NATIONAL RETAIL PROPERTIES, INC.
Form 10-Q
August 04, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from to

Commission File Number 001-11290

NATIONAL RETAIL PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

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

450 South Orange Avenue, Suite 900, Orlando, Florida 32801

(Address of principal executive offices, including zip code)

(407) 265-7348

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) for the Securities Exchange Act of 1934 during the preceding 12 months (or for 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 x 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or 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	x	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 Exchange Act). Yes ¨ No x

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

86,034,800 shares of common stock, $0.01 par value, outstanding as of July 28, 2011.

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share data)

	June 30, 2011 (unaudited)	December 31, 2010
ASSETS		
Real estate, Investment Portfolio:		
Accounted for using the operating method, net of accumulated depreciation and amortization	$ 2,603,827	$ 2,519,950
Accounted for using the direct financing method	28,475	29,773
Real estate, Inventory Portfolio, held for sale	31,350	32,076
Investment in unconsolidated affiliate	4,423	4,515
Mortgages, notes and accrued interest receivable, net of allowance	32,402	30,331
Commercial mortgage residual interests	16,245	15,915
Cash and cash equivalents	3,588	2,048
Receivables, net of allowance of $1,934 and $1,750, respectively	2,424	3,403
Accrued rental income, net of allowance of $4,364 and $3,609, respectively	25,386	25,535
Debt costs, net of accumulated amortization of $13,674 and $11,198, respectively	9,669	9,366
Other assets	41,018	40,663
Total assets	$ 2,798,807	$ 2,713,575
LIABILITIES AND EQUITY		
Liabilities:		
Line of credit payable	$ 219,200	$ 161,000
Mortgages payable	23,728	24,269
Notes payable convertible, net of unamortized discount of $8,967 and $12,201, respectively	352,768	349,534
Notes payable, net of unamortized discount of $1,017 and $1,118, respectively	598,983	598,882
Accrued interest payable	7,285	7,342
Other liabilities	40,395	43,774
Total liabilities	1,242,359	1,184,801
Equity:		
Stockholders equity:		
Preferred stock, $0.01 par value. Authorized 15,000,000 shares		
Series C, 3,680,000 depositary shares issued and outstanding, at stated liquidation value of $25 per share	92,000	92,000
Common stock, $0.01 par value. Authorized 190,000,000 shares; 86,034,430 and 83,613,289 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively	862	838
Excess stock, $0.01 par value. Authorized 205,000,000 shares; none issued or outstanding		
Capital in excess of par value	1,487,290	1,429,750
Retained earnings (accumulated dividends in excess of earnings)	(21,922)	3,234
Accumulated other comprehensive income (loss)	(3,069)	1,661

Total stockholders equity of NNN	1,555,161	1,527,483
Noncontrolling interests	1,287	1,291
Total equity	1,556,448	1,528,774
Total liabilities and equity	$ 2,798,807	$ 2,713,575

See accompanying notes to condensed consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(dollars in thousands, except per share data)

(unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues:				
Rental income from operating leases	$ 58,154	$ 52,106	$ 115,494	$ 104,025
Earned income from direct financing leases	713	755	1,473	1,519
Percentage rent	132	129	245	184
Real estate expense reimbursement from tenants	2,197	1,591	4,532	3,349
Interest and other income from real estate transactions	543	973	1,181	1,922
Interest income on commercial mortgage residual interests	777	858	1,544	1,907
	62,516	56,412	124,469	112,906
Disposition of real estate, Inventory Portfolio:				
Gross proceeds		5,600		5,600
Costs		(4,959)		(4,959)
Gain		641		641
Retail operations:				
Revenues	12,450	8,696	21,300	15,233
Operating expenses	(11,760)	(8,265)	(20,612)	(14,935)
Net	690	431	688	298
Operating expenses:				
General and administrative	6,568	5,775	13,226	11,372
Real estate	4,026	3,143	7,748	6,615
Depreciation and amortization	13,871	11,926	27,395	23,732
Impairment commercial mortgage residual interests valuation	267	165	396	3,848
	24,732	21,009	48,765	45,567
Earnings from operations	38,474	36,475	76,392	68,278
Other expenses (revenues):				
Interest and other income	(283)	(637)	(625)	(905)
Interest expense	17,512	16,034	35,174	32,024
	17,229	15,397	34,549	31,119

Earnings from continuing operations before income tax expense and equity in earnings of unconsolidated affiliate	21,245	21,078	41,843	37,159
Income tax expense	(210)	(223)	(191)	(327)
Equity in earnings of unconsolidated affiliate	104	108	213	214
Earnings from continuing operations	21,139	20,963	41,865	37,046
Earnings (loss) from discontinued operations (Note 7):				
Real estate, Investment Portfolio, net of income tax expense	(17)	566	(21)	641
Real estate, Inventory Portfolio, net of income tax expense	147	121	279	261
	130	687	258	902

