

NATIONAL RETAIL PROPERTIES, INC.  
Form 10-Q  
May 05, 2015

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

FORM 10-Q

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

For the quarterly period ended March 31, 2015

OR

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

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

NATIONAL RETAIL PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of  
incorporation or organization)

56-1431377

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

450 South Orange Avenue, Suite 900

Orlando, Florida 32801

(Address of principal executive offices, including zip code)

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

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

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

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

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

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

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

134,007,840 shares of common stock, \$0.01 par value, outstanding as of April 29, 2015.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share data)

|  | March 31, 2015 | December 31,<br>2014 |
|--|----------------|----------------------|
| ASSETS   | (unaudited)    |                      |
| Real estate portfolio:   |                |                      |
| Accounted for using the operating method, net of accumulated depreciation and amortization   | \$4,823,155    | \$4,716,923          |
| Accounted for using the direct financing method  | 16,329         | 16,974               |
| Real estate held for sale  | 4,731          | 6,152                |
| Mortgages, notes and accrued interest receivable   | 11,220         | 11,075               |
| Commercial mortgage residual interests   | 11,132         | 11,626               |
| Cash and cash equivalents  | 4,456          | 10,604               |
| Receivables, net of allowance of \$1,887 and \$1,784, respectively   | 1,969          | 3,013                |
| Accrued rental income, net of allowance of \$3,086   | 25,592         | 25,659               |
| Debt costs, net of accumulated amortization of \$13,787 and \$14,353, respectively   | 15,744         | 16,453               |
| Other assets   | 106,508        | 108,235              |
| Total assets   | \$5,020,836    | \$4,926,714          |
| LIABILITIES AND EQUITY   |                |                      |
| Liabilities:   |                |                      |
| Line of credit payable   | \$41,900       | \$—                  |
| Mortgages payable, including unamortized premium of \$839 and \$890, respectively  | 25,878         | 26,339               |
| Notes payable, net of unamortized discount of \$9,968 and \$10,285, respectively   | 1,715,032      | 1,714,715            |
| Accrued interest payable   | 29,303         | 17,396               |
| Other liabilities  | 84,892         | 85,172               |
| Total liabilities  | 1,897,005      | 1,843,622            |
| Equity:  |                |                      |
| Stockholders' equity:  |                |                      |
| Preferred stock, \$0.01 par value. Authorized 15,000,000 shares  |                |                      |
| 6.625% Series D, 115,000 shares issued and outstanding, at stated liquidation value of \$2,500 per share                               | 287,500        | 287,500              |
| 5.700% Series E, 115,000 shares issued and outstanding, at stated liquidation value of \$2,500 per share                               | 287,500        | 287,500              |
| Common stock, \$0.01 par value. Authorized 375,000,000 shares; 133,446,857 and 132,010,104 shares issued and outstanding, respectively | 1,336          | 1,322                |
| Capital in excess of par value   | 2,762,461      | 2,711,678            |
| Retained earnings (loss)   | (207,022)      | (196,827)            |
| Accumulated other comprehensive income (loss)  | (8,517)        | (8,658)              |
| Total stockholders' equity of NNN  | 3,123,258      | 3,082,515            |
| Noncontrolling interests   | 573            | 577                  |
| Total equity   | 3,123,831      | 3,083,092            |
| Total liabilities and equity   | \$5,020,836    | \$4,926,714          |

See accompanying notes to condensed consolidated financial statements.

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

|   | Quarter Ended March 31, |          |   |
|---|-------------------------|----------|---|
|   | 2015                    | 2014     |   |
| Revenues:   |                         |          |   |
| Rental income from operating leases   | \$111,474               | \$99,055 |   |
| Earned income from direct financing leases                                    | 405                     | 443      |   |
| Percentage rent   | 185                     | 90       |   |
| Real estate expense reimbursement from tenants                                | 3,515                   | 3,232    |   |
| Interest and other income from real estate transactions                       | 163                     | 792      |   |
| Interest income on commercial mortgage residual interests                     | 445                     | 452      |   |
|   | 116,187                 | 104,064  |   |
| Operating expenses:   |                         |          |   |
| General and administrative  | 8,605                   | 8,706    |   |
| Real estate   | 4,759                   | 4,340    |   |
| Depreciation and amortization   | 32,141                  | 28,012   |   |
| Impairment – commercial mortgage residual interests valuation                 | —                       | 158      |   |
| Impairment losses   | 1,028                   | 396      |   |
|   | 46,533                  | 41,612   |   |
| Earnings from operations  | 69,654                  | 62,452   |   |
| Other expenses (revenues):  |                         |          |   |
| Interest and other income   | (11                     | ) (63    | ) |
| Interest expense  | 21,786                  | 20,278   |   |
| Real estate acquisition costs   | 599                     | 209      |   |
|   | 22,374                  | 20,424   |   |
| Earnings from continuing operations before income tax benefit (expense)       | 47,280                  | 42,028   |   |
| Income tax benefit (expense)  | (442                    | ) 93     |   |
| Earnings from continuing operations   | 46,838                  | 42,121   |   |
| Loss from discontinued operations, net of income tax expense                  | —                       | (36      | ) |
| Earnings before gain on disposition of real estate, net of income tax expense | 46,838                  | 42,085   |   |
| Gain on disposition of real estate, net of income tax expense                 | 7,200                   | 1,756    |   |
| Earnings including noncontrolling interests                                   | 54,038                  | 43,841   |   |
| Earnings attributable to noncontrolling interests:                            |                         |          |   |
| Continuing operations   | (60                     | ) (508   | ) |
| Net earnings attributable to NNN  | \$53,978                | \$43,333 |   |

See accompanying notes to condensed consolidated financial statements.

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

|  | Quarter Ended March 31, |             |
|--|-------------------------|-------------|
|  | 2015                    | 2014        |
| Net earnings attributable to NNN                         | \$53,978                | \$43,333    |
| Series D preferred stock dividends                       | (4,762                  | ) (4,762    |
| Series E preferred stock dividends                       | (4,097                  | ) (4,097    |
| Net earnings attributable to common stockholders         | \$45,119                | \$34,474    |
| Net earnings per share of common stock:                  |                         |             |
| Basic:   |                         |             |
| Continuing operations                                    | \$0.34                  | \$0.28      |
| Discontinued operations                                  | —                       | —           |
| Net earnings   | \$0.34                  | \$0.28      |
| Diluted:   |                         |             |
| Continuing operations                                    | \$0.34                  | \$0.28      |
| Discontinued operations                                  | —                       | —           |
| Net earnings   | \$0.34                  | \$0.28      |
| Weighted average number of common shares outstanding:    |                         |             |
| Basic  | 131,665,258             | 121,575,983 |
| Diluted  | 132,109,965             | 121,866,951 |
| Other comprehensive income:                              |                         |             |
| Net earnings attributable to NNN                         | \$53,978                | \$43,333    |
| Amortization of interest rate hedges                     | 414                     | 135         |
| Fair value forward starting swaps                        | —                       | (3,373      |
| Net gain (loss) – commercial mortgage residual interests | (346                    | ) 684       |
| Net gain – available-for-sale securities                 | 73                      | 115         |
| Comprehensive income attributable to NNN                 | \$54,119                | \$40,894    |

See accompanying notes to condensed consolidated financial statements.

