

Stability in turbulent times.



2007 Annual Report

TURBULENCE

times

By any measure, 2007 was a turbulent year in the stock market and for many REIT investors. Despite market conditions, NNN shareholders enjoyed a total return of 8.1%. This was due in large part to our high quality portfolio characteristics:

- Full diversification with 908 properties in 44 states;
- Long-term net leases with a remaining average lease term of 13 years;
- Property-level expenses of maintenance, taxes, insurance and utilities passed directly to the tenant under our net lease structure.

These results validate our long-held philosophy: focus on retail real estate fundamentals in our underwriting process and manage the things that we can control.



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

NNN has generated consistent double-digit total returns for more than a decade supported by its strong dividend yield and 18 consecutive years of increased annual dividends. In 2007, NNN acquired nearly \$700 million of properties, generated record FFO per share growth, preserved solid portfolio occupancy and maintained its strong balance sheet.

NNN maintains a conservatively managed, fully diversified retail real estate portfolio with properties subject to long-term, net leases. As of December 31, 2007, its 908 properties are located in 44 states with a total gross leasable area of approximately 10.6 million square feet. Occupancy is 98.3 percent and these properties are leased to 198 tenants in 35 industry classifications.

NNN is one of only 181 of the more than 10,000 publicly traded companies in America to have increased annual dividends for 18 or more consecutive years.

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DEAR FELLOW SHAREHOLDERS

At National Retail Properties (“NNN”) our objective is to build long-term value for our shareholders by paying a safe and growing dividend, generating steady and consistent annual FFO per share growth and accomplishing these dual objectives while assuming a below average level of risk.

2007 was a challenging year for equity investors in general and for many REIT investors. Despite the market turmoil, NNN achieved an 8.1 percent total return in 2007 with a large portion of total shareholder return coming from our quarterly cash dividend.

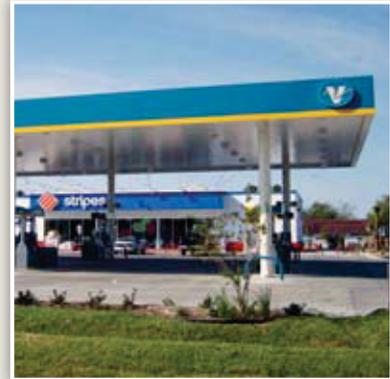
It is important to note that, even in these challenging market conditions, we are focused on long-term opportunities as we consistently execute our multi-year strategy.

NNN STRATEGY

Our core strategies to create long-term shareholder value are:

- Acquire carefully underwritten, accretive, net-leased retail properties. This growth enhances results and further diversifies our portfolio, thereby minimizing risk;
- Sell select properties and reinvest the proceeds into newer, higher yielding properties to improve the quality and growth prospects of our core portfolio;
- Maintain a strong balance sheet with prudent leverage;
- Continue developing our talented team of associates.

NNN is well positioned to provide a safe and growing dividend by growing FFO per share while assuming below-average risk.