See accompanying notes to condensed consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS - CONTINUED

(dollars in thousands, except per share data)

(unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Earnings including noncontrolling interests	$ 21,269	$ 21,650	$ 42,123	$ 37,948
Loss (earnings) attributable to noncontrolling interests:				
Continuing operations	67	(489)	93	(346)
Discontinued operations	(33)	45	(93)	(31)
	34	(444)		(377)
Net earnings attributable to NNN	$ 21,303	$ 21,206	$ 42,123	$ 37,571
Net earnings attributable to NNN	$ 21,303	$ 21,206	$ 42,123	$ 37,571
Series C preferred stock dividends	(1,696)	(1,696)	(3,392)	(3,392)
Net earnings available to common stockholders	$ 19,607	$ 19,510	$ 38,731	$ 34,179
Net earnings per share of common stock:				
Basic:				
Continuing operations	$ 0.23	$ 0.22	$ 0.46	$ 0.40
Discontinued operations	0.00	0.01	0.00	0.01
Net earnings	$ 0.23	$ 0.23	$ 0.46	$ 0.41
Diluted:				
Continuing operations	$ 0.23	$ 0.22	$ 0.46	$ 0.40
Discontinued operations	0.00	0.01	0.00	0.01
Net earnings	$ 0.23	$ 0.23	$ 0.46	$ 0.41
Weighted average number of common shares outstanding:				
Basic	84,409,788	82,694,624	83,771,728	82,589,917
Diluted	84,725,968	82,825,423	84,271,352	82,717,975

See accompanying notes to condensed consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

(unaudited)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Cash flows from operating activities:		
Earnings including noncontrolling interests	$ 42,123	$ 37,948
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Performance incentive plan expense	3,297	2,712
Stock option expense tax effect		122
Depreciation and amortization	27,678	24,192
Impairment commercial mortgage residual interests valuation	396	3,848
Amortization of notes payable discount	3,335	3,130
Amortization of deferred interest rate hedges	(85)	(82)
Equity in earnings of unconsolidated affiliate	(213)	(214)
Distributions received from unconsolidated affiliate	286	286
Gain on disposition of real estate, Investment Portfolio	(30)	(377)
Gain on disposition of real estate, Inventory Portfolio	(102)	(941)
Income tax valuation allowance		265
Other	82	(67)
Change in operating assets and liabilities, net of assets acquired and liabilities assumed in business combinations:		
Additions to real estate, Inventory Portfolio	(212)	(335)
Proceeds from disposition of real estate, Inventory Portfolio	1,058	42,817
Decrease in real estate leased to others using the direct financing method	802	753
Increase in work in process	(575)	(324)
Increase in mortgages, notes and accrued interest receivable	(88)	(39)
Decrease (increase) in receivables	998	(1,680)
Decrease (increase) in commercial mortgage residual interests	(127)	1,284
Decrease (increase) accrued rental income	149	(91)
Decrease (increase) in other assets	(19)	74
Decrease in accrued interest payable	(57)	(7)
Decrease in other liabilities	(1,631)	(3,167)
Increase in tax liability	794	216
Net cash provided by operating activities	77,859	110,323
Cash flows from investing activities:		
Proceeds from the disposition of real estate, Investment Portfolio	807	5,704
Additions to real estate, Investment Portfolio:		
Accounted for using the operating method	(111,673)	(23,003)
Accounted for using the direct financing method	(1,747)	
Increase in mortgages and notes receivable	(4,090)	(8,362)
Principal payments on mortgages and notes	2,107	9,358
Payment of lease costs	(672)	(686)

Other	402	(1,610)
Net cash used in investing activities	$ (114,866)	$ (18,599)

See accompanying notes to condensed consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS CONTINUED

(dollars in thousands)