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

|  | Quarter Ended March 31, |           |   |
|--|-------------------------|-----------|---|
|  | 2015                    | 2014      |   |
| Cash flows from operating activities:  |                         |           |   |
| Earnings including noncontrolling interests  | \$54,038                | \$43,841  |   |
| Adjustments to reconcile net earnings to net cash provided by operating activities:                                  |                         |           |   |
| Depreciation and amortization  | 32,141                  | 28,012    |   |
| Impairment charges   | 1,028                   | 459       |   |
| Impairment – commercial mortgage residual interests valuation  | —                       | 158       |   |
| Amortization of notes payable discount   | 317                     | 302       |   |
| Amortization of debt costs   | 709                     | 656       |   |
| Amortization of mortgages payable premium  | (52                     | ) (15     | ) |
| Amortization of deferred interest rate hedges  | 414                     | 135       |   |
| Gain on disposition of real estate   | (7,230                  | ) (1,963  | ) |
| Performance incentive plan expense   | 2,575                   | 2,338     |   |
| Performance incentive plan payment   | (676                    | ) (2,808  | ) |
| Change in operating assets and liabilities, net of assets acquired and liabilities assumed in business combinations: |                         |           |   |
| Decrease in real estate leased to others using the direct financing method   | 334                     | 328       |   |
| Decrease (increase) in mortgages, notes and accrued interest receivable  | 59                      | (137      | ) |
| Decrease in receivables  | 1,044                   | 417       |   |
| Increase in accrued rental income  | (205                    | ) (601    | ) |
| Decrease in other assets   | 4,539                   | 742       |   |
| Increase in accrued interest payable   | 11,907                  | 10,854    |   |
| Decrease in other liabilities  | (4,311                  | ) (3,205  | ) |
| Other  | 507                     | 299       |   |
| Net cash provided by operating activities  | 97,138                  | 79,812    |   |
| Cash flows from investing activities:  |                         |           |   |
| Proceeds from the disposition of real estate   | 22,697                  | 12,301    |   |
| Additions to real estate:  |                         |           |   |
| Accounted for using the operating method   | (151,319                | ) (89,862 | ) |
| Increase in mortgages and notes receivable   | —                       | (3,245    | ) |
| Principal payments on mortgages and notes receivable   | 296                     | 214       |   |
| Other  | (593                    | ) (1,100  | ) |
| Net cash used in investing activities  | (128,919                | ) (81,692 | ) |

See accompanying notes to condensed consolidated financial statements.

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

|  | Quarter Ended March 31, |           |
|--|-------------------------|-----------|
|  | 2015                    | 2014      |
| Cash flows from financing activities:  |                         |           |
| Proceeds from line of credit payable   | \$227,100               | \$251,000 |
| Repayment of line of credit payable  | (185,200)               | (205,900) |
| Repayment of mortgages payable   | (409)                   | (279)     |
| Proceeds from issuance of common stock   | 49,370                  | 21,144    |
| Payment of Series D Preferred Stock dividends  | (4,762)                 | (4,762)   |
| Payment of Series E Preferred Stock dividends  | (4,097)                 | (4,097)   |
| Stock issuance costs   | (991)                   | (304)     |
| Payment of common stock dividends  | (55,314)                | (49,273)  |
| Noncontrolling interest distributions  | (64)                    | (1,208)   |
| Net cash provided by financing activities  | 25,633                  | 6,321     |
| Net increase (decrease) in cash and cash equivalents   | (6,148)                 | 4,441     |
| Cash and cash equivalents at beginning of period   | 10,604                  | 1,485     |
| Cash and cash equivalents at end of period   | \$4,456                 | \$5,926   |
| Supplemental disclosure of cash flow information:  |                         |           |
| Interest paid, net of amount capitalized   | \$8,881                 | \$8,781   |
| Taxes paid   | \$116                   | \$27      |
| Supplemental disclosure of noncash investing and financing activities:   |                         |           |
| Issued 267,133 and 371,134 shares of restricted and unrestricted common stock in 2015 and 2014, respectively, pursuant to NNN's performance incentive plan | \$8,285                 | \$10,345  |
| Issued 3,602 and 3,985 shares of common stock in 2015 and 2014, respectively, to directors pursuant to NNN's performance incentive plan                    | \$154                   | \$132     |
| Issued 3,435 and 4,162 shares of common stock in 2015 and 2014, respectively, pursuant to NNN's Deferred Director Fee Plan                                 | \$66                    | \$66      |
| Change in other comprehensive income   | \$141                   | \$2,439   |
| Mortgage receivable accepted in connection with real estate transactions   | \$500                   | \$—       |
| Note receivable accepted in connection with real estate transactions   | \$—                     | \$70      |
| Change in lease classification (direct financing lease to operating lease)   | \$311                   | \$—       |

See accompanying notes to condensed consolidated financial statements.



NATIONAL RETAIL PROPERTIES, INC.  
and SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2015  
(Unaudited)

Note 1 – Organization and Summary of Significant Accounting Policies:

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

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

March 31, 2015

Property Portfolio:

|   |            |
|---|------------|
| Total properties                              | 2,104      |
| Gross leasable area (square feet)             | 23,146,000 |
| States  | 47         |
| Weighted average remaining lease term (years) | 11.5       |

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by U.S. generally accepted accounting principles (“GAAP”). The unaudited condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. Operating results for the quarter ended March 31, 2015, may not be indicative of the results that may be expected for the year ending December 31, 2015. Amounts as of December 31, 2014, included in the condensed consolidated financial statements have been derived from the audited consolidated financial statements as of that date. The unaudited condensed consolidated financial statements, included herein, should be read in conjunction with the consolidated financial statements and notes thereto as well as Management's Discussion and Analysis of Financial Condition and Results of Operations in NNN's Form 10-K for the year ended December 31, 2014.

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

Real Estate Portfolio – NNN records the acquisition of real estate which is not subject to a lease at cost, including acquisition and closing costs. The cost of properties developed by NNN includes direct and indirect costs of construction, property taxes, interest and other miscellaneous costs incurred during the development period until the project is substantially complete and available for occupancy. During the quarters ended March 31, 2015 and 2014, NNN recorded \$390,000 and \$434,000, respectively, in capitalized interest during development.

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 and the value of in-place leases, based on their respective fair values. Acquisition costs incurred in connection with a business combination are expensed when incurred.

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

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

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

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

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

|   | March 31, 2015 | December 31, 2014 |
|---|----------------|-------------------|
| Intangible lease assets (included in Other assets):           |                |                   |
| Value of above market in-place leases, net                    | \$11,937       | \$11,751          |
| Value of in-place leases, net                                 | 68,118         | 65,770            |
| Intangible lease liabilities (included in Other liabilities): |                |                   |
| Value of below market in-place leases, net                    | 28,522         | 29,162            |

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

Cash accounts maintained on behalf of NNN in demand deposits at commercial banks and money market funds may exceed federally insured levels or may be held in accounts without any federal insurance or any other insurance or guarantee. However, NNN has not experienced any losses in such accounts.

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

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

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

|  | Quarter Ended March 31, |             |
|--|-------------------------|-------------|
|  | 2015                    | 2014        |
| Basic and Diluted Earnings:  |                         |             |
| Net earnings attributable to NNN   | \$53,978                | \$43,333    |
| Less: Series D preferred stock dividends   | (4,762                  | ) (4,762    |
| Less: Series E preferred stock dividends   | (4,097                  | ) (4,097    |
| Net earnings available to NNN's common stockholders                              | 45,119                  | 34,474      |
| Less: Earnings allocated to unvested restricted shares                           | (163                    | ) (163      |
| Net earnings used in basic and diluted earnings per share                        | \$44,956                | \$34,311    |
| Basic and Diluted Weighted Average Shares Outstanding:                           |                         |             |
| Weighted average number of shares outstanding                                    | 132,453,638             | 122,412,739 |
| Less: Unvested restricted stock  | (388,331                | ) (403,309  |
| Less: Unvested contingent shares   | (400,049                | ) (433,447  |
| Weighted average number of shares outstanding used in basic earnings per share   | 131,665,258             | 121,575,983 |
| Other dilutive securities  | 444,707                 | 290,968     |
| Weighted average number of shares outstanding used in diluted earnings per share | 132,109,965             | 121,866,951 |

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

Level 1 – Valuation is based upon quoted prices in active markets for identical assets or liabilities.

Level 2 – Valuation is based upon inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include option pricing models, discounted cash flow models and similar techniques.

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

|   | Gains or Losses<br>on Cash Flow<br>Hedges <sup>(1)</sup> | Gains and<br>Losses on<br>Commercial<br>Mortgage<br>Residual<br>Interests <sup>(2)</sup> | Gains and Losses<br>on<br>Available-for-Sale<br>Securities | Total    |
|---|--|--|--|----------|
| Beginning balance, December 31, 2014  | \$(13,579  | ) \$4,793  | \$ 128   | \$(8,658 |
| Other comprehensive income (loss)   | —  | (346   | ) 73   | (273     |
| Reclassifications from accumulated other comprehensive income to net earnings | 414  | <sup>(3)</sup> —   | —  | 414      |

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|  |           |      |         |        |          |   |
|--|-----------|------|---------|--------|----------|---|
| Net current period other comprehensive income (loss) | 414       | (346 | )       | 73     | 141      |   |
| Ending balance, March 31, 2015                       | \$(13,165 | )    | \$4,447 | \$ 201 | \$(8,517 | ) |

<sup>(1)</sup> Additional disclosure is included in Note 7 – Derivatives.

