

*Consistent Dividends Delivered.*





# 20

*Twenty Consecutive Years of **Increased Dividends***

## **CONSISTENT DIVIDENDS DELIVERED.**

*We pride ourselves in creating and sustaining long-term value for our shareholders. For twenty years in a row, NNN shareholders have received increasing annual dividends. Less than 2% of all U.S. public companies have achieved that track record.*

*Through good times and bad, our dividend has remained reliable and secure. As a result, many of our shareholders have been able to use the income from their NNN dividends to make their dreams a reality.*

*Twenty consecutive years of increased dividends. Twenty consecutive years of dreams realized.*



# 20

*Twenty Consecutive Years of **Dreams Realized***

## IN THIS REPORT

---

- 2 | Company Profile
- 3 | Letter to Shareholders
- 13 | Dividend Reinvestment & Direct Stock Purchase
- 14 | Historical Financial Highlights
- 16 | Directors & Officers
  - Inside Back Cover
  - | Shareholder Information



## THE NNN REIT™

*National Retail Properties (NYSE: NNN), a real estate investment trust, 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 20 consecutive years of increased annual dividends. Its average annual total return for the past 15 years has been 12.5%.*

*NNN maintains a conservatively managed, diversified real estate portfolio with properties subject to long-term, net leases with established tenants. Its 1,015 properties*

*are located in 44 states with a total gross leasable area of approximately 11.4 million square feet. Current occupancy is 96.4% and these properties are leased to more than 250 national and regional tenants in 34 industry classifications. A net lease shifts property operating expenses (i.e., maintenance, taxes, insurance and utilities) to the tenant, so the rental revenue NNN receives has significantly fewer expenses and more stable net cash flow.*

*NNN is one of 156 publicly traded companies in America to have increased annual dividends for 20 or more consecutive years.*



**ANNUAL TOTAL RETURN COMPARISON** (For periods ending December 31, 2009)

**Strong Track Record**

NNN shareholders have enjoyed a 15-year average annual total return of 12.5 percent.

	1 Year	3 Years	5 Years	10 Years	15 Years
National Retail Properties (NNN)	33.7%	4.5%	7.6%	16.6%	12.5%
S&P 500 Index (SPX)	26.4%	-5.6%	0.4%	-1.0%	8.0%
Nasdaq (CCMP)	45.3%	-1.2%	1.7%	-5.1%	8.2%
S&P 600 Index (SML)	25.5%	-4.8%	1.4%	6.3%	9.8%

Total Return is comprised of share price appreciation plus dividends paid.

*Dear Fellow NNN Shareholder:*

I am pleased to report that 2009 marked the twentieth consecutive increase in our annual dividend. This accomplishment places us in an elite group of 156 public companies that have achieved this milestone.

Despite the challenges of the past 18 months, our strategy **to build long-term value** for our shareholders has not altered, namely:

- to pay a safe and growing dividend;
- to generate steady and consistent annual FFO per share growth; and,

- to achieve these dual objectives while assuming below-average risk.

In last year’s shareholder letter, we anticipated that a small number of our tenants would be challenged by weak consumer spending. We also projected that our acquisition activities would be modest, which directly impacts our ability to grow our FFO. In 2009, we had Adjusted Funds from Operations (AFFO) of \$1.65 per share before impairment charges that we took. Despite a difficult year in absolute terms, the total return realized by our shareholders in 2009 was 33.7% as investors recognized the strength of our balance sheet and the merits of our business model. More importantly,

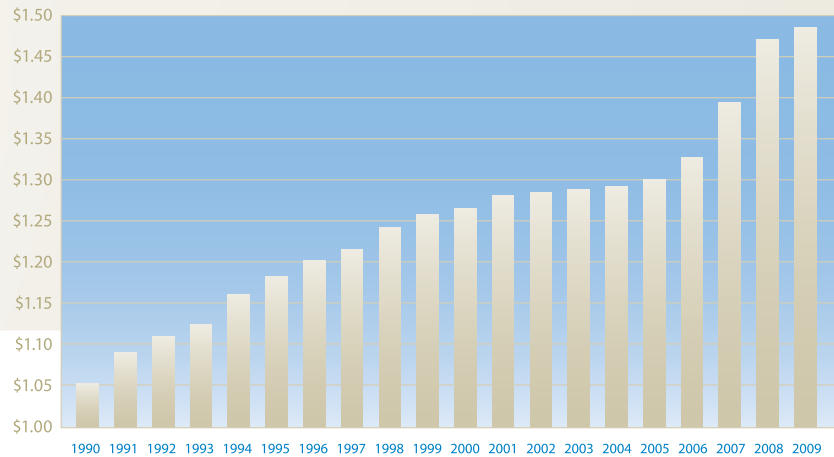




## WELL-COVERED DIVIDENDS

### Safe and Growing Dividend

NNN's dividend remains comfortably covered by its funds available for distribution.



the average annual total return to NNN shareholders has been 12.5% over the past 15 years.

### Our Long-Term Focus and Strategy

Although many companies were forced to make meaningful, panic-induced changes in 2008 and 2009, the key elements of our long-term operating strategy remained unchanged:

- Maintain a diversified and well-occupied net-leased retail portfolio.
- Acquire carefully underwritten net-leased retail properties to further diversify our portfolio.
- Sell select locations and reinvest the proceeds into newer, higher yielding properties to improve the quality and growth prospects of our core portfolio.
- Maintain a strong balance sheet with prudent leverage.
- Continue developing our talented team of associates.

### Our 2009 Performance

In 2009, the accomplishments by our excellent team included the following:

- Maintained a fortress-like balance sheet. At the end of the year we had zero outstanding on our \$400 million line of credit and \$15 million in cash waiting to be deployed on accretive acquisitions.
- Issued \$67 million of common equity which further strengthened our balance sheet.
- Increased our annual dividend to \$1.50 per share, which is the 20th consecutive year of dividend increases. **We are proud to be one of only 156 public companies who have raised their dividend for 20 or more consecutive years.**
- Acquired \$20 million of our convertible bonds that will come due in 2011 and 2013 at discounted prices, generating \$3.4 million of gains.
- Leased 26 properties and maintained 96% occupancy.





Despite our strong foundation and solid performance, we are not immune to the realities of a weaker economy. In the fourth quarter, we recognized \$42.2 million of non-cash impairments. The majority of these non-cash charges were taken against the auto service business and its real estate that is discussed below, plus undeveloped land and vacant properties. These charges reflect our assessment of the current market value of these individual assets.

### *Our Core Portfolio*

As of December 31, 2009, we owned 1,015 properties which were 96.4% leased. The average remaining lease term of our net-lease retail assets

is 12 years. Also, we have modest re-leasing risk with only 36 leases, representing 2.3% of our base rent, expiring in 2010. Our properties are located in 44 states and are leased to more than 250 national and regional tenants operating in 34 different retail industry classifications. In summary, we own a well-balanced, diversified portfolio.

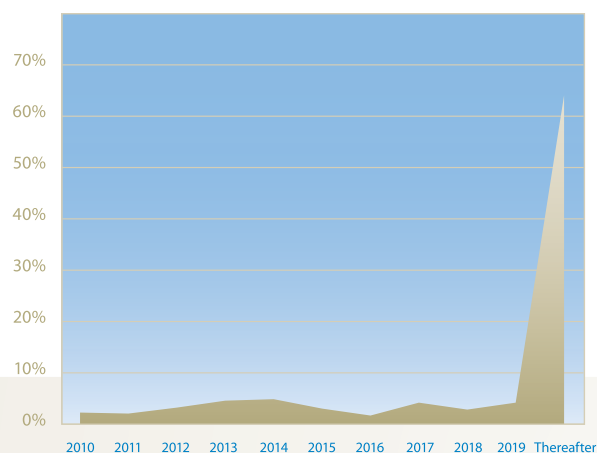
A year ago we began to foresee problems with a tenant that operated an auto service business in California. Ultimately, we evicted the tenant and took over the operation of the business. We have engaged one of the leading auto service operators to manage this business on our behalf and under

### **LEASE EXPIRATIONS**

*(as a percentage of base rent – December 31, 2009)*

#### **Long-Term Leases**

Our typical initial lease terms of 15-20 years allow us to ride out most economic and real estate cycles. Our current average remaining lease term is more than 12 years, giving us a steady, contractually-obligated rental income stream.

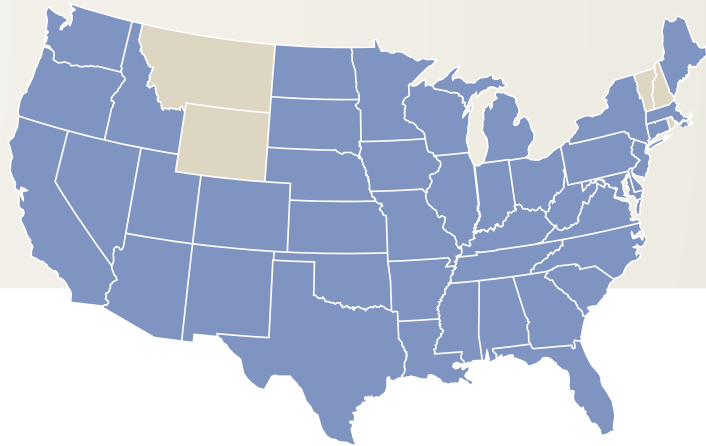




**NATIONWIDE PORTFOLIO** States in blue contain properties owned by NNN.

**Diversification  
Reduces Risk**

As of December 31, 2009, NNN owned 1,015 properties in 44 states leased to more than 250 national and regional tenants.



this new management, operations have steadily improved. As the business further stabilizes, we will explore our options which will hopefully lead to a sale of the operation while maintaining ownership of the land and buildings. It is worth noting that this temporary foray into retail operations is a small part of our operating income and is not something that we expect to repeat.

*Our Net-Leased Retail Real Estate*

We feel that our niche of net-leased retail real estate remains a compelling long-term investment opportunity for the following reasons:

- Our niche of smaller, freestanding retail properties is very large, yet our segment lacks significant institutional competition which allows us to earn higher initial risk-adjusted returns than many other real estate sectors.
- The ratio of land value to the total cost of each property is high when compared to other real estate categories, such as offices, apartments and large regional malls. The land value of our well-located corners at busy intersections is in the range of 40-45% of the total value for most of our properties at the time of purchase. With economic growth, inflation and the difficulty of replacing these well-located sites, the land





value at the end of the lease can reasonably approximate the price that we paid for both the land and the building upon acquisition.

- The quality of the rental revenue that we receive from our triple-net leases is remarkably high. Our tenants are responsible for property taxes, insurance and maintenance. As a result, our operating cash flow is more secure and consistent than many other types of real estate because we are not as negatively impacted as much by increases in these costs.
- Our leases are long-term. In the current cautious retail environment, it is comforting to us that

our average tenant is contractually obligated to pay rent for the next 12 years or more.

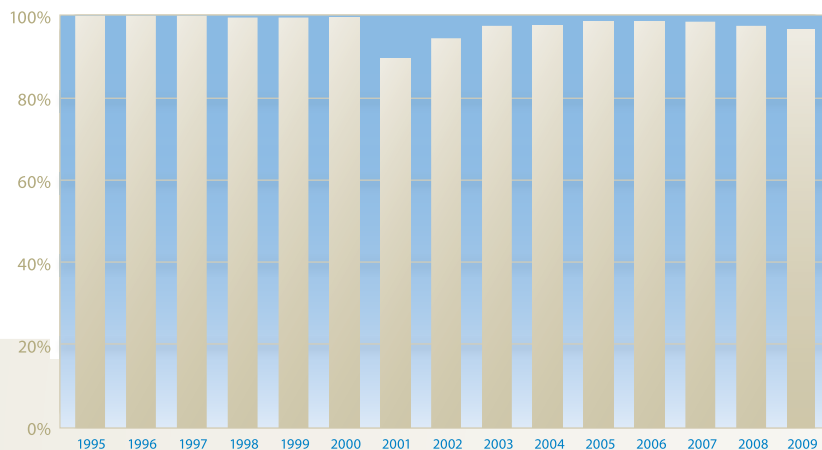
### *Our Strong Balance Sheet*

We have consistently raised equity in the past to ensure that we have a strong balance sheet. In 2009 we issued just over 3.7 million shares at an average price of \$17.88 per share, raising just over \$67 million. As of year end, on a gross-book basis, our total debt comprised 36.8% of our assets. Nearly all of our debt (98%) is unsecured which provides us significant flexibility as we manage our portfolio. Finally, our fixed-charge coverage ratio

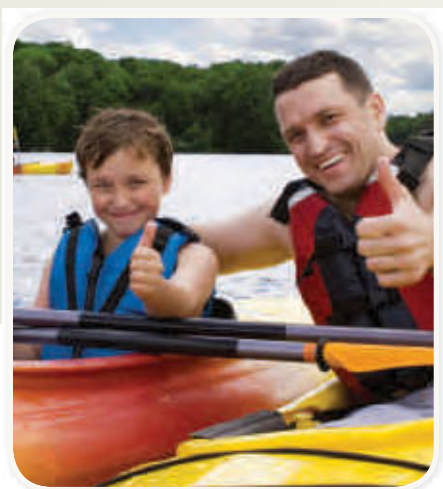
## PORTFOLIO OCCUPANCY

### Historically High Occupancy

NNN has steadily maintained a high occupancy rate in large part because of its well-located retail sites. The characteristics of freestanding stores – high visibility and easy access – have kept that format popular with both consumers and retail operators.







was 3.0x in 2009, which was measurably better than the average REIT ratio of approximately 2.0x.

### *Our Safe and Growing Dividend*

Historically REIT stocks have been characterized by their high yield from cash dividends. In 2009, while many REITs cut or suspended their dividends and others elected to pay their dividends in stock, we continued to pay our dividend in cash.

We hope that we are able to continue our multi-year record of consecutive annual dividend increases, paid in cash, and are very proud of our record of 20 consecutive years of increased annual dividend payments to NNN stockholders.

### *Our Outlook for the Future*

Consumer spending, which has recently accounted for about 70% of our nation's economic activity, has declined. This is the inevitable result of high levels of consumer indebtedness, declining personal wealth (lower house prices and the loss of value in financial assets) and an unemployment rate in excess of 10%, which is the highest in 26 years.

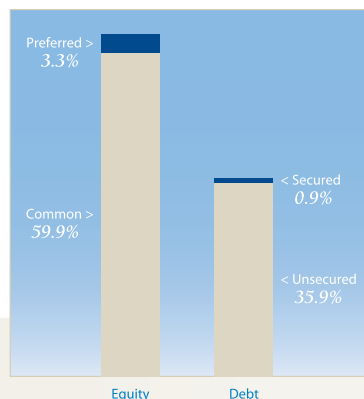
An improvement in the general outlook for commercial landlords has historically followed job growth. With lackluster corporate revenue growth and employers continuing to focus on efficiency and cost-cutting, the impact

## **BALANCE SHEET**

*(Percent of total Gross Book Assets – December 31, 2009)*

### **Prudent Leverage**

Maintaining a strong balance sheet with prudent leverage enhances our access to capital.





of government measures to stimulate job growth may be less effective than we all hope.

In planning for 2010 we are not anticipating much, if any, improvement in the economy as a whole. If our concern is proven wrong, we will rapidly adapt and celebrate the more buoyant economic environment.

In a credit-constrained environment, well-capitalized companies like NNN should have an opportunity to outperform for their shareholders. In the last couple of quarters, we have been selectively seeking growth opportunities, but quality real estate acquisition targets have recently been elusive. With our strong balance sheet, we are

ready to take advantage of the higher quality transactions when those deals materialize.

On behalf of the associates and directors of NNN, we thank you, our loyal shareholders, for your continued support. We are committed to working hard to maintain your respect and confidence in 2010 and beyond.



Sincerely,

Craig Macnab  
*Chairman &  
Chief Executive Officer*







With a 2009 dividend of \$1.50 per share, and AFFO per share of \$1.65, NNN's dividend is well protected.

### *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 to \$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 \$0.10 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](http://www.nnnreit.com) or request one by filling out and mailing the enclosed comment card.



## HISTORICAL FINANCIAL HIGHLIGHTS (Dollars in thousands, except per share data)

	2009	2008	2007	2006	2005
Gross revenues <sup>(1)</sup>	\$ 243,932	\$ 247,352	\$ 208,629	\$ 180,877	\$ 151,831
Earnings from continuing operations	57,690	98,582	77,232	59,232	46,395
Earnings including noncontrolling interests	56,399	119,971	155,742	184,422	95,559
Net earnings attributable to NNN	54,810	117,153	154,599	181,800	89,400
Total assets	2,590,962	2,649,471	2,539,673	1,917,516	1,736,588
Total debt	987,346	1,027,391	1,049,154	890,127	861,045
Total stockholders' equity	1,564,240	1,566,860	1,417,647	1,109,479	828,087
Cash dividends declared to:					
Common stockholders	120,256	110,107	92,989	76,035	69,018
Series A preferred stockholders	-	-	-	4,376	4,008
Series B convertible preferred stockholders	-	-	-	419	1,675
Series C preferred stockholders	6,785	6,785	6,785	923	-
Weighted average common shares:					
Basic	79,846,258	74,249,137	66,152,437	57,428,063	52,984,821
Diluted	79,953,499	74,344,231	66,263,980	57,965,508	54,418,806
Per share information:					
Earnings from continuing operations:					
Basic	\$ 0.62	\$ 1.23	\$ 1.06	\$ 0.89	\$ 0.76
Diluted	0.61	1.23	1.06	0.89	0.77
Net earnings:					
Basic	0.60	1.48	2.23	3.05	1.57
Diluted	0.60	1.48	2.22	3.03	1.56
Cash Dividends declared to:					
Common stockholders	1.50	1.48	1.40	1.32	1.30
Series A preferred stockholders	-	-	-	2.45625	2.25
Series B convertible preferred stockholders	-	-	-	41.875	167.50
Series C preferred depository stockholders	1.84375	1.84375	1.84375	0.250955	-
Other data:					
Cash flows provided by (used in):					
Operating activities	\$ 149,502	\$ 237,459	\$ 130,147	\$ 1,676	\$ 19,226
Investing activities	(28,063)	(256,304)	(536,717)	(90,099)	(230,783)
Financing activities	(108,840)	(6,028)	432,394	81,864	217,844
Funds from operations – diluted <sup>(2)</sup>	90,087	142,355	121,602	96,416	81,803

(1) Gross revenues include revenues from NNN's continuing and discontinued operations. In accordance with FASB guidance on Accounting for the Impairment or Disposal of Long-Lived Assets, NNN has classified the revenues related to (i) all Investment Properties that were sold and leasehold interest which expired, (ii) all Inventory Properties which generated revenues prior to disposition, and (iii) all Investment and Inventory Properties which generated revenue and were held for sale at December 31, 2009, as discontinued operations.

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





## Directors & Officers

### DIRECTORS

Craig Macnab  
*Chairman*

Ted B. Lanier†  
*Lead Director*

Don DeFosset  
*Retired Chairman, President  
& Chief Executive Officer  
Walter Industries, Inc.*

Dennis E. Gershenson  
*President, Chief Executive Officer & Chairman  
Ramco-Gershenson Properties Trust*

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

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

Robert C. Legler  
*Retired Chairman  
First Marketing Corporation*

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



Left to right: (seated) Craig Macnab, Julian E. Whitehurst,  
(standing) Paul E. Bayer, Kevin B. Habicht, Christopher P. Tessitore

### EXECUTIVE OFFICERS

Craig Macnab  
*Chairman & Chief Executive Officer*

Julian E. Whitehurst  
*President & Chief Operating Officer*

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

Paul E. Bayer  
*Executive Vice President of Portfolio Management*

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

† Member audit committee (Committees as of February 18, 2010)

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, 2009

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 001-11290

**NATIONAL RETAIL PROPERTIES, INC.**

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of  
incorporation or organization)

56-1431377

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

450 South Orange Avenue, Suite 900

Orlando, Florida 32801

(Address of principal executive offices, including zip code)

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

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

<i>Title of each class:</i>	<i>Name of exchange on which registered:</i>
Common Stock, \$0.01 par value	New York Stock Exchange
7.375% Series C Preferred Stock, \$0.01 par value	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:

None

(Title of class)

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

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

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

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

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

The aggregate market value of voting common stock held by non-affiliates of the registrant as of June 30, 2009 was \$1,371,916,984.

The number of shares of common stock outstanding as of February 16, 2010 was 82,916,942.

***DOCUMENTS INCORPORATED BY REFERENCE:***

Registrant incorporates by reference into Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K portions of National Retail Properties, Inc.'s definitive Proxy Statement for the 2010 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission (the "Commission") pursuant to Regulation 14A. The definitive Proxy Statement will be filed with the Commission not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

## TABLE OF CONTENTS

	<b><u>PAGE REFERENCE</u></b>
Part I	
Item 1. Business .....	2
Item 1A. Risk Factors .....	9
Item 1B. Unresolved Staff Comments .....	18
Item 2. Properties .....	18
Item 3. Legal Proceedings .....	18
Item 4. Submission of Matters to a Vote of Security Holders .....	18
Part II	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities .....	19
Item 6. Selected Financial Data .....	21
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations .....	23
Item 7A. Quantitative and Qualitative Disclosures About Market Risk .....	44
Item 8. Financial Statements and Supplementary Data .....	45
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure .....	86
Item 9A. Controls and Procedures .....	86
Item 9B. Other Information .....	88
Part III	
Item 10. Directors, Executive Officers and Corporate Governance .....	88
Item 11. Executive Compensation .....	88
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters .....	88
Item 13. Certain Relationships and Related Transactions, and Director Independence .....	88
Item 14. Principal Accountant Fees and Services .....	88
Part IV	
Item 15. Exhibits and Financial Statement Schedules .....	89
Signatures .....	94

## PART I

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

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

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

### **Item 1. Business**

#### The Company

NNN, a Maryland corporation, is a fully integrated real estate investment trust (“REIT”) formed in 1984. NNN’s operations are divided into two primary business segments: (i) investment assets, including real estate assets, mortgages and notes receivable (including structured finance investments), and commercial mortgage residual interests (collectively, “Investment Assets”), and (ii) inventory real estate assets (“Inventory Assets”). The Inventory Assets are operated in the TRS.

#### *Real Estate Assets*

NNN acquires, owns, invests in, manages and develops properties that are leased primarily to retail tenants under long-term net leases and primarily held for investment (“Investment Properties” or “Investment Portfolio”). The Inventory Assets typically represent direct and indirect investment interests in real estate assets acquired or developed primarily for the purpose of selling the real estate (“Inventory Properties” or “Inventory Portfolio”). Inventory Assets typically consist of two types of properties, property for development (“Development Properties or Development Portfolio”) and improved properties (“Exchange Properties” or “Exchange Portfolio”). As of December 31, 2009, NNN owned 1,015 Investment Properties, with an aggregate leasable area of 11,373,000 square feet, located in 44 states. Approximately 96 percent of total properties in NNN’s Investment Portfolio were leased or operated at December 31, 2009. As of December 31, 2009, NNN owned 19 Inventory Properties.