(unaudited)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Cash flows from financing activities:		
Proceeds from line of credit payable	$ 328,800	$
Repayment of line of credit payable	(270,600)	
Payment of interest rate hedge	(5,300)	
Payment of debt costs	(2,920)	
Repayment of mortgages payable	(541)	(533)
Proceeds from issuance of common stock	56,391	11,832
Payment of Series C preferred stock dividends	(3,392)	(3,392)
Payment of common stock dividends	(63,887)	(62,174)
Noncontrolling interest contributions	41	11
Noncontrolling interest distributions	(45)	(861)
Net cash provided by (used in) financing activities	38,547	(55,117)
Net increase in cash and cash equivalents	1,540	36,607
Cash and cash equivalents at beginning of period	2,048	15,225
Cash and cash equivalents at end of period	$ 3,588	$ 51,832
Supplemental disclosure of cash flow information:		
Interest paid, net of amount capitalized	$ 33,230	$ 31,054
Taxes paid (received)	$ (487)	$ 305
Supplemental disclosure of non-cash investing and financing activities:		
Issued 139,351 and 392,474 shares of restricted and unrestricted common stock in 2011 and 2010, respectively, pursuant to NNN s performance incentive plan	$ 3,407	$ 7,490
Issued 4,623 and 5,372 shares of common stock in 2011 and 2010, respectively, to directors pursuant to NNN s performance incentive plan	$ 118	$ 118
Issued 13,879 and 12,528 shares of common stock in 2011 and 2010, respectively, pursuant to NNN s Deferred Director Fee Plan	$ 245	$ 186
Surrender of 4,494 shares of restricted stock in 2011	$ 94	
Change in lease classification (direct financing lease to operating lease)	$ 2,243	

Change in other comprehensive income	$	(4,730)		58
Mortgage receivable accepted in connection with real estate transactions	$		$	5,950
Mortgages payable assumed in connection with real estate transactions	$		$	5,432
Real estate acquired in connection with mortgage receivable foreclosure	$		$	4,350

See accompanying notes to condensed consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

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

NNN s operations are divided into two primary business segments: (i) investment assets, including real estate assets, mortgages and notes receivable and commercial mortgage residual interests (collectively, Investment Assets), and (ii) inventory real estate assets (Inventory Assets). 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 (Investment Properties or Investment Portfolio). NNN s Investment Portfolio consisted of the following:

	June 30, 2011
Investment Portfolio:	
Total properties (including retail operations)	1,248
Gross leasable area (square feet)	13,623
States	46

The Inventory Assets typically represent direct and indirect investment interests in real estate assets acquired or developed primarily for the purpose of selling the real estate (Inventory Properties or Inventory Portfolio). NNN owned 16 Inventory Properties at June 30, 2011.

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 accounting principles generally accepted in the United States of America. The unaudited condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. Operating results for the quarter and six months ended June 30, 2011, may not be indicative of the results that may be expected for the year ending December 31, 2011. Amounts as of December 31, 2010, 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, 2010.

Principles of Consolidation NNN s condensed consolidated financial statements include the accounts of each of the respective majority owned and controlled affiliates, including transactions whereby NNN has been determined to be the primary beneficiary in accordance with the Financial Accounting Standards Board (FASB) guidance included in *Consolidation.* All significant intercompany account balances and transactions have been eliminated.

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

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

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

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

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

Other Comprehensive Income   The components for the change in other comprehensive income (loss) consisted of the following (dollars in thousands):

	Six Months Ended June 30, 2011
Balance at beginning of period	$ 1,661
Amortization of interest rate hedges	(85)
Fair value treasury locks	(5,218)
Unrealized gain commercial mortgage residual interests	599
Stock value adjustment	(26)
Balance at end of period	$ (3,069)

NNN s total comprehensive income consisted of the following (dollars in thousands):

	Quarter Ended June 30, 2011	Quarter Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net earnings	$ 21,303	$ 21,206	$ 42,123	$ 37,571
Other comprehensive income (loss)	(6,391)	(18)	(4,730)	32
Comprehensive income including noncontrolling interests	14,912	21,188	37,393	37,603
Comprehensive (income) loss attributable to noncontrolling interests		(73)		26
Comprehensive income attributable to NNN	$ 14,912	$ 21,115	$ 37,393	$ 37,629

Earnings Per Share   Earnings per share have been computed pursuant to the FASB guidance included in *Earnings Per Share*. Effective January 1, 2009, the guidance requires classification of the Company s unvested restricted share units which contain rights to receive nonforfeitable dividends, as participating securities requiring the two-class method of computing earnings per share. Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings to common stockholders and undistributed earnings allocated to common

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stockholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both common shares and participating securities based on the weighted average shares outstanding during the period.

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Basic and Diluted Earnings:				
Net earnings attributable to NNN	$ 21,303	$ 21,206	$ 42,123	$ 37,571
Less: Series C preferred stock dividends	(1,696)	(1,696)	(3,392)	(3,392)
Net earnings available to NNN s common stockholders	19,607	19,510	38,731	34,179
Less: Earnings attributable to unvested restricted shares	(152)	(92)	(286)	(144)
Net earnings used in basic earnings per share	19,455	19,418	38,445	34,035
Reallocated undistributed income				
Net earnings used in diluted earnings per share	$ 19,455	$ 19,418	$ 38,445	$ 34,035
Basic and Diluted Weighted Average Shares Outstanding:				
Weighted average number of shares outstanding	85,309,082	83,344,447	84,635,929	83,149,908
Less: contingent shares	(251,826)		(251,826)	
Less: unvested restricted stock	(647,468)	(649,823)	(612,375)	(559,991)
Weighted average number of shares outstanding used in basic earnings per share	84,409,788	82,694,624	83,771,728	82,589,917
Effects of dilutive securities:				
Common stock options	3,162	3,866	3,305	4,151
Convertible debt	160,006		346,699	
Directors deferred fee plan	153,012	126,933	149,620	123,907
Weighted average number of shares outstanding used in diluted earnings per share	84,725,968	82,825,423	84,271,352	82,717,975

The potential dilutive shares related to certain convertible notes payable were not included in computing earnings per common share for the quarter and six months ended June 30, 2011 and 2010 because their effects would be antidilutive.