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(2) Additional disclosure is included in Note 8 – Fair Value Measurements.

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

**New Accounting Pronouncements** – In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606),” effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. The core principle of ASU 2014-09, is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Certain contracts are excluded from ASU 2014-09, including lease contracts within the scope of the FASB guidance included in Leases. NNN is currently evaluating to determine the potential impact, if any, the adoption of ASU 2014-09 will have on its financial position and results of operations.

In June 2014, the FASB issued ASU 2014-12, "Compensation – Stock Compensation (Topic 718)," effective for annual periods and interim periods within those periods beginning after December 15, 2015. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. NNN is currently evaluating to determine the potential impact, if any, the adoption of ASU 2014-12 will have on its financial position and results of operations.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205-40)," effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The amendments in this update provide guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. NNN is currently evaluating to determine the potential disclosure impact, if any, the adoption of ASU 2014-15 will have on footnote disclosures.

In November 2014, the FASB issued ASU 2014-16, "Derivatives and Hedging (Topic 815)." Entities commonly raise capital by issuing different classes of shares, including preferred stock, that entitle the holders to certain preferences and rights over the other shareholders. The specific terms of those shares may include conversion rights, redemption rights, voting rights, and liquidation and dividend payment preferences, among other features. One or more of those features may meet the definition of a derivative under GAAP. Shares that include such embedded derivative features are referred to as hybrid financial instruments. The objective of this update is to eliminate the use of different methods in practice and thereby reduce existing diversity under GAAP in the accounting for hybrid financial instruments issued in the form of a share. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. NNN is currently evaluating to determine the potential impact, if any, the adoption of ASU 2014-16 will have on its financial position and results of operations.

In January 2015, the FASB issued ASU 2015-01, "Income Statement - Extraordinary and Unusual Items (Subtopic 225-20)," effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. This update eliminates from GAAP the concept of extraordinary items. NNN is currently evaluating to determine the potential disclosure impact, if any, the adoption of ASU 2015-01 will have on its financial position and results of operations.

In February 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810)," effective for fiscal years, and for interim periods within those years, beginning after December 15, 2015. The amendments in this update affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. NNN is currently evaluating to determine the potential impact, if any, the adoption of ASU 2015-02 will have on its financial position and results of operations.

In April 2015, the FASB issued ASU 2015-03, "Interest - Imputation of Interest (Subtopic 835-30)". To simplify presentation of debt issuance costs, the amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within fiscal years beginning after December 15, 2016. NNN is currently evaluating to determine the potential impact, if any, the adoption of ASU 2015-03 will

have on its financial position and results of operations.

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

Reclassification – Certain items in the prior year’s consolidated financial statements and notes to consolidated financial statements have been reclassified to conform to the 2015 presentation.

## Note 2 – Real Estate:

## Real Estate – Portfolio

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

March 31, 2015

## Lease classification:

|  |       |
|--|-------|
| Operating  | 2,140 |
| Direct financing   | 11    |
| Building portion – direct financing/land portion – operating | 1     |
| Weighted average remaining lease term (years)                | 11.5  |

The leases generally provide for limited increases in rent as a result of fixed increases, increases in the consumer price index, and/or increases in the tenant’s sales volume. Generally, the tenant is also required to pay all property taxes and assessments, substantially maintain the Property and carry property and liability insurance coverage. Certain of the Properties are subject to leases under which NNN retains responsibility for specific costs and expenses of the Property. Generally, the leases provide the tenant with one or more multi-year renewal options subject to generally the same terms and conditions of the base term of the lease, including rent increases.

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

|  | March 31, 2015 | December 31, 2014 |
|--|----------------|-------------------|
| Land and improvements                          | \$1,816,363    | \$1,783,822       |
| Buildings and improvements                     | 3,515,904      | 3,414,570         |
| Leasehold interests                            | 1,290          | 1,290             |
|  | 5,333,557      | 5,199,682         |
| Less accumulated depreciation and amortization | (538,435       | ) (511,667        |
|  | 4,795,122      | 4,688,015         |
| Work in progress                               | 28,033         | 28,908            |
|  | \$4,823,155    | \$4,716,923       |

## Real Estate – Held For Sale

On a quarterly basis, the Company evaluates its Properties for held for sale classification based on specific criteria as outlined in ASC 360, Property, Plant & Equipment, including management’s intent to commit to a plan to sell the asset. In January 2014, NNN completed a strategic review of its Properties held for sale and reclassified one Property that was previously held for sale to held for investment, included in Real Estate – Portfolio. As of March 31, 2015, NNN had six Properties categorized as held for sale. NNN anticipates the disposition of these Properties to occur within 12 months. NNN’s real estate held for sale at December 31, 2014, includes eight properties, two of which were subsequently sold in 2015. Real estate held for sale consisted of the following as of (dollars in thousands):

|  | March 31, 2015 | December 31, 2014 |
|--|----------------|-------------------|
| Land and improvements                          | \$3,592        | \$3,918           |
| Building and improvements                      | 2,461          | 4,765             |
|  | 6,053          | 8,683             |
| Less accumulated depreciation and amortization | (757           | ) (1,509          |
| Less impairment                                | (565           | ) (1,022          |
|  | \$4,731        | \$6,152           |



## Real Estate – Dispositions

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

|  | Quarter Ended March 31, |         |                      |         |
|--|-------------------------|---------|----------------------|---------|
|  | 2015                    |         | 2014                 |         |
|  | # of Sold Properties    | Gain    | # of Sold Properties | Gain    |
| Gain on disposition of real estate                                     | 6                       | \$7,230 | 2                    | \$1,954 |
| Income tax expense   |                         | (30 )   |                      | (198 )  |
|  |                         | 7,200   |                      | 1,756   |
| Gain on disposition of real estate included in discontinued operations | —                       | —       | 2                    | 9 (1)   |
|  |                         | \$7,200 |                      | \$1,765 |

(1) Amount includes deferred gain on previously sold properties.

## Real Estate – Commitments

NNN has agreed to fund construction commitments on leased Properties. The improvements are estimated to be completed within 12 months. These construction commitments, as of March 31, 2015, are outlined in the table below (dollars in thousands):

|                                 |           |
|---------------------------------|-----------|
| Number of properties            | 30        |
| Total commitment <sup>(1)</sup> | \$119,818 |
| Amount funded                   | \$57,027  |
| Remaining commitment            | \$62,791  |

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

## Real Estate – Impairments

Management periodically assesses its real estate for possible impairment whenever certain events or changes in circumstances indicate that the carrying amount of the asset, including accrued rental income, may not be recoverable through operations. Events or circumstances that may occur include significant changes in real estate market conditions and the ability of NNN to re-lease or sell properties that are vacant or become vacant in a reasonable period of time. 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 (dollars in thousands):

|                         | Quarter Ended March 31, |       |
|-------------------------|-------------------------|-------|
|                         | 2015                    | 2014  |
| Continuing operations   | \$1,028                 | \$396 |
| Discontinued operations | —                       | 63    |
|                         | \$1,028                 | \$459 |

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

Note 3 – Line of Credit Payable:

NNN's \$650,000,000 revolving credit facility (the "Credit Facility") had a weighted average outstanding balance of \$25,489,000 and a weighted average interest rate of 1.1% during the quarter ended March 31, 2015. The Credit Facility matures January 2019, unless the Company exercises its option to extend maturity to January 2020. The Credit Facility bears interest at LIBOR plus 92.5 basis points; however, such interest rate may change pursuant to a tiered interest rate structure based on NNN's debt rating. The Credit Facility also includes an accordion feature to increase the facility size up to \$1,000,000,000, subject to lender approval. As of March 31, 2015, \$41,900,000 was outstanding and \$608,100,000 was available for future borrowings under the Credit Facility.