#### *Competition*

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

## *Employees*

As of January 31, 2010, NNN employed 57 full-time associates including executive and administrative personnel.

## *Other Information*

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

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

## Business Strategies and Policies

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

### *Operating Strategies*

NNN's strategy is to invest primarily in retail real estate that is typically located along high-traffic commercial corridors near areas of commercial and residential density. Management believes that these types of properties, generally pursuant to triple-net leases, provide attractive opportunities for a stable current return and the potential for increased returns and capital appreciation. Triple-net leases typically require the tenant to pay property operating expenses such as real estate taxes, assessments and other government charges, insurance, utilities, repairs and maintenance and capital expenditures. Initial lease terms are generally 15 to 20 years.

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

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

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

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

The operating strategies employed by NNN have allowed it to increase the annual dividend (paid quarterly) per common share for 20 consecutive years.

### *Investment in Real Estate or Interests in Real Estate*

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

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

- the location, visibility and accessibility of the property,
- the geographic area and demographic characteristics of the community, as well as the local real estate market, including potential for growth, market rents, and existing or potential competing properties or retailers,
- the size of the property,
- the purchase price,
- the non-financial terms of the proposed acquisition,
- the availability of funds or other consideration for the proposed acquisition and the cost thereof,
- the compatibility of the property with NNN's existing portfolio,
- the potential for, and current extent of, any environmental problems,
- the quality of construction and design and the current physical condition of the property,
- the financial and other characteristics of the existing tenant,
- the tenant's business plan, operating history and management team,
- the tenant's industry,
- the terms of any existing leases, and
- the rent to be paid by the tenant.

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

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

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



## Financing Strategy

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

NNN typically funds its short-term liquidity requirements including investments in additional retail properties with cash from its \$400,000,000 unsecured revolving credit facility ("Credit Facility"). As of December 31, 2009, no balance was outstanding and \$400,000,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$653,000.

For the year ended December 31, 2009, NNN's ratio of total liabilities to total gross assets (before accumulated depreciation) was approximately 37 percent and the secured indebtedness to total gross assets was approximately one percent. The total debt to total market capitalization was approximately 36 percent. Certain financial agreements to which NNN is a party contain covenants that limit NNN's ability to incur debt under certain circumstances.

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

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

## Strategies and Policy Changes

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

## Investment Properties

As of December 31, 2009, NNN owned 1,015 Investment Properties with an aggregate gross leasable area of 11,373,000 square feet, located in 44 states. Approximately 96 percent of the Investment Properties were leased at December 31, 2009.

The following table summarizes NNN's Investment Properties as of December 31, 2009 (in thousands):

	Size <sup>(1)</sup>			Acquisition Cost <sup>(2)</sup>		
	High	Low	Average	High	Low	Average
Land	2,223	7	109	\$ 8,882	\$ 25	\$ 1,086
Building	135	1	11	17,049	44	1,520

(1) Approximate square feet.

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

In connection with the development of two Investment Properties, NNN has agreed to fund construction commitments (including construction, land costs and tenant improvements) of \$14,651,000. As of December 31, 2009, NNN had funded \$12,261,000 of this commitment, with \$2,390,000 remaining to be funded.

As of December 31, 2009, NNN did not have any tenant that accounted for ten percent or more of its rental income.

## Leases

Although there are variations in the specific terms of the leases, the following is a summary of the general structure of NNN's leases. Generally, the leases of the Investment Properties provide for initial terms of 15 to 20 years. As of December 31, 2009, 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 NNN's leases provide that the tenant is responsible for roof and structural repairs. The leases of the Investment Properties provide for annual base rental payments (payable in monthly installments) ranging from \$8,000 to \$1,876,000 (average of \$213,000). Tenant leases generally provide for limited increases in rent as a result of fixed increases, increases in the Consumer Price Index ("CPI"), 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 NNN wishes to sell the Investment Property subject to that lease, NNN first must offer the lessee the right to purchase the Investment Property on the same terms and conditions as any offer which NNN intends to accept for the sale of the Investment Property.

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

The following table summarizes the lease expirations, assuming none of the tenants exercise renewal options, of NNN's Investment Portfolio for each of the next 10 years and then thereafter in the aggregate as of December 31, 2009:

	<u>% of Annual Base Rent<sup>(1)</sup></u>	<u># of Properties</u>	<u>Gross Leasable Area<sup>(2)</sup></u>		<u>% of Annual Base Rent<sup>(1)</sup></u>	<u># of Properties</u>	<u>Gross Leasable Area<sup>(2)</sup></u>
2010	2.3%	36	408,000	2016	1.7%	13	240,000
2011	2.1%	21	389,000	2017	4.3%	27	676,000
2012	3.3%	34	484,000	2018	2.9%	24	345,000
2013	4.7%	39	849,000	2019	4.3%	42	632,000
2014	5.0%	44	622,000	Thereafter	66.3%	676	5,324,000
2015	3.1%	22	539,000				

(1) Based on annualized base rent for all leases in place as of December 31, 2009.

(2) Approximate square feet.

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

Top 10 Lines of Trade	% of Annual Base Rent <sup>(1)</sup>		
	2009	2008	2007
1. Convenience Stores	26.7%	25.7%	23.9%
2. Restaurants – Full Service	9.2%	8.7%	10.3%
3. Automotive Parts	6.8%	5.1%	4.9%
4. Theaters	6.3%	6.1%	4.2%
5. Automotive Service	5.7%	8.9%	5.2%
6. Books	4.1%	4.0%	4.4%
7. Drug Stores	4.1%	4.0%	5.0%
8. Restaurants – Limited Service	3.5%	3.3%	3.7%
9. Sporting Goods	3.2%	3.3%	3.9%
10. Grocery	2.9%	2.6%	2.9%
Other	27.5%	28.3%	31.6%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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

The following table shows the top 10 states in which NNN's Investment Properties are located as of December 31, 2009:

State	# of Properties	% of Annual Base Rent <sup>(1)</sup>
1. Texas	210	20.1%
2. Florida	85	10.0%
3. Illinois	39	7.0%
4. North Carolina	62	6.3%
5. Georgia	57	5.5%
6. Indiana	37	4.4%
7. Pennsylvania	87	4.3%
8. Ohio	31	3.8%
9. Tennessee	30	3.1%
10. Arizona	30	2.8%
Other	347	32.7%
	<u>1,015</u>	<u>100.0%</u>

(1) Based on annualized base rent for all leases in place as of December 31, 2009.

### *Mortgages and Notes Receivable*

Mortgages are secured by real estate, real estate securities or other assets. Structured finance investments are secured by the borrowers' pledge of their respective membership interests in the entities which own the respective real estate.

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

	2009	2008
Mortgages and notes receivable	\$ 41,707	\$ 55,495
Structured finance investments	-	4,514
Accrued interest receivables	269	387
Unamortized premium	-	84
	<u>41,976</u>	<u>60,480</u>
Less loan origination fees, net	-	(8)
	<u>\$ 41,976</u>	<u>\$ 60,472</u>

### *Commercial Mortgage Residual Interests*

Orange Avenue Mortgage Investments, Inc. (“OAMI”), a majority owned and consolidated subsidiary of NNN, holds the residual interests (“Residuals”) from seven commercial real estate loan securitizations. Each of the Residuals is reported at fair value based upon an independent valuation; unrealized gains or losses are reported as other comprehensive income in stockholders’ equity, and other than temporary losses as a result of a change in timing or amount of estimated cash flows are recorded as an other than temporary valuation impairment. The Residuals had an estimated fair value of \$20,153,000 and \$22,000,000 at December 31, 2009 and 2008, respectively.

### *Inventory Assets*

The Inventory Portfolio, which is owned by the TRS, is comprised of two components: the Development Portfolio and the Exchange Portfolio. NNN’s Inventory Portfolio is held with the intent to sell the properties to purchasers who are looking for replacement like-kind Exchange Property or to other purchasers with different investment objectives. As of December 31, 2009, the Inventory Portfolio consisted of 18 Development Properties (12 completed and six land parcels) and one Exchange Property.

The following table summarizes the 12 completed Development Properties and one Exchange Property as of December 31, 2009 (in thousands):

	Size <sup>(1)</sup>			Acquisition Cost <sup>(2)</sup>		
	High	Low	Average	High	Low	Average
Land	527	15	114	\$ 8,959	\$ 108	\$ 1,526
Building	224	2	27	28,717	352	3,668

(1) Approximate square feet.

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

### Governmental Regulations Affecting Properties

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

As of February 19, 2010, NNN has 68 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 NNN may incur costs if the tenant does not comply. As of February 19, 2010, NNN has not been notified by any governmental authority of, nor is NNN’s management aware of, any non-compliance with the ADA that NNN’s management believes would have a material adverse effect on its business, financial position or results of operations.

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

## **Item 1A. Risk Factors**

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

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

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

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

Potential consequences of the current financial and economic conditions include:

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

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

NNN may be unable to obtain capital on favorable terms, if at all, to further its business objectives or meet its existing obligations. Debt and equity capital availability in the real estate market is severely strained. Nearly all of NNN's debt, including the Credit Facility, is subject to balloon principal payments due at maturity. These maturities range between 2010 and 2017. The ability of NNN to make these scheduled

principal payments may be adversely impacted by NNN's inability to extend or refinance the Credit Facility, the inability to dispose of assets at an attractive price or the inability to obtain additional debt or equity capital. Capital that may be available may be materially more expensive or available under terms that are materially more restrictive than NNN's existing capital which would have an adverse impact on NNN's business, financial condition or results of operations.

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

NNN's five largest tenants accounted for an aggregate of approximately 32 percent of NNN's annual base rent as of December 31, 2009. The default, financial distress, bankruptcy or liquidation of one or more of NNN's tenants could cause substantial vacancies among NNN's Investment Portfolio. Vacancies reduce NNN's revenues, increase property expenses and could decrease the ultimate sale value of each such vacant property. Upon the expiration of the leases that are currently in place, the tenant may choose not to renew the lease or, NNN may not be able to re-lease the vacant property at a comparable lease rate or without incurring additional expenditures in connection with such renewal or re-leasing.

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

As of December 31, 2009, approximately,

- 55 percent of NNN's Investment Portfolio annual base rent is generated from five retail lines of trade, including convenience stores (27 percent) and full-service restaurants (9 percent),
- 32 percent of NNN's Investment Portfolio annual base rent is generated from five tenants, including Pantry (9 percent) and Susser (9 percent),
- 49 percent of NNN's Investment Portfolio annual base rent is generated from five states, including Texas (20 percent) and Florida (10 percent).

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

*Owning real estate and indirect interests in real estate carries inherent risks.*

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

- changes in national, regional and local economic conditions and outlook,
- decreases in consumer spending and retail sales,
- economic downturns in the areas where NNN's properties are located,
- adverse changes in local real estate market conditions, such as an oversupply, reduction in demand or intense competition for tenants,
- changes in tenant preferences that reduce the attractiveness of NNN's properties to tenants,
- zoning, regulatory restrictions, or change in taxes, and
- changes in interest rates or availability of financing.

All of these factors could result in decreases in market rental rates and increases in vacancy rates, which could adversely affect NNN's results of operations.

*NNN's real estate investments are illiquid.*

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

*NNN may be subject to known or unknown environmental liabilities.*

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

As of February 19, 2010, NNN has 68 Investment Properties currently under some level of environmental remediation. In general, the seller, the tenant or an adjacent land owner is responsible for the cost of the environmental remediation for each of these Investment Properties. In the event of a bankruptcy or other inability on the part of these parties to cover these costs, NNN may have to cover the costs of remediation, fines or other environmental liabilities at these and other properties and may have liability to third parties. NNN may also own properties where required remediation has not begun or adverse environmental conditions have not yet been detected. This may require remediation or otherwise subject NNN to liability including liability to third parties. NNN cannot assure that (i) it will not be required to undertake or pay for removal or remediation of any contamination of the properties currently or previously owned by NNN, (ii) NNN will not be subject to fines by governmental authorities or litigation, (iii) NNN will not be subject to litigation by and liability to third parties, or (iv) the costs of such removal, remediation fines, third party liability, or litigation would not be material.

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

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

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

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

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

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

As of December 31, 2009, the Residuals had a carrying value of \$20,153,000. The value of these Residuals is based on assumptions made by NNN to determine their value. These assumptions include discount rate, loan loss, prepayment speed and interest rate assumptions made by NNN to determine their value. If actual experience differs materially from these assumptions, the actual future cash flow could be less than expected and the value of the Residuals, as well as NNN's earnings, could decline.

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

If a borrower defaults on a mortgage, structured finance loan or other loan made by NNN, and does not have sufficient assets to satisfy the loan, NNN may suffer a loss of principal and interest. In the event of the bankruptcy of a borrower, NNN may not be able to recover against all or any of the assets of the borrower, or the assets of the borrower may not be sufficient to satisfy the balance due on the loan. In addition, certain of NNN's loans may be subordinate to other debt of a borrower. These investments are typically loans secured by a borrower's pledge of its ownership interests in the entity that owns the real estate or other assets. These agreements are typically subordinated to senior loans secured by other loans encumbering the underlying real estate or assets. Subordinated positions are generally subject to a higher risk of nonpayment of principal and interest than the more senior loans. As of December 31, 2009, mortgages and notes receivables had an outstanding principal balance of \$41,707,000. If a borrower defaults on the debt senior to NNN's loan, or in the event of the bankruptcy of a borrower, NNN's loan will be satisfied only after the borrower's senior creditors' claims are satisfied. Where debt senior to NNN's loans exists, the presence of intercreditor arrangements may limit NNN's ability to amend loan documents, assign the loans, accept prepayments, exercise remedies and control decisions made in bankruptcy proceedings relating to borrowers. Bankruptcy proceedings and litigation can significantly increase the time needed for NNN to acquire underlying collateral, if any, in the event of a default, during which time the collateral may decline in value. In addition, there are significant costs and delays associated with the foreclosure process.

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

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

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

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



insolvent, bankrupt or otherwise unable to contribute to the joint venture or partnership, respectively. Further, disputes may develop with a co-venturer or partner over decisions affecting the property, joint venture or partnership that may result in litigation, arbitration or some other form of dispute resolution.

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

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

*Operating losses from retail operations on 12 Investment Properties may adversely impact NNN's results of operations.*

In June 2009, NNN acquired the operations of the auto service business which was operated on 12 Investment Properties. A third party manages and staffs these operations on behalf of NNN. The results of business operations from these properties are subject to the typical execution risks inherent with many retail operations including: merchandising, pricing, customer service, competition, consumer preferences and behavior, safety, compliance with various federal, state and local laws, ordinances and regulations, environmental contamination, unfavorable weather conditions, or other trends in the markets they serve. These factors could negatively impact NNN's results of operations from these 12 Investment Properties.

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

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

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

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

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

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

As of December 31, 2009, NNN owned 37 vacant, un-leased Investment Properties, including two vacant land parcels, which accounted for approximately four percent of total Investment Properties. NNN is actively marketing these properties for sale or lease but may not be able to sell or lease these properties on

favorable terms or at all. The lost revenues and increased property expenses resulting from the rejection by any bankrupt tenant of any of their respective leases with NNN could have a material adverse effect on the liquidity and results of operations of NNN if NNN is unable to re-lease the Investment Properties at comparable rental rates and in a timely manner. As of December 31, 2009, approximately one percent of the total gross leasable area of NNN's Investment Portfolio was leased to two tenants that have filed a voluntary petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code and have the right to reject or affirm their lease with NNN. NNN anticipates the number of vacancies and bankrupt tenants will increase.

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

As of December 31, 2009, NNN had total mortgage debt outstanding of approximately \$25,290,000, total unsecured notes payable of \$962,056,000 and no balance outstanding on the Credit Facility. NNN's organizational documents do not limit the level or amount of debt that it may incur. If NNN incurs additional indebtedness and permits a higher degree of leverage, debt service requirements would increase and could adversely affect NNN's financial condition and results of operations, as well as NNN's ability to pay principal and interest on the outstanding indebtedness or cash dividends to its stockholders. In addition, increased leverage could increase the risk that NNN may default on its debt obligations. The Credit Facility contains financial covenants that could limit the amount of distributions to NNN's common and preferred stockholders.

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

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

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

NNN cannot assure stockholders that any such refinancing, sale of assets or additional financing would be possible or, if possible, on terms and conditions, including but not limited to the interest rate, which NNN would find acceptable or would not result in a material decline in earnings.

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

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

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

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

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

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

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

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

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

*Costs of complying with changes in governmental laws and regulations may adversely affect NNN's results of operations.*

NNN cannot predict what other environmental laws or regulations will be enacted in the future, how future laws or regulations will be administered or interpreted, or how future laws or regulations will affect NNN's properties. Compliance with new laws or regulations, or stricter interpretation of existing laws,

may require NNN, its retail tenants, or consumers to incur significant expenditures or impose significant environmental liability and could cause a material adverse effect on NNN's results of operation.

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

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

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

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

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

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

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

Even if NNN remains qualified for taxation as a REIT, NNN may be subject to certain federal, state and local taxes on its income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes, such as mortgage recording taxes. Any of these taxes would decrease earnings and cash available

for distribution to stockholders. In addition, in order to meet the REIT qualification requirements, NNN holds some of its assets through the TRS.

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

At any time, the federal and state income tax laws governing REITs or the administrative interpretations of those laws may change. Any such changes may have retroactive effect, and could adversely affect NNN or its stockholders. For example, legislation enacted in 2003 and extended in 2006 generally reduced the federal income tax rate on most dividends paid by corporations to individual investors to a maximum of 15 percent (through 2010). REIT dividends, with limited exceptions, will not benefit from the rate reduction, because a REIT's income generally is not subject to corporate level tax. As such, this legislation could cause shares in non-REIT corporations to be a more attractive investment to individual investors than shares in REITs, and could have an adverse effect on the value of NNN's common stock.

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

To maintain its status as a REIT for U.S. federal income tax purposes, NNN must meet certain requirements on an on-going basis, including requirements regarding its sources of income, the nature and diversification of its assets, the amounts NNN distributes to its stockholders and the ownership of its shares. NNN may also be required to make distributions to its stockholders when it does not have funds readily available for distribution or at times when NNN's funds are otherwise needed to fund capital expenditures or to fund debt service requirements. NNN generally will not be subject to federal income taxes on amounts distributed to stockholders, providing it distributes 100 percent of its REIT taxable income and meets certain other requirements for qualifying as a REIT. For each of the years in the three-year period ended December 31, 2009, NNN believes it has qualified as a REIT. Notwithstanding NNN's qualification for taxation as a REIT, NNN is subject to certain state taxes on its income and real estate.

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

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

*NNN's failure to maintain effective internal control over financial reporting could have a material adverse effect on its business, operating results and share price.*

Section 404 of the Sarbanes-Oxley Act of 2002 requires annual management assessments of the effectiveness of the Company's internal control over financial reporting. If NNN fails to maintain the adequacy of its internal control over financial reporting, as such standards may be modified, supplemented or amended from time to time, NNN may not be able to ensure that it can conclude on an ongoing basis that it has effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. Moreover, effective internal control over financial reporting, particularly those related to revenue recognition, are necessary for NNN to produce reliable financial reports and to maintain its qualification as a REIT and are important in helping to prevent financial fraud. If NNN cannot provide reliable financial reports or prevent fraud, its business and operating results could be harmed, REIT qualification could be jeopardized, investors could lose confidence in the Company's reported financial information, and the trading price of NNN's shares could drop significantly.

*NNN's ability to pay dividends in the future is subject to many factors.*

NNN's ability to pay dividends may be impaired if any of the risks described in this section were to occur. In addition, payment of NNN's dividends depends upon NNN's earnings, financial condition, maintenance of NNN's REIT status and other factors as NNN's Board of Directors may deem relevant from time to time.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

Please refer to Item 1. "Business."

**Item 3. Legal Proceedings**

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

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

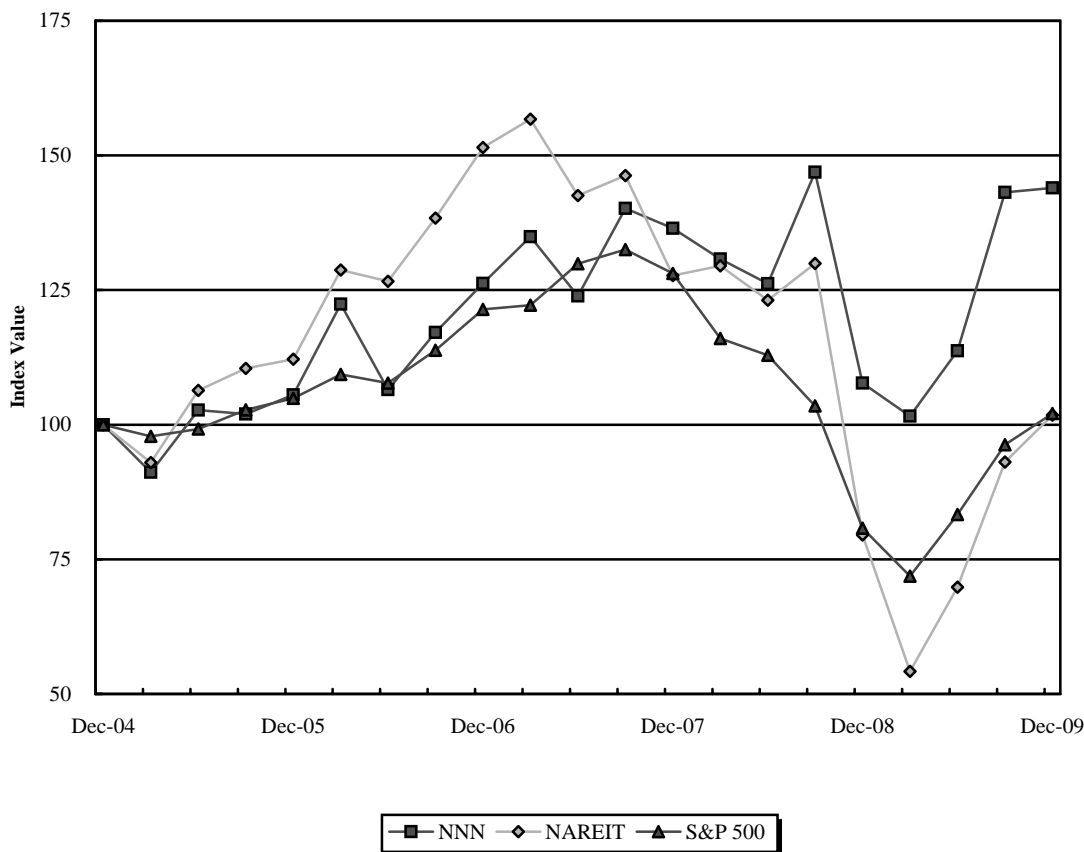
None.

**PART II**

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

The common stock of NNN currently is traded on the NYSE under the symbol “NNN.” Set forth below is a line graph comparing the cumulative total stockholder return on NNN’s common stock, based on the market price of the common stock and assuming reinvestment of dividends, with the FTSE National Association of Real Estate Investment Trusts Equity Index (“NAREIT”) and the S&P 500 Index (“S&P 500”) for the five year period commencing December 31, 2004 and ending December 31, 2009. The graph assumes an investment of \$100 on December 31, 2004.