Fair Value Measurement NNN s estimates of fair value of certain 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.

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

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

New Accounting Pronouncements In May 2011, the FASB amended its guidance on Fair Value Measurements, providing a consistent definition and measurement of fair value, as well as similar disclosure requirements between U.S. GAAP and International Financial Reporting Standards. The new guidance changes certain fair value measurement principles, clarifies the application of existing fair value measurement and expands the disclosure requirements, particularly for Level 3 fair value measurements. The new guidance will be effective for fiscal years beginning after December 1, 2011. The adoption of this guidance is not expected to have a material effect on the Company s condensed consolidated financial statements, but may require certain additional disclosures.

In June 2011, the FASB amended its guidance on the presentation of comprehensive income in financial statements. The new guidance requires that all nonowner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The provisions of this new guidance are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. NNN is currently evaluating the provisions to determine the potential impact, if any, the adoption 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 accounting principles generally accepted in the United States of America. Significant estimates include provision for impairment and allowances for certain assets, accruals, useful lives of assets and capitalization of costs. Actual results could differ from these 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 2011 presentation.

Note 2 Real Estate - Investment Portfolio:

Leases The following outlines key information for NNN s Investment Property leases:

	June 30, 2011
Lease classification:	
Operating	1,213
Direct financing	16
Building portion direct financing / land portion operating	6
Weighted average remaining lease term	12 Years

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 interior and exterior of the building and carry property and liability insurance coverage. Certain of NNN s Investment Properties are subject to leases under which NNN retains responsibility for certain costs

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and expenses of the property. Generally, the leases of the Investment Properties provide the tenants with one or more multi-year renewal options subject to generally the same terms and conditions, including rent increases, consistent with the initial lease term.

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

	June 30, 2011	December 31, 2010
Land and improvements	$ 1,159,787	$ 1,122,243
Buildings and improvements	1,663,800	1,592,752
Leasehold interests	1,290	1,290
	2,824,877	2,716,285
Less accumulated depreciation and amortization	(246,348)	(222,921)
	2,578,529	2,493,364
Work in process	25,298	26,586
	$ 2,603,827	$ 2,519,950

NNN has remaining funding commitments as follows (dollars in thousands):

	June 30, 2011		
	Total Commitment[(1)]	Amount Funded	Remaining Commitment
Investment Portfolio	$ 92,534	$ 55,579	$ 36,955

(1) Includes land and construction costs.

Note 3 Commercial Mortgage Residual Interests:

In 2010, NNN acquired the 21.1% non-controlling interest in its majority owned and controlled subsidiary, Orange Avenue Mortgage Investments, Inc. (OAMI), for $1,603,000, and OAMI became a wholly owned subsidiary of NNN. NNN accounted for the transaction as an equity transaction in accordance with the FASB guidance on consolidation. OAMI holds the commercial mortgage residual interests (Residuals) from seven securitizations. Each of the Residuals is recorded at fair value based upon an independent valuation. Unrealized gains and losses are reported as other comprehensive income in stockholders equity and other than temporary losses as a result of a change in the timing or amount of estimated cash flows are recorded as an other than temporary valuation impairment.

Due to changes in loan performance relating to the Residuals, the independent valuation adjusted certain of the valuation assumptions. The following table summarizes the key assumptions used in determining the value of the Residuals as of:

	June 30, 2011	December 31, 2010
Discount rate	25%	25%
Average life equivalent CPR speeds range	2.18% to 20.77% CPR	4.35% to 20.37% CPR
Foreclosures:		
Frequency curve default model	0.2% -14.7% range	0.1% -15.0% range
Loss severity of loans in foreclosure	20%	20%

Yield:		
LIBOR	Forward 3-month curve	Forward 3-month curve
Prime	Forward curve	Forward curve

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Unrealized gains	$ 539	$ 35	$ 599	$ 127
Other than temporary valuation impairment	$ 267	$ 165	$ 396	$ 3,848

Note 4 Line of Credit Payable:

In May 2011, NNN amended and restated its credit agreement increasing the borrowing capacity under its unsecured revolving credit facility from $400,000,000 to $450,000,000 and amending certain other terms under the former revolving credit facility (as the context requires, the previous and new revolving credit facility, the Credit Facility). The Credit Facility had a weighted average outstanding balance of $191,099,000 and a weighted average interest rate of 3.3% during the six months ended June 30, 2011. The Credit Facility matures May 2015, with an option to extend maturity to May 2016. The Credit Facility bears interest at LIBOR plus 150 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 for NNN to increase the facility size up to $650,000,000. As of June 30, 2011, $219,200,000 was outstanding and $230,800,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling $57,000.