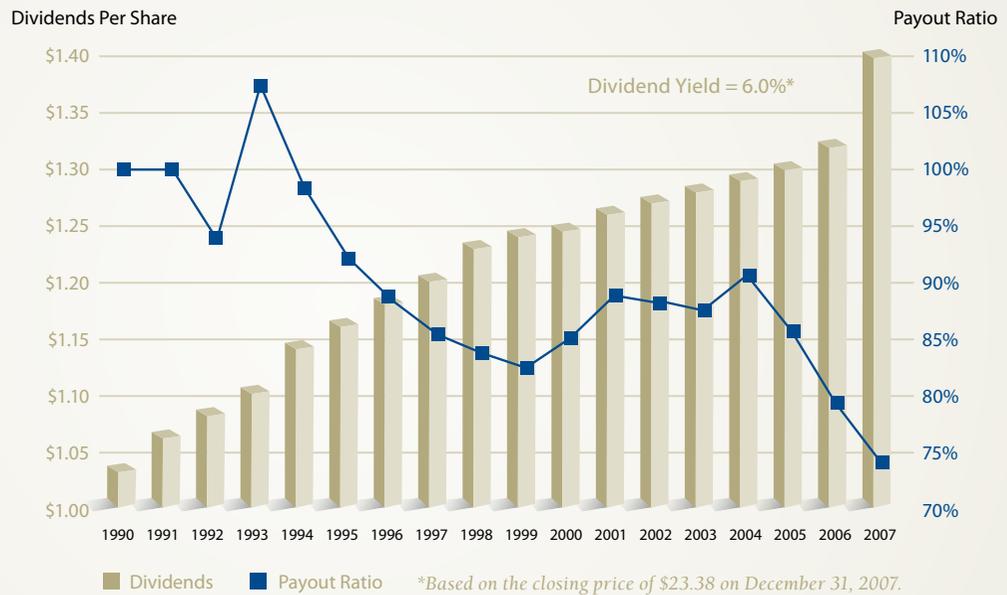




SAFE AND GROWING DIVIDEND

(One of 181 publicly traded companies)

A lower payout ratio provides a margin of safety between dividends paid per share and FFO per share and allows for higher potential dividend growth.



2007 RESULTS

In 2007, our entire team executed well and we had another productive and successful year highlighted by a number of record achievements.



- Dividends per share were increased by a record 6.1 percent from \$1.32 to \$1.40. This marks the 18th consecutive year of increased annual dividends. Only 181 companies in America have increased their dividends for 18 or more consecutive years and NNN is proud to be among that group of quality companies.
- Dividend payout ratio was reduced to 74.9 percent which enhances the safety of the dividend. After several years of successfully improving this ratio, NNN is now in a position where future dividend per share growth will be more in line with future FFO per share growth.
- FFO per share increased 12 percent to a record \$1.87 per share. Driven by the terrific execution of our talented associates,

this growth compares favorably with the estimated 5 percent to 6 percent growth rate of the REIT industry.

- Total assets increased to \$2.5 billion as we acquired 235 properties for a record \$697 million in our core portfolio. Additionally, we acquired 19 properties in our joint venture.
- We sold a total of 108 properties for \$306.2 million from both our core portfolio and our taxable subsidiary as we continued to qualitatively cull the portfolio and divest properties where we could harvest value. We recognized a gain of \$67.6 million from the sale of these properties.
- We maintained a strong balance sheet, raising \$298 million of common equity and completing our first institutional joint venture which is focused on the acquisition of convenience store properties.



LEASE EXPIRATIONS

(As a percentage of annual base rent – December 31, 2007)

Our typical initial lease terms of 15-20 years allow us to ride out most economic and real estate cycles. Our current average remaining lease term is more than 13 years, giving us a steady, contractually-obligated rental income stream.



DIVERSIFIED CORE PORTFOLIO

As of December 31, 2007, we owned 908 properties with an occupancy rate of 98.3 percent. The average lease maturity of our net lease retail assets is 13 years. Also, we have modest re-leasing risk with few of our leases expiring in 2008 or 2009. As of year-end, our properties were leased to 198 different national and regional tenants operating in 35 different retail industry classifications. Our properties are located in 44 states with a concentration in the Sunbelt where the population growth rates are the highest and retailers are focusing their new store development. Since January 1, 2005, our core portfolio has expanded considerably from 362 properties to the current 908 properties. We have more than accomplished our objective of owning a portfolio of net-leased retail properties fully diversified by tenant, line of trade and geographic region.

Each acquisition is individually evaluated by our experienced underwriting team. When underwriting a prospective acquisition we pay particular attention to the real estate fundamentals of each property. We never forget that we are in the real estate business and while credit is important, the strength of our company is ultimately dependent on the key retail real estate characteristics of our individual properties. These key attributes include factors such as the specific location of the property, the demographics of the trade area, access, visibility, ingress and egress, traffic count, retail competition, alternative retail uses for that location and evaluating how the current rent paid by the tenant compares with the market rent for that location.

Of course, we are also focused on the ability of the tenant to pay rent for the duration of the lease. Our team evaluates the financial strength of the tenant, the viability of that tenant in the specific location and,





where possible, the unit-level economics of that store. In general, we are looking for the operating income contribution from that specific store to be double the rent of that particular location.

We believe that freestanding, net-leased retail real estate is a superb long-term investment for a number of reasons.

First, the ratio of land value to the total cost of each property is unusually high when compared to other real estate sectors such as offices, apartments and large regional malls. The land value for our high profile, corner locations at busy intersections is frequently more than 40 percent of the total value for most of these properties at the time we purchase them. With economic growth, inflation and the difficulty of replacing these well-located sites, the land value at the end of the lease can reasonably approximate the price that we paid for both the land and the building upon acquisition.