Note 4 – Notes Payable:

In May 2014, NNN filed a prospectus supplement to the prospectus contained in its February 2012 shelf registration statement and issued \$350,000,000 aggregate principal amount of 3.900% notes due June 2024 (the "2024 Notes"). The 2024 Notes were sold at a discount with an aggregate purchase price of \$349,293,000 with interest payable semi-annually commencing on December 15, 2014. The discount of \$707,000 is being amortized to interest expense over the term of the notes using the effective interest method. The effective interest rate for the 2024 Notes after accounting for the note discount is 3.924%. NNN previously entered into three forward starting swaps with an aggregate notional amount of \$225,000,000. Upon issuance of the 2024 Notes, NNN terminated the forward starting swaps resulting in a liability of \$6,312,000, which was deferred in other comprehensive income. The deferred liability is being amortized to interest expense over the term of the 2024 Notes using the effective interest method.

The 2024 Notes are senior unsecured obligations of NNN and are subordinated to all secured indebtedness and to the indebtedness and other liabilities of NNN's subsidiaries. Additionally, the 2024 Notes are redeemable at NNN's option, in whole or part anytime, for an amount equal to (i) the sum of the outstanding principal balance of the notes being redeemed plus accrued interest thereon to the redemption date, and (ii) the make whole amount, if any, as defined in the supplemental indenture dated May 5, 2014, relating to the 2024 Notes.

NNN received approximately \$346,068,000 of net proceeds in connection with the issuance of the 2024 Notes, after incurring debt issuance costs totaling \$3,225,000 consisting primarily of underwriting discounts and commissions, legal and accounting fees, rating agency fees and printing expenses.

Note 5 – Stockholders' Equity:

In February 2015, NNN filed a shelf registration statement with the Securities and Exchange Commission (the "Commission") which permits the issuance by NNN of an indeterminate amount of debt and equity securities.

In November 2014, NNN filed a prospectus supplement to the prospectus contained in its February 2012 shelf registration statement and issued 5,462,500 shares (including 712,500 shares in connection with the underwriters' over-allotment) of common stock at a price of \$38.16 per share and received net proceeds of \$199,961,000. In connection with this offering, NNN incurred stock issuance costs totaling approximately \$8,488,000, consisting primarily of underwriters' fees and commissions, legal and accounting fees and printing expenses.

Dividend Reinvestment and Stock Repurchase Plan – In February 2015, NNN filed a shelf registration statement with the Commission for its Dividend Reinvestment and Stock Purchase Plan ("DRIP") which permits the issuance by NNN of up to 16,000,000 shares of common stock. The following table outlines the common stock issuances pursuant to NNN's DRIP (dollars in thousands):

|                        | Quarter Ended March 31, |         |
|------------------------|-------------------------|---------|
|                        | 2015                    | 2014    |
| Shares of common stock | 31,854                  | 184,503 |
| Net proceeds           | \$1,142                 | \$6,107 |

At The Market Offerings – NNN established an at-the-market equity program ("ATM") which allows NNN to sell shares of common stock from time to time. The following outlines NNN's ATM programs:

|  | 2015 ATM      | 2013 ATM      | 2012 ATM      |
|--|---------------|---------------|---------------|
| Established date                         | February 2015 | March 2013    | May 2012      |
| Termination date                         | February 2018 | February 2015 | February 2015 |
| Total allowable shares                   | 10,000,000    | 9,000,000     | 9,000,000     |
| Total shares issued as of March 31, 2015 | 977,973       | 6,252,812     | 8,958,840     |

The following table outlines the common stock issuances pursuant to NNN's ATM equity program (dollars in thousands, except per share data):

|                                     | Quarter Ended March 31, |         |          |
|-------------------------------------|-------------------------|---------|----------|
|                                     | 2015                    | 2014    | 2013     |
| Shares of common stock              | 977,973                 | 214,000 | 432,000  |
| Average price per share (net)       | \$39.91                 | \$39.84 | \$34.91  |
| Net proceeds                        | \$39,031                | \$8,525 | \$15,080 |
| Stock issuance costs <sup>(1)</sup> | \$712                   | \$130   | \$265    |

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

No shares were issued under the 2012 ATM during the quarters ended March 31, 2015 and 2014.

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

|   | Quarter Ended March 31, |          |
|---|-------------------------|----------|
|   | 2015                    | 2014     |
| Series D preferred stock <sup>(1)</sup> : |                         |          |
| Dividends                                 | \$4,762                 | \$4,762  |
| Per depositary share                      | 0.414063                | 0.414063 |
| Series E preferred stock <sup>(1)</sup> : |                         |          |
| Dividends                                 | 4,097                   | 4,097    |
| Per depositary share                      | 0.356250                | 0.356250 |
| Common stock:                             |                         |          |
| Dividends                                 | 55,314                  | 49,273   |
| Per share                                 | 0.420                   | 0.405    |

<sup>(1)</sup> The Series D and E preferred stock have no maturity date and will remain outstanding unless redeemed.

In April 2015, NNN declared a dividend of \$0.420 per share, which is payable in May 2015 to its common stockholders of record as of April 30, 2015.

#### Note 6 – Income Taxes:

NNN has elected to be taxed as a REIT under the Internal Revenue Code ("Code"), commencing with its taxable year ended December 31, 1984. To qualify as a REIT, NNN must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its REIT taxable income to its stockholders. NNN intends to adhere to these requirements and maintain its REIT status. As a REIT, NNN generally will not be subject to corporate level federal income tax on taxable income that it distributes currently to its stockholders. NNN may be subject to certain state and local taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income, if any. The provision for federal income taxes in NNN's consolidated financial statements relates to its TRS operations and any potential taxable built-in gain. NNN did not

have significant tax provisions or deferred income tax items during the periods reported hereunder.

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

NNN has had no increases or decreases in unrecognized tax benefits for current or prior years. Further, no interest or penalties have been included since no reserves were recorded and no significant increases or decreases are expected to occur within the next 12 months. When applicable, such interest and penalties will be recorded as non-operating expenses. The periods that remain open under federal statute are 2011 through 2015. NNN also files tax returns in many states with varying open years under statute.

#### Note 7 – Derivatives:

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

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

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

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

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

The following table outlines NNN's derivatives which were hedging the risk of changes in forecasted interest payments on forecasted issuance of long-term debt (dollars in thousands):

| Terminated | Description                  | Aggregate Notional Amount | Fair Value When Terminated | Fair Value Deferred In Other Comprehensive Income <sup>(2)</sup> |
|------------|------------------------------|---------------------------|----------------------------|--|
| April 2013 | Four forward starting swaps  | \$240,000                 | \$3,156                    | \$ 3,141   |
| May 2014   | Three forward starting swaps | 225,000                   | 6,312                      | 6,312  |

<sup>(1)</sup> Liability

<sup>(2)</sup> The amount reported in accumulated other comprehensive income will be reclassified to interest expense as interest payments are made on the related notes payable.

As of March 31, 2015, \$13,165,000 remained in other comprehensive income related to the effective portion of NNN's previous interest rate hedges. During the quarters ended March 31, 2015 and 2014, NNN reclassified out of

comprehensive income \$414,000 and \$135,000, respectively, as an increase to interest expense. Over the next 12 months, NNN estimates that an additional \$1,707,000 will be reclassified as an increase in interest expense. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on NNN's long-term debt.

NNN does not use derivatives for trading or speculative purposes or currently have any derivatives that are not designated as hedges. NNN had no derivative financial instruments outstanding at March 31, 2015.

Note 8 – Fair Value Measurements:

NNN holds the commercial mortgage residual interests (“Residuals”) from seven securitizations. Each of the Residuals is recorded at fair value. 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.

NNN currently values its Residuals based upon a valuation which provides a discounted cash flow analysis based upon estimated 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 roll forward of the Residuals (dollars in thousands):

|   | Quarter Ended<br>March 31, 2015 |
|---|---------------------------------|
| Balance at beginning of period  | \$ 11,626                       |
| Total gains (losses) – realized/unrealized:   |                                 |
| Included in earnings  | —                               |
| Included in other comprehensive income  | (346 )                          |
| Interest income on Residuals  | 445                             |
| Cash received from Residuals  | (593 )                          |
| Purchases, sales, issuances and settlements, net  | —                               |
| Transfers in and/or out of Level 3  | —                               |
| Balance at end of period  | \$ 11,132                       |
| Changes in gains (losses) included in earnings attributable to a change in unrealized gains (losses) relating to assets still held at the end of period | \$—                             |

Note 9 – 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 March 31, 2015 and December 31, 2014, approximate fair value based upon current market prices of similar instruments. At March 31, 2015 and December 31, 2014, the fair value of NNN's notes payable was \$1,819,996,000 and \$1,813,439,000, respectively, based upon quoted market prices, which is a Level 1 valuation since NNN's debt is publicly traded.