Note 5 Stockholders Equity:

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

	Six Months Ended June 30,	
	2011	2010
Series C preferred stock [1]:		
Dividends	$ 3,392	$ 3,392
Per share	0.9218	0.9218
Common stock:		
Dividends	63,887	62,174
Per share	0.760	0.750

[1] The Series C preferred stock has no maturity date and will remain outstanding unless redeemed.

In July 2011, NNN declared a dividend of $0.385 per share, which is payable in August 2011 to its common stockholders of record as of July 29, 2011.

In June 2009, NNN filed a shelf registration statement with the Securities and Exchange Commission for its Dividend Reinvestment and Stock Purchase Plan (DRIP). The following outlines the common stock issuances pursuant to the DRIP (dollars in thousands):

	Six Months Ended June 30,	
	2011	2010
Shares of common stock issued	2,284,335	561,107
Net proceeds	$ 56,447	$ 11,770

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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.

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

NNN, in accordance with FASB guidance included in *Income Taxes*, has analyzed its various federal and state filing positions. NNN believes that its income tax filing positions and deductions are well documented and supported. Additionally, NNN believes that its accruals for tax liabilities are adequate. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to the FASB guidance. In addition, NNN did not record a cumulative effect adjustment related to the adoption of the FASB guidance.

NNN has had no increases or decreases in unrecognized tax benefits for current or prior years since adopting the guidance. 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 2007 through 2011. NNN also files in many states with varying open years under statute.

Note 7 Earnings from Discontinued Operations:

Real Estate Investment Portfolio NNN classified the revenues and expenses related to (i) all Investment Properties that were sold and leasehold interests which expired, and (ii) all Investment Properties that were held for sale as of June 30, 2011, as discontinued operations. The following is a summary of the earnings from discontinued operations from the Investment Portfolio (dollars in thousands):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues:				
Rental income from operating leases	$ 30	$ 302	$ 56	$ 487
Real estate expense reimbursement from tenants	4	19	8	34
Interest and other income from real estate transactions	5	5	5	33
	39	326	69	554
Operating expenses:				
General and administrative				14
Real estate	53	39	108	123
Depreciation and amortization	4	59	9	139
	57	98	117	276
Earnings (loss) before gain on disposition of real estate and income tax expense	(18)	228	(48)	278
Gain on disposition of real estate	1	355	30	377
Income tax expense		(17)	(3)	(14)
Earnings (loss) from discontinued operations attributable to NNN	$ (17)	$ 566	$ (21)	$ 641

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Real Estate   Inventory Portfolio   NNN has classified as discontinued operations the revenues and expenses related to (i) Inventory Properties which generated rental revenues prior to disposition, and (ii) Inventory Properties which generated rental revenues and were held for sale as of June 30, 2011. The following is a summary of the earnings from discontinued operations from the Inventory Portfolio (dollars in thousands):

	Quarter Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues:				
Rental income from operating leases	$ 666	$ 1,216	$ 1,139	$ 2,368
Real estate expense reimbursement from tenants	98	154	204	1,141
Interest and other income from real estate transactions	3	461	17	497
	767	1,831	1,360	4,006
Disposition of real estate:				
Gross proceeds		36,668	1,100	37,470
Costs		(36,455)	(998)	(37,170)
Gain		213	102	300
Operating expenses:				
General and administrative	3	19	7	56
Real estate	184	380	338	1,421
Depreciation and amortization	23	55	44	116
	210	454	389	1,593
Other expenses (revenues):				
Interest and other income		(2)		(2)
Interest expense	340	943	680	1,886
	340	941	680	1,884
Earnings before income tax expense	217	649	393	829
Income tax expense	(70)	(528)	(114)	(568)
Earnings from discontinued operations including noncontrolling interests	147	121	279	261
Loss (earnings) attributable to noncontrolling interests	(33)	45	(93)	(31)
Earnings from discontinued operations attributable to NNN	$ 114	$ 166	$ 186	$ 230

Note 8   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

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designated as cash flow hedges hedging the variable cash flows associated with floating rate debt involve the receipt of variable rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount.