**Indexed Total Annual Return  
(As of December 31, 2009)**



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.

2009	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
High	\$ 17.52	\$ 19.48	\$ 22.80	\$ 21.59	\$ 22.80
Low	12.26	14.95	15.85	18.87	12.26
Close	15.84	17.35	21.47	21.22	21.22
Dividends paid per share	0.375	0.375	0.375	0.375	1.500
2008	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
High	\$ 23.66	\$ 24.00	\$ 24.57	\$ 23.66	\$ 24.57
Low	19.63	20.75	19.60	10.53	10.53
Close	22.05	20.90	23.95	17.19	17.19
Dividends paid per share	0.355	0.375	0.375	0.375	1.480

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

	2009		2008	
Ordinary dividends	\$ 1.495182	99.6788%	\$ 1.480000	100.0000%
Capital gain	0.003051	0.2034%	-	-
Unrecaptured Section 1250 Gain	0.001767	0.1178%	-	-
	\$ 1.500000	100.000%	\$ 1.480000	100.0000%

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

In February 2010, NNN paid dividends to its stockholders of \$31,026,000 or \$0.375 per share of common stock.

On January 29, 2010, there were 1,857 stockholders of record of common stock.



## Item 6. Selected Financial Data

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

	2009	2008	2007	2006	2005
Gross revenues <sup>(1)</sup>	\$ 243,932	\$ 247,352	\$ 208,629	\$ 180,877	\$ 151,831
Earnings from continuing operations	57,690	98,582	77,232	59,232	46,395
Earnings including noncontrolling interests	56,399	119,971	155,742	184,422	95,559
Net earnings attributable to NNN	54,810	117,153	154,599	181,800	89,400
Total assets	2,590,962	2,649,471	2,539,673	1,917,516	1,736,588
Total debt	987,346	1,027,391	1,049,154	890,127	861,045
Total stockholders' equity	1,564,240	1,566,860	1,417,647	1,109,479	828,087
Cash dividends declared to:					
Common stockholders	120,256	110,107	92,989	76,035	69,018
Series A preferred stockholders	-	-	-	4,376	4,008
Series B convertible preferred stockholders	-	-	-	419	1,675
Series C preferred stockholders	6,785	6,785	6,785	923	-
Weighted average common shares:					
Basic	79,846,258	74,249,137	66,152,437	57,428,063	52,984,821
Diluted	79,953,499	74,344,231	66,263,980	57,965,508	54,418,806
Per share information:					
Earnings from continuing operations:					
Basic	\$ 0.62	\$ 1.23	\$ 1.06	\$ 0.89	\$ 0.76
Diluted	0.61	1.23	1.06	0.89	0.77
Net earnings:					
Basic	0.60	1.48	2.23	3.05	1.57
Diluted	0.60	1.48	2.22	3.03	1.56
Cash dividends declared to:					
Common stockholders	1.50	1.48	1.40	1.32	1.30
Series A preferred stockholders	-	-	-	2.45625	2.25
Series B convertible preferred stockholders	-	-	-	41.875	167.50
Series C preferred depositary stockholders	1.84375	1.84375	1.84375	0.250955	-
Other data:					
Cash flows provided by (used in):					
Operating activities	\$ 149,502	\$ 237,459	\$ 130,147	\$ 1,676	\$ 19,226
Investing activities	(28,063)	(256,304)	(536,717)	(90,099)	(230,783)
Financing activities	(108,840)	(6,028)	432,394	81,864	217,844
Funds from operations – diluted <sup>(2)</sup>	90,087	142,355	121,602	96,416	81,803

- (1) Gross revenues include revenues from NNN's continuing and discontinued operations. In accordance with FASB guidance on Accounting for the Impairment or Disposal of Long-Lived Assets, NNN has classified the revenues related to (i) all Investment Properties that were sold and leasehold interest which expired, (ii) all Inventory Properties which generated revenues prior to disposition, and (iii) all Investment and Inventory Properties which generated revenue and were held for sale at December 31, 2009, as discontinued operations.
- (2) The National Association of Real Estate Investment Trusts ("NAREIT") developed Funds from Operations ("FFO") as a relative non-GAAP financial measure of performance of a REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under generally accepted accounting principles ("GAAP"). FFO is defined by NAREIT and is used by NNN as follows: net earnings (computed in accordance with GAAP) plus depreciation and amortization of assets unique to the real estate industry, excluding gains (or including losses) on the disposition of Investment Assets and NNN's share of these items from NNN's unconsolidated partnerships and joint ventures.

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 generally accepted accounting principles GAAP and should not be considered an alternative to net income as an indication of NNN's operating performance or to cash flow as a measure of liquidity or ability to make distributions. Management considers FFO an appropriate measure of operating performance of an equity REIT because it primarily excludes the assumption that the value of the

real estate assets diminishes predictably over time, and because industry analysts have accepted it as an operating performance measure. NNN's computation of FFO may differ from the methodology for calculating FFO used by other equity REITs, and therefore, may not be comparable to such other REITs.

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

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Reconciliation of funds from operations:					
Net earnings attributable to NNN's stockholders	\$ 54,810	\$ 117,153	\$ 154,599	\$ 181,800	\$ 89,400
Real estate depreciation and amortization:					
Continuing operations	43,067	40,850	28,864	19,171	13,355
Discontinued operations	1,209	940	1,518	3,248	7,052
Partnership/joint venture real estate depreciation	178	177	31	463	606
Partnership gain on sale of asset	-	-	-	(262)	-
Gain on disposition of equity investment	-	-	-	(11,373)	-
Gain on disposition of investment assets	(2,392)	(9,980)	(56,625)	(91,332)	(9,816)
Extraordinary gain	-	-	-	-	(14,786)
FFO	<u>96,872</u>	<u>149,140</u>	<u>128,387</u>	<u>101,715</u>	<u>85,811</u>
Series A preferred stock dividends <sup>(1)</sup>	-	-	-	(4,376)	(4,008)
Series B convertible preferred stock dividends <sup>(1)</sup>	-	-	-	(419)	(1,675)
Series C preferred stock dividends	<u>(6,785)</u>	<u>(6,785)</u>	<u>(6,785)</u>	<u>(923)</u>	<u>-</u>
FFO available to common stockholders – basic	<u>90,087</u>	<u>142,355</u>	<u>121,602</u>	<u>95,997</u>	<u>80,128</u>
Series B convertible preferred stock dividends, if dilutive	-	-	-	419	1,675
FFO available to common stockholders – diluted	<u>\$ 90,087</u>	<u>\$ 142,355</u>	<u>\$ 121,602</u>	<u>\$ 96,416</u>	<u>\$ 81,803</u>

<sup>(1)</sup> The Series A and Series B preferred stock issuances are no longer outstanding.

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

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

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

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

### Overview

NNN, a Maryland corporation, is a fully integrated real estate investment trust ("REIT") formed in 1984. NNN's operations are divided into two primary business segments: (i) investment assets, including real estate assets, mortgages and notes receivable (including structured finance investments), and commercial mortgage residual interests (collectively, "Investment Assets"), and (ii) inventory real estate assets ("Inventory Assets"). NNN acquires, owns, invests in, manages and develops properties that are leased primarily to retail tenants under long-term net leases and primarily held for investment ("Investment Properties" or "Investment Portfolio"). The Inventory Assets typically represent direct and indirect investment interests in real estate assets acquired or developed primarily for the purpose of selling the real estate ("Inventory Properties" or "Inventory Portfolio"). Inventory Assets typically consist of two types of properties, property for development ("Development Properties or Development Portfolio") and improved properties ("Exchange Properties" or "Exchange Portfolio").

As of December 31, 2009, NNN owned 1,015 Investment Properties (including 12 properties with retail operations that NNN operates), with an aggregate gross leasable area of approximately 11,373,000 square feet, located in 44 states. Approximately 96 percent of total properties in NNN's Investment Portfolio was leased or operated at December 31, 2009. In addition, as of December 31, 2009, NNN had \$41,976,000 in mortgages and notes receivable (including accrued interest receivable and structured finance investments) and \$20,153,000 of commercial mortgage residual interests. As of December 31, 2009, NNN owned 19 Inventory Properties, of which 18 were Development Properties (12 completed Inventory and six land parcels) and one was an Exchange Property.

NNN transferred 11 properties from the Inventory Portfolio to the Investment Portfolio in December 2009.

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

NNN continues to maintain its diversification by tenant, geography and line of trade. NNN's highest lines of trade concentrations are the convenience store and restaurant (including full and limited service) sectors. These sectors represent a large part of the freestanding retail property marketplace which NNN believes represents an area of attractive investment opportunity. NNN also has some geographic concentration in the south and southeast which NNN believes are historically areas of above-average population growth. Given these concentrations, any financial hardship within these sectors or geographic locations, respectively, could have a material adverse effect on the financial condition and operating performance of NNN.

During the years ended December 31, 2009, 2008 and 2007, Investment Properties have remained at least 96 percent leased. The Investment Portfolio's average remaining lease term of 12 years has remained

fairly constant over the past three years which, coupled with its net lease structure, provides enhanced probability of maintaining occupancy and operating earnings.

The poor current economic environment has made it more difficult and more expensive to obtain debt and equity capital, which will likely reduce the pace of investments in new acquisitions or developments as well as the volume of dispositions. Additionally, the poor economic and retail environment will result in more retailers filing for bankruptcy and will make it more difficult to lease properties, which may have an adverse impact on NNN's occupancy.

#### Critical Accounting Policies and Estimates

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

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

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

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

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

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

*Real Estate – Inventory Portfolio.* The TRS acquires and/or develops and owns properties primarily for the purpose of selling the real estate. The properties that are classified as held for sale at any given time may consist of properties that have been acquired in the marketplace with the intent to sell and properties

that have been, or are currently being, constructed by the TRS. The TRS records the acquisition of the real estate at cost, including the acquisition and closing costs. The cost of the real estate developed by the TRS also includes direct and indirect costs of construction, interest and other miscellaneous costs incurred during the development period until the project is substantially complete and available for occupancy. Real estate held for sale is not depreciated and is recorded at the lower of cost or fair value.

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

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

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

*Adoption of New Accounting Standards with change in Accounting Principles.* Effective January 1, 2009, NNN adopted the new FASB guidance on accounting for convertible debt instruments that may be settled in cash upon conversion. The new guidance requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) to be separately accounted for in a manner that reflects the issuer's non-convertible debt borrowing rate. The debt component is to be recorded based upon the estimated fair value of non-convertible debt with similar terms. The resulting debt discount is amortized over the period during which the debt is outstanding as additional non-cash interest expense. The new guidance has been applied retrospectively.

Effective January 1, 2009, NNN adopted the new FASB guidance on determining whether instruments granted in share-based payment transactions are participating securities which also required retrospective application. The adoption of the new guidance on convertible debt and share-based payments resulted in non-cash adjustments to the amounts and per share amounts.

*Use of Estimates.* Additional critical accounting policies of NNN include management's estimates and assumptions relating to the reporting of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Additional critical accounting policies include management's estimates of the useful lives used in calculating depreciation expense relating to real estate assets, the recoverability of the carrying value of long-lived assets, including the commercial mortgage residual interests, the recoverability of the income tax benefit, 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 NNN's Investment Portfolio as of December 31:

	2009	2008	2007
Investment Properties Owned:			
Number	1,015	1,005	908
Total gross leasable area (square feet)	11,373,000	11,251,000	10,610,000
Investment Properties:			
Leased	966	972	892
Operated	12	-	-
Percent of Investment Properties – leased and operated	96%	97%	98%
Weighted average remaining lease term (years)	12	13	13
Total gross leasable area (square feet) – leased and operated	10,508,000	10,728,000	10,355,000

NNN transferred 11 properties from the Inventory Portfolio to the Investment Portfolio in December 2009.

The following table summarizes the lease expirations, assuming none of the tenants exercise renewal options, of NNN's Investment Portfolio for each of the next 10 years and then thereafter in the aggregate as of December 31, 2009:

	% of Annual Base Rent <sup>(1)</sup>	# of Properties	Gross Leasable Area <sup>(2)</sup>		% of Annual Base Rent <sup>(1)</sup>	# of Properties	Gross Leasable Area <sup>(2)</sup>
2010	2.3%	36	408,000	2016	1.7%	13	240,000
2011	2.1%	21	389,000	2017	4.3%	27	676,000
2012	3.3%	34	484,000	2018	2.9%	24	345,000
2013	4.7%	39	849,000	2019	4.3%	42	632,000
2014	5.0%	44	622,000	Thereafter	66.3%	676	5,324,000
2015	3.1%	22	539,000				

(1) Based on the annualized base rent for all leases in place as of December 31, 2009.

(2) Approximate square feet.

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

Lines of Trade	2009	2008	2007
1. Convenience Stores	26.7%	25.7%	23.9%
2. Restaurants – Full Service	9.2%	8.7%	10.3%
3. Automotive Parts	6.8%	5.1%	4.9%
4. Theaters	6.3%	6.1%	4.2%
5. Automotive Service	5.7%	8.9%	5.2%
6. Books	4.1%	4.0%	4.4%
7. Drug Stores	4.1%	4.0%	5.0%
8. Restaurants – Limited Service	3.5%	3.3%	3.7%
9. Sporting Goods	3.2%	3.3%	3.9%
10. Grocery	2.9%	2.6%	2.9%
Other	27.5%	28.3%	31.6%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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

The following table shows the top 10 states in which NNN's Investment Properties are located in as of December 31, 2009:

State	# of Properties	% of Annual Base Rent <sup>(1)</sup>
1. Texas	210	20.1%
2. Florida	85	10.0%
3. Illinois	39	7.0%
4. North Carolina	62	6.3%
5. Georgia	57	5.5%
6. Indiana	37	4.4%
7. Pennsylvania	87	4.3%
8. Ohio	31	3.8%
9. Tennessee	30	3.1%
10. Arizona	30	2.8%
Other	347	32.7%
	<u>1,015</u>	<u>100.0%</u>

<sup>(1)</sup> Based on annualized base rent for all leases in place as of December 31, 2009.

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

	2009	2008	2007
Acquisitions:			
Number of Investment Properties	8	109	235
Gross leasable area (square feet)	290,000	868,000	2,205,000
Total dollars invested <sup>(1)</sup>	\$ 36,335	\$ 355,107	\$ 696,682

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

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

	2009	2008	2007
Number of properties	9	19	37
Gross leasable area (square feet)	234,000	290,000	997,000
Net sales proceeds	\$ 15,621	\$ 59,796	\$ 146,041
Net gain	\$ 2,392	\$ 9,980	\$ 56,625

NNN typically uses the proceeds from property sales either to pay down the outstanding indebtedness of NNN's revolving credit facility (the "Credit Facility") or reinvest in real estate.

## Property Analysis – Inventory Portfolio

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Development Portfolio:			
Completed Inventory Properties	12	11	8
Properties under construction	-	1	9
Land parcels	<u>6</u>	<u>7</u>	<u>6</u>
	<u>18</u>	<u>19</u>	<u>23</u>
Exchange Portfolio:			
Inventory Properties	<u>1</u>	<u>13</u>	<u>33</u>
Total Inventory Properties	<u><u>19</u></u>	<u><u>32</u></u>	<u><u>56</u></u>

*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):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Development Portfolio:			
Number of properties acquired	2	3	3
Dollars invested <sup>(1)</sup>	\$ 2,633	\$ 9,545	\$ 64,694
Exchange Portfolio:			
Number of properties acquired	-	4	23
Dollars invested	\$ -	\$ 19,994	\$ 105,152
Total dollars invested	\$ 2,633	\$ 29,539	\$ 169,846

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

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

	<u>2009</u>		<u>2008</u>		<u>2007</u>	
	<u># of Properties</u>	<u>Gain</u>	<u># of Properties</u>	<u>Gain</u>	<u># of Properties</u>	<u>Gain</u>
Development <sup>(1)</sup>	3	\$ 569	6	\$ 4,751	13	\$ 5,125
Exchange	<u>1</u>	<u>12</u>	<u>19</u>	<u>4,607</u>	<u>58</u>	<u>5,888</u>
	<u>4</u>	<u>\$ 581</u>	<u>25</u>	<u>\$ 9,358</u>	<u>71</u>	<u>\$ 11,013</u>

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



## Revenue from Continuing Operations Analysis

*General.* During the year ended December 31, 2009, NNN's rental income increased primarily due to the acquisition of Investment Properties (See "Results of Operations – Property Analysis – Investment Portfolio – Property Acquisitions"). NNN anticipates any significant increase in rental income will continue to come primarily from additional property acquisitions.

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

	2009	2008	2007	Percent of Total			2009 Versus 2008 Percent Increase (Decrease)	2008 Versus 2007 Percent Increase (Decrease)
				2009	2008	2007		
Rental Income <sup>(1)</sup>	\$ 214,625	\$ 210,684	\$ 163,669	92.6%	92.4%	91.2%	1.9%	28.7%
Real estate expense reimbursement from tenants	8,387	7,012	5,591	3.6%	3.1%	3.1%	19.6%	25.4%
Interest and other income from real estate transactions	4,535	5,804	5,268	2.0%	2.5%	3.0%	(21.9)%	10.2%
Interest income on commercial mortgage residual interests	4,252	4,636	4,882	1.8%	2.0%	2.7%	(8.3)%	(5.0)%
Total revenues from continuing operations	\$ 231,799	\$ 228,136	\$ 179,410	100.0%	100.0%	100.0%	1.6%	27.2%

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

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

	2009	2008	2007	Percent of Total			2009 Versus 2008 Percent Increase (Decrease)	2008 Versus 2007 Percent Increase (Decrease)
				2009	2008	2007		
Investment Assets	\$ 231,623	\$ 228,009	\$ 179,079	99.9%	99.9%	99.8%	1.6%	27.3%
Inventory Assets	176	127	331	0.1%	0.1%	0.2%	38.6%	(61.6)%
Total revenues	\$ 231,799	\$ 228,136	\$ 179,410	100.0%	100.0%	100.0%	1.6%	27.2%

### Comparison of Year Ended December 31, 2009 to Year Ended December 31, 2008.

*Rental Income.* Rental Income increased for the year ended December 31, 2009, as compared to 2008, due to a full year of Rental Income from the 109 Investment Properties with an aggregate gross leasable area of 868,000 square feet which were acquired during 2008. Additionally, eight Investment Properties were acquired in 2009 with an aggregate gross leasable area of 290,000 square feet. In addition, NNN recorded \$5,072,000 as compared to \$2,671,000 in lease termination fees and rent settlement fees during the years ended December 31, 2009 and 2008, respectively.

*Real Estate Expense Reimbursement from Tenants.* Real estate expense reimbursements from tenants increased for the year ended December 31, 2009, as compared to 2008. The increase is attributable to the reimbursements from certain properties acquired in 2008 as well as reimbursements resulting from the re-leasing of existing vacancies.

*Interest and Other Income from Real Estate Transactions.* Interest and other income from real estate transactions decreased for the year ended December 31, 2009, as compared to 2008, primarily due to a lower weighted average principal balance on NNN's mortgages receivable and structured finance investments during the year ended December 31, 2009. For the years ended December 31, 2009 and 2008, the weighted average outstanding principal balance on NNN's mortgages receivable and structured finance investments was \$38,968,000 and \$57,475,000, respectively.

*Interest Income on Commercial Mortgage Residual Interests.* Interest income on commercial mortgage residual interests ("Residuals") decreased for the year ended December 31, 2009, as compared to December 31, 2008 but remained stable as a percent of total revenue from continuing operations. The decrease in interest income on Residuals is primarily the result of the increase in the loan delinquencies and asset amortization, which is partially offset by a decrease in loan prepayments.

#### ***Comparison of Year Ended December 31, 2008 to Year Ended December 31, 2007.***

*Rental Income.* Rental Income increased for the year ended December 31, 2008, as compared to the same period in 2007, primarily from the addition of 109 Investment Properties with an aggregate gross leasable area of 868,000 square feet. In addition, the increase in Rental Income is also attributable to a full year of Rental Income from the 235 Investment Properties with an aggregate gross leasable area of 2,205,000 square feet which were acquired during the year ended December 31, 2007.

*Real Estate Expense Reimbursement from Tenants.* Real estate expense reimbursements from tenants remained consistent as a percentage of total revenues from continuing operations. The increase for the year ended December 31, 2008, as compared to 2007, was attributable to a full year of reimbursements from certain tenants acquired in 2007 and the reimbursements from newly acquired properties in 2008.

*Interest and Other Income from Real Estate Transactions.* Interest and other income from real estate transactions increased slightly for the year ended December 31, 2008, as compared to 2007. The increase was primarily due to an increase in the weighted average outstanding principal balance on NNN's mortgages receivable balance. For the year ended December 31, 2008 and 2007, the weighted average outstanding principal balance on NNN's mortgages receivable was \$57,475,000 and \$47,705,000, respectively. The increase was partially offset by a decrease in interest income earned on the structured finance investments. For the years ended December 31, 2008 and 2007, the weighted average outstanding principal balance on NNN's structured finance investments was \$8,614,000 and \$16,795,000, respectively.

*Interest Income on Commercial Mortgage Residual Interests.* Interest income on the Residuals for the year ended December 31, 2008, as compared to December 31, 2007, decreased slightly as a result of lower outstanding loan balances. The decrease was partially offset by an increase in interest income due to the increase in the discount rate from 17% to 25% during the third quarter of 2007.

*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 slight decrease in the gain from the disposition of real estate is solely dependent on respective sales price and cost basis of the Inventory Properties sold.

## Analysis of Expenses from Continuing Operations

*General.* During 2009, operating expenses from continuing operations increased primarily due to the impairments recorded on real estate. The following summarizes NNN's expenses from continuing operations (dollars in thousands):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
General and administrative	\$ 21,776	\$ 24,878	\$ 23,565
Real estate	13,684	10,007	7,805
Depreciation and amortization	46,769	44,181	31,340
Impairment – real estate	28,114	1,234	416
Impairment – commercial mortgage residual interests valuation	498	758	638
Restructuring costs	731	-	-
Total operating expenses	<u>\$ 111,572</u>	<u>\$ 81,058</u>	<u>\$ 63,764</u>
Interest and other income	\$ (1,375)	\$ (3,748)	\$ (4,751)
Interest expense	62,151	63,964	51,846
Loss on interest rate hedge	-	804	-
Total other expenses (revenues)	<u>\$ 60,776</u>	<u>\$ 61,020</u>	<u>\$ 47,095</u>

	Percentage of Total Operating Expenses			Percentage of Revenues from Continuing Operations			2009 Versus 2008 Percent Increase (Decrease)	2008 Versus 2007 Percent Increase (Decrease)
	2009	2008	2007	2009	2008	2007		
General and administrative	19.5%	30.7%	37.0%	9.4%	10.9%	13.1%	(12.5)%	5.6%
Real estate	12.3%	12.4%	12.2%	5.9%	4.4%	4.4%	36.7%	28.2%
Depreciation and amortization	41.9%	54.5%	49.1%	20.2%	19.4%	17.5%	5.9%	41.0%
Impairment – real estate	25.2%	1.5%	0.7%	12.1%	0.5%	0.2%	2,178.3%	196.6%
Impairment – commercial mortgage residual interests valuation adjustment	0.4%	0.9%	1.0%	0.2%	0.3%	0.4%	(34.3)%	18.8%
Restructuring costs	0.7%	-	-	0.3%	-	-	N/C <sup>(1)</sup>	-
Total operating expenses	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>48.1%</u>	<u>35.5%</u>	<u>35.6%</u>	37.6%	27.1%
Interest and other income	(2.3)%	(6.1)%	(10.1)%	(0.6)%	(1.7)%	(2.7)%	(63.3)%	(21.1)%
Interest expense	102.3%	104.8%	110.1%	26.8%	28.0%	28.9%	(2.8)%	23.4%
Loss on interest rate hedge	-	1.3%	-	-	0.4%	-	(100.0)%	N/C <sup>(1)</sup>
Total other expenses (revenues)	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>26.2%</u>	<u>26.7%</u>	<u>26.2%</u>	(0.4)%	29.6%

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

### ***Comparison of Year End December 31, 2009 to Year Ended December 31, 2008.***

*General and Administrative Expenses.* General and administrative expenses decreased for the year ended December 31, 2009, as compared to the same period in 2008 and decreased both as a percentage of total operating expenses and as a percentage of revenues from continuing operations. The decrease in general and administrative expenses for the year ended December 31, 2009, is primarily attributable to a decrease in compensation of personnel and a decrease in lost pursuit costs.

