualification

By: /s/ Craig Macnab

Print Name: Craig Macnab

Title: Chief Executive Officer

Date: May 12, 2006

## SHAREHOLDER INFORMATION

For General Information:
American Stock Transfer & Trust Company
Operations Center
6201 15th Avenue
Brooklyn, NY 11219
www.amstock.com
Shareholder Toll-free line: 1-866-627-2644
Worldwide: 718-921-8346
Fax: 718-236-2641

For Dividend Reinvestment:
American Stock Transfer & Trust Company
P.O. Box 922
Wall Street Station
New York, NY 10269-0560

Independent Registered
Public Accounting Firm:
Ernst & Young LLP
Orlando, FL

Counsel:
Pillsbury Winthrop Shaw Pittman
Washington, D.C.

Corporate Offices:
National Retail Properties, Inc.
450 S. Orange Avenue, Suite 900
Orlando, FL 32801
(800) NNN-REIT
(407) 265-7348
www.nnnreit.com

FORM 10-K:
A copy of the Company's Form 10-K as filed with the Securities and Exchange Commission (SEC) for fiscal 2006, which includes as Exhibits the Chief Executive Officer and Chief Financial Officer certifications required to be filed with the SEC pursuant to Section 302 of the Sarbanes-Oxley Act, has been filed with the SEC and is included in this annual report and may also be obtained by stockholders without charge upon written request to the Company's Secretary at the above address, or on our website. During fiscal 2006, the Company filed with the New York Stock Exchange (NYSE) the Certification of its Chief Executive Officer confirming that the Chief Executive Officer was not aware of any violations by the Company of the NYSE's corporate governance listing standards.

NATIONAL RETAIL PROPERTIES
NYSE:NNN

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