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

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

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

In June 2011, NNN terminated its two treasury locks with a total notional amount of $150,000,000 that were hedging the risk of changes in the interest-related cash outflows associated with the potential issuance of long-term debt. The fair value of the treasury locks, designated as cash flow hedges, when terminated was a liability of $5,300,000, of which $5,218,000 was deferred in other comprehensive income.

As of June 30, 2011, $6,018,000 remains in other comprehensive income related to the effective portion of NNN s interest rate hedges. During the six months ended June 30, 2011 and 2010, NNN reclassed $85,000 and $82,000, respectively, out of other comprehensive income as a reduction to 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. Over the next 12 months, NNN estimates that an additional $207,000 will be reclassified as an increase in interest expense.

NNN does not use derivatives for trading or speculative purposes or currently have any derivatives that are not designated as hedges.

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Note 9 Segment Information:

NNN has identified two primary financial segments: (i) Investment Assets, and (ii) Inventory Assets. The following tables represent the segment data and reconciliation to NNN s consolidated totals (dollars in thousands):

	Quarter Ended June 30,			
	Investment Assets	Inventory Assets	Eliminations (Intercompany)	Condensed Consolidated Totals
2011				
External revenues	$ 62,881	$	$	$ 62,881
Intersegment revenues	12		(12)	
Earnings from continuing operations	21,320	366	(547)	21,139
Earnings including noncontrolling interests	21,303	513	(547)	21,269
Net earnings attributable to NNN	21,303	547	(547)	21,303
Total assets	$ 2,929,244	$ 38,365	$ (168,802)	$ 2,798,807
2010				
External revenues	$ 56,928	$ 70	$	$ 56,998
Intersegment revenues	285	275	(560)	
Earnings from continuing operations	20,742	1,036	(815)	20,963
Earnings including noncontrolling interests	21,308	1,157	(815)	21,650
Net earnings attributable to NNN	21,206	815	(815)	21,206
Total assets	$ 2,725,655	$ 43,915	$ (182,172)	$ 2,587,398

The following tables represent the segment data and reconciliation to NNN s consolidated totals (dollars in thousands):

	Six Months Ended June 30,			
	Investment Assets	Inventory Assets	Eliminations (Intercompany)	Condensed Consolidated Totals
2011				
External revenues	$ 125,134	$ 42	$	$ 125,176
Intersegment revenues	25		(25)	
Earnings from continuing operations	42,144	424	(703)	41,865
Earnings including noncontrolling interest	42,123	703	(703)	42,123
Net earnings attributable to NNN	42,123	703	(703)	42,123
Total assets	$ 2,929,244	$ 38,365	$ (168,802)	$ 2,798,807
2010				
External revenues	$ 113,632	$ 112	$	$ 113,744
Intersegment revenues	584	533	(1,117)	
Earnings from continuing operations	36,940	1,304	(1,198)	37,046
Earnings including noncontrolling interest	37,580	1,566	(1,198)	37,948
Net earnings attributable to NNN	37,571	1,198	(1,198)	37,571
Total assets	$ 2,725,655	$ 43,915	$ (182,172)	$ 2,587,398

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Note 10 Fair Value Measurements:

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

	Six Months Ended June 30, 2011
Balance at beginning of period	$ 15,915
Total gains (losses) realized/unrealized:	
Included in earnings	(396)
Included in other comprehensive income	599
Interest income on Residuals	1,544
Cash received from Residuals	(1,417)
Purchases, sales, issuances and settlements, net	
Transfers in and/or out of Level 3	
Balance at end of period	$ 16,245
Gains included in earnings attributable to a change in unrealized losses relating to assets still held at the end of period	$ 75

Note 11 Fair Value of Financial Instruments:

NNN believes the carrying value of its revolving Credit Facility approximates fair value based upon its nature, terms and variable interest rate. NNN believes that the carrying value of its cash and cash equivalents, mortgages, notes and other receivables, mortgages payable and other liabilities at June 30, 2011, and December 31, 2010, approximates their fair value based upon current market prices for similar issuances. At June 30, 2011 and December 31, 2010, the fair value of NNN s notes payable and convertible notes payable, collectively, were $1,053,541,000 and $1,044,621,000, respectively, based upon quoted market price.

Note 12 Subsequent Events:

NNN reviewed all subsequent events and transactions that have occurred after June 30, 2011, the date of the condensed consolidated balance sheet.

In July 2011, NNN closed on its public offering of $300,000,000 principal amount of 5.500% senior unsecured notes due July 15, 2021. The public offering price was 98.577% of the principal amount for a yield of 5.688%. The notes will be senior unsecured obligations of the Company and are registered under the Company s existing shelf registration statement filed with the Securities and Exchange Commission. NNN used the net proceeds from this offering to repay all of NNN s outstanding borrowings under the Credit Facility. In addition, NNN intends to use the remainder of the net proceeds to fund future property acquisitions and for general corporate purposes.