Second, the quality of the rental revenue that we receive from our triple net leases is unusually high. Our tenants are generally responsible for property taxes, insurance and maintenance. As a result, our operating cash flow is more secure and consistent than many other types of real estate because we are not impacted as much by increases in these costs.

Third, our leases are long-term. In the current cautious retail environment, it is comforting to us that, on average, our tenants are contractually obligated to pay rent for the next 13 years.

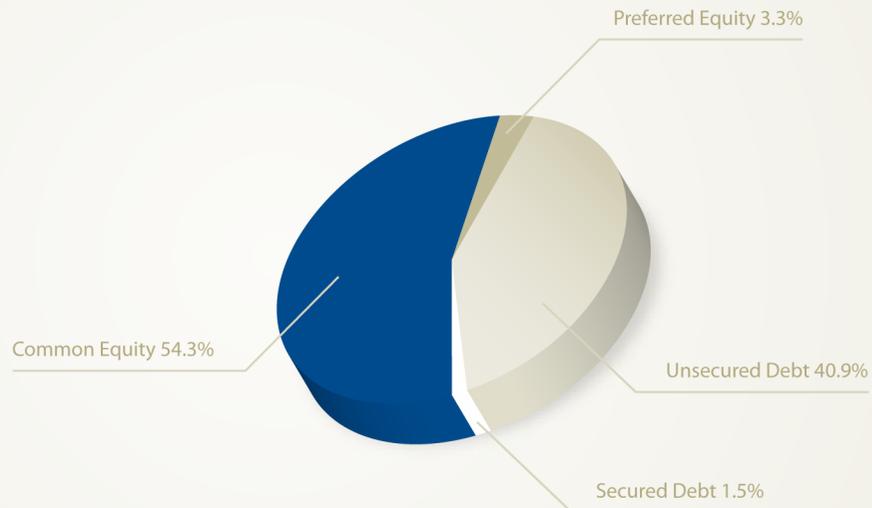
One area where we believe that our shareholders can sleep comfortably is the quality of our real estate and our tenants. We own the corner locations of America where much of our nation's retail activity takes place. Approximately two-thirds of our rent is paid by companies that are publicly traded and/or carry a public debt rating – which means that they are large, financially strong national or regional retailers.



BALANCE SHEET

(Gross Book Basis –
December 31, 2007)

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



BALANCE SHEET STRENGTH

Maintaining a flexible and strong balance sheet is a core attribute of NNN.

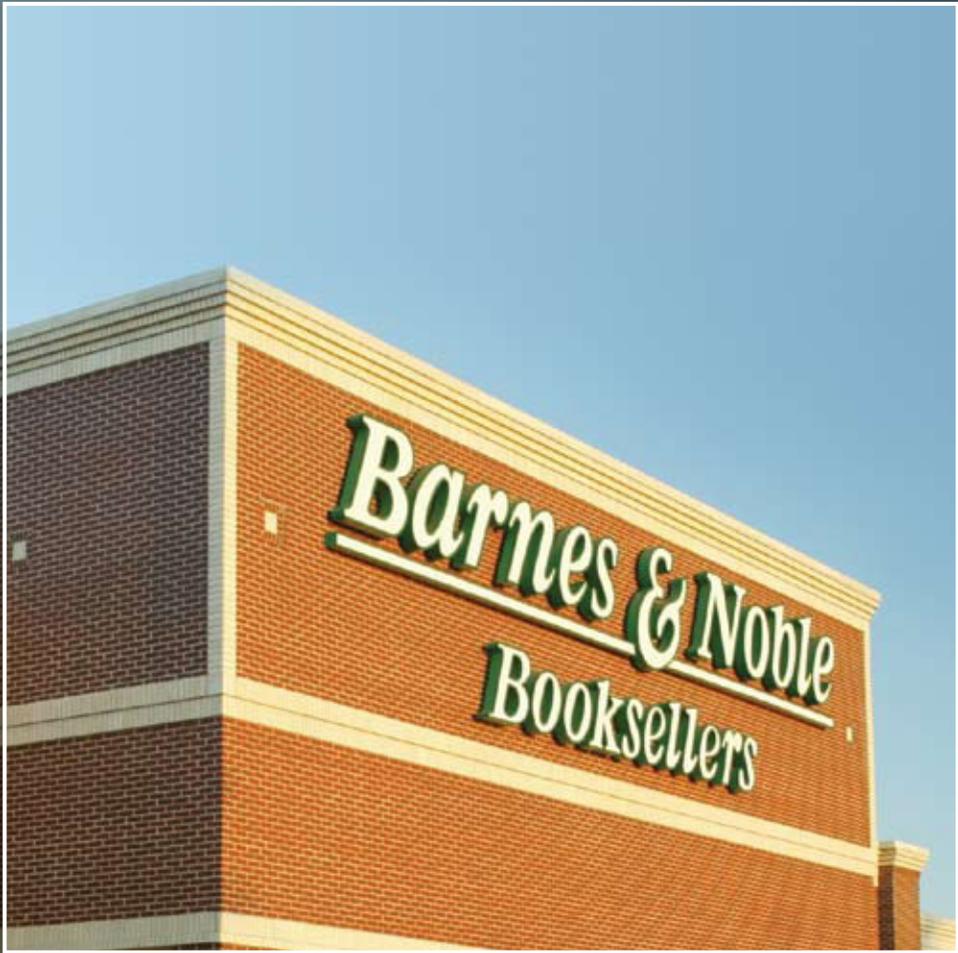
In 2007, our team was extremely active, accessing a variety of capital sources. We raised \$298 million of new common equity primarily through two underwritten public offerings, and secondarily through our dividend reinvestment and direct stock purchase plan. We also completed a successful \$250 million 10-year unsecured notes offering and expanded our bank line of credit capacity by \$100 million to \$400 million at attractive pricing.