*Real Estate.* Real estate expenses remained fairly stable as a percentage of total operating expenses, but increased as a percentage of revenues from continuing operations for the year ended December 31, 2009, as compared to the same period in 2008. The increase in real estate expenses for the year ended December 31, 2009, is primarily attributable to an increase in tenant reimbursable real estate expenses from 2008 acquisitions as well as an increase in expenses related to un-leased properties.

*Depreciation and Amortization.* Depreciation and amortization expenses decreased as a percentage of total operating expenses and increased as a percentage of revenues from continuing operations for the year ended December 31, 2009, as compared to the year ended December 31, 2008. The dollar increase is primarily a result of depreciation recognized on the 109 Investment Properties with an aggregate gross leasable area of 868,000 square feet acquired in 2008. This increase is partially offset by the additional amortization in connection with the termination of certain leases during 2008.

*Impairment – Real Estate.* Based upon the events or changes in certain circumstances, management periodically assesses its Investment Properties for possible impairment indicating that the carrying value of the asset, including accrued rental income, may not be recoverable through operations. Events or circumstances that may occur include changes in real estate market conditions, the ability of NNN to re-lease properties that are currently vacant or become vacant, and the ability to sell properties at an attractive return. Generally, NNN calculates a possible impairment by comparing the estimated future cash flows to the current net book value. Impairments are measured as the amount by which the current book value of the asset exceeds the fair value of the asset. As a result of the Company's review of long-lived assets for impairments, for the years ended December 31, 2009, and 2008, NNN recorded real estate impairments totaling \$28,114,000 and \$1,234,000, respectively.

*Impairment – Commercial Mortgage Residual Interests Valuation.* In connection with the independent valuations of the Residuals' fair value, during the years ended December 31, 2009 and 2008, NNN recorded an other than temporary valuation adjustment of \$498,000 and \$758,000 respectively, as a reduction of earnings from operations.

*Restructuring Costs.* During the year ended December 31, 2009, NNN recorded restructuring costs of \$731,000 in connection with a workforce reduction. No such costs were incurred during 2008.

*Interest Expense.* Interest expense decreased for the year ended December 31, 2009, as compared to the same period in 2008, and decreased as a percentage of total operating expenses and as a percentage of revenues from continuing operations. The decrease in interest expense is primarily attributable to a decrease of \$99,907,000 in weighted average long-term debt outstanding.

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

- (i) repurchase of \$2,500,000 and \$8,500,000 of convertible notes payable due June 2028 with an effective interest rate of 7.192% in May 2009 and February 2009, respectively,
- (ii) repurchase of \$3,800,000, \$5,000,000 and \$25,000,000 of convertible notes payable due September 2026 with an effective interest rate of 5.840% in March 2009, January 2009 and November 2008, respectively,
- (iii) issuance of \$234,035,000 of convertible notes payable due June 2028, with an effective interest rate of 7.192% in March 2008,
- (iv) payoff of the \$100,000,000 7.125% notes payable in March 2008,
- (v) payoff of the \$12,000,000 10.00% secured note payable in February 2008,
- (vi) the decrease of \$78,860,000 in the weighted average debt outstanding on the Credit Facility for year ended December 31, 2009 as compared to 2008, and
- (vii) the decrease in weighted average interest rate on the Credit Facility from 3.83% during the year ended December 31, 2008, to 1.19% during the year ended December 31, 2009.

***Comparison of Year End December 31, 2008 to Year Ended December 31, 2007.***

*General and Administrative Expenses.* General and administrative expenses increased for the year ended December 31, 2008, as compared to the same period in 2007, but decreased both as a percentage of total operating expenses and as a percentage of revenues from continuing operations. The increase in the

amount of general and administrative expenses for the year ended December 31, 2008, is primarily related to an increase in lost pursuit costs.

*Real Estate.* Real estate expenses remained stable as a percentage of revenues from continuing operations, but increased slightly as a percentage of total operating expenses for the year ended December 31, 2008, as compared to the same period in 2007. The increase in real estate expenses for the year ended December 31, 2008, is primarily attributable to an increase in tenant reimbursable real estate expenses related to newly acquired Investment Properties as well as an increase in expenses related to vacant properties.

*Depreciation and Amortization.* Depreciation and amortization expenses increased both as a percentage of total operating expenses and as a percentage of revenues from continuing operations for the year ended December 31, 2008, as compared to the year ended December 31, 2007. The increase is primarily a result of the depreciation recognized on (i) the 109 Investment Properties with an aggregate gross leasable area of 868,000 square feet, acquired in 2008, and (ii) a full year of depreciation and amortization on the 235 Investment Properties with an aggregate gross leasable area of 2,205,000 square feet which were acquired during the year ended December 31, 2007.

*Impairment – Real Estate.* NNN reviews long-lived assets for impairment whenever certain events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Events or circumstances that may occur include changes in real estate market conditions, the ability of NNN to re-lease properties that are currently vacant or become vacant, and the ability to sell properties at an attractive return. Generally, NNN calculates a possible impairment by comparing the estimated future cash flows to the current net book value. Impairments are measured as the amount by which the current book value of the asset exceeds the fair value of the asset. During the years ended December 31, 2008 and 2007, \$1,234,000 and \$416,000 of real estate impairments were recorded, respectively.

*Impairment – Commercial Mortgage Residual Interests Valuation.* In connection with the independent valuations of the Residuals' fair value, during the years ended December 31, 2008 and 2007, NNN recorded an other than temporary valuation adjustment of \$758,000 and \$638,000, respectively, as a reduction of earnings from operations.

*Interest Expense.* Interest expense increased for the year ended December 31, 2008, as compared to the same period in 2007, but decreased as a percentage of total operating expense and as a percentage of revenues from continuing operations. The increase in interest expenses is primarily attributable to an increase of \$233,201,000 in weighted average long-term debt outstanding. The increase in interest expense was partially offset by an overall decrease in weighted average interest rate for 2008 as compared to 2007.

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

- (i) repurchase of \$25,000,000 of convertible notes payable due September 2026 with an effective interest rate of 5.840% in November 2008,
- (ii) issuance of \$234,035,000 of convertible notes payable due June 2028, with an effective interest rate of 7.192% in March 2008,
- (iii) payoff of the \$100,000,000 7.125% notes payable in March 2008,
- (iv) payoff of the \$12,000,000 10.00% secured note payable in February 2008,
- (v) payoff of \$26,041,000 10-year financing lease obligation with interest rate of 5.00% in November 2007,
- (vi) payoff of the \$10,500,000 10.00% secured note in December 2007,
- (vii) payoff of the \$20,800,000 variable rate term note in October 2007,

- (viii) repayment of mortgage in September 2007, with balance of \$7,305,000 at December 31, 2006, and an interest rate of 7.37%,
- (ix) issuance of \$250,000,000 of notes payable due October 2017, with an effective interest rate of 6.92% in September 2007,
- (x) decrease of \$5,403,000 in the weighted average debt outstanding on the revolving Credit Facility for the year ended December 31, 2008, as compared to the same period in 2007, and
- (xi) decrease in weighted average interest rate on the revolving Credit Facility from 6.24% for the period ended December 31, 2007, to 3.83% for the period ended December 31, 2008.

## Discontinued Operations

### Earnings (Loss)

NNN classified as discontinued operations the revenues and expenses related to its Investment Properties that were sold, its leasehold interests that expired or were terminated and any Investment Properties that were held for sale at December 31, 2009. NNN also classified as discontinued operations the revenues and expenses of its Inventory Properties that generated rental revenues. NNN records discontinued operations by NNN's identified segments: (i) Investment Assets, and (ii) Inventory Assets. The following table summarizes the earnings from discontinued operations for the years ended December 31 (dollars in thousands):

	2009			2008			2007		
	# of Sold Properties	Gain	Earnings/ (Loss)	# of Sold Properties	Gain	Earnings/ (Loss)	# of Sold Properties	Gain	Earnings/ (Loss)
Investment Assets	9	2,392	260	19	\$ 9,980	\$ 12,112	37	\$ 56,625	\$ 68,976
Inventory Assets	2	558	(1,551)	24	9,347	9,277	69	10,681	9,534
Noncontrolling interests	-	-	(47)	-	-	(2,927)	-	-	(1,299)
	<u>11</u>	<u>2,950</u>	<u>(1,338)</u>	<u>43</u>	<u>\$ 19,327</u>	<u>\$ 18,462</u>	<u>106</u>	<u>\$ 67,306</u>	<u>\$ 77,211</u>

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

*Impairment—Real Estate.* NNN periodically assesses its real estate for possible impairment whenever certain events or changes in circumstances indicate that the carrying amount of the asset, including accrued rental income, may not be recoverable through operations. Events or circumstances that may occur include changes in real estate market conditions, the ability of NNN to re-lease properties that are vacant, and the ability to sell properties at an attractive price. Generally, NNN calculates a possible impairment by comparing the estimated future cash flows to the current net book value. Impairments are measured as the amount by which the current book value of the asset exceeds the fair value of the asset. During the years ended December 31, 2009, 2008, and 2007, NNN recognized real estate impairments on discontinued operations of \$6,400,000, \$4,426,000, and \$1,554,000, respectively.

### Impact of Inflation

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

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

### Liquidity

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

NNN expects to meet these requirements (other than amounts required for additional property investments, mortgages and notes receivables, including structured finance investments) through cash provided from operations and NNN's Credit Facility. NNN utilizes the Credit Facility to meet its short-term working capital requirements. As of December 31, 2009, no balance was outstanding and \$400,000,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$653,000. NNN anticipates that any additional investments in properties, mortgages and notes receivables and structured finance investments during the next 12 months will be funded by the Credit Facility, cash provided from operations, the issuance of long-term debt or the issuance of common or preferred equity or other instruments convertible into or exchangeable for common or preferred equity. However, there can be no assurance that additional financing or capital will be available, or that the terms will be acceptable or advantageous to NNN.

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Cash and cash equivalents:			
Provided by operating activities	\$ 149,502	\$ 237,459	\$ 130,147
Used in investing activities	(28,063)	(256,304)	(536,717)
Provided by (used in) financing activities	(108,840)	(6,028)	432,394
Increase (decrease)	12,599	(24,873)	25,824
Net cash at beginning of period	<u>2,626</u>	<u>27,499</u>	<u>1,675</u>
Net cash at end of period	<u>\$ 15,225</u>	<u>\$ 2,626</u>	<u>\$ 27,499</u>

Cash provided by operating activities represents cash received primarily from rental income from tenants, proceeds from the disposition of Inventory Properties and interest income less cash used for general and administrative expenses, interest expense and acquisition and disposition of its Inventory Properties. NNN's cash flow from operating activities, net of cash used in and provided by the acquisition and disposition of its Inventory Properties, has been sufficient to pay the distributions for each period presented. NNN uses proceeds from its Credit Facility to fund the acquisition of its Inventory Properties. The change in cash provided by operations for the years ended December 31, 2009, 2008 and 2007, is primarily the result of changes in revenues and expenses as discussed in "Results of Operations." Cash generated from operations is expected to fluctuate in the future.

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

NNN's financing activities for the year ended December 31, 2009, included the following significant transactions:

- \$8,588,000 in net payments on the repurchase of \$11,000,000 of convertible notes payable due June 2028 with an effective interest rate of 7.192%,
- \$6,994,000 in net payments on the repurchase of \$8,800,000 of convertible notes payable due September 2026 with an effective interest rate of 5.84%,

- \$120,256,000 in dividends paid to common stockholders,
- \$6,785,000 in dividends paid to holders of the depositary shares of NNN's Series C Preferred Stock,
- \$67,354,000 in net proceeds from the issuance of 3,766,452 shares of common stock in connection with the Dividend Reinvestment and Stock Purchase Plan ("DRIP"), and
- \$26,500,000 in net payments on NNN's Credit Facility.

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

NNN typically funds its short-term liquidity requirements including investments in additional Investment Properties with cash from its Credit Facility. As of December 31, 2009, no balance was outstanding and \$400,000,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$653,000.

For the year ended December 31, 2009, NNN's ratio of total liabilities to total gross assets (before accumulated depreciation) was approximately 37 percent and the secured indebtedness to total gross assets was approximately one percent. The total debt to total market capitalization was approximately 36 percent. Certain financial agreements to which NNN is a party contain covenants that limit NNN's ability to incur debt under certain circumstances. The organizational documents of NNN do not limit the absolute amount or percentage of indebtedness that NNN may incur. Additionally, NNN may change its financing strategy.

*Contractual Obligations and Commercial Commitments.* The information in the following table summarizes NNN's contractual obligations and commercial commitments outstanding as of December 31, 2009. There was no outstanding balance on the Credit Facility at December 31, 2009. The table presents principal cash flows by year-end of the expected maturity for debt obligations and commercial commitments outstanding as of December 31, 2009.

	Expected Maturity Date (dollars in thousands)						
	Total	2010	2011	2012	2013	2014	Thereafter
Long-term debt <sup>(1)</sup>	\$ 1,007,025	\$ 21,022	\$ 139,798	\$ 69,290	\$ 223,898	\$ 150,881	\$ 402,136
Operating lease	4,557	891	917	945	973	831	-
Total contractual cash obligations <sup>(2)</sup>	<u>\$ 1,011,582</u>	<u>\$ 21,913</u>	<u>\$ 140,715</u>	<u>\$ 70,235</u>	<u>\$ 224,871</u>	<u>\$ 151,712</u>	<u>\$ 402,136</u>

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

(2) Excludes \$7,471 of accrued interest payable.

In addition to the contractual obligations outlined above, in connection with the development of two Investment Properties, NNN has agreed to fund construction commitments (including construction, land costs and tenant improvements) of \$14,651,000. As of December 31, 2009, NNN had funded \$12,261,000 of this commitment, with \$2,390,000 remaining to be funded. As of December 31, 2009, NNN did not have any funding commitments relating to the development of Inventory Properties.

As of December 31, 2009, NNN had outstanding letters of credit totaling \$653,000 under its Credit Facility.



As of December 31, 2009, NNN did not have any other material contractual cash obligations, such as purchase obligations, financing lease obligations or other long-term liabilities other than those reflected in the table. In addition to items reflected in the table, NNN has issued preferred stock with cumulative preferential cash distributions, as described below under “Dividends.”

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

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

The lost revenues and increased property expenses resulting from vacant properties or uncollectibility of lease revenues could have a material adverse effect on the liquidity and results of operations if NNN is unable to release the Investment Properties at comparable rental rates and in a timely manner. As of December 31, 2009, NNN owned 37 vacant, un-leased Investment Properties (including two vacant land parcels) which accounted for approximately four percent of total Investment Properties held in NNN’s Investment Portfolio. Additionally, as of January 31, 2010, one Investment Property is leased to a tenant that filed a voluntary petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. As a result, this tenant has the right to reject or affirm its leases with NNN.

In May 2008, one of NNN’s tenants, Uni-Mart, Inc. (“Uni-Mart”), which leased 77 properties, filed a petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. During the year ended December 31, 2008, Uni-Mart elected to reject the leases of 16 properties owned by NNN. NNN had re-leased 15 of the 16 properties as of December 31, 2009. On April 1, 2009, Uni-Mart rejected the leases of 36 additional properties. All of the 36 properties were subject to subleases with convenience store operators and all of the subleases with the operators were assigned from Uni-Mart to NNN effective April 1, 2009. On April 30, 2009, Uni-Mart assumed all of the remaining leases for 24 properties between Uni-Mart and NNN. In January 2010, these leases were assigned from Uni-Mart to other operators, and NNN no longer has any leases with Uni-Mart as of January 8, 2010. For the years ended December 31, 2009 and 2008, NNN recorded \$3,371,000 and \$2,421,000, respectively, of income in connection with the Uni-Mart bankruptcy rent settlement.

On April 20, 2009, one of NNN’s tenants, Titlemax Holdings, LLC and its affiliated companies (collectively, “Titlemax”), which leased 30 Investment Properties from NNN, filed a petition of reorganization under Chapter 11 of the U.S. Bankruptcy Code. On February 3, 2010, Titlemax assumed all of its leases with NNN.

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

One of NNN's primary objectives, consistent with its policy of retaining sufficient cash for reserves and working capital purposes and maintaining its status as a REIT, is to distribute a substantial portion of its funds available from operations to its stockholders in the form of dividends. During the years ended December 31, 2009, 2008 and 2007, NNN declared and paid dividends to its common stockholders of \$120,256,000, \$110,107,000, and \$92,989,000, respectively, or \$1.50, \$1.48 and \$1.40 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:

	2009		2008		2007	
Ordinary dividends	\$ 1.495182	99.6788%	\$ 1.480000	100.000%	\$ 1.397402	99.8144%
Qualified dividends	-	-	-	-	0.000414	0.0296%
Capital gain	0.003051	0.2034%	-	-	0.002184	0.1560%
Unrecaptured Section 1250 Gain	0.001767	0.1178%	-	-	-	-
	<u>\$ 1.500000</u>	<u>100.000%</u>	<u>\$ 1.480000</u>	<u>100.000%</u>	<u>\$ 1.400000</u>	<u>100.0000%</u>

In February 2010, NNN paid dividends to its common stockholders of \$31,026,000, or \$0.375 per share of common stock.

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

Non Voting Preferred Stock Issuance	Shares Outstanding At December 31, 2009	Liquidation Preference Per Share	Fixed Annual Cash Distribution (per share)
7.375% Series C <sup>(1)</sup>	3,680,000	25.00	1.84375

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

NNN declared and paid dividends to its Series C Preferred stockholders of \$6,785,000 or \$1.84375 per depository share during each of the years ended December 31, 2009, 2008 and 2007. The Series C Preferred Stock has no maturity date and will remain outstanding unless redeemed.

### Capital Resources

Generally, cash needs for property acquisitions, mortgages and notes receivable investments, debt payments, dividends, 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, by internally generated funds. Cash needs for other items have been met from operations. If available, future sources of capital include proceeds from the public or private offering of NNN's debt or equity securities, secured or unsecured borrowings from banks or other lenders, proceeds from the sale of properties, as well as undistributed funds from operations.

## Debt

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

	2009	Percentage of Total	2008	Percentage of Total
Line of credit payable	\$ -	-	\$ 26,500	2.6%
Mortgages payable	25,290	2.6%	26,290	2.6%
Notes payable – convertible	343,380	34.8%	356,122	34.6%
Notes payable	618,676	62.6%	618,479	60.2%
Total outstanding debt	<u>\$ 987,346</u>	<u>100.0%</u>	<u>\$ 1,027,391</u>	<u>100.0%</u>

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

*Line of Credit Payable.* NNN's \$400,000,000 revolving Credit Facility had a weighted average outstanding balance of \$10,824,000 and a weighted average interest rate of 1.19% during the year ended December 31, 2009. In November 2009, NNN entered into a credit agreement for a new \$400,000,000 credit facility, replacing the former revolving credit facility (as the context requires, the previous and new revolving credit facility, the "Credit Facility"). The Credit Facility matures November 2012, with an option to extend maturity to November 2013. The Credit Facility bears interest at LIBOR plus 280 basis points with a 1.0% LIBOR floor; however, such interest rate may change pursuant to a tiered interest rate structure based on NNN's debt rating. The Credit Facility also includes an accordion feature for NNN to increase, at its option, the facility size up to \$500,000,000. As of December 31, 2009, no balance was outstanding, and \$400,000,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$653,000.

In accordance with the terms of the Credit Facility, NNN is required to meet certain restrictive financial covenants, which, among other things, require NNN to maintain certain (i) leverage ratios, (ii) debt service coverage, (iii) cash flow coverage, and (iv) investment limitations. At December 31, 2009, NNN was in compliance with those covenants. In the event that NNN violates any of these restrictive financial covenants, it could cause the indebtedness under the Credit Facility to be accelerated and may impair NNN's access to the debt and equity markets and limit NNN's ability to pay dividends to its common and preferred stockholders, each of which would likely have a material adverse impact on NNN's financial condition and results of operation.

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

Entered	Balance	Interest Rate	Maturity <sup>(3)</sup>	Carrying Value of Encumbered Asset(s) <sup>(1)</sup>	Outstanding Principal Balance at December 31,	
					2009	2008
December 1999 <sup>(4)</sup>	\$ 350	8.50%	December 2009	\$ -	\$ -	\$ 49
December 2001 <sup>(2)</sup>	623	9.00%	April 2014	820	267	315
December 2001 <sup>(2)</sup>	698	9.00%	April 2019	1,247	392	418
December 2001 <sup>(2)</sup>	485	9.00%	April 2019	1,215	201	214
June 2002	21,000	6.90%	July 2012	24,505	19,170	19,477
February 2004 <sup>(2)</sup>	6,952	6.90%	January 2017	11,764	4,554	5,036
March 2005 <sup>(2)</sup>	1,015	8.14%	September 2016	1,341	706	781
				<u>\$ 40,892</u>	<u>\$ 25,290</u>	<u>\$ 26,290</u>

<sup>(1)</sup> Each loan is secured by a first mortgage lien on certain of NNN's properties. The carrying values of the assets are as of December 31, 2009.

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

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

<sup>(4)</sup> In December 2009, upon maturity NNN repaid the outstanding principal balance and the property was released from the mortgage lien. This was a self-amortizing mortgage.