Note 10 – Subsequent Events:

NNN reviewed its subsequent events and transactions that have occurred after March 31, 2015, the date of the condensed consolidated balance sheet. There were no reportable subsequent events or transactions.

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

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes included in the Annual Report on Form 10-K of National Retail Properties, Inc. for the year ended December 31, 2014. The terms "NNN" and the "Company" refer to National Retail Properties, Inc. and all of its consolidated subsidiaries. NNN has elected to treat certain subsidiaries as taxable real estate investment trust subsidiaries. These subsidiaries and their majority owned and controlled subsidiaries are collectively referred to as the "TRS."

### Forward-Looking Statements

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

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



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

- NNN's failure to qualify as a REIT for federal income tax purposes could result in significant tax liability;

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

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

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

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

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

• NNN's ability to pay dividends in the future is subject to many factors;

• Cybersecurity risks and cyber incidents could adversely affect NNN's business and disrupt operations and expose NNN to liabilities to tenants, employees, capital providers, and other third parties; and

• Future investments in international markets could subject NNN to additional risks.

Additional information related to these risks and uncertainties are included in Item 1A. Risk Factors of NNN's Annual Report on Form 10-K for the year ended December 31, 2014, and may cause NNN's actual future results to differ materially from expected results. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. NNN undertakes no obligation to update or revise such forward-looking statements, whether as a result of new information, future events or otherwise.

#### Overview

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

NNN acquires, owns, invests in and develops properties that are leased primarily to retail tenants under long-term net leases and primarily held for investment ("Properties" or "Property Portfolio", or individually a "Property").

As of March 31, 2015, NNN owned 2,104 Properties, with an aggregate gross leasable area of approximately 23,146,000 square feet, located in 47 states, with a weighted average remaining lease term of 11.5 years.

Approximately 99 percent of the Properties were leased as of March 31, 2015.

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

NNN evaluates the creditworthiness of its current and prospective tenants. This evaluation includes reviewing available financial statements, press releases, public credit ratings from major credit rating agencies, industry news publications, financial market data (debt and equity pricing), and developing a thorough understanding of the tenant's business and operations, including periodically meeting with senior management of certain tenants and evaluating property level financial performance.

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

## Results of Operations

## Property Analysis

General. The following table summarizes the Property Portfolio:

|  | March 31, 2015 | December 31,<br>2014 | March 31, 2014 |   |
|--|----------------|----------------------|----------------|---|
| Properties Owned:                                  |                |                      |                |   |
| Number   | 2,104          | 2,054                | 1,903          |   |
| Total gross leasable area (square feet)            | 23,146,000     | 22,479,000           | 20,632,000     |   |
| Properties:  |                |                      |                |   |
| Leased and unimproved land                         | 2,079          | 2,025                | 1,868          |   |
| Percent of Properties – leased and unimproved land | 99             | % 99                 | % 98           | % |
| Weighted average remaining lease term (years)      | 11.5           | 11.6                 | 11.7           |   |
| Total gross leasable area (square feet) – leased   | 22,672,000     | 21,938,000           | 20,079,000     |   |

The following table summarizes the diversification of the Property Portfolio based on the top 10 lines of trade:  
% of Annual Base Rent <sup>(1)</sup>

| Lines of Trade                   | March 31, 2015 | December 31,<br>2014 | March 31, 2014 |   |
|----------------------------------|----------------|----------------------|----------------|---|
| 1. Convenience stores            | 17.7           | % 18.0               | % 19.6         | % |
| 2. Restaurants – full service    | 9.0            | % 9.1                | % 9.5          | % |
| 3. Automotive service            | 7.2            | % 7.2                | % 7.5          | % |
| 4. Restaurants – limited service | 6.9            | % 6.5                | % 6.0          | % |
| 5. Theaters                      | 5.1            | % 5.2                | % 4.5          | % |
| 6. Family entertainment centers  | 5.1            | % 5.1                | % 2.3          | % |
| 7. Automotive parts              | 4.6            | % 4.7                | % 5.1          | % |
| 8. Health and fitness            | 3.8            | % 3.9                | % 4.2          | % |
| 9. Sporting goods                | 3.7            | % 3.5                | % 3.7          | % |
| 10. Banks                        | 3.6            | % 3.7                | % 4.1          | % |
| Other                            | 33.3           | % 33.1               | % 33.5         | % |
|                                  | 100.0          | % 100.0              | % 100.0        | % |

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

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

|                                       | Quarter Ended March 31, |          |
|---------------------------------------|-------------------------|----------|
|                                       | 2015                    | 2014     |
| Acquisitions:                         |                         |          |
| Number of Properties                  | 56                      | 47       |
| Gross leasable area (square feet)     | 782,000                 | 309,000  |
| Initial cash yield                    | 7.3                     | % 7.7 %  |
| Total dollars invested <sup>(1)</sup> | \$155,177               | \$94,041 |

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

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

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

|                                   | Quarter Ended March 31, |          |
|-----------------------------------|-------------------------|----------|
|                                   | 2015                    | 2014     |
| Number of properties              | 6                       | 4        |
| Gross leasable area (square feet) | 113,000                 | 84,000   |
| Net sales proceeds                | \$23,272                | \$11,245 |
| Gain, net of income tax expense   | \$7,200                 | \$1,765  |

NNN typically uses the proceeds from Property sales either to pay down the Credit Facility or reinvest in real estate. Analysis of Revenue From Continuing Operations

General. During the quarter ended March 31, 2015, rental income increased primarily due to an increase in rental income from Property acquisitions (See “Results of Operations – Property Analysis – Property Acquisitions”). NNN anticipates increases in rental income will continue to come from additional Property acquisitions and increases in rents pursuant to lease terms.

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

|   | Quarter Ended March 31, |           |                             | Percent of Total |         |      |
|---|-------------------------|-----------|-----------------------------|------------------|---------|------|
|   | 2015                    | 2014      | Percent Increase (Decrease) | 2015             |         | 2014 |
|   |                         |           |                             | %                | %       | %    |
| Rental Income <sup>(1)</sup>                              | \$112,064               | \$99,588  | 12.5%                       | 96.5 %           | 95.7 %  |      |
| Real estate expense reimbursement from tenants            | 3,515                   | 3,232     | 8.8%                        | 3.0 %            | 3.1 %   |      |
| Interest and other income from real estate transactions   | 163                     | 792       | (79.4)%                     | 0.1 %            | 0.8 %   |      |
| Interest income on commercial mortgage residual interests | 445                     | 452       | (1.5)%                      | 0.4 %            | 0.4 %   |      |
| Total revenues from continuing operations                 | \$116,187               | \$104,064 | 11.6%                       | 100.0 %          | 100.0 % |      |

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

Quarter Ended March 31, 2015 versus Quarter Ended March 31, 2014

Rental Income. Rental Income increased in amount and as a percent of the total revenues from continuing operations for the quarter ended March 31, 2015 as compared to the same period in 2014. The increase for the quarter ended March 31, 2015, is primarily due to a partial year of Rental Income received as a result of the acquisition of 56 properties with aggregate gross leasable area of approximately 782,000 square feet during 2015 and a full year of Rental Income received as a result of the acquisition of 221 properties with a gross leasable area of approximately 2,417,000 square feet in 2014.

Real Estate Expense Reimbursement from Tenants. Real estate expense reimbursements from tenants increased for the quarter ended March 31, 2015, as compared to the same period in 2014, but decreased as a percentage of total revenues from continuing operations for the same period. The increase is primarily attributable to a full year of reimbursements from properties acquired in 2014 and a partial year of reimbursements from certain newly acquired properties in 2015.