As of year-end, on a gross-book basis, our total debt comprised 42.4 percent of our assets. Substantially all of our assets (more than 97 percent) are unencumbered with debt. Having no mortgage debt on nearly all of our properties provides us significant flexibility. Our conservative balance sheet management was rewarded when one of the three major credit ratings agencies recently upgraded NNN's debt rating.

This past year we also accessed an additional capital source by completing our first joint venture with an institutional partner. This venture is focused exclusively on the convenience store industry where we have exceptional relationships and deal flow. By year-end, we had acquired 19 properties in the joint venture for \$65.6 million. When the joint venture is fully invested we expect it to own approximately \$220 million of properties. NNN owns a 15 percent equity interest in the joint venture and in addition to earning our share of the venture's operating income, we earn annual fees for managing the venture.

Strategically this venture is important as it allows us to access an additional capital source and to continue to control deal flow and relationships while maintaining our leading presence in the convenience store sector. Also, it lets us manage our direct exposure to this vibrant category of retailing.

We continued to selectively sell properties where we could harvest value to improve the overall quality of the portfolio.



ANNUAL TOTAL RETURN COMPARISON

(For periods ending December 31, 2007)

NNN shareholders have enjoyed a 15-year average annual total return of 13.4 percent.

	1 Year	3 Years	5 Years	10 Years	15 Years
National Retail Properties (NNN)	8.1%	10.9%	16.2%	11.4%	13.4%
S&P 500 Index (SPX)	5.5%	8.6%	12.8%	5.9%	10.5%
Nasdaq (CCMP)	10.6%	7.6%	15.5%	5.9%	9.5%
S&P 600 Index (SML)	-0.3%	7.3%	16.0%	9.0%	10.8%

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

PORTFOLIO PRUNING AND RECYCLING CAPITAL

Our asset management team constantly reviews our portfolio looking for assets that do not fit our long-term strategy. Typically, we sell assets that have fixed rental payments and replace them with carefully underwritten properties that have higher yields and growing rental streams as the rental payments escalate over the duration of the lease. This continual process improves the overall quality of our portfolio. In the last three years we have sold \$505.8 million of properties from our core portfolio, including \$146 million in 2007.

The vast majority of these property dispositions were successfully divested by our internal team using our robust www.nnn1031.com website. In many instances, we have obtained exceptional pricing for these assets by selling properties directly to buyers thereby avoiding brokerage commissions and maximizing proceeds.

HUMAN CAPITAL

Our industry leading growth is due to the hard work of all of our talented associates. As the real estate industry continues to evolve and mature, our human capital management is increasingly important for sustained performance. As managers, our challenge is to constantly measure and evaluate our colleagues while ensuring that we have the appropriate people in the correct positions. Our team is among the most experienced and competent in the net-lease retail arena and many of them have been with NNN for a long time. Philosophically, we like to nurture and promote from within while periodically adding people from the outside to execute upon new initiatives.