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

Terms	2026 Notes <sup>(1)(2)(4)</sup>	2028 Notes <sup>(2)(5)(6)</sup>
Issue Date	September 2006	March 2008
Net Proceeds	\$ 168,650	\$ 228,576
Stated Interest Rate <sup>(8)</sup>	3.950%	5.125%
Debt Issuance Costs	\$ 3,850 <sup>(3)</sup>	\$ 5,459 <sup>(7)</sup>
Earliest Conversion Date	September 2025	June 2027
Earliest Put Option Date	September 2011	June 2013
Maturity Date	September 2026	June 2028
Original Principal	\$ 172,500	\$ 234,035
Repurchases	(33,800)	(11,000)
Outstanding principal balance at December 31, 2009	\$ 138,700	\$ 223,035

- (1) NNN repurchased \$3,800, \$5,000 and \$25,000 in March 2009, January 2009 and November 2008, respectively, for a purchase price of \$3,100, \$3,894 and \$19,188, respectively, resulting in a gain of \$607, \$958 and \$4,961, respectively.
- (2) Debt issuance costs include underwriting discounts and commissions, legal and accounting fees, rating agency fees and printing expenses. These costs have been deferred and are being amortized over the period to the earliest put option date of the holders using the effective interest method.
- (3) Includes \$48, \$66 and \$349 of note costs which were written off in connection with the repurchase of \$3,800, \$5,000 and \$25,000 of the 2026 Notes, respectively.
- (4) The conversion rate per \$1 principal amount was 41.6750 shares of NNN’s common stock, which is equivalent to a conversion price of \$23.9952 per share of common stock.
- (5) The conversion rate per \$1 principal amount was 39.3459 shares of NNN’s common stock, which is equivalent to a conversion price of \$25.4156 per share of common stock.
- (6) NNN repurchased \$2,500 and \$8,500 in May 2009 and February 2009, respectively, for a purchase price of \$2,049 and \$6,539, respectively, resulting in a gain of \$342 and \$1,525, respectively.
- (7) Includes \$48 and \$171 of note costs which were written off in connection with the repurchase of \$2,500 and \$8,500 of the 2028 Notes, respectively.
- (8) With the adoption of the new accounting guidance on convertible debt securities, the effective interest rate for the 2026 Notes and the 2028 Notes are 5.840% and 7.192%, respectively.

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

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

Notes	Issue Date	Principal	Discount <sup>(3)</sup>	Net Price	Stated Rate	Effective Rate <sup>(4)</sup>	Maturity Date
2010 <sup>(1)</sup>	September 2000	\$ 20,000	\$ 126	\$ 19,874	8.500%	8.595%	September 2010
2012 <sup>(1)</sup>	June 2002	50,000	287	49,713	7.750%	7.833%	June 2012
2014 <sup>(1)(2)(5)</sup>	June 2004	150,000	440	149,560	6.250%	5.910%	June 2014
2015 <sup>(1)</sup>	November 2005	150,000	390	149,610	6.150%	6.185%	December 2015
2017 <sup>(1)(6)</sup>	September 2007	250,000	877	249,123	6.875%	6.924%	October 2017

- (1) The proceeds from the note issuance were used to pay down outstanding indebtedness of NNN’s Credit Facility.
- (2) The proceeds from the note issuance were used to repay the obligation of the 2004 Notes.
- (3) The note discounts are amortized to interest expense over the respective term of each debt obligation using the effective interest method.
- (4) Includes the effects of the discount, treasury lock gain and swap gain (as applicable).
- (5) NNN entered into a forward starting interest rate swap agreement which fixed a swap rate of 4.61% on a notional amount of \$94,000. Upon issuance of the 2014 Notes, NNN terminated the forward starting interest rate swap agreement resulting in a gain of \$4,148. The gain has been deferred and is being amortized as an adjustment to interest expense over the term of the 2014 Notes using the effective interest method.
- (6) NNN entered into an interest rate hedge with a notional amount of \$100,000. Upon issuance of the 2017 Notes, NNN terminated the interest rate hedge agreement resulting in a liability of \$3,260, of which \$3,228 was recorded to other comprehensive income. The liability has been deferred and is being amortized as an adjustment to interest expense over the term of the 2017 Notes using the effective interest method.

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

In connection with the note and convertible note offerings, NNN incurred debt issuance costs totaling \$5,459,000 consisting primarily of underwriting discounts and commissions, legal and accounting fees, rating agency fees and printing expenses. Debt issuance costs for all note issuances have been deferred and are being amortized over the term of the respective notes using the effective interest method.

In accordance with the terms of the indentures, pursuant to which NNN's notes and convertible notes have been issued, NNN is required to meet certain restrictive financial covenants, which, among other things, require NNN to maintain (i) certain leverage ratios, and (ii) certain interest coverage. At December 31, 2009, NNN was in compliance with those covenants.

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

In March 2008, NNN repaid the 7.125% \$100,000,000 notes that were due in March 2008.

### Debt and Equity Securities

NNN has used, and expects to use in the future, issuances of debt and equity securities primarily to pay down its outstanding indebtedness and to finance investment acquisitions. NNN has maintained investment grade debt ratings from Standard and Poor's, Moody's Investor Service and Fitch Ratings on its senior, unsecured debt since 1998. In June 2008, NNN's debt rating was upgraded by Moody's Investor Service. In February 2009, NNN filed a shelf registration statement with the Securities and Exchange Commission (the "Commission") which was automatically effective and permits the issuance by NNN of an indeterminate amount of debt and equity securities.

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

*7.375% Series C Cumulative Redeemable Preferred Stock.* In October 2006, NNN issued 3,200,000 depositary shares, each representing 1/100<sup>th</sup> of a share of 7.375% Series C Cumulative Redeemable Preferred Stock ("Series C Preferred Stock"), and received gross proceeds of \$80,000,000. In addition, NNN issued an additional 480,000 depositary shares in connection with the underwriters' over-allotment option and received gross proceeds of \$12,000,000. In connection with this offering, NNN incurred stock issuance costs of approximately \$3,098,000, consisting primarily of underwriting commissions and fees, legal and accounting fees and printing expenses.

Holder of the depositary shares are entitled to receive, when and as authorized by the Board of Directors, cumulative preferential cash dividends at the rate of 7.375% of the \$25.00 liquidation preference per depositary share per annum (equivalent to a fixed annual amount of \$1.84375 per depositary share). The Series C Preferred Stock underlying the depositary shares ranks senior to NNN's common stock with respect to dividend rights and rights upon liquidation, dissolution or winding up of NNN. The Series C Preferred Stock has no maturity date and will remain outstanding unless redeemed. NNN may redeem the Series C Preferred Stock underlying the depositary shares on or after October 12, 2011, for cash, at a redemption price of \$2,500.00 per share (or \$25.00 per depositary share), plus all accumulated, accrued and unpaid dividends.

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

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

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

In October 2008, NNN issued 3,450,000 shares of common stock in a registered, underwritten public offering at a price of \$23.05 per share and received net proceeds of \$75,958,000. In connection with this offering, NNN incurred stock issuance costs totaling approximately \$3,565,000 consisting primarily of underwriters' fees and commissions, legal and accounting fees. NNN used the net proceeds to repay borrowings under the Credit Facility and to acquire Investment Properties.

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

	2009	2008	2007
Shares of common stock	3,766,452	2,146,640	2,645,257
Net proceeds	\$ 67,354	\$ 47,372	\$ 62,980

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

#### Mortgages and Notes Receivable.

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

	2009	2008
Mortgages and notes receivable	\$ 41,707	\$ 55,495
Structured finance investments	-	4,514
Accrued interest receivable	269	387
Unamortized premium	-	84
	<u>41,976</u>	<u>60,480</u>
Less loan origination fees, net	-	(8)
	<u>\$ 41,976</u>	<u>\$ 60,472</u>

Mortgages are secured by real estate, real estate securities or other assets. Structured finance investments are secured by the borrowers' pledge of their respective membership interests in the entities which own the respective real estate.

### Commercial Mortgage Residual Interests.

In connection with the independent valuations of the Residuals' fair value, NNN adjusted carrying value of the Residuals to reflect such fair value at December 31, 2009. Due to changes in market conditions relating to residual assets, the independent valuation changed several valuation assumptions. The following table summarizes the changes to the key assumptions used in determining the value of the Residuals as of December 31:

	<u>2009</u>	<u>2008</u>
Discount rate	25%	25%
Average life equivalent CPR speeds range	14.5% to 20.7% CPR	31.7% to 39.4% CPR
Foreclosures:		
Frequency curve default model	6% average rate	1.1% maximum rate
Loss severity of loans in foreclosure	20%	10%
Yield:		
LIBOR	Forward 3-month curve	Forward 3-month curve
Prime	Forward curve	Forward curve

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Unrealized gains	\$ -	\$ 2,009	\$ -
Unrealized losses	1,640	-	326
Other than temporary valuation impairment	498	758	638

### Business Combination.

In connection with the default of a note receivable and certain lease agreements between NNN and one of its tenants, in June 2009, NNN acquired the operations of the auto service business which was operated on 12 Investment Properties. The note foreclosure resulted in a loss of \$7,816,000. NNN recorded the value of the assets received at fair value. No liabilities were assumed. The fair value of the assets resulted in goodwill of \$3,400,000.

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

NNN is exposed to interest rate risk primarily as a result of its variable rate Credit Facility and its fixed rate debt which is used to finance NNN's development and acquisition activities, as well as for general corporate purposes. NNN's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve its objectives, NNN borrows at both fixed and variable rates on its long-term debt. As of December 31, 2009, NNN had no outstanding derivatives.

The information in the table below summarizes NNN's market risks associated with its debt obligations outstanding as of December 31, 2009 and 2008. The table presents principal payments and related interest rates by year for debt obligations outstanding as of December 31, 2009. NNN has a variable interest rate risk on its Credit Facility which had no outstanding balance as of December 31, 2009. The weighted average rate for the Credit Facility for the year ended December 31, 2009 was 1.19%. The fair value of the Credit Facility as of December 31, 2009 and 2008 was \$0 and \$26,500,000, respectively. The table incorporates only those debt obligations that existed as of December 31, 2009; it does not consider those debt obligations or positions which could arise after this date. Moreover, because firm commitments are not presented in the table below, the information presented therein has limited predictive value. As a result, NNN's ultimate realized gain or loss with respect to interest rate fluctuations will depend on the exposures that arise during the period, NNN's hedging strategies at that time and interest rates. If interest rates on NNN's variable rate debt increased by one percent, NNN's interest expense would have increased by one percent for the year ended December 31, 2009.

Fixed Rate Debt Obligations (dollars in thousands)				
	Mortgages		Unsecured Debt <sup>(1)</sup>	
	Debt Obligation	Weighted Average Interest Rate	Debt Obligation	Effective Interest Rate
2010	\$ 1,022	7.19%	\$ 19,987	8.60%
2011	1,098	7.20%	134,421	5.84%
2012	19,290	6.92%	49,909	7.83%
2013	863	7.35%	208,960	7.19%
2014	880	7.27%	149,771	5.91%
Thereafter	2,137	7.36%	399,008	6.65%
Total	<u>\$ 25,290</u>	7.01%	<u>\$ 962,056</u>	6.64%
Fair Value:				
December 31, 2009	<u>\$ 25,290</u>		<u>\$ 987,275</u>	
December 31, 2008	<u>\$ 26,290</u>		<u>\$ 709,944</u>	

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

NNN is also exposed to market risks related to NNN's Residuals. Factors that may impact the market value of the Residuals include delinquencies, loan losses, prepayment speeds and interest rates. The Residuals, which are reported at market value based upon an independent valuation, had a carrying value of \$20,153,000 and \$22,000,000 as of December 31, 2009 and 2008, respectively. Unrealized gains and losses are reported as other comprehensive income in stockholders' equity. Losses are considered other than temporary and reported as a valuation impairment in earnings from operations if and when there has been a change in the timing or amount of estimated cash flows that leads to a loss in value.



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

### **Report of Independent Registered Public Accounting Firm**

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

We have audited National Retail Properties, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). National Retail Properties, Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, National Retail Properties, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of National Retail Properties, Inc. and Subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009 and our report dated February 25, 2010 expressed an unqualified opinion thereon.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style script.

Miami, Florida  
February 25, 2010

## Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of National Retail Properties, Inc. and Subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedules listed in the index at Item 15(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of National Retail Properties, Inc. and Subsidiaries at December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), National Retail Property Inc.'s internal control over financial reporting as of December 31, 2009, 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 25, 2010 expressed an unqualified opinion thereon.

*Ernst + Young LLP*

Miami, Florida  
February 25, 2010

NATIONAL RETAIL PROPERTIES, INC.  
and SUBSIDIARIES

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

<u>ASSETS</u>	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Real estate, Investment Portfolio:		
Accounted for using the operating method, net of accumulated depreciation and amortization	\$ 2,329,827	\$ 2,373,878
Accounted for using the direct financing method	31,317	31,240
Real estate, Inventory Portfolio, held for sale	72,423	85,122
Investment in unconsolidated affiliate	4,703	4,927
Mortgages, notes and accrued interest receivable, net of allowance	41,976	60,472
Commercial mortgage residual interests	20,153	22,000
Cash and cash equivalents	15,225	2,626
Receivables, net of allowance of \$583 and \$4,003, respectively	1,946	3,612
Accrued rental income, net of allowance of \$2,875 and \$4,144, respectively	25,745	23,972
Debt costs, net of accumulated amortization of \$10,008 and \$12,852, respectively	13,884	11,342
Other assets	33,763	30,280
Total assets	<u>\$ 2,590,962</u>	<u>\$ 2,649,471</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Line of credit payable	\$ -	\$ 26,500
Mortgages payable	25,290	26,290
Notes payable – convertible, net of unamortized discount of \$18,355 and \$25,413, respectively	343,380	356,122
Notes payable, net of unamortized discount of \$1,324 and \$1,521, respectively	618,676	618,479
Accrued interest payable	7,471	7,608
Other liabilities	29,283	45,526
Total liabilities	<u>1,024,100</u>	<u>1,080,525</u>
Commitments and contingencies (Note 26)		
Stockholders' equity:		
Preferred stock, \$0.01 par value. Authorized 15,000,000 shares		
Series C, 3,680,000 depository shares issued and outstanding, at stated liquidation value of \$25 per share	92,000	92,000
Common stock, \$0.01 par value. Authorized 190,000,000 shares; 82,427,560 and 78,340,428 shares issued and outstanding, respectively	825	784
Excess stock, \$0.01 par value. Authorized 205,000,000 shares; none issued or outstanding	-	-
Capital in excess of par value	1,408,491	1,337,018
Retained earnings	62,413	134,644
Accumulated other comprehensive income	511	2,414
Total stockholders' equity of National Retail Properties, Inc.	<u>1,564,240</u>	<u>1,566,860</u>
Noncontrolling interests	2,622	2,086
Total equity	<u>1,566,862</u>	<u>1,568,946</u>
Total liabilities and equity	<u>\$ 2,590,962</u>	<u>\$ 2,649,471</u>

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.  
and SUBSIDIARIES

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

	Year Ended December 31,		
	2009	2008	2007
<b>Revenues:</b>			
Rental income from operating leases	\$ 210,215	\$ 206,477	\$ 159,065
Earned income from direct financing leases	3,070	3,103	3,221
Percentage rent	1,340	1,104	1,383
Real estate expense reimbursement from tenants	8,387	7,012	5,591
Interest and other income from real estate transactions	4,535	5,804	5,268
Interest income on commercial mortgage residual interests	4,252	4,636	4,882
	231,799	228,136	179,410
<b>Disposition of real estate, Inventory Portfolio:</b>			
Gross proceeds	953	4,900	1,750
Costs	(916)	(4,879)	(1,418)
Gain	37	21	332
<b>Retail operations:</b>			
Revenues	15,595	-	-
Operating expenses	(15,176)	-	-
Net	419	-	-
<b>Operating expenses:</b>			
General and administrative	21,776	24,878	23,565
Real estate	13,684	10,007	7,805
Depreciation and amortization	46,769	44,181	31,340
Impairment – real estate	28,114	1,234	416
Impairment – commercial mortgage residual interests valuation adjustment	498	758	638
Restructuring costs	731	-	-
	111,572	81,058	63,764
Earnings from operations	120,683	147,099	115,978
<b>Other expenses (revenues):</b>			
Interest and other income	(1,375)	(3,748)	(4,751)
Interest expense	62,151	63,964	51,846
Loss on interest rate hedge	-	804	-
	60,776	61,020	47,095
<b>Earnings from continuing operations before income tax benefit, equity in earnings of unconsolidated affiliate, loss on note receivable foreclosure and gain on extinguishment of debt</b>			
	59,907	86,079	68,883
Income tax benefit	1,126	7,178	8,300
Equity in earnings of unconsolidated affiliate	421	364	49
Loss on note receivable foreclosure	(7,196)	-	-
Gain on extinguishment of debt	3,432	4,961	-
Earnings from continuing operations	57,690	98,582	77,232
<b>Earnings (loss) from discontinued operations (Note 18):</b>			
Real estate, Investment Portfolio	260	12,112	68,976
Real estate, Inventory Portfolio, net of income tax expense	(1,551)	9,277	9,534
	(1,291)	21,389	78,510

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,		
	2009	2008	2007
Earnings including noncontrolling interests	\$ 56,399	\$ 119,971	\$ 155,742
Loss (earnings) attributable to noncontrolling interests:			
Continuing operations	(1,542)	109	156
Discontinued operations	(47)	(2,927)	(1,299)
	(1,589)	(2,818)	(1,143)
Net earnings attributable to National Retail Properties, Inc.	54,810	117,153	154,599
Other comprehensive income	(1,903)	1,688	(3,622)
Total comprehensive income	\$ 52,907	\$ 118,841	\$ 150,977
Net earnings attributable to National Retail Properties, Inc.	\$ 54,810	\$ 117,153	\$ 154,599
Series C preferred stock dividends	(6,785)	(6,785)	(6,785)
Net earnings attributable to common stockholders	\$ 48,025	\$ 110,368	\$ 147,814
Net earnings per share of common stock:			
Basic:			
Continuing operations	\$ 0.62	\$ 1.23	\$ 1.06
Discontinued operations	(0.02)	0.25	1.17
Net earnings	\$ 0.60	\$ 1.48	\$ 2.23
Diluted:			
Continuing operations	\$ 0.61	\$ 1.23	\$ 1.06
Discontinued operations	(0.01)	0.25	1.16
Net earnings	\$ 0.60	\$ 1.48	\$ 2.22
Weighted average number of common shares outstanding:			
Basic	79,846,258	74,249,137	66,152,437
Diluted	79,953,499	74,344,231	66,263,980

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.  
and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY  
Years Ended December 31, 2009, 2008 and 2007  
(dollars in thousands, except per share data)

	Series A Preferred Stock	Series C Preferred Stock	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balances at December 31, 2006	\$ 44,540	\$ 92,000	\$ 598	\$ 888,085	\$ 79,558	\$ 4,698	\$ 1,109,479	\$ 1,619	\$ 1,111,098
Net earnings	-	-	-	-	154,599	-	154,599	1,143	155,742
Dividends declared and paid: \$1.84375 per depositary share of Series C preferred stock	-	-	-	-	(6,785)	-	(6,785)	-	(6,785)
\$1.40 per share of common stock	-	-	6	13,947	(92,989)	-	(79,036)	-	(79,036)
Redemption of 1,781,589 shares of Series A preferred stock	(44,540)	-	-	-	-	-	(44,540)	-	(44,540)
Issuance of common stock: 9,861,323 shares	-	-	98	247,643	-	-	247,741	-	247,741
2,054,805 shares – discounted stock purchase program	-	-	21	49,006	-	-	49,027	-	49,027
Issuance of 198,119 shares of restricted common stock	-	-	2	(2)	-	-	-	-	-
Stock issuance costs	-	-	-	(11,206)	-	-	(11,206)	-	(11,206)
Amortization of deferred compensation	-	-	-	2,091	-	-	2,091	-	2,091
Interest rate hedge termination	-	-	-	-	-	(3,119)	(3,119)	-	(3,119)
Amortization of interest rate hedges	-	-	-	-	-	(309)	(309)	-	(309)
Unrealized loss – commercial mortgage residual interests	-	-	-	-	-	(427)	(427)	101	(326)
Stock value adjustment	-	-	-	-	-	132	132	-	132
Contributions from noncontrolling interests	-	-	-	-	-	-	-	155	155
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(62)	(62)
Balances at December 31, 2007	\$ -	\$ 92,000	\$ 725	\$ 1,189,564	\$ 134,383	\$ 975	\$ 1,417,647	\$ 2,956	\$ 1,420,603

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.  
and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY – CONTINUED  
Years Ended December 31, 2009, 2008 and 2007  
(dollars in thousands, except per share data)

	Series A Preferred Stock	Series C Preferred Stock	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balances at December 31, 2007	\$ -	\$ 92,000	\$ 725	\$ 1,189,564	\$ 134,383	\$ 975	\$ 1,417,647	\$ 2,956	\$ 1,420,603
Net earnings	-	-	-	-	117,153	-	117,153	2,818	119,971
Dividends declared and paid: \$1.84375 per depositary share of Series C preferred stock	-	-	-	-	(6,785)	-	(6,785)	-	(6,785)
\$1.48 per share of common stock	-	-	4	8,472	(110,107)	-	(101,631)	-	(101,631)
Issuance of common stock: 3,523,285 shares	-	-	35	80,633	-	-	80,668	-	80,668
1,753,201 shares – discounted stock purchase program	-	-	18	38,878	-	-	38,896	-	38,896
Issuance of 217,397 shares of restricted common stock	-	-	2	(2)	-	-	-	-	-
Stock issuance costs	-	-	-	(3,582)	-	-	(3,582)	-	(3,582)
Equity component of convertible debt	-	-	-	20,467	-	-	20,467	-	20,467
Amortization of deferred compensation	-	-	-	2,588	-	-	2,588	-	2,588
Interest rate hedge termination	-	-	-	-	-	(162)	(162)	-	(162)
Amortization of interest rate hedges	-	-	-	-	-	(109)	(109)	-	(109)
Unrealized gain – commercial mortgage residual interests	-	-	-	-	-	1,760	1,760	249	2,009
Stock value adjustment	-	-	-	-	-	(50)	(50)	-	(50)
Contributions from noncontrolling interests	-	-	-	-	-	-	-	41	41
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(5,483)	(5,483)
Other	-	-	-	-	-	-	-	1,505	1,505
Balances at December 31, 2008	\$ -	\$ 92,000	\$ 784	\$ 1,337,018	\$ 134,644	\$ 2,414	\$ 1,566,860	\$ 2,086	\$ 1,568,946

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.  
and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY – CONTINUED  
Years Ended December 31, 2009, 2008 and 2007  
(dollars in thousands, except per share data)

	Series A Preferred Stock	Series C Preferred Stock	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balances at December 31, 2008	\$ -	\$ 92,000	\$ 784	\$ 1,337,018	\$ 134,644	\$ 2,414	\$ 1,566,860	\$ 2,086	\$ 1,568,946
Net earnings	-	-	-	-	54,810	-	54,810	1,589	56,399
Dividends declared and paid: \$1.84375 per depositary share of Series C preferred stock	-	-	-	-	(6,785)	-	(6,785)	-	(6,785)
\$1.50 per share of common stock	-	-	1	1,797	(120,256)	-	(118,458)	-	(118,458)
Issuance of common stock: 99,738 shares	-	-	1	1,435	-	-	1,436	-	1,436
3,664,182 shares – discounted stock purchase program	-	-	36	65,519	-	-	65,555	-	65,555
Issuance of 262,546 shares of restricted common stock	-	-	3	(3)	-	-	-	-	-
Stock issuance costs	-	-	-	(113)	-	-	(113)	-	(113)
Equity component of extinguishment of convertible debt	-	-	-	(795)	-	-	(795)	-	(795)
Amortization of deferred compensation	-	-	-	3,443	-	-	3,443	-	3,443
Amortization of interest rate hedges	-	-	-	-	-	(159)	(159)	-	(159)
Unrealized gain – commercial mortgage residual interests	-	-	-	-	-	(1,744)	(1,744)	104	(1,640)
Contributions from noncontrolling interests	-	-	-	-	-	-	-	152	152
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(552)	(552)
Other	-	-	-	190	-	-	190	(757)	(567)
Balances at December 31, 2009	\$ -	\$ 92,000	\$ 825	\$ 1,408,491	\$ 62,413	\$ 511	\$ 1,564,240	\$ 2,622	\$ 1,566,862

See accompanying notes to consolidated financial statements.