## Analysis of Expenses from Continuing Operations

General. Operating expenses from continuing operations increased for the quarter ended March 31, 2015, primarily due to an increase in depreciation expense and an increase in impairment charges, as compared to the same period in 2014. The following table summarizes NNN's expenses from continuing operations for the quarters ended March 31 (dollars in thousands):

|   |          |          | Percent Increase (Decrease) | Percentage of Total |         | Percentage of Revenues from Continuing Operations |        |      |      |
|---|----------|----------|-----------------------------|---------------------|---------|---|--------|------|------|
|   | 2015     | 2014     |                             | 2015                | 2014    | 2015  | 2014   | 2015 | 2014 |
| General and administrative                                    | \$8,605  | \$8,706  | (1.2)%                      | 18.5                | % 20.9  | % 7.4   | % 8.4  | %    | %    |
| Real estate   | 4,759    | 4,340    | 9.7%                        | 10.2                | % 10.4  | % 4.1   | % 4.2  | %    | %    |
| Depreciation and amortization                                 | 32,141   | 28,012   | 14.7%                       | 69.1                | % 67.3  | % 27.7  | % 26.9 | %    | %    |
| Impairment – commercial mortgage residual interests valuation | —        | 158      | (100.0)%                    | —                   | 0.4     | % —   | 0.2    | %    | %    |
| Impairment charges  | 1,028    | 396      | 159.6%                      | 2.2                 | % 1.0   | % 0.9   | % 0.4  | %    | %    |
| Total operating expenses                                      | \$46,533 | \$41,612 | 11.8%                       | 100.0               | % 100.0 | % 40.1  | % 40.1 | %    | %    |
| Interest and other income                                     | \$(11 )  | \$(63 )  | (82.5)%                     | —                   | (0.3 )  | % —   | (0.1 ) | %    | %    |
| Interest expense  | 21,786   | 20,278   | 7.4%                        | 97.3                | % 99.3  | % 18.8  | % 19.5 | %    | %    |
| Real estate acquisition costs                                 | 599      | 209      | 186.6%                      | 2.7                 | % 1.0   | % 0.5   | % 0.2  | %    | %    |
| Total other expenses  | \$22,374 | \$20,424 | 9.5%                        | 100.0               | % 100.0 | % 19.3  | % 19.6 | %    | %    |

## Quarter Ended March 31, 2015 versus Quarter Ended March 31, 2014

Real Estate. Real estate expenses increased for the quarter ended March 31, 2015, as compared to the same period in 2014, but decreased as a percentage of both total operating expenses and revenues from continuing operations. The increase is primarily due to additional reimbursable expenses from certain properties acquired during the quarter ended March 31, 2015, and from certain properties acquired during the year ended December 31, 2014. Additionally, real estate expenses incurred on vacant properties increased for the quarter ended March 31, 2015. The increase was partially offset by a decrease in real estate expenses that are not reimbursable by the tenant for the quarter ended March 31, 2015, as compared to the same period in 2014.

Depreciation and Amortization. Depreciation and amortization expenses increased in amount, as a percentage of total operating expenses and as a percentage of revenues from continuing operations for the quarter ended March 31, 2015, as compared to the quarter ended March 31, 2014. The increase in expenses is primarily due to the acquisition of 56 properties with an aggregate gross leasable area of approximately 782,000 square feet in 2015 and 221 properties with an aggregate gross leasable area of approximately 2,417,000 square feet during 2014.

Interest Expense. Interest expense increased for the quarter ended March 31, 2015, as compared to the same period in 2014, but decreased as a percentage of revenues from continuing operations and as a percentage of total operating expenses.

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

- (i) the issuance in May 2014 of \$350,000,000 principal amount of notes payable with a maturity of June 2024, and stated interest rate of 3.900%;
- (ii) the repayment in June 2014 of \$150,000,000 principal amount of notes payable with a stated interest rate of 6.250%;
- (iii) the assumption of a mortgage in September 2014 of \$2,824,000 in connection with a Property acquisition with an interest rate of 6.400%;
- (iv) the assumption of a mortgage in November 2014 of \$14,430,000 in connection with a Property acquisition with an interest rate of 5.230%; and
- (v) the \$47,022,000 decrease in the weighted average debt outstanding on the Credit Facility for the quarter ended March 31, 2015 as compared to the quarter ended March 31, 2014, and a slightly lower weighted average interest

rate for the quarter ended March 31, 2015, as compared to the same period in 2014.

## Liquidity

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

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

|                                  | Quarter Ended March 31, |          |
|----------------------------------|-------------------------|----------|
|                                  | 2015                    | 2014     |
| Cash and cash equivalents:       |                         |          |
| Provided by operating activities | \$97,138                | \$79,812 |
| Used in investing activities     | (128,919)               | (81,692) |
| Provided by financing activities | 25,633                  | 6,321    |
| Increase (decrease)              | (6,148)                 | 4,441    |
| Net cash at beginning of period  | 10,604                  | 1,485    |
| Net cash at end of period        | \$4,456                 | \$5,926  |

Cash provided by operating activities represents cash received primarily from Rental Income and interest income less cash used for general and administrative expenses. NNN's cash flow from operating activities has been sufficient to pay the distributions for each period presented. The change in cash provided by operations for the quarters ended March 31, 2015 and 2014, is primarily the result of changes in revenues and expenses as discussed in "Results of Operations." Cash generated from operations is expected to fluctuate in the future.

Changes in cash for investing activities are primarily attributable to the acquisitions and dispositions of Properties. NNN typically uses proceeds from its Credit Facility to fund the acquisition of its Properties.

NNN's financing activities for the quarter ended March 31, 2015, included the following significant transactions:

\$41,900,000 in net proceeds from NNN's Credit Facility,

\$1,142,000 in net proceeds from the issuance of 31,854 shares of common stock in connection with the Dividend Reinvestment and Stock Purchase Plan ("DRIP"),

\$47,556,000 in net proceeds from the issuance of 1,191,973 shares of common stock in connection with the at-the-market ("ATM") equity program,

\$4,762,000 in dividends paid to holders of the depositary shares of NNN's Series D Preferred Stock,

\$4,097,000 in dividends paid to holders of the depositary shares of NNN's Series E Preferred Stock, and

\$55,314,000 in dividends paid to common stockholders.

Contractual Obligations and Commercial Commitments. The following table summarizes NNN's contractual obligations and commercial commitments outstanding as of March 31, 2015, and principal cash flows by year-end of the expected maturity for debt obligations and commercial commitments outstanding as of March 31, 2015 (dollars in thousands).

|   | Expected Maturity Date |           |         |           |         |          |             |
|---|------------------------|-----------|---------|-----------|---------|----------|-------------|
|   | Total                  | 2015      | 2016    | 2017      | 2018    | 2019     | Thereafter  |
| Long-term debt <sup>(1)</sup>                     | \$1,750,039            | \$151,254 | \$7,367 | \$253,355 | \$624   | \$602    | \$1,336,837 |
| Credit Facility                                   | 41,900                 | —         | —       | —         | —       | 41,900   | —           |
| Operating lease                                   | 7,704                  | 528       | 714     | 728       | 743     | 758      | 4,233       |
| Total contractual cash obligations <sup>(2)</sup> | \$1,799,643            | \$151,782 | \$8,081 | \$254,083 | \$1,367 | \$43,260 | \$1,341,070 |

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

(2) Excludes \$29,303 of accrued interest payable.

In addition to the contractual obligations outlined above, NNN has agreed to fund construction commitments on leased Properties. The improvements are estimated to be completed within 12 months. These construction commitments, as of March 31, 2015, are outlined in the table below (dollars in thousands):

|                                 |            |
|---------------------------------|------------|
| Number of properties            | 30         |
| Total commitment <sup>(1)</sup> | \$ 119,818 |
| Amount funded                   | \$ 57,027  |
| Remaining commitment            | \$ 62,791  |

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

As of March 31, 2015, 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 tables above and previously disclosed under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in NNN's Annual Report on Form 10-K for the year ended December 31, 2014. In addition to items reflected in the tables, NNN has issued preferred stock with cumulative preferential cash distributions, as described below under "Dividends."

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

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

The lost revenues and increased property expenses resulting from vacant Properties or uncollectibility of lease revenues could have a material adverse effect on the liquidity and results of operations if NNN is unable to re-lease the Properties at comparable rental rates and in a timely manner. As of March 31, 2015, NNN owned 25 vacant, un-leased Properties which accounted for approximately one percent of total Properties held in the Property Portfolio. NNN generally monitors the financial performance of its significant tenants on an ongoing basis.