2008 AND BEYOND

The external environment in which we operate is less friendly and more uncertain than it was 12 months ago. Capital is not as easily available and has become more expensive. Also, it appears that certain sectors of retailing are going to experience less growth than they have in the last several years. Finally, margin pressures will be felt by a number of our tenants, particularly restaurant operators, at a time when they may have difficulty passing these costs on to their customers.

Despite the external environment, I am optimistic about NNN's ability to deliver value for our shareholders in 2008 as we have a high quality, diversified portfolio, our balance sheet is very strong with adequate capital to execute our strategy and we have perhaps the strongest team of real estate professionals in the net lease retail sector.



National Retail Properties is well-positioned to fulfill our commitment to provide our shareholders a safe and growing dividend by growing FFO per share while assuming below average risk. According to *The Wall Street Journal*, nearly 80 million Baby Boomers will become eligible for Social Security benefits over the next three decades. These individuals all need investments that can provide a reliable source of income. With our track record of 18 consecutive years of paying growing dividends, NNN is in an enviable position of being able to satisfy the needs of this large group of investors.

On behalf of all the associates and directors of NNN, we thank you, our loyal shareholders, for your support. We are committed to working hard to earn your continued respect and confidence in 2008 and beyond.

Sincerely,

A handwritten signature in blue ink that reads "Craig Macnab". The signature is fluid and cursive, with the first name "Craig" being more prominent than the last name "Macnab".

Craig Macnab
Chairman
& Chief Executive Officer



WHAT DOES NNN STAND FOR?

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

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

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

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

Our leases typically provide for attractive initial yields as well as potential growth in cash flow through base rent increases.

NNN
LISTED
NYSE

“We never forget that we are in the real estate business and while credit is important, *the strength of our company* is ultimately dependent on the *key retail real estate* characteristics of our individual properties.”



“2007 was a *challenging year* for equity investors in general and for many REIT investors. Despite the market turmoil, *NNN achieved* an 8.1 percent total return.”

DIVIDEND REINVESTMENT & DIRECT STOCK PURCHASE

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

PLAN HIGHLIGHTS:

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

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

HISTORICAL FINANCIAL HIGHLIGHTS

(Dollars in thousands, except per share data)

	2007	2006	2005	2004	2003
Gross revenues ⁽¹⁾	\$ 208,630	\$ 180,878	\$ 151,831	\$ 133,875	\$ 112,073
Earnings from continuing operations	85,150	64,695	35,610	30,317	22,519
Net earnings	157,110	182,505	89,400	64,934	53,473
Total assets	2,539,605	1,917,497	1,736,588	1,300,517	1,211,639
Total debt	1,060,070	776,737	861,045	524,241	467,419
Total equity	1,407,285	1,096,505	828,087	756,998	730,754
Cash dividends declared to:					
Common stockholders	92,989	76,035	69,018	66,272	55,473
Series A Preferred Stock stockholders	-	4,376	4,008	4,008	4,008
Series B Convertible Preferred Stock stockholders	-	419	1,675	1,675	502
Series C Preferred Stock stockholders	6,785	923	-	-	-
Weighted average common shares:					
Basic	66,152,437	57,428,063	52,984,821	51,312,434	43,108,213
Diluted	66,407,530	58,079,875	54,640,143	51,742,518	43,896,800
Per share information:					
Earnings from continuing operations:					
Basic	1.18	1.03	0.56	0.48	0.42
Diluted	1.18	1.02	0.58	0.48	0.42
Net earnings:					
Basic	2.27	3.08	1.58	1.15	1.14
Diluted	2.26	3.05	1.56	1.15	1.13
Dividends declared to:					
Common stockholders	1.40	1.32	1.30	1.29	1.28
Series A Preferred Stock stockholders	-	2.45625	2.25	2.25	2.25
Series B Convertible Preferred Stock stockholders	-	41.875	167.50	167.50	50.25
Series C Preferred Stock depositary stockholders	1.84375	0.250955	-	-	-
Other data:					
Cash flows provided by (used in):					
Operating activities	129,634	1,676	19,226	85,800	54,215
Investing activities	(536,717)	(90,099)	(230,783)	(69,963)	(256,870)
Financing activities	432,907	81,864	217,844	(19,225)	205,965
Funds from operations – diluted ⁽²⁾	124,113	97,121	81,803	73,065	61,749