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

	Year Ended December 31,		
	2009	2008	2007
Cash flows from operating activities:			
Earnings including noncontrolling interests	\$ 56,399	\$ 119,971	\$ 155,742
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Stock compensation expense	4,172	3,299	2,604
Stock options expense – tax effect	190	-	-
Depreciation and amortization	48,485	45,347	32,927
Impairment – real estate	34,514	5,660	1,970
Impairment – commercial mortgage residual interests valuation	498	758	638
Amortization of notes payable discount	6,006	5,670	2,724
Amortization of deferred interest rate hedges	(159)	(162)	(309)
Equity in earnings of unconsolidated affiliates	(421)	(364)	(49)
Distributions received from unconsolidated affiliates	607	439	30
Gain on disposition of real estate, Investment Portfolio	(2,392)	(9,980)	(56,625)
Gain on extinguishment of debt	(3,432)	(4,961)	-
Loss on note receivable foreclosure	7,196	-	-
Gain on disposition of real estate, Inventory Portfolio	(595)	(12,665)	(12,133)
Deferred income taxes	(16,649)	(5,593)	(4,590)
Income tax valuation allowance	14,900	-	-
Change in operating assets and liabilities, net of assets acquired and liabilities assumed in business combinations:			
Additions to real estate, Inventory Portfolio	(2,457)	(33,745)	(165,160)
Proceeds from disposition of real estate, Inventory Portfolio	6,276	128,785	160,173
Decrease in real estate leased to others using the direct financing method	1,378	1,195	2,130
Decrease (increase) in work in process	(786)	47	(4,217)
Increase in mortgages, notes and accrued interest receivable	(10)	(217)	(301)
Decrease in receivables	941	243	3,924
Increase in commercial mortgage residual interests	(291)	-	-
Increase in accrued rental income	(2,061)	(978)	(2,631)
Decrease (increase) in other assets	(172)	951	3,615
Increase (decrease) in accrued interest payable	(137)	(3,635)	5,254
Increase (decrease) in other liabilities	(2,930)	(1,463)	4,510
Increase (decrease) in current tax liability	432	(1,143)	(79)
Net cash provided by operating activities	<u>149,502</u>	<u>237,459</u>	<u>130,147</u>
Cash flows from investing activities:			
Proceeds from the disposition of real estate, Investment Portfolio	14,588	60,027	136,295
Additions to real estate, Investment Portfolio:			
Accounted for using the operating method	(44,433)	(352,618)	(677,101)
Investment in unconsolidated affiliate	-	(901)	(4,156)
Increase in mortgages and notes receivable	(959)	(29,934)	(44,888)
Principal payments on mortgages and notes receivable	4,009	64,589	19,862
Cash received from commercial mortgage residual interests	-	3,591	6,208
Restricted cash	-	-	36,587
Payment of lease costs	(451)	(922)	(2,912)
Other	(817)	(136)	(6,612)
Net cash used in investing activities	<u>(28,063)</u>	<u>(256,304)</u>	<u>(536,717)</u>

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,		
	2009	2008	2007
Cash flows from financing activities:			
Proceeds from line of credit payable	\$ 132,400	\$ 516,000	\$ 662,300
Repayment of line of credit payable	(158,900)	(619,300)	(560,500)
Repayment of mortgages payable	(1,000)	(1,190)	(8,412)
Proceeds from notes payable – convertible	-	234,035	-
Repurchase of notes payable – convertible – debt component	(14,785)	(18,420)	-
Repurchase of notes payable – convertible – equity component	(795)	(768)	-
Repayment of notes payable – secured	-	(12,000)	(33,300)
Proceeds from notes payable	-	-	249,122
Repayment of notes payable	-	(100,000)	-
Payment of interest rate hedge	-	-	(3,228)
Payment of debt costs	(6,275)	(5,813)	(2,453)
Repayment of financing lease obligation	-	-	(26,007)
Proceeds from issuance of common stock	68,060	127,328	310,208
Redemption of 1,781,589 shares of Series A preferred stock	-	-	(44,540)
Payment of Series C preferred stock dividends	(6,785)	(6,785)	(6,785)
Payment of common stock dividends	(120,256)	(110,107)	(92,989)
Noncontrolling interest distributions	(552)	(5,483)	(62)
Noncontrolling interest contributions	152	41	155
Stock issuance costs	(104)	(3,566)	(11,115)
Net cash provided by (used in) financing activities	<u>(108,840)</u>	<u>(6,028)</u>	<u>432,394</u>
Net increase (decrease) in cash and cash equivalents	12,599	(24,873)	25,824
Cash and cash equivalents at beginning of year	2,626	27,499	1,675
Cash and cash equivalents at end of year	<u>\$ 15,225</u>	<u>\$ 2,626</u>	<u>\$ 27,499</u>

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,		
	2009	2008	2007
Supplemental disclosure of cash flow information:			
Interest paid, net of amount capitalized	\$ 61,475	\$ 69,395	\$ 51,824
Taxes paid (received)	\$ (63)	\$ 3,441	\$ 1,375
Supplemental disclosure of non-cash investing and financing activities:			
Issued 262,546, 225,517 and 211,118 shares of restricted and unrestricted common stock in 2009, 2008 and 2007, respectively, pursuant to NNN's performance incentive plan	\$ 4,290	\$ 3,796	\$ 4,323
Issued 6,594, 12,766 and 7,750 shares of common stock in 2009, 2008 and 2007, respectively, to directors pursuant to NNN's performance incentive plan	\$ 118	\$ 262	\$ 182
Issued 41,604, 26,879 and 16,346 shares of common stock in 2009, 2008 and 2007, respectively, pursuant to NNN's Deferred Director Fee Plan	\$ 611	\$ 449	\$ 331
Surrender of 2,520 and 8,600 shares of restricted common stock in 2008 and 2007, respectively	\$ -	\$ 58	\$ 182
Change in other comprehensive income	\$ (1,903)	\$ 1,439	\$ (3,723)
Change in lease classification (direct financing lease to operating lease)	\$ -	\$ 300	\$ -
Transfer of real estate from Inventory Portfolio to Investment Portfolio	\$ 16,058	\$ 29,948	\$ 14,845
Note and mortgage receivable accepted in connection with real estate transactions	\$ 1,550	\$ 24,245	\$ 9,747
Interest rate hedge	\$ -	\$ -	\$ 109
Real estate acquired in connection with note receivable foreclosure	\$ 4,240	\$ 2,497	\$ -
Assets received in note receivable foreclosure	\$ 5,527	\$ -	\$ -
Note receivable foreclosures	\$ (17,013)	\$ -	\$ -

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.  
and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended December 31, 2009, 2008 and 2007

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

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

NNN’s operations are divided into two primary business segments: (i) investment assets, including real estate assets, mortgages and notes receivable (including structured finance investments) on the consolidated balance sheets and commercial mortgage residual interests (collectively, “Investment Assets”), and (ii) inventory real estate assets (“Inventory Assets”). NNN acquires, owns, invests in, manages and develops properties that are leased primarily to retail tenants under long-term net leases and primarily held for investment (“Investment Properties” or “Investment Portfolio”). As of December 31, 2009, NNN owned 1,015 Investment Properties (including 12 properties with retail operations that NNN operates), with an aggregate gross leasable area of 11,373,000 square feet, located in 44 states. In addition, as of December 31, 2009, NNN’s Investment Assets included \$41,976,000 in mortgages, notes and interest receivable (including structured finance investments) and \$20,153,000 in commercial mortgage residual interests. The Inventory Assets typically represent direct and indirect investment interests in real estate assets acquired or developed primarily for the purpose of selling the real estate (“Inventory Properties” or “Inventory Portfolio”). Inventory Assets typically consist of two types of properties, property for development and improved properties. As of December 31, 2009, NNN owned 19 Inventory Properties.

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

The TRS develops real estate through various joint venture development affiliate agreements. NNN consolidates the joint venture development entities listed in the table below based upon either NNN being the primary beneficiary of the respective variable interest entity or NNN having a controlling interest over the respective entity. NNN eliminates significant intercompany

balances and transactions and records a noncontrolling interest for its other partners' ownership percentage. The following table summarizes each of the investments as of December 31, 2009:

Date of Agreement	Entity Name	TRS' Ownership %
November 2002	WG Grand Prairie TX, LLC	60%
February 2003	Gator Pearson, LLC	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%

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

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

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

The fair value of the tangible assets of an acquired leased property is determined by valuing the property as if it were vacant, and the "as-if-vacant" value is then allocated to land, building and tenant improvements based on the determination of the 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. Leasehold interests are amortized on the straight-line method over the terms of their respective leases. When scheduled rentals vary during the lease term, income is recognized on a straight-line basis so as to produce a constant periodic rent over the term of the lease. Accrued rental income is the aggregate difference between the scheduled rents which vary during the lease term and the income recognized on a straight-line basis.

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

Real Estate – Inventory Portfolio – The TRS acquires and/or develops and owns properties primarily for the purpose of selling the real estate. The properties that are classified as held for sale at any given time may consist of properties that have been acquired in the marketplace with the intent to sell and properties that have been, or are currently being, constructed by the TRS. The TRS records the acquisition of the real estate at cost, including the acquisition and closing costs. The cost of the real estate developed by the TRS includes direct and indirect costs of construction, interest and other miscellaneous costs incurred during the development period until the project is substantially complete and available for occupancy. Real estate held for sale is not depreciated and is recorded at the lower of cost or fair value. In accordance with the FASB guidance included in *Real Estate*, the TRS classifies its real estate held for sale as discontinued operations for each property in which rental revenues are generated.

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

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

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

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

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

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

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

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

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

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

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

commence upon completion of construction of the leased asset and delivery of the leased asset to the tenant.

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

	2009	2008	2007
Basic and Diluted Earnings:			
Net earnings attributable to NNN	\$ 54,810	\$ 117,153	\$ 154,599
Less: Series C preferred stock dividends	(6,785)	(6,785)	(6,785)
Net earnings available to NNN’s common stockholders	48,025	110,368	147,814
Less: Earnings attributable to unvested restricted shares	(290)	(485)	(622)
Net earnings used in basic earnings per share	47,735	109,883	147,192
Reallocated undistributed income (loss)	(1)	-	1
Net earnings used in diluted earnings per share	<u>\$ 47,734</u>	<u>\$ 109,883</u>	<u>\$ 147,193</u>
Basic and Diluted Weighted Average Shares Outstanding:			
Weighted average number of shares outstanding	80,486,215	74,732,844	66,519,519
Less: Unvested restricted stock	(639,957)	(483,707)	(367,082)
Weighted average number of shares outstanding used in basic earnings per share	79,846,258	74,249,137	66,152,437
Effects of dilutive securities:			
Common stock options	9,037	35,900	69,040
Directors’ deferred fee plan	98,204	59,194	42,503
Weighted average number of shares outstanding used in diluted earnings per share	<u>79,953,499</u>	<u>74,344,231</u>	<u>66,263,980</u>

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

Stock-Based Compensation – On January 1, 2006, NNN adopted the FASB guidance included in *Equity – Based Payments to Non-Employees*, 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 the FASB guidance, NNN estimates the fair value of restricted stock and stock option grants at the date of grant and amortizes those amounts into expense on a straight line basis or amount vested, if greater, over the appropriate vesting period.

Income Taxes – NNN has made an election to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the “Code”), and related regulations. NNN generally will not be subject to federal income taxes on amounts distributed to stockholders, providing it distributes 100 percent of its REIT taxable income and meets certain other requirements for qualifying as a REIT. For each of the years in the three-year period ended December 31, 2009, NNN believes it has qualified as a REIT. Notwithstanding NNN’s qualification for taxation as a REIT, NNN is subject to certain state taxes on its income and real estate.



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

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

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

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

New Accounting Pronouncements – In January 2009, FASB issued new guidance on impairments included in *Beneficial Interests in Securitized Financial Assets*. The new guidance was effective for interim and annual periods ending after December 15, 2008. Retroactive application was not permitted. The adoption of the new guidance did not have a significant impact on NNN's financial position or results of operations.

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

In April 2009, FASB issued additional application guidance and enhancements to disclosures regarding fair value measurements. The new guidance enhances consistency in financial reporting by increasing the frequency of fair value disclosures. The guidance also provides guidelines for making fair value measurements more consistent. The guidance was effective for interim and annual periods ending after June 15, 2009. The adoption of the guidance did not have a significant impact on NNN's financial position or results of operations.

In April 2009, FASB issued revised guidance on the recognition and measurement, subsequent measurement and accounting and disclosure of assets and liabilities arising from contingencies in a business combination. The adoption of the guidance did not have a significant impact on NNN's financial position or result of operations.

In May 2009, FASB issued new guidance for accounting for subsequent events. The guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The guidance provides, among other things, that companies should recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including estimates inherent in the process of preparing financial statements. The new guidance was effective for interim or annual reporting periods ending after June 15, 2009. The adoption of the guidance did not have a significant impact on NNN's financial position or result of operations.

In June 2009, FASB issued *Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (the "Codification"). The Codification reorganized existing U.S. accounting and reporting standards issued by the FASB and other related private sector standard setters into a single source of authoritative accounting principles arranged by topic. The Codification supersedes all existing U.S. accounting standards; all other accounting literature not included in the Codification (other than the Securities and Exchange Commission (the "Commission") guidance for publicly-traded companies) is considered non-authoritative. The Codification was effective for interim and annual reporting periods ending after September 15, 2009. The adoption of the Codification changed the Company's references to accounting standards under generally accepted accounting principles ("GAAP") but did not impact the Company's financial position or results of operations.

In June 2009, FASB issued guidance on the accounting for the transfers of financial assets. The new guidance eliminates the concept of a qualifying special-purpose entity and changes the requirements for derecognizing financial assets. The new guidance is effective on a prospective basis for annual periods beginning after November 15, 2009, and interim and annual periods thereafter. The adoption of the standard will not have a significant impact on NNN's financial position or results of operations.

In June 2009, FASB issued revised guidance on the accounting for variable interest entities. The revised guidance reflects the elimination of the concept of a qualifying special-purpose entity. The guidance also replaces the quantitative-based risks and rewards calculation of the previous guidance for determining which company, if any, has a controlling financial interest in a variable interest entity with an approach that is primarily qualitative. The new guidance requires ongoing assessments of whether an enterprise is the primary beneficiary of the variable interest entity as well as additional disclosures. The guidance is effective for financial statements issued for fiscal years beginning after November 15, 2009. The adoption of the standard will not have a significant impact on NNN's financial position or results of operations.

In August 2009, FASB issued new guidance for the accounting for the fair value measurement of liabilities. The new guidance provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the approved techniques. The new guidance clarifies that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. The guidance is effective for the first reporting period (including interim periods) beginning after issuance. The Company is currently evaluating the provisions to determine the potential impact, if any, the adoption will have on NNN's financial position or results of operations.

Adoption of New Accounting Standards with change in Accounting Principles – Effective January 1, 2009, NNN adopted the new FASB guidance on accounting for convertible debt instruments that may be settled in cash upon conversion. The new guidance requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) was separately accounted for in a manner that reflects the issuer's non-convertible debt borrowing rate. The debt component was recorded based upon the estimated fair value of non-convertible debt with similar terms. The resulting debt discount is amortized over the period during which the debt is outstanding as additional non-cash interest expense. This guidance required retrospective application, the effects of adopting such, has been reflected in all periods presented.

Effective January 1, 2009, NNN adopted the new FASB guidance on determining whether instruments granted in share-based payment transactions are participating securities, which also required retrospective application. The adoption of the guidance did not have a significant impact on NNN's financial position or results of operations.

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

Reclassification – Certain items in the prior year's consolidated financial statements and notes to consolidated financial statements have been reclassified to conform to the 2009 presentation. NNN transferred 11 properties from the Inventory Portfolio to the Investment Portfolio in December 2009. These reclassifications had no effect on stockholders' equity or net earnings.

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

Leases – As of December 31, 2009, 984 of the Investment Property leases had been classified as operating leases, and 23 leases had 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 seven of these leases are accounted for as operating leases. Substantially all leases have initial terms of 10 to 20 years (expiring between 2010 and 2029) and provide for minimum rentals. In addition, the leases generally provide for limited increases in rent as a result of fixed increases, increases in the Consumer Price Index ("CPI"), and/or increases in the tenant's sales volume. Generally, the tenant is also required to pay all property taxes and assessments, substantially maintain the interior and exterior of the building and carry property and liability insurance coverage. Certain of NNN's Investment Properties are subject to leases under which NNN retains responsibility for certain costs and expenses of the property. As of December 31, 2009, 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.

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

	<u>2009</u>	<u>2008</u>
Land and improvements	\$ 1,054,888	\$ 1,063,419
Buildings and improvements	1,451,608	1,413,438
Leasehold interests	1,290	2,532
	<u>2,507,786</u>	<u>2,479,389</u>
Less accumulated depreciation and amortization	(183,956)	(146,296)
	<u>2,323,830</u>	<u>2,333,093</u>
Work in progress	5,997	40,785
	<u>\$ 2,329,827</u>	<u>\$ 2,373,878</u>

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, 2009, 2008 and 2007, NNN recognized collectively in continuing and discontinued operations, \$2,102,000, \$1,020,000, and \$2,672,000, respectively, of such income. At December 31, 2009 and 2008, the balance of accrued rental income, net of allowances of \$2,875,000 and \$4,144,000, respectively, was \$25,745,000 and \$23,972,000, respectively.

In connection with the development of two Investment Properties, NNN has agreed to fund construction commitments (including construction, land costs and tenant improvements) of \$14,651,000. As of December 31, 2009, NNN had funded \$12,261,000 of this commitment, with \$2,390,000 remaining to be funded.

The following is a schedule of future minimum lease payments to be received on noncancellable operating leases at December 31, 2009 (dollars in thousands):

2010	\$ 202,038
2011	198,594
2012	193,894
2013	185,630
2014	176,374
Thereafter	1,574,516
	<u>\$ 2,531,046</u>

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

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

	<u>2009</u>	<u>2008</u>
Minimum lease payments to be received	\$ 42,244	\$ 43,275
Estimated unguaranteed residual values	12,297	11,755
Less unearned income	(23,224)	(23,790)
Net investment in direct financing leases	<u>\$ 31,317</u>	<u>\$ 31,240</u>

The following is a schedule of future minimum lease payments to be received on direct financing leases held for investment at December 31, 2009 (dollars in thousands):

2010	\$ 4,545
2011	4,531
2012	4,558
2013	4,508
2014	3,750
Thereafter	20,352
	<u>\$ 42,244</u>

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).

### **Note 3 – Real Estate – Inventory Portfolio:**

As of December 31, 2009, the TRS owned 19 Inventory Properties: 13 completed inventory and six land parcels. As of December 31, 2008, the TRS owned 32 Inventory Properties: 24 completed inventory, one under construction and seven land parcels. The real estate Inventory Portfolio consisted of the following (dollars in thousands):

	<u>2009</u>	<u>2008</u>
Inventory:		
Land	\$ 19,732	\$ 20,238
Building	47,684	47,925
	<u>67,416</u>	<u>68,163</u>
Construction projects:		
Land	17,719	19,031
Work in process	(363)	1,469
	<u>17,356</u>	<u>20,500</u>
Less impairment	<u>(12,349)</u>	<u>(3,541)</u>
	<u>\$ 72,423</u>	<u>\$ 85,122</u>

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):

	<u>2009</u>		<u>2008</u>		<u>2007</u>	
	<u># of Properties</u>	<u>Gain</u>	<u># of Properties</u>	<u>Gain</u>	<u># of Properties</u>	<u>Gain</u>
Continuing operations	2	\$ 37	1	\$ 21	2	\$ 332
Noncontrolling interest		<u>(14)</u>		<u>(10)</u>		<u>-</u>
Total continuing operations attributable to NNN		<u>23</u>		<u>11</u>		<u>332</u>
Discontinued operations	2	527	24	12,315	69	10,957
Intersegment eliminations		31		329		844
Noncontrolling interest		<u>-</u>		<u>(3,297)</u>		<u>(1,120)</u>
Total discontinued operations attributable to NNN		<u>558</u>		<u>9,347</u>		<u>10,681</u>
	<u>4</u>	<u>\$ 581</u>	<u>25</u>	<u>\$ 9,358</u>	<u>71</u>	<u>\$ 11,013</u>

#### **Note 4 – Impairments – Real Estate:**

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Continuing operations	\$ 28,114	\$ 1,234	\$ 416
Discontinued operations	6,400	4,426	1,554
	<u>\$ 34,514</u>	<u>\$ 5,660</u>	<u>\$ 1,970</u>

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

The following table presents information about NNN's impaired assets that were measured at fair value. The table indicates the fair value hierarchy of the valuation techniques utilized by NNN to determine the fair value on a nonrecurring basis of such assets (dollars in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Total Losses</u>
Investment Portfolio	\$ -	\$ 8,203	\$ 18,610	\$ 26,813	\$ 25,706
Inventory Portfolio	-	45,369	-	45,369	8,808
	<u>\$ -</u>	<u>\$ 53,572</u>	<u>\$ 18,610</u>	<u>\$ 72,182</u>	<u>\$ 34,514</u>

The Investment Portfolio is substantially comprised of assets held for use. NNN recorded an impairment charge related to 18 Investment Properties totaling \$25,706,000, during the year ended December 31, 2009. The Inventory Portfolio is reported at lower of cost or fair value. During the year ended December 31, 2009, NNN recorded an impairment charge related to seven Inventory Properties totaling \$8,808,000.

#### **Note 5 – Business Combinations:**

In connection with the default of a note receivable and certain lease agreements between NNN and one of NNN's tenants, in June of 2009, NNN acquired the operations of the auto service business which was operated on 12 Investment Properties. The note foreclosure resulted in a loss of \$7,816,000. NNN recorded the value of the assets received at fair value. No liabilities were assumed. The fair value of the assets resulted in goodwill of \$3,400,000.