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

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



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

|   | Quarter Ended March 31, |          |
|---|-------------------------|----------|
|   | 2015                    | 2014     |
| Series D preferred stock <sup>(1)</sup> : |                         |          |
| Dividends                                 | \$4,762                 | \$4,762  |
| Per depositary share                      | 0.414063                | 0.414063 |
| Series E preferred stock <sup>(1)</sup> : |                         |          |
| Dividends                                 | 4,097                   | 4,097    |
| Per depositary share                      | 0.356250                | 0.356250 |
| Common stock:                             |                         |          |
| Dividends                                 | 55,314                  | 49,273   |
| Per share                                 | 0.420                   | 0.405    |

<sup>(1)</sup> The Series D and E preferred stock have no maturity date and will remain outstanding unless redeemed.

In April 2015, NNN declared a dividend of \$0.420 per share which is payable in May 2015 to its common stockholders of record as of April 30, 2015.

#### Capital Resources

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

#### Debt

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

|                        | March 31, 2015 | Percentage of<br>Total | December 31,<br>2014 | Percentage of<br>Total |
|------------------------|----------------|------------------------|----------------------|------------------------|
| Line of credit payable | \$41,900       | 2.4%                   | \$—                  | —%                     |
| Mortgages payable      | 25,878         | 1.5%                   | 26,339               | 1.5%                   |
| Notes payable          | 1,715,032      | 96.1%                  | 1,714,715            | 98.5%                  |
| Total outstanding debt | \$1,782,810    | 100.0%                 | \$1,741,054          | 100.0%                 |

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

Line of Credit Payable. NNN's \$650,000,000 revolving Credit Facility had a weighted average outstanding balance of \$25,489,000 and a weighted average interest rate of 1.1% during the quarters ended March 31, 2015. The Credit Facility matures January 2019, unless the Company exercises its option to extend maturity to January 2020. The Credit Facility currently bears interest at LIBOR plus 92.5 basis points; however, such interest rate may change pursuant to a tiered interest rate structure based on NNN's debt rating. The Credit Facility also includes an accordion feature to increase the facility size up to \$1,000,000,000, subject to lender approval. As of March 31, 2015, \$41,900,000 was outstanding and \$608,100,000 was available for future borrowings, under the Credit Facility.

Notes Payable. In May 2014, NNN filed a prospectus supplement to the prospectus contained in its February 2012 shelf registration statement and issued \$350,000,000 aggregate principal amount of 3.900% notes due June 2024 (the “2024 Notes”). The 2024 Notes were sold at a discount with an aggregate purchase price of \$349,293,000 with interest payable semi-annually commencing on December 15, 2014. The discount of \$707,000 is being amortized to interest expense over the term of the notes

using the effective interest method. The effective interest rate for the 2024 Notes after accounting for the note discount is 3.924%. NNN previously entered into three forward starting swaps with an aggregate notional amount of \$225,000,000. Upon issuance of the 2024 Notes, NNN terminated the forward starting swaps resulting in a liability of \$6,312,000, which was deferred in other comprehensive income. The deferred liability is being amortized to interest expense over the term of the 2024 Notes using the effective interest method.

The 2024 Notes are senior unsecured obligations of NNN and are subordinated to all secured indebtedness and to the indebtedness and other liabilities of NNN's subsidiaries. Additionally, the 2024 Notes are redeemable at NNN's option, in whole or part anytime, for an amount equal to (i) the sum of the outstanding principal balance of the notes being redeemed plus accrued interest thereon to the redemption date, and (ii) the make whole amount, if any, as defined in the supplemental indenture dated May 5, 2014, relating to the 2024 Notes.

NNN received approximately \$346,068,000 of net proceeds in connection with the issuance of the 2024 Notes, after incurring debt issuance costs totaling \$3,225,000 consisting primarily of underwriting discounts and commissions, legal and accounting fees, rating agency fees and printing expenses.

#### Debt and Equity Securities

NNN has used, and expects to use in the future, issuances of debt and equity securities primarily to pay down its outstanding indebtedness and to finance investment acquisitions.

**Securities Offerings.** In February 2015, 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.

Refer to "Debt – Notes Payable" above for a discussion of NNN's publicly held notes. Additional information related to NNN's publicly held notes is included in NNN's Annual Report on Form 10-K for the year ended December 31, 2014.

**Common Stock Issuances.** In November 2014, NNN filed a prospectus supplement to the prospectus contained in its February 2012 shelf registration statement and issued 5,462,500 shares (including 712,500 shares in connection with the underwriters' over-allotment) of common stock at a price of \$38.16 per share and received net proceeds of \$199,961,000. In connection with this offering, NNN incurred stock issuance costs totaling approximately \$8,488,000, consisting primarily of underwriters' fees and commissions, legal and accounting fees and printing expenses. The Company used the net proceeds from this offering to repay outstanding indebtedness under the Credit Facility, to fund property acquisitions and for general corporate purposes.

**Dividend Reinvestment and Stock Purchase Plan.** In February 2015, NNN filed a shelf registration statement which was automatically effective with the Commission for its DRIP, which permits the issuance by NNN of up to 16,000,000 shares of common stock. NNN's DRIP provides an economical and convenient way for current stockholders and other interested new investors to invest in NNN's common stock. The following outlines the common stock issuances pursuant to NNN's DRIP (dollars in thousands):

|                        | Quarter Ended March 31, |         |
|------------------------|-------------------------|---------|
|                        | 2015                    | 2014    |
| Shares of common stock | 31,854                  | 184,503 |
| Net proceeds           | \$1,142                 | \$6,107 |

**At-The-Market Offerings.** NNN established an at-the-market equity program ("ATM") which allows NNN to sell shares of common stock from time to time. The following outlines NNN's ATM programs:

|                                       | 2015 ATM      | 2013 ATM      | 2012 ATM      |
|---------------------------------------|---------------|---------------|---------------|
| Established date                      | February 2015 | March 2013    | May 2012      |
| Termination date                      | February 2018 | February 2015 | February 2015 |
| Total allowable shares                | 10,000,000    | 9,000,000     | 9,000,000     |
| Total shares issued at March 31, 2015 | 977,973       | 6,252,812     | 8,958,840     |



The following table outlines the common stock issuances pursuant to NNN's ATM equity program (dollars in thousands, except per share data):

|                                     | Quarter Ended March 31, |          |          |
|-------------------------------------|-------------------------|----------|----------|
|                                     | 2015                    | 2014     | 2013     |
|                                     | 2015 ATM                | 2013 ATM | 2013 ATM |
| Shares of common stock              | 977,973                 | 214,000  | 432,000  |
| Average price per share (net)       | \$39.91                 | \$39.84  | \$34.91  |
| Net proceeds                        | \$39,031                | \$8,525  | \$15,080 |
| Stock issuance costs <sup>(1)</sup> | \$712                   | \$130    | \$265    |

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

No shares were issued under the 2012 ATM during the quarters ended March 31, 2015 and 2014.

#### Recent Accounting Pronouncements

Refer to Note 1 to the March 31, 2015, Condensed Consolidated Financial Statements.

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

NNN is exposed to interest rate risk primarily as a result of its variable rate Credit Facility and its fixed rate debt which are used to finance NNN's development and acquisition activities, as well as for general corporate purposes. NNN's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to reduce overall borrowing costs. To achieve its objectives, NNN borrows at both fixed and variable rates on its long-term debt. As of March 31, 2015, NNN had no outstanding derivatives.

The information in the table below summarizes NNN's market risks associated with its debt obligations outstanding as of March 31, 2015 and December 31, 2014. The table presents principal payments and related interest rates by year for debt obligations outstanding as of March 31, 2015. The table incorporates only those debt obligations that existed as of March 31, 2015, and it does not consider those debt obligations or positions which could arise after this date. Moreover, because firm commitments are not presented in the table below, the information presented therein has limited predictive value. As a result, NNN's ultimate realized gain or loss with respect to interest rate fluctuations will depend on the exposures that arise during the quarter, NNN's hedging strategies at that time and interest rates. If interest rates on NNN's variable rate debt increased by one percent, NNN's interest expense would have increased by less than one percent for the quarter ended March 31, 2015.