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

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



DIRECTORS & OFFICERS

DIRECTORS

- Craig Macnab
Chairman
- Clifford R. Hinkle
Lead Director
- Dennis E. Gershenson
*President,
Chief Executive Officer
& Chairman
Ramco-Gershenson Properties Trust*
- Kevin B. Habicht
*Executive Vice President
& Chief Financial Officer
National Retail Properties, Inc.*
- Richard B. Jennings[†]
*President
Realty Capital International, Inc.
& Realty Capital International LLC*
- Ted B. Lanier[†]
*Retired Chairman
& Chief Executive Officer
Triangle Bank and Trust Company*
- Robert C. Legler
*Retired Chairman
First Marketing Corporation*
- Robert Martinez[†]
*Fortieth Governor of Florida
& Senior Policy Advisor
Holland & Knight*

EXECUTIVE OFFICERS

- Craig Macnab
*Chairman
& Chief Executive Officer*
- Julian E. Whitehurst
*President
& Chief Operating Officer*
- Kevin B. Habicht
*Executive Vice President
& Chief Financial Officer*
- Paul E. Bayer
Executive Vice President
- Christopher P. Tessitore
*Executive Vice President
& General Counsel*
- [†] Member audit committee
(Committees as of February 18, 2008)

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

FORM 10-K/A
(Amendment No. 1)

(Mark One)

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

For the fiscal year ended December 31, 2007

OR

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

For the transition period from _____ to _____.

Commission file number 001-11290

NATIONAL RETAIL PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

56-1431377
(I.R.S. Employer Identification No.)

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

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

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

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

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

None
(Title of class)

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

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

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

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

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

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

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

The aggregate market value of voting common stock held by non-affiliates of the registrant as of June 30, 2007 was \$66,159,208.

The number of shares of common stock outstanding as of February 14, 2008 was 72,534,884.

DOCUMENTS INCORPORATED BY REFERENCE:

Registrant incorporates by reference into Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K portions of National Retail Properties, Inc.'s definitive Proxy Statement for the 2008 Annual Meeting of Stockholders to be filed with the Securities Exchange Commission pursuant to Regulation 14A. The definitive Proxy Statement will be filed with the Commission not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

EXPLANATORY NOTE:

This Form 10-K/A is being filed in its entirety to correct certain typographical errors in the following portions of National Retail Properties Inc.'s Form 10-K for the year ended December 31, 2007 (the "Form 10-K"): (i) the Report of Independent Registered Public Accounting Firm of KPMG in Item 8 of the Form 10-K and (ii) the Consent of KPMG LLP filed as Exhibit 23.2 to the Form 10-K.

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PART I

Unless the context otherwise requires, references in this Annual Report on Form 10-K to the terms “registrant” or “NNN” or “the Company” refer to National Retail Properties, Inc. and its [consolidated] subsidiaries, including taxable real estate investment trust (“REIT”) subsidiaries and their majority owned and controlled subsidiaries (collectively the “TRS”).

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

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

Item 1. Business

The Company

NNN, a Maryland corporation, is a fully integrated REIT formed in 1984. NNN’s operations are divided into two primary business segments: (i) investment assets, including real estate assets and mortgages and notes receivable (including structured finance) (collectively, “Investment Assets”), and (ii) inventory real estate assets (“Inventory Assets”). The Investment Assets are operated through National Retail Properties, Inc. and its wholly owned subsidiaries. The Inventory Assets are held in the TRS.

Real Estate Assets

NNN acquires, owns, invests in, manages and develops properties that are leased primarily to retail tenants under long-term net leases (“Investment Properties” or “Investment Portfolio”). As of December 31, 2007, NNN owned 908 Investment Properties, with an aggregate leasable area of 10,610,000 square feet, located in 44 states. Approximately 98 percent of NNN’s Investment Portfolio was leased at December 31, 2007. The TRS, directly and indirectly, through investment interests, acquires and/or develops real estate primarily for the purpose of resale (“Inventory Properties” or “Inventory Portfolio”). As of December 31, 2007, the TRS owned 56 Inventory Properties.

Mortgages and Notes Receivable

Mortgages are loans secured by real estate, real estate securities or other assets. As of December 31, 2007, these receivables totaled \$49,336,000.