## Note 6 – Mortgages, Notes and Accrued Interest Receivable:

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

	<u>2009</u>	<u>2008</u>
Mortgages and notes receivable	\$ 41,707	\$ 55,495
Structured finance investments	-	4,514
Accrued interest receivables	269	387
Unamortized premium	-	84
	<u>41,976</u>	<u>60,480</u>
Less loan origination fees, net	-	(8)
	<u>\$ 41,976</u>	<u>\$ 60,472</u>

## Note 7 – Commercial Mortgage Residual Interests:

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

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

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

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

Each of the Residuals is recorded at fair value based upon an independent valuation. Unrealized gains and losses are reported as other comprehensive income in stockholders' equity and other than temporary losses as a result of a change in the timing or amount of estimated cash flows are recorded as an other than temporary valuation impairment. Due to changes in market conditions relating to residual assets, the independent valuation changed several valuation assumptions during the year: prepayment speeds, default curves and loss severity.

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Unrealized gains	\$ -	\$ 2,009	\$ -
Unrealized losses	1,640	-	326
Other than temporary valuation impairment	498	758	638

The following table summarizes the changes to the key assumptions used in determining the value of the Residuals as of December 31:

	<u>2009</u>	<u>2008</u>
Discount rate	25%	25%
Average life equivalent CPR speeds range	14.5% to 20.7% CPR	31.7% to 39.4% CPR
Foreclosures:		
Frequency curve default model	6% average rate	1.1% maximum rate
Loss severity of loans in foreclosure	20%	10%
Yield:		
LIBOR	Forward 3-month curve	Forward 3-month curve
Prime	Forward curve	Forward curve

The following table shows the effects on the key assumptions affecting the fair value of the Residuals at December 31, 2009 (dollars in thousands):

	<u>Residuals</u>
Carrying amount of retained interests	\$ 20,153
Discount rate assumption:	
Fair value at 27% discount rate	\$ 19,474
Fair value at 30% discount rate	\$ 18,523
Prepayment speed assumption:	
Fair value of 1% increases above the CPR Index	\$ 20,079
Fair value of 2% increases above the CPR Index	\$ 20,065
Expected credit losses:	
Fair value 2% adverse change	\$ 19,748
Fair value 3% adverse change	\$ 19,576
Yield Assumptions:	
Fair value of Prime/LIBOR spread contracting 25 basis points	\$ 19,828
Fair value of Prime/LIBOR spread contracting 50 basis points	\$ 20,993

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on 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 8 – Line of Credit Payable:**

NNN's \$400,000,000 revolving credit facility had a weighted average outstanding balance of \$10,824,000 and a weighted average interest rate of 1.19% during the year ended December 31, 2009. On November 3, 2009, NNN entered into a credit agreement for a new \$400,000,000 revolving credit facility, replacing the existing revolving credit facility (as the context requires, the previous and new revolving credit facility, the "Credit Facility"). The Credit Facility matures November 2012, with an option to extend maturity to November 2013. The Credit Facility bears interest at LIBOR plus 280 basis points with a 1.0% LIBOR floor; however, such interest rate may change pursuant to a tiered interest rate structure based on NNN's debt rating. The Credit Facility also includes an accordion feature for NNN to increase, at its option, the facility size up to \$500,000,000. As of December 31, 2009, no balance was outstanding, and \$400,000,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$653,000.



In accordance with the terms of the Credit Facility, NNN is required to meet certain restrictive financial covenants which, among other things, require NNN to maintain certain (i) maximum leverage ratios, (ii) debt service coverage, (iii) cash flow coverage and (iv) investment and dividend limitations. At December 31, 2009, NNN was in compliance with those covenants.

**Note 9 – Mortgages Payable:**

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

Entered	Balance	Interest Rate	Maturity <sup>(3)</sup>	Carrying Value of Encumbered Asset(s) <sup>(1)</sup>	Outstanding Principal Balance at December 31,	
					2009	2008
December 1999 <sup>(4)</sup>	\$ 350	8.50%	December 2009	\$ -	\$ -	\$ 49
December 2001 <sup>(2)</sup>	623	9.00%	April 2014	820	267	315
December 2001 <sup>(2)</sup>	698	9.00%	April 2019	1,247	392	418
December 2001 <sup>(2)</sup>	485	9.00%	April 2019	1,215	201	214
June 2002	21,000	6.90%	July 2012	24,505	19,170	19,477
February 2004 <sup>(2)</sup>	6,952	6.90%	January 2017	11,764	4,554	5,036
March 2005 <sup>(2)</sup>	1,015	8.14%	September 2016	1,341	706	781
				<u>\$ 40,892</u>	<u>\$ 25,290</u>	<u>\$ 26,290</u>

<sup>(1)</sup> Each loan is secured by a first mortgage lien on certain of NNN’s properties. The carrying values of the assets are as of December 31, 2009.

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

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

<sup>(4)</sup> In December 2009, upon maturity NNN repaid the outstanding principal balance and the property was released from the mortgage lien. This was a self-amortizing mortgage.

The following is a schedule of the annual maturities of NNN’s mortgages payable at December 31, 2009 (dollars in thousands):

2010	\$ 1,022
2011	1,098
2012	19,290
2013	863
2014	880
Thereafter	2,137
	<u>\$25,290</u>

## Note 10 – Notes Payable – Convertible:

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

Terms	2026 Notes <sup>(1)(2)(4)</sup>	2028 Notes <sup>(2)(5)(6)</sup>
Issue Date	September 2006	March 2008
Net Proceeds	\$ 168,650	\$ 228,576
Stated Interest Rate <sup>(8)</sup>	3.950%	5.125%
Debt Issuance Costs	\$ 3,850 <sup>(3)</sup>	\$ 5,457
Earliest Conversion Date	September 2025	June 2027
Earliest Put Option Date	September 2011	June 2013
Maturity Date	September 2026	June 2028
Original Principal	\$ 172,500	\$ 234,035
Repurchases	(33,800)	(11,000)
Outstanding principal balance at December 31, 2009	\$ 138,700	\$ 223,035

- (1) NNN repurchased \$3,800, \$5,000 and \$25,000 in March 2009, January 2009 and November 2008, respectively, for a purchase price of \$3,100, \$3,894 and \$19,188, respectively, resulting in a gain of \$607, \$958 and \$4,961, respectively.
- (2) Debt issuance costs include underwriting discounts and commissions, legal and accounting fees, rating agency fees and printing expenses. These costs have been deferred and are being amortized over the period to the earliest put option date of the holders using the effective interest method.
- (3) Includes \$48, \$66 and \$349 of note costs which were written off in connection with the repurchase of \$3,800, \$5,000 and \$25,000 of the 2026 Notes, respectively.
- (4) The conversion rate per \$1 principal amount was 41.6750 shares of NNN's common stock, which is equivalent to a conversion price of \$23.9952 per share of common stock.
- (5) The conversion rate per \$1 principal amount was 39.3459 shares of NNN's common stock, which is equivalent to a conversion price of \$25.4156 per share of common stock.
- (6) NNN repurchased \$2,500 and \$8,500 in May 2009 and February 2009, respectively, for a purchase price of \$2,049 and \$6,539, respectively, resulting in a gain of \$342 and \$1,525, respectively.
- (7) Includes \$48 and \$171 of note costs which were written off in connection with the repurchase of \$2,500 and \$8,500 of the 2028 Notes, respectively.
- (8) With the adoption of the new accounting guidance on convertible debt securities, the effective interest rate for the 2026 Notes and the 2028 Notes are 5.840% and 7.192%, respectively.

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

## **Note 11 – Notes Payable:**

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

<u>Notes</u>	<u>Issue Date</u>	<u>Principal</u>	<u>Discount<sup>(3)</sup></u>	<u>Net Price</u>	<u>Stated Rate</u>	<u>Effective Rate<sup>(4)</sup></u>	<u>Maturity Date</u>
2010 <sup>(1)</sup>	September 2000	\$ 20,000	\$ 126	\$ 19,874	8.500%	8.595%	September 2010
2012 <sup>(1)</sup>	June 2002	50,000	287	49,713	7.750%	7.833%	June 2012
2014 <sup>(1)(2)(5)</sup>	June 2004	150,000	440	149,560	6.250%	5.910%	June 2014
2015 <sup>(1)</sup>	November 2005	150,000	390	149,610	6.150%	6.185%	December 2015
2017 <sup>(1)(6)</sup>	September 2007	250,000	877	249,123	6.875%	6.924%	October 2017

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

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

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

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

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

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

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

In connection with the debt offerings, NNN incurred debt issuance costs totaling \$5,459,000 consisting primarily of underwriting discounts and commissions, legal and accounting fees, rating agency fees and printing expenses. Debt issuance costs for all note issuances have been deferred and are being amortized over the term of the respective notes using the effective interest method.

In accordance with the terms of the indenture, pursuant to which NNN's notes have been issued, NNN is required to meet certain restrictive financial covenants, which, among other things, require NNN to maintain (i) certain leverage ratios and (ii) certain interest coverage. At December 31, 2009, NNN was in compliance with those covenants.

## **Note 12 – Preferred Stock:**

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

<u>Non-Voting Preferred Stock Issuance</u>	<u>Shares Outstanding At December 31, 2009</u>	<u>Liquidation Preference (per share)</u>	<u>Fixed Annual Cash Distribution (per share)</u>
9% Series A	-	\$ 25.00	\$ 2.25000
7.375% Series C Redeemable Depositary Shares	3,680,000	25.00	1.84375

*9% Non-Voting Series A Preferred Stock.* In December 2001, NNN issued 1,999,974 shares of 9% Non-Voting Series A Preferred Stock (the "Series A Preferred Stock"). Holders of the Series A Preferred Stock were entitled to receive, when and as authorized by the board of directors, cumulative preferential cash distributions at a rate of nine percent of the \$25.00 liquidation

preference per annum (equivalent to a fixed annual amount of \$2.25 per share). The Series A Preferred Stock ranked senior to NNN's common stock with respect to distribution rights and rights upon liquidation, dissolution or winding up of NNN.

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

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

Holders of the depositary shares are entitled to receive, when and as authorized by the Board of Directors, cumulative preferential cash dividends at the rate of 7.375% of the \$25.00 liquidation preference per depositary share per annum (equivalent to a fixed annual amount of \$1.84375 per depositary share). The Series C Preferred Stock underlying the depositary shares ranks senior to NNN's common stock with respect to dividend rights and rights upon liquidation, dissolution or winding up of NNN. The Series C Preferred Stock has no maturity date and will remain outstanding unless redeemed. NNN may redeem the Series C Preferred Stock underlying the depositary shares on or after October 12, 2011, for cash, at a redemption price of \$2,500.00 per share (or \$25.00 per depositary share), plus all accumulated, accrued and unpaid dividends.

### **Note 13 – Common Stock:**

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

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

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

In October 2008, NNN filed a prospectus supplement to the prospectus contained in its February 2006 shelf registration statement and issued 3,450,000 shares (including 450,000 shares in connection with the underwriters' over allotment) of common stock at a price of \$23.05 per share and received net proceeds of \$75,958,000. In connection with this offering, NNN incurred stock issuance costs totaling approximately \$3,565,000, consisting primarily of underwriters' fees and commissions, and legal and accounting fees and printing expenses.

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

*Dividend Reinvestment and Stock Purchase Plan.* In June 2009, NNN filed a shelf registration statement with the Commission for its Dividend Reinvestment and Stock Purchase Plan (“DRIP”) which permits the issuance by NNN of 16,000,000 shares of common stock. The following outlines the common stock issuances pursuant to the DRIP for the years ended December 31 (dollars in thousands):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Shares of common stock	3,766,452	2,146,640	2,645,257
Net proceeds	\$ 67,354	\$ 47,372	\$ 62,980

#### **Note 14 – Employee Benefit Plan:**

Effective January 1, 1998, NNN adopted a defined contribution retirement plan (the “Retirement Plan”) covering substantially all of the employees of NNN. The Retirement Plan permits participants to defer up to a maximum of 60 percent of their compensation, as defined in the Retirement Plan, subject to limits established by the Code. NNN matches 60 percent of the participants’ contributions up to a maximum of eight percent of a participant’s annual compensation. NNN’s contributions to the Retirement Plan for the years ended December 31, 2009, 2008 and 2007 totaled \$302,000, \$385,000, and \$428,000, respectively.

#### **Note 15 – Dividends:**

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Ordinary dividends	\$ 1.495182	\$ 1.480000	\$ 1.397402
Qualified dividends	-	-	0.000414
Capital gain	0.003051	-	0.002184
Unrecaptured Section 1250 Gain	0.001767	-	-
	<u>\$ 1.500000</u>	<u>\$ 1.480000</u>	<u>\$ 1.400000</u>

During the years ended December 31, 2009, 2008 and 2007, NNN declared and paid dividends to its common shareholders of \$120,256,000, \$110,107,000 and \$92,989,000, respectively, or \$1.50, \$1.48 and \$1.40, respectively per share, respectively, of common stock.

On January 15, 2010, NNN declared a dividend of \$0.375 per share, which is payable February 15, 2010 to its common stockholders of record as of January 29, 2010.

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

	<u>Total</u>	<u>Ordinary Dividends</u>	<u>Qualified Dividends</u>	<u>Capital Gain</u>	<u>Unrecaptured Section 1250 Gains</u>
2009:					
Series C	\$ 1.843750	\$ 1.837828	\$ -	\$ 0.00375	\$ 0.002172
2008:					
Series C	1.843750	1.843750	-	-	-
2007:					
Series A <sup>(1)</sup>	0.206250	0.205867	0.000061	0.000322	-
Series C	1.843750	1.840328	0.000546	0.002876	-

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

NNN declared and paid dividends to its Series C Preferred stockholders of \$6,785,000 or \$1.84375 per depository share during each of the years ended December 31, 2009, 2008 and 2007. The Series C Preferred Stock has no maturity date and will remain outstanding unless redeemed.

#### **Note 16 – Restructuring Costs:**

During the year ended December 31, 2009, NNN recorded restructuring costs of \$731,000, related to the reduction of its workforce in January 2009.

#### **Note 17 – Income Taxes:**

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

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

NNN has had no increases or decreases in unrecognized tax benefits for current or prior years since the date of adoption. Further, no interest or penalties have been included since no reserves were recorded and no significant increases or decreases are expected to occur within the next 12 months. When applicable, such interest and penalties will be recorded in non-operating expenses. The periods that remain open under federal statute are 2006 through 2009. NNN also files in many states with varying open years under statute.

NNN incurred a new deferred income tax item as a result of NNN taking over the operations of the 12 auto service businesses. See Note 5 – Business Combinations. The new deferred tax item is goodwill. The amount of the tax deductible goodwill is approximately \$11,216,000. It is amortized for tax purposes using a straight-line method, over 15 years, beginning with the month incurred.

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

NNN treats some depreciation expense and certain other items differently for tax than for financial reporting purposes. The principal differences between NNN's effective tax rates for the years ended December 31, 2009, 2008 and 2007, 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 consist of the following at December 31 (dollars in thousands):

	<u>2009</u>	<u>2008</u>
Temporary differences:		
Built-in gain	\$ (4,731)	\$(5,195)
Depreciation	(385)	(723)
Other	1,992	(332)
Reserves	10,892	1,894
Goodwill	2,801	-
Excess interest expense carryforward	5,678	5,721
Net operating loss carryforward	<u>4,484</u>	<u>2,717</u>
Net deferred income tax asset	\$ 20,731	\$ 4,082
Current income tax asset	<u>551</u>	<u>982</u>
Subtotal: Income tax asset	21,282	5,064
Valuation allowance	<u>(14,900)</u>	<u>-</u>
Income tax asset	<u>\$ 6,382</u>	<u>\$ 5,064</u>

In assessing the ability to realize a deferred tax asset, management considers whether it is more likely than not that some portion or the entire deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The net operating loss carryforwards were generated by NNN's taxable REIT subsidiaries. The net operating loss carryforwards begin to expire in 2027. Based upon the level of historical taxable income, projections for future taxable income, and tax strategies available to NNN over the periods in which the deferred tax assets are deductible, management believes, with the exception of certain impairments and losses, it is more likely than not that NNN will realize all of the benefits of these deductible differences that existed as of December 31, 2009. NNN believes it is more likely than not that the benefit from certain impairment charges and losses will not be realized. In recognition of this risk, NNN has provided a valuation allowance of \$14,900,000 on the deferred tax assets relating to the impairments and losses. The income tax benefit consists of the following components for the years ended December 31 (as adjusted) (dollars in thousands):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net earnings before income taxes	\$ 53,930	\$ 113,859	\$ 151,338
Provision for income tax benefit (expense):			
Current:			
Federal	(419)	(1,936)	(1,120)
State and local	(79)	(364)	(209)
Deferred:			
Federal	1,110	4,539	3,570
State and local	<u>268</u>	<u>1,055</u>	<u>1,020</u>
Total benefit for income taxes	880	3,294	3,261
Net earnings attributable to NNN's stockholders	<u>\$ 54,810</u>	<u>\$ 117,153</u>	<u>\$ 154,599</u>

**Note 18 – Earnings from Discontinued Operations:**

Real Estate – Investment Portfolio – NNN classified the revenues and expenses related to (i) all Investment Properties that were sold and leasehold interests which expired, and (ii) all Investment Properties that were held for sale as of December 31, 2009, 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):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenues:			
Rental income from operating leases	\$ 3,826	\$ 4,513	\$ 11,492
Earned income from direct financing leases	-	100	2,695
Percentage rent	-	25	189
Real estate expense reimbursement from tenants	182	176	479
Interest and other income from real estate transactions	121	434	437
	<u>4,129</u>	<u>5,248</u>	<u>15,292</u>
Operating expenses:			
General and administrative	4	(74)	(42)
Real estate	742	520	755
Depreciation and amortization	1,209	940	1,518
Impairments – real estate	4,306	1,730	710
	<u>6,261</u>	<u>3,116</u>	<u>2,941</u>
Earnings (loss) before gain on disposition of real estate	(2,132)	2,132	12,351
Gain on disposition of real estate	2,392	9,980	56,625
Earnings from discontinued operations attributable to NNN	<u>\$ 260</u>	<u>\$ 12,112</u>	<u>\$ 68,976</u>



Real Estate – Inventory Portfolio – NNN has classified as discontinued operations the revenues and expenses related to (i) Inventory Properties which generated rental revenues prior to disposition, and (ii) Inventory Properties which generated rental revenues and were held for sale as of December 31, 2009. 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):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenues:			
Rental income from operating leases	\$ 4,975	\$ 8,646	\$ 7,971
Percentage rent	-	139	-
Real estate expense reimbursement from tenants	1,513	867	976
Interest and other from real estate transactions	141	561	224
	<u>6,629</u>	<u>10,213</u>	<u>9,171</u>
Disposition of real estate:			
Gross proceeds	5,402	151,713	164,338
Costs	(4,844)	(139,069)	(152,537)
Gain	<u>558</u>	<u>12,644</u>	<u>11,801</u>
Operating expenses:			
General and administrative	116	22	53
Real estate	2,169	1,468	1,511
Depreciation and amortization	323	226	68
Impairments – real estate	2,094	2,696	844
	<u>4,702</u>	<u>4,412</u>	<u>2,476</u>
Other expenses (revenues):			
Interest and other income	-	(8)	(5)
Interest expense	3,790	5,291	3,928
	<u>3,790</u>	<u>5,283</u>	<u>3,923</u>
Earnings (loss) before income tax expense	(1,305)	13,162	14,573
Income tax expense	246	3,885	5,039
Earnings (loss) from discontinued operations including noncontrolling interests	(1,551)	9,277	9,534
Earnings attributable to noncontrolling interests	(47)	(2,927)	(1,299)
Earnings (loss) from discontinued operations attributable to NNN	<u>\$ (1,598)</u>	<u>\$ 6,350</u>	<u>\$ 8,235</u>

### Note 19 – Derivatives:

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

NNN's objective in using derivatives is to add stability to interest expense and to manage its exposure to interest rate movements or other identified risks. To accomplish this objective, NNN primarily uses treasury locks and interest rate swaps as part of its cash flow hedging strategy. Treasury locks designated as cash flow hedges lock in the yield or price of a treasury security. Interest rate swaps designated as cash flow hedges involve the receipt of variable rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount. To date, such derivatives have been used to hedge the variable cash

flows associated with floating rate debt and forecasted interest payments of a forecasted issuance of debt.

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

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

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

In February 2008, NNN terminated its interest rate hedge with a notional amount of \$100,000,000 that was hedging the risk of changes in forecasted interest payments on a forecasted issuance of long-term debt. The fair value of the interest rate hedge when terminated was a liability of \$804,000, which NNN recorded as a loss on interest rate hedge.

In September 2007, NNN terminated two interest rate hedges with a combined notional amount of \$100,000,000 that were hedging the risk of changes in forecasted interest payments on a forecasted issuance of long-term debt. The fair value of the interest rate hedges when terminated was a liability of \$3,260,000, of which \$3,228,000 was deferred in other comprehensive income.

In June 2004, NNN 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.

As of December 31, 2009, \$549,000 remains in other comprehensive income related to the fair value of the interest rate hedges. During the year ended December 31, 2009, 2008 and 2007, NNN reclassified \$159,000, \$162,000 and \$309,000, respectively, out of other comprehensive income as a reduction to interest expense. During 2010, NNN estimates that an additional \$165,000 will be reclassified in interest expense. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on NNN's long-term debt.

NNN does not use derivatives for trading or speculative purposes or currently have any derivatives that are not designated as hedges. NNN had no derivative financial instruments outstanding at December 31, 2009.

## **Note 20 – Performance Incentive Plan:**

In June 2007, NNN filed a registration statement on Form S-8 with the Commission which permits the issuance of up to 5,900,000 shares of common stock pursuant to NNN’s 2007 Performance Incentive Plan (the “2007 Plan”). The 2007 Plan replaces NNN’s previous Performance Incentive Plan. The 2007 Plan allows NNN to award or grant to key employees, directors and persons performing consulting or advisory services for NNN 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 2007 Plan.

The following summarizes NNN’s stock-based compensation activity for each of the years ended December 31:

	Number of Shares		
	2009	2008	2007
Outstanding, January 1	77,004	118,804	236,371
Options granted	-	-	-
Options exercised	(51,500)	(28,000)	(82,767)
Options surrendered	(13,350)	(13,800)	(34,800)
Outstanding, December 31	<u>12,154</u>	<u>77,004</u>	<u>118,804</u>
Exercisable, December 31	<u>12,154</u>	<u>77,004</u>	<u>118,804</u>

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

	2009	2008	2007
Outstanding, January 1	\$ 14.00	\$ 13.64	\$ 14.92
Granted during the year	-	-	-
Exercised during the year	13.72	11.17	16.12
Outstanding, December 31	13.72	14.00	13.64
Exercisable, December 31	13.72	14.00	13.64

The following summarizes the outstanding options and the exercisable options at December 31, 2009:

	Total
Outstanding options:	
Number of shares	12,154
Weighted-average exercise price	\$ 13.72
Weighted-average remaining contractual life in years	2.4
Exercisable options:	
Number of shares	12,154
Weighted-average exercise price	\$ 13.72

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, 2009, the intrinsic value of options outstanding was \$117,000. All options outstanding at December 31, 2009, were exercisable. During the years ended December 31, 2009, 2008 and 2007, NNN received proceeds totaling \$707,000, \$313,000 and \$1,334,000, respectively, in connection with the exercise of options. NNN issued new common stock to satisfy share option exercises. The total intrinsic value of options exercised during the years ended December 31, 2009, 2008 and 2007, was \$240,000, \$327,000 and \$664,000, respectively.