## Debt Obligations (dollars in thousands)

|                   | Variable Rate Debt<br>Credit Facility |                                      | Fixed Rate Debt<br>Mortgages <sup>(1)</sup> |   | Unsecured Debt <sup>(2)</sup> |  |
|-------------------|---------------------------------------|--------------------------------------|---|---|-------------------------------|--|
|                   | Debt<br>Obligation                    | Weighted<br>Average<br>Interest Rate | Debt<br>Obligation                          | Weighted<br>Average<br>Effective<br>Interest Rate | Debt<br>Obligation            | Effective<br>Interest<br>Rate <sup>(3)</sup> |
| 2015              | \$—                                   | —                                    | \$ 1,409                                    | 6.36%   | \$ 149,964                    | 6.19%  |
| 2016              | —                                     | —                                    | 7,514                                       | 5.90%   | —                             | —  |
| 2017              | —                                     | —                                    | 3,441                                       | 6.27%   | 249,718                       | 6.92%  |
| 2018              | —                                     | —                                    | 710   | 5.69%   | —                             | —  |
| 2019              | 41,900                                | 1.10%                                | 688   | 5.42%   | —                             | —  |
| Thereafter        | —                                     | —                                    | 12,116                                      | 5.23%   | 1,315,350                     | 4.20%  |
| Total             | \$41,900                              | 1.10%                                | \$25,878                                    | 5.47%   | \$1,715,032                   | 4.77%  |
| Fair Value:       |                                       |                                      |   |   |                               |  |
| March 31, 2015    | \$41,900                              |                                      | \$25,878                                    |   | \$1,819,996                   |  |
| December 31, 2014 | \$—                                   |                                      | \$26,339                                    |   | \$1,813,439                   |  |

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

(2) Includes NNN's notes payable, each net of unamortized discount. NNN uses market prices quoted from Bloomberg, a third party, which is a Level 1 input, to determine the fair value.

(3) Weighted average effective interest rate for periods after 2019.

NNN is also exposed to market risks related to the Residuals. Factors that may impact the market value of the Residuals include delinquencies, loan losses, prepayment speeds and interest rates. The Residuals, which are reported at market value based upon an independent valuation, had a carrying value of \$11,132,000 and \$11,626,000 as of March 31, 2015 and December 31, 2014, respectively. Unrealized gains and losses are reported as other comprehensive income in stockholders' equity. Losses considered other than temporary are reported as valuation impairments in earnings from operations if and when there has been a change in the timing or amount of estimated cash flows that leads to a loss in value.



Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. An evaluation was performed under the supervision and with the participation of NNN's management, including NNN's Chief Executive Officer and Chief Financial Officer, of the effectiveness as of March 31, 2015 of the design and operation of NNN's disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as of the end of the period covered by this report.

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



## PART II. OTHER INFORMATION

Item 1. Legal Proceedings. Not applicable.

Item Risk Factors. There were no material changes in NNN's risk factors disclosed in Item 1A. Risk Factors of 1A. NNN's Annual Report on Form 10-K for the year ended December 31, 2014.

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

Item 3. Defaults Upon Senior Securities. Not applicable.

Item 4. Mine Safety Disclosures. Not applicable.

Item 5. Other Information. Not applicable.

Item 6. Exhibits

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

### 3. Articles of Incorporation and Bylaws

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

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

3.4 Third Amended and Restated Bylaws of the Registrant, dated May 1, 2006, as amended (filed as Exhibit 3.4 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 19, 2014, and incorporated herein by reference).

3.5 Second Amendment to the Third Amended and Restated Bylaws of the Registrant, dated December 13, 2007 (filed as Exhibit 3.5 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 19, 2014, and incorporated herein by reference).

3.6 Third Amendment to the Third Amended and Restated Bylaws of the Registrant, dated February 13, 2014 (filed as Exhibit 3.6 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 19, 2014, 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. 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).
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- 4.5 Specimen certificate representing the 6.625% Series D Cumulative Redeemable Preferred Stock, par value \$.01 per share, of the Registrant (filed as Exhibit 4.4 to the Registrant's Registration Statement on Form 8-A dated February 22, 2012 and filed with the Securities and Exchange Commission on February 22, 2012, and incorporated herein by reference).
- 4.6 Deposit Agreement, among the Registrant, American Stock Transfer & Trust Company, as Depositary, and the holders of depositary receipts (filed as Exhibit 4.20 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 4, 2012, and incorporated herein by reference).
- 4.7 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).
- 4.8 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).
- 4.9 Form of Tenth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 5.500% Notes due 2021 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K and filed with the Securities and Exchange Commission on July 6, 2011, and incorporated herein by reference).
- 4.10 Form of 5.500% Notes due 2021 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 6, 2011, and incorporated herein by reference).
- 4.11 Form of Eleventh Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 3.800% Notes due 2022 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 14, 2012 and incorporated herein by reference).
- 4.12 Form of 3.800% Notes due 2022 (filed as Exhibit 4.2 to Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 14, 2012 and incorporated herein by reference).
- 4.13 Form of Twelfth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 3.300% Notes due 2023 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K dated April 9, 2013, filed with the Securities and Exchange Commission on April 15, 2013 and incorporated herein by reference).
- 4.14 Form of 3.300% Notes due 2022 (filed as Exhibit 4.2 to Registrant's Current Report on Form 8-K dated April 9, 2013, filed with the Securities and Exchange Commission on April 15, 2013 and incorporated herein by reference).
- 4.15 Specimen certificate representing the 5.700% Series E Cumulative Redeemable Preferred Stock, par value \$.01 per share, of the Registrant (filed as Exhibit 4.3 to the Registrant's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on

May 30, 2013 and incorporated herein by reference).

4.16 Deposit Agreement, among the Registrant, American Stock Transfer & Trust Company, as Depository, and the holders of depository receipts (filed as Exhibit 4.1 to the Registrant's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on May 30, 2013 and incorporated herein by reference).

4.17 Form of Thirteenth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 3.900% Notes due 2024 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K and filed with the Securities and Exchange Commission on May 14, 2014, and incorporated herein by reference).

4.18 Form of 3.900% Notes due 2024 (filed as Exhibit 4.2 to Registrant's Current Report on Form 8-K and filed with the Securities and Exchange Commission on May 14, 2014, 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).
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- 10.12 Amendment to Employment Agreement dated as of November 8, 2010, between the Registrant and Paul E. Bayer (filed as Exhibit 10.13 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2011, and incorporated herein by reference).
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- 10.15 Form of Restricted Award Agreement - Performance between NNN and the Participant of NNN (filed as Exhibit 10.15 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 4, 2012, and incorporated herein by reference).
- 10.16 Form of Restricted Award Agreement - Service between NNN and the Participant of NNN (filed as Exhibit 10.16 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 4, 2012, and incorporated herein by reference).
- 10.17 Form of Restricted Award Agreement - Special Grant between NNN and the Participant of NNN (filed as Exhibit 10.17 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 4, 2012, and incorporated herein by reference).

- 10.18 First Amendment to Amended and Restated Credit Agreement, dated as of October 31, 2012, by and among the Registrant, certain lenders and Wells Fargo Bank, National Association, as the Administrative Agent (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 1, 2012, and incorporated herein by reference).
- 10.19 Employment Agreement dated as of January 2, 2014, between the Registrant and Stephen A. Horn, Jr. (filed as Exhibit 10.19 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 19, 2014, and incorporated herein by reference).
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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).
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101. Interactive Data File
- 101.1 The following materials from National Retail Properties, Inc. Quarterly Report on Form 10-Q for the period ended March 31, 2015, are formatted in Extensible Business Reporting Language: (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of comprehensive income, (iii) condensed consolidated statements of cash flows, and (iv) notes to condensed consolidated financial statements.





SIGNATURES

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

DATED this 5th day of May, 2015.

NATIONAL RETAIL PROPERTIES, INC.

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

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

Exhibit Index

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10.1

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99. Additional Exhibits

99.1 Certification of Chief Executive Officer pursuant to Section 303A.12(a) of the New York Stock Exchange Listed Company Manual (filed as Exhibit 99.1 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 20, 2015).

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