There were no other reportable subsequent events or transactions.

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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, 2010. The term NNN or the Company refers to National Retail Properties, Inc. and all of its consolidated subsidiaries. NNN has elected to treat certain subsidiaries as taxable real estate investment trust (REIT) 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:

- Current 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 investment 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 determines 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 with numerous other REITs, commercial developers, real estate limited partnerships and other investors may impede NNN s ability to grow;

Operating losses from retail operations on certain investment properties may adversely impact NNN s results of operations;

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

Acts of violence, terrorist attacks or war may 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 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;

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- The market value of NNN s equity and debt securities is subject to various factors that may cause significant fluctuations or volatility;
- NNN s failure to qualify as a real estate investment trust for federal income tax purposes could result in significant tax liability;
- Even if NNN remains qualified as a REIT, NNN may face other tax liabilities that reduce operating results and cash flow;
- Adverse legislative or regulatory tax changes could reduce NNN s earnings, cash flow and market price of NNN s common stock;
- Compliance with REIT requirements, including distribution requirements, may limit NNN s flexibility and negatively affect NNN s operating decisions;
- Changes in accounting pronouncements could adversely impact NNN s or NNN s tenants reported financial performance;
- NNN s failure to maintain effective internal control over financial reporting could have a material adverse effect on its business, operating results and share price; and
- NNN s ability to pay dividends in the future is subject to many factors.

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, 2010, 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 is a fully integrated REIT. NNN s operations are divided into two primary business segments: (i) investment assets, including real estate assets, mortgages and notes receivable and commercial mortgage residual interests (collectively, Investment Assets), and (ii) inventory real estate assets (Inventory Assets). 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 (Investment Properties or Investment Portfolio). The Inventory Assets typically represent direct and indirect investment interests in real estate assets acquired or developed primarily for the purpose of selling the real estate (Inventory Properties or Inventory Portfolio).

As of June 30, 2011, NNN owned 1,248 Investment Properties (including 11 properties with retail operations that NNN operates), with an aggregate gross leasable area of approximately 13,623,000 square feet, located in 46 states. Approximately 97 percent of total properties in NNN s Investment Portfolio were leased or operated as of June 30, 2011. As of June 30, 2011, NNN owned 16 Inventory Properties.

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

NNN continues to maintain its diversification by tenant, geography and tenant s line of trade. NNN s highest lines of trade concentrations are the convenience store and restaurant (including full and limited service) sectors. These sectors represent a large part of the freestanding retail property marketplace and NNN s management believes these sectors present attractive investment opportunities. NNN s Investment 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.

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Results of Operations

Property Analysis Investment Portfolio

General. The following table summarizes NNN s Investment Portfolio:

	June 30, 2011	December 31, 2010	June 30, 2010
Investment Properties Owned:			
Number	1,248	1,195	1,014
Total gross leasable area (square feet)	13,623,000	12,972,000	11,399,000
Investment Properties:			
Leased	1,198	1,147	975
Operated	11	11	12
Percent of Investment Properties leased and operated	97%	97%	97%
Weighted average remaining lease term (years)	12	12	12
Total gross leasable area (square feet) leased and operated	12,912,000	12,215,000	10,797,000

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

		% of Annual Base Rent [1]		
	Lines of Trade	June 30, 2011	December 31, 2010	June 30, 2010
1.	Convenience Stores	23.1%	23.7%	26.2%
2.	Restaurants Full Service	10.7%	10.1%	9.2%
3.	Automotive Parts	7.7%	7.8%	6.8%
4.	Theaters	5.8%	5.7%	6.2%
5.	Automotive Service	5.4%	5.3%	5.6%
6.	Sporting Goods	4.6%	4.5%	3.2%
7.	Restaurants Limited Service	4.1%	4.1%	3.2%
8.	Drug Stores	3.8%	4.0%	4.4%
9.	Books	3.0%	3.8%	4.0%
10.	Health and Fitness	2.9%	2.1%	1.6%
	Other	28.9%	28.9%	29.6%
		100.0%	100.0%	100.0%

(1) Based on the annualized base rent for all leases in place as of the end of the respective period.

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

	Quarter Ended June 30, 2011	Quarter Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Acquisitions:				
Number of Investment Properties	25	6	54	10
Gross leasable area (square feet)	303,000	33,000	657,000	97,000
Total investments [1]	$ 54,208	$ 26,245	$ 109,261	$ 38,621

(1) Includes investments in projects under construction for each respective period.