Pursuant to the 2007 Plan, NNN has granted and issued shares of restricted stock to certain officers, directors and key associates of NNN. The following summarizes the activity for the year ended December 31, 2009, of such grants.

	Number of Shares	Weighted Average Share Price
Non-vested restricted shares, January 1	508,840	\$ 18.24
Restricted shares granted	262,546	16.34
Restricted shares vested	(103,376)	21.77
Restricted shares forfeited	-	
Non-vested restricted shares, December 31	<u>668,010</u>	\$ 16.95

During the years ended December 31, 2008 and 2007, NNN cancelled 2,520 and 8,600 forfeited shares, respectively, of restricted stock. No shares were cancelled in 2009.

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 NNN range from four to seven years and generally vest yearly on a straight line basis.

During the year ended December 31, 2007, NNN granted 79,000 performance based shares with a weighted average grant price of \$12.94 to certain executive officers of NNN. The compensation expense for the grant is based upon the fair value of the grant calculated by a third party using a lattice model with the following assumptions: (i) risk free interest rate of 4.80%, (ii) a dividend rate of 5.30%, (iii) a term of five years, and (iv) volatility of 17.50%. Volatility is based upon the historical volatility of NNN's stock and other factors. The term is assumed to be the vesting date for each tranche. The vesting of these shares is contingent upon achievement of certain performance goals by January 1, 2012.

During the year ended December 31, 2008, NNN granted 81,330 performance based shares with a weighted average grant price of \$8.00 to certain executive officers of NNN. The compensation expense for the grant is based upon fair market value of the grant calculated by a third party using a lattice model with the following assumptions: (i) risk free rate of 3.48%, (ii) a dividend rate of 6.50%, (iii) a term of five years, and (iv) a volatility of 19.89%. Volatility is based upon the historical volatility of NNN's stock and other factors. The vesting of these shares is contingent upon the achievement of certain performance goals by January 1, 2013.

The following summarizes other grants made during the year ended December 31, 2009, pursuant to the 2007 Plan.

	Shares	Weighted Average Share Price
Other share grants under the 2007 Plan:		
Directors' fees	6,594	\$ 17.89
Deferred Directors' fees	41,604	17.95
	<u>48,198</u>	\$ 17.94
Shares available under the 2007 Plan for grant, end of period	<u>5,272,513</u>	

The total compensation cost for share-based payments for the years ended December 31, 2009, 2008 and 2007, totaled \$4,172,000, \$3,341,000 and \$2,583,000, respectively, of such

compensation expense. At December 31, 2009, NNN had \$7,149,000 of unrecognized compensation cost related to non-vested share-based compensation arrangements under the 2007 Plan. This cost is expected to be recognized over a weighted average period of 3.3 years.

**Note 21 – Fair Value of Financial Instruments:**

NNN believes the carrying value of its Credit Facility approximates fair value based upon its nature, terms and variable interest rate. NNN believes that the carrying value of its cash and cash equivalents, mortgages, notes and other receivables, mortgages payable and other liabilities at December 31, 2009 and 2008, approximate fair value based upon current market prices of similar issues. At December 31, 2009 and 2008, the carrying value and fair value of NNN's notes payable and convertible notes payable, collectively, was \$987,275,000 and \$709,944,000, respectively, based upon the quoted market price.

**Note 22 – Quarterly Financial Data (unaudited):**

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

2009	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues as originally reported	\$ 57,963	\$ 58,681	\$ 57,035	\$ 57,750
Reclassified to discontinued operations	367	(297)	301	-
Adjusted revenue	\$ 58,330	\$ 58,384	\$ 57,336	\$ 57,750
Net earnings (loss) attributable to NNN's stockholders	\$ 26,804	\$ 26,954	\$ 22,443	\$ (21,391)
Net earnings (loss) per share <sup>(1)</sup> :				
Basic	\$ 0.32	\$ 0.32	\$ 0.26	\$ (0.28)
Diluted	0.32	0.32	0.26	(0.28)
2008				
Revenues as originally reported	\$ 55,200	\$ 57,026	\$ 58,573	\$ 57,244
Reclassified to discontinued operations	(878)	(81)	841	210
Adjusted revenue	\$ 54,322	\$ 56,945	\$ 59,414	\$ 57,454
Net earnings attributable to NNN's stockholders	\$ 32,239	\$ 29,266	\$ 28,766	\$ 26,882
Net earnings per share <sup>(1)</sup> :				
Basic	\$ 0.42	\$ 0.38	\$ 0.37	\$ 0.32
Diluted	0.42	0.38	0.37	0.32

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

## Note 23 – Segment Information:

NNN has identified two primary financial segments: (i) Investment Assets, and (ii) Inventory Assets. The following tables represent the segment data and reconciliation to NNN's consolidated totals for the years ended December 31, 2009, 2008 and 2007 (as adjusted) (dollars in thousands):

<u>2009</u>	<u>Investment Assets</u>	<u>Inventory Assets</u>	<u>Eliminations (Intercompany)</u>	<u>Consolidated Totals</u>
External revenues	\$ 224,083	\$ 193	\$ -	\$ 224,276
Intersegment revenues	3,035	1,042	(4,077)	-
Interest revenue	4,615	31	-	4,646
Interest revenue on Residuals	4,252	-	-	4,252
Gain on the disposition of real estate, Inventory Portfolio	-	5	32	37
Retail operations, net	419	-	-	419
Interest expense	66,018	188	(4,055)	62,151
Depreciation and amortization	46,759	10	-	46,769
Operating expenses	30,382	5,078	-	35,460
Impairments – real estate	21,401	6,713	-	28,114
Impairment – commercial mortgage residual interests valuation adjustment	498	-	-	498
Restructuring costs	731	-	-	731
Equity in earnings of unconsolidated affiliate	(12,280)	-	12,701	421
Loss on note receivable foreclosure	(7,196)	-	-	(7,196)
Gain on extinguishment of debt	3,432	-	-	3,432
Income tax benefit	495	631	-	1,126
Earnings (loss) from continuing operations	55,066	(10,087)	12,711	57,690
Earnings from discontinued operations, net of income tax expense	260	(1,551)	-	(1,291)
Earnings (loss) including noncontrolling interests	55,326	(11,638)	12,711	56,399
Earnings attributable to noncontrolling interests from continuing operations	(516)	(1,026)	-	(1,542)
Earnings attributable to noncontrolling interests from discontinued operations	-	(47)	-	(47)
Net earnings attributable to NNN	<u>\$ 54,810</u>	<u>\$ (12,711)</u>	<u>\$ 12,711</u>	<u>\$ 54,810</u>
Assets	<u>\$ 2,588,408</u>	<u>\$ 237,715</u>	<u>\$ (235,161)</u>	<u>\$ 2,590,962</u>
Additions to long-lived assets: Real estate	<u>\$ 44,433</u>	<u>\$ 2,457</u>	<u>\$ -</u>	<u>\$ 46,890</u>

<u>2008</u>	<u>Investment Assets</u>	<u>Inventory Assets</u>	<u>Eliminations (Intercompany)</u>	<u>Consolidated Totals</u>
External revenues	\$ 218,692	\$ 176	\$ -	\$ 218,868
Intersegment revenues	12,727	606	(13,333)	-
Interest revenue	8,351	28	-	8,379
Interest revenue Residuals	4,636	-	-	4,636
Gain on the disposition of real estate, Inventory Portfolio	-	(308)	329	21
Interest expense	69,763	7,442	(13,241)	63,964
Depreciation and amortization	44,139	42	-	44,181
Operating expenses	25,347	9,538	-	34,885
Impairments – real estate	1,234	-	-	1,234
Impairments – commercial mortgage residual interests valuation adjustment	758	-	-	758
Equity in earnings of unconsolidated affiliates	(2,785)	-	3,149	364
Loss on derivative instrument	(804)	-	-	(804)
Gain on extinguishment of debt	4,961	-	-	4,961
Income tax benefit	1,331	5,848	-	7,179
Earnings (loss) from continuing operations	105,868	(10,672)	3,386	98,582
Earnings from discontinued operations, net of income tax expense	12,112	9,277	-	21,389
Earnings (loss) including noncontrolling interests	117,980	(1,395)	3,386	119,971
Loss (earnings) attributable to noncontrolling interests from continuing operations	(827)	936	-	109
Earnings attributable to noncontrolling interests from discontinued operations	-	(2,927)	-	(2,927)
Net earnings attributable to NNN	<u>\$ 117,153</u>	<u>\$ (3,386)</u>	<u>\$ 3,386</u>	<u>\$ 117,153</u>
Assets	<u>\$ 2,650,040</u>	<u>\$ 128,916</u>	<u>\$ (129,485)</u>	<u>\$ 2,649,471</u>
Additions to long-lived assets: Real estate	<u>\$ 352,618</u>	<u>\$ 33,745</u>	<u>\$ -</u>	<u>\$ 386,363</u>

<u>2007</u>	Investment Assets	Inventory Assets	Eliminations (Intercompany)	Consolidated Totals
External revenues	\$ 170,054	\$ 327	\$ -	\$ 170,381
Intersegment revenues	15,851	-	(15,851)	-
Interest revenue	8,858	40	-	8,898
Interest revenue on Residuals	4,882	-	-	4,882
Gain on the disposition of real estate, Inventory Portfolio	-	(512)	844	332
Interest expense	58,193	8,502	(14,849)	51,846
Depreciation and amortization	31,232	108	-	31,340
Operating expenses	23,733	7,637	-	31,370
Impairments – real estate	288	128	-	416
Impairments – commercial mortgage residual interests valuation adjustment	638	-	-	638
Equity in earnings of unconsolidated affiliates	(1,700)	-	1,749	49
Income tax benefit	2,451	5,849	-	8,300
Earnings (loss) from continuing operations	86,312	(10,671)	1,591	77,232
Earnings from discontinued operations, net of income tax expense	68,976	9,534	-	78,510
Earnings including noncontrolling interests	155,288	(1,137)	1,591	155,742
Loss (earnings) attributable to noncontrolling interests from continuing operations	(689)	845	-	156
Earnings attributable to noncontrolling interests from discontinued operations	-	(1,299)	-	(1,299)
Net earnings attributable to NNN	\$ 154,599	\$ (1,591)	\$ 1,591	\$ 154,599
Assets	\$ 2,519,428	\$ 263,368	\$ (243,124)	\$ 2,539,672
Additions to long-lived assets: Real estate	\$ 677,101	\$ 165,160	\$ -	\$ 842,261

#### **Note 24 – Fair Value Measurements:**

NNN currently values its Residuals based upon an independent valuation which provides a discounted cash flow analysis based upon prepayment speeds, expected loan losses and yield curves. These valuation inputs are generally considered unobservable; therefore, the Residuals are considered Level 3 financial assets. The table below presents a reconciliation of the Residuals during the year ended December 31, 2009 (dollars in thousands):

Balance at beginning of period	\$ 22,000
Total gains (losses) – realized/unrealized:	
Included in earnings	(498)
Included in other comprehensive income	(1,640)
Interest income on Residuals	4,252
Cash received from Residuals	(3,961)
Purchases, sales, issuances and settlements, net	-
Transfers in and/or out of Level 3	-
Balance at end of period	\$ 20,153
Changes in gains (losses) included in earnings attributable to a change in unrealized gains (losses) relating to assets still held at the end of period	\$ 9



**Note 25 – Major Tenants:**

As of December 31, 2009, NNN did not have any tenant that accounted for ten percent or more of its rental and earned income.

**Note 26 – Commitments and Contingencies:**

As of December 31, 2009, NNN had letters of credit totaling \$653,000 outstanding under its Credit Facility.

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

**Note 27 – Subsequent Events:**

NNN reviewed all subsequent events and transactions that have occurred after December 31, 2009, the date of the consolidated balance sheet, through February 25, 2010, the date of filing this Annual Report on Form 10-K. Other than included herein, there were no subsequent events or transactions.

## **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.

NNN carried out an assessment as of December 31, 2009, 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 NNN's Chief Executive Officer and Chief Financial Officer. Rules adopted by the Securities and Exchange Commission (the "Commission") require NNN to present the conclusions of the Chief Executive Officer and Chief Financial Officer about the effectiveness of NNN's disclosure controls and procedures and the conclusions of NNN's management about the effectiveness of NNN'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 NNN'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 stockholders 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 providing reasonable assurance that information required to be disclosed in NNN'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 providing reasonable assurance that such information is accumulated and communicated to NNN'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, NNN's Chief Executive Officer and Chief Financial Officer, and affected by NNN'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 NNN'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 NNN'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 NNN's assets that could have a material adverse effect on NNN's financial statements.

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

NNN's internal control over financial reporting is also assessed on an ongoing basis by personnel in NNN's Accounting department and by NNN's internal auditors in connection with their internal audit activities. The overall goals of these various assessment activities are to monitor NNN's disclosure controls and procedures and NNN's internal control over financial reporting and to make modifications as necessary. NNN'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. 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 NNN's on-going procedures. The assessments of NNN's disclosure controls and procedures and NNN'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 NNN'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, NNN's Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2009, NNN's disclosure controls and procedures were effective.

#### Management's Report on Internal Control over Financial Reporting.

Management, including NNN's Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal control over financial reporting for NNN. 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 NNN's internal control over financial reporting. Based upon the assessments, NNN's Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2009, NNN's internal control over financial reporting was effective.

#### Attestation Report of the Registered Public Accounting Firm.

Ernst & Young LLP, NNN's independent registered public accounting firm, audited the financial statements included in this Annual Report on Form 10-K and has issued an attestation report on NNN's 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, 2009, there were no changes in NNN's internal control over financial reporting that has materially affected, or are reasonably likely to materially affect, NNN's internal control for financial reporting.

#### Limitations on the Effectiveness of Controls.

Management, including NNN's Chief Executive Officer and Chief Financial Officer, do not expect that NNN's disclosure controls and procedures or NNN'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 NNN 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 Relationships and Related 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 "Proposal II: Proposal to Ratify Independent Registered Public Accounting Firm," and the information in such sections are 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	45
Consolidated Balance Sheets as of December 31, 2009 and 2008	47
Consolidated Statements of Earnings for the years ended December 31, 2009, 2008 and 2007	48
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2009, 2008 and 2007	50
Consolidated Statements of Cash Flows for the years ended December 31, 2009, 2008 and 2007	53
Notes to Consolidated Financial Statements	56

(2) Financial Statement Schedules

Schedule III – Real Estate and Accumulated Depreciation and Amortization and Notes as of December 31, 2009

Schedule IV – Mortgage Loans on Real Estate and Notes as of December 31, 2009

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.

3. Articles of Incorporation and Bylaws

- 3.1 First Amended and Restated Articles of Incorporation of the Registrant, as amended (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on May 1, 2006, and incorporated herein by reference).
- 3.2 Articles Supplementary Establishing and Fixing the Rights and Preferences of 7.375% Series C Cumulative Preferred Stock, par value \$0.01 per share, dated October 11, 2006 (filed as Exhibit 3.2 to the Registrant's Registration Statement on Form 8-A dated October 11, 2006 and filed with the Securities and Exchange Commission on October 12, 2006, and incorporated herein by reference).
- 3.3 Third Amended and Restated Bylaws of the Registrant, as amended (filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on May 1, 2006, and incorporated herein by reference; second amendment filed as Exhibit 3.1 to

the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 14, 2007, and incorporated herein by reference).

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

- 4.1 Specimen Certificate of Common Stock, par value \$0.01 per share, of the Registrant (filed as Exhibit 3.4 to the Registrant's Registration Statement No. 1-11290 on Form 8-B filed with the Securities and Exchange Commission and incorporated herein by reference).
- 4.2 Indenture, dated as of March 25, 1998, between the Registrant and First Union National Bank, as trustee (filed as Exhibit 4.4 to the Registrant's Registration Statement on Form S-3 (Registration No. 333-132095) filed with the Securities and Exchange Commission on February 28, 2006, and incorporated herein by reference).
- 4.3 Form of Supplemental Indenture No. 3 dated September 20, 2000, by and among Registrant and First Union National Bank, Trustee, relating to \$20,000,000 of 8.5% Notes due 2010 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on September 20, 2000, and incorporated herein by reference).
- 4.4 Form of 8.5% Notes due 2010 (filed as Exhibit 4.3 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on September 20, 2000, and incorporated herein by reference).
- 4.5 Form of Supplemental Indenture No. 4 dated as of May 30, 2002, by and among Registrant and Wachovia Bank, National Association, Trustee, relating to \$50,000,000 of 7.75% Notes due 2012 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on June 4, 2002, and incorporated herein by reference).
- 4.6 Form of 7.75% Notes due 2012 (filed as Exhibit 4.3 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on June 4, 2002, and incorporated herein by reference).
- 4.7 Form of Supplemental Indenture No. 5 dated as of June 18, 2004, by and among Registrant and Wachovia Bank, National Association, Trustee, relating to \$150,000,000 of 6.25% Notes due 2014 (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated June 15, 2004 and filed with the Securities and Exchange Commission on June 18, 2004, and incorporated herein by reference).
- 4.8 Form of 6.25% Notes due 2014 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated June 15, 2004 and filed with the Securities and Exchange Commission on June 18, 2004, and incorporated herein by reference).

- 4.9 Form of Supplemental Indenture No. 6 dated as of November 17, 2005, by and among Registrant and Wachovia Bank, National Association, Trustee, relating to \$150,000,000 of 6.15% Notes due 2015 (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated November 14, 2005 and filed with the Securities and Exchange Commission on November 17, 2005, and incorporated herein by reference).
- 4.10 Form of 6.15% Notes due 2015 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated November 14, 2005 and filed with the Securities and Exchange Commission on November 17, 2005, and incorporated herein by reference).
- 4.11 Seventh Supplemental Indenture, dated as of September 13, 2006, between National Retail Properties, Inc. and U.S. Bank National Association relating to 3.95% Convertible Senior Notes due 2026 (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated September 7, 2006 and filed with the Securities and Exchange Commission on September 13, 2006, and incorporated herein by reference).
- 4.12 Form of 3.95% Convertible Senior Notes due 2026 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated September 7, 2006 and filed with the Securities and Exchange Commission on September 13, 2006, and incorporated herein by reference).
- 4.13 Specimen certificate representing the 7.375% Series C Cumulative Redeemable Preferred Stock, par value \$.01 per share, of the Registrant (filed as Exhibit 4.4 to the Registrant's Registration Statement on Form 8-A dated October 11, 2006 and filed with the Securities and Exchange Commission on October 12, 2006, and incorporated herein by reference).
- 4.14 Deposit Agreement, among the Registrant, American Stock Transfer & Trust Company, as Depositary, and the holders of depositary receipts (filed as Exhibit 4.18 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 6, 2006, and incorporated herein by reference).
- 4.15 Form of Supplemental Indenture No. 8 between National Retail Properties, Inc. and U.S. Bank National Association relating to 6.875% Notes due 2017 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on September 4, 2007, and incorporated herein by reference).
- 4.16 Form of 6.875% Notes due 2017 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on September 4, 2007, and incorporated herein by reference).
- 4.17 Form of Ninth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 5.125% Convertible Senior Notes due 2028 (filed as Exhibit 4.1 to Registrants' Current Report on Form 8-K dated February 27, 2008 and filed with the Securities and Exchange Commission on March 4, 2008, and incorporated herein by reference).

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

10. Material Contracts

- 10.1 2007 Performance Incentive Plan (filed as Annex A to the Registrant's 2007 Annual Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 3, 2007, and incorporated herein by reference).
- 10.2 Form of Restricted Stock Agreement between NNN and the Participant of NNN (filed as Exhibit 10.2 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2005, and incorporated herein by reference).
- 10.3 Employment Agreement dated as of December 1, 2008, between the Registrant and Craig Macnab (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).
- 10.4 Employment Agreement dated as of December 1, 2008, between the Registrant and Julian E. Whitehurst (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).
- 10.5 Employment Agreement dated as of December 1, 2008, between the Registrant and Kevin B. Habicht (filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).
- 10.6 Employment Agreement dated as of December 1, 2008, between the Registrant and Paul E. Bayer (filed as Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).
- 10.7 Employment Agreement dated as of December 1, 2008, between the Registrant and Christopher P. Tessitore (filed as Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).
- 10.8 Form of Indemnification Agreement (as entered into between the Registrant and each of its directors and executive officers) (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on June 12, 2009, and incorporated herein by reference).
- 10.9 Eighth Amended and Restated Line of Credit and Security Agreement, dated December 13, 2005, by and among the Registrant, certain lenders and Wachovia Bank, N.A., as the Agent (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on December 15, 2005, and incorporated herein by reference).



- 10.10 First Amendment to Eighth Amended and Restated Line of Credit and Security Agreement, dated February 20, 2007, by and among the Registrant, certain lenders and Wachovia Bank, N.A., as the Agent (filed as Exhibit 10.8 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 21, 2007, and incorporated herein by reference).
- 10.11 Credit Agreement, dated as of November 3, 2009, by and among the Registrant, certain lenders and Wells Fargo Bank, National Association, as the Administrative Agent (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 5, 2009, and incorporated herein by reference).
- 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 25, 2010 (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 25<sup>th</sup> day of February, 2010.

NATIONAL RETAIL PROPERTIES, INC.

By: /s/ Craig Macnab  
Craig Macnab  
Chairman of the Board 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.

## POWER OF ATTORNEY

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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Craig Macnab</u> Craig Macnab	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	February 25, 2010
<u>/s/ Ted B. Lanier</u> Ted B. Lanier	Lead Director	February 25, 2010
<u>/s/ Don DeFosset</u> Don DeFosset	Director	February 25, 2010
<u>/s/ Dennis E. Gershenson</u> Dennis E. Gershenson	Director	February 25, 2010
<u>/s/ Richard B. Jennings</u> Richard B. Jennings	Director	February 25, 2010
<u>/s/ Robert C. Legler</u> Robert C. Legler	Director	February 25, 2010
<u>/s/ Robert Martinez</u> Robert Martinez	Director	February 25, 2010
<u>/s/ Kevin B. Habicht</u> Kevin B. Habicht	Director, Chief Financial Officer (Principal Financial and Accounting Officer), Executive Vice President, Assistant Secretary and Treasurer	February 25, 2010

## 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

Independent Registered  
Public Accounting Firm:  
Ernst & Young LLP  
Orlando, FL

### Counsel:

Pillsbury Winthrop Shaw Pittman LLP  
Washington, D.C.

### Corporate Office:

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 2009, 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 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 2009, 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

450 S. Orange Avenue, Suite 900  
Orlando, FL 32801  
(800) NNN-REIT  
[www.nnnreit.com](http://www.nnnreit.com)



**Mixed Sources**  
Product group from well-managed  
forests and other controlled sources  
[www.fsc.org](http://www.fsc.org) Cert no.  
© 1996 Forest Stewardship Council