Structured finance agreements are typically loans secured by a borrower's pledge of ownership interests in the entity that owns or leases the real estate and/or other acceptable collateral such as fixtures, equipment or cash. These agreements are sometimes subordinated to senior loans secured by first mortgages encumbering the underlying real estate. Subordinated positions are generally subject to a higher risk of nonpayment of principal and interest than the more senior loans. As of December 31, 2007, the structured finance agreements had an outstanding principal balance of \$14,359,000.

Investment in Unconsolidated Affiliate

Crow Holdings. In September 2007, NNN entered into a joint venture, NNN Retail Properties Fund I LLC (the "NNN Crow JV I"), with an affiliate of Crow Holdings Realty Partners IV, L.P. NNN Crow JV I plans to acquire from unrelated third parties up to \$220,000,000 of real estate assets leased to convenience store operators.

Competition

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

Employees

As of January 31, 2008, NNN employed 72 full-time associates including executive and administrative personnel.

NNN's executive offices are located at 450 S. Orange Avenue, Suite 900, Orlando, Florida 32801, and its telephone number is (407) 265-7348. NNN has an Internet website at www.nnnreit.com where NNN's filings with the Securities and Exchange Commission can be downloaded free of charge. The common shares of National Retail Properties, Inc. are traded on the New York Stock Exchange ("NYSE"), under the ticker symbol "NNN."

Business Strategies and Policies

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

Operating Strategies

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

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

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

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

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

The operating strategies employed by NNN have allowed it to increase dividends paid per common share for 18 consecutive years.

Investment in Real Estate or Interests in Real Estate

NNN's management believes that attractive acquisition opportunities for retail properties will continue to be available and that NNN is well suited to take advantage of these opportunities because of its access to capital markets, ability to underwrite and acquire properties, and because of management's experience in seeking out, identifying and evaluating potential acquisitions.

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

- the location, visibility and accessibility of the property,
- the geographic area and demographic characteristics of the community, as well as the local real estate market, including potential for growth and existing or potential competing properties or retailers,
- the size of the property,
- the purchase price,
- the non-financial terms of the proposed acquisition,
- the availability of funds or other consideration for the proposed acquisition and the cost thereof,
- the compatibility of the property with NNN's existing portfolio,
- the potential for, and current extent of, any environmental problems,
- the quality of construction and design and the current physical condition of the property,

- the financial and other characteristics of the existing tenant,
- the tenant’s business plan, operating history and management team,
- the tenant’s industry,
- the terms of any existing leases, and
- the rent to be paid by the tenant.

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

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

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

Financing Strategy

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

NNN typically funds its short-term liquidity requirements including investments in additional retail properties with cash from its \$400,000,000 unsecured revolving credit facility (“Credit Facility”). As of December 31, 2007, \$129,800,000 was outstanding and approximately \$270,200,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$2,685,000.

For the year ended December 31, 2007, NNN’s ratio of total indebtedness to total gross assets (before accumulated depreciation) was approximately 43 percent and the secured indebtedness to total gross assets was approximately one percent. The total debt to total market capitalization was approximately 39 percent. Certain financial agreements to which NNN is a party contain covenants that limit NNN’s ability to incur debt under certain circumstances.

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

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

Strategies and Policy Changes

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

Investment Properties

As of December 31, 2007, NNN owned 908 Investment Properties with an aggregate gross leasable area of 10,610,000 square feet, located in 44 states. Approximately 98 percent of the gross leasable area was leased at December 31, 2007. Reference is made to the Schedule of Real Estate and Accumulated Depreciation and Amortization filed with this report for a listing of NNN's Investment Properties and their respective carrying costs.

The following table summarizes NNN's Investment Properties as of December 31, 2007 (in thousands):

	Size ⁽¹⁾			Cost ⁽²⁾		
	High	Low	Average	High	Low	Average
Land	2,223	7	115	\$ 10,197	\$ 25	\$ 1,078
Building	135	1	12	13,874	44	1,440

⁽¹⁾ Approximate square feet.

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

In connection with the development of 27 Investment Properties, NNN has agreed to fund construction commitments (including land costs) of \$71,883,000, of which \$44,561,000 has been funded as of December 31, 2007.