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

	Quarter Ended June 30, 2011	Quarter Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Number of properties		6	1	11
Gross leasable area (square feet)		57,000	6,000	71,000
Net sales proceeds	$	$ 4,594	$ 773	$ 11,371
Net gain	$	$ 355	$ 30	$ 377

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

Revenue from Continuing Operations Analysis

General. During the quarter and six months ended June 30, 2011, NNN s revenue increased primarily due to the increase in rental income.

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

	Quarter Ended June 30, 2011	Quarter Ended June 30, 2010	2011 Percent of Total	2010 Percent of Total	Percent Increase (Decrease)	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010	2011 Percent of Total	2010 Percent of Total	Percent Increase (Decrease)
Rental income[(1)]	$ 58,999	$ 52,990	94.4%	94.0%	11.3%	$ 117,212	$ 105,728	94.2%	93.6%	10.9%
Real estate expense reimbursement from tenants	2,197	1,591	3.5%	2.8%	38.1%	4,532	3,349	3.6%	3.0%	35.3%
Interest and other income from real estate transactions	543	973	0.9%	1.7%	(44.2)%	1,181	1,922	1.0%	1.7%	(38.6)%
Interest income on commercial mortgage residual interests	777	858	1.2%	1.5%	(9.4)%	1,544	1,907	1.2%	1.7%	(19.0)%
Total revenues from continuing operations	$ 62,516	$ 56,412	100.0%	100.0%	10.8%	$ 124,469	$ 112,906	100.0%	100.0%	10.2%

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

Rental Income. Rental income increased for the quarter and six months ended June 30, 2011, as compared to the same periods in 2010, but remained consistent as a percent of the total revenues from continuing operations. The increase for the quarter and six months ended June 30, 2011, is primarily due to the rental income generated from the acquisition of 194 properties with aggregate gross leasable area of approximately 1,700,000 square feet during 2010 and 54 properties with aggregate gross leasable area of approximately 657,000 during 2011.

Real Estate Expense Reimbursements from Tenants. Real estate expense reimbursements from tenants increased for the quarter and six months ended June 30, 2011, as compared to the same periods in 2010, but remained relatively stable as a percentage of total revenues from continuing operations. The increase is primarily attributable to a full year of reimbursements from certain newly acquired Investment Properties in 2010 and timing of real estate tax reimbursements from certain tenants.

Interest and Other Income from Real Estate Transactions. Interest and other income from real estate transactions decreased for the quarter and six months ended June 30, 2011, as compared to 2010, but remained relatively stable as a percentage of total revenues from continuing operations. The decrease is

primarily due to the decrease in the average outstanding balance of NNN s mortgages receivable to $20,902,000 for the six months ended June 30, 2011 as compared to $35,989,000 for the same period in 2010.

Interest Income on Commercial Mortgage Residual Interests. Interest income on commercial mortgage residual interests (Residuals) decreased for the quarter and six months ended June 30, 2011, as compared to the same periods last year. The decrease in interest income on Residuals is primarily the result of declining loan balances from prepayments and scheduled loan amortization.

Analysis of Expenses from Continuing Operations

General. Operating expenses from continuing operations increased for the quarter and six months ended June 30, 2011, primarily due to an increase in depreciation expense and reimbursable real estate expenses from acquired properties and an increase in incentive compensation. The increase in operating expenses for the six months ended June 30, 2011 was partially offset by a lower valuation adjustment of the Residuals fair value. The following table summarizes NNN s expenses from continuing operations for the quarters ended June 30 (dollars in thousands):

			Percent Increase	Percentage of Total		Percent of Revenues from Continuing Operations	
	2011	2010	(Decrease)	2011	2010	2011	2010
General and administrative	$ 6,568	$ 5,775	13.7%	26.5%	27.5%	10.5%	10.2%
Real estate	4,026	3,143	28.1%	16.3%	14.9%	6.5%	5.6%
Depreciation and amortization	13,871	11,926	16.3%	56.1%	56.8%	22.2%	21.1%
Impairment commercial-mortgage residual interests valuation	267	165	61.8%	1.1%	0.8%	0.4%	0.3%
Total operating expenses	$ 24,732	$ 21,009	17.7%	100.0%	100.0%	39.6%	37.2%
Interest and other income	$ (283)	$ (637)	(55.6)%	(1.6)%	(4.1)%	(0.4)%	(1.1)%
Interest expense	17,512	16,034	9.2%	101.6%	104.1%	28.0%	28.4%
Total other expenses (revenues)	$ 17,229	$ 15,397	11.9%	100.0%	100.0%	27.6%	27.3%

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

			Percent Increase	Percentage of Total		Percent of Revenues from Continuing Operations	
	2011	2010	(Decrease)	2011	2010	2011	2010
General and administrative	$ 13,226	$ 11,372	16.3%	27.1%	25.0%	10.6%	10.1%
Real estate	7,748						