During 2006, NNN disposed of the properties leased to the United States of America which had accounted for more than 10 percent of NNN's total rental income in 2005. As of December 31, 2007, NNN does not have any one tenant that accounts for ten percent or more of its rental income.

Leases. Although there are variations in the specific terms of the leases, the following is a summary of the general structure of NNN's leases. Generally, the leases of the Investment Properties provide for initial terms of 15 to 20 years. As of December 31, 2007, the weighted average remaining lease term was approximately 13 years. The Investment Properties are generally leased under net leases pursuant to which the tenant typically will bear responsibility for substantially all property costs and expenses associated with ongoing maintenance and operation, including utilities, property taxes and insurance. In addition, the majority of NNN's leases provide that the tenant is responsible for roof and structural repairs. The leases of the Investment Properties provide for annual base rental payments (payable in monthly installments) ranging from \$11,000 to \$1,800,000 (average of \$217,000). Tenant leases generally provide for limited increases in rent as a result of fixed increases, increases in the consumer price index, and/or increases in the tenant's sales volume.

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

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

The following table summarizes the lease expirations of NNN's Investment Portfolio as of December 31, 2007:

	<u>% of Annual Base Rent⁽¹⁾</u>	<u># of Properties</u>	<u>Gross Leasable Area⁽²⁾</u>		<u>% of Annual Base Rent⁽¹⁾</u>	<u># of Properties</u>	<u>Gross Leasable Area⁽²⁾</u>
2008	0.7%	14	258,000	2014	5.0%	31	509,000
2009	1.8%	24	458,000	2015	2.9%	20	469,000
2010	3.1%	38	401,000	2016	2.3%	16	262,000
2011	2.3%	21	336,000	2017	4.9%	27	674,000
2012	4.0%	35	563,000	2018	4.3%	33	505,000
2013	4.3%	32	687,000	Thereafter	64.4%	601	5,233,000

(1) Based on annualized base rent for all leases in place as of December 31, 2007.

(2) Approximate square feet.

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

<u>Top 10 Lines of Trade</u>	<u>% of Annual Base Rent⁽¹⁾</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
1. Convenience Stores	23.9%	16.3%	12.1%
2. Restaurants – Full Service	10.3%	12.1%	6.6%
3. Drug Stores	5.0%	8.3%	10.0%
4. Automotive Parts	4.9%	1.6%	0.1%
5. Books	4.4%	5.7%	5.8%
6. Consumer Electronics	4.3%	5.6%	5.9%
7. Theaters	4.2%	-	-
8. Car Washes	4.0%	-	-
9. Sporting Goods	3.9%	7.3%	7.4%
10. Restaurants – Limited Service	3.7%	4.7%	3.0%
Other	31.4%	38.4%	49.1%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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

The following table summarizes the diversification by state of NNN's Investment Portfolio as of December 31, 2007:

State	# of Properties	% of Annual Base Rent ⁽¹⁾
1. Texas	201	20.2%
2. Florida	84	11.3%
3. North Carolina	62	6.8%
4. Illinois	38	6.6%
5. Georgia	48	5.3%
6. Pennsylvania	80	4.7%
7. Indiana	36	3.7%
8. Colorado	15	3.4%
9. Ohio	28	3.4%
10. Missouri	19	3.0%
Other	297	31.6%
	908	100.0%

⁽¹⁾ Based on annualized base rent for all leases in place as of December 31, 2007.

Mortgages and Notes Receivable

As of December 31, 2007 and 2006, NNN held mortgages and notes receivables with an aggregate principal balance of \$51,556,000 and \$17,227,000, respectively. The mortgages and notes receivables bear interest rates ranging from 7.00% to 12.00% with maturity dates ranging from May 2008 through October 2028.

Structured finance agreements are typically loans secured by a borrower's pledge of its ownership interest in the entity that owns or leases the real estate and/or other acceptable collateral such as fixtures, equipment or cash. These agreements are sometimes subordinated to senior loans secured by first mortgages encumbering the underlying real estate. Subordinated positions are generally subject to a higher risk of nonpayment of principal and interest than the more senior loans.

In 2007 and 2006, NNN made structured finance investments of \$12,376,000 and \$16,477,000, respectively. As of December 31, 2007, the structured finance investments bear a weighted average interest rate of 11.26% per annum, of which 9.78% is payable monthly and the remaining 1.48% accrues and is due at maturity. The principal balance of each structured finance investment is due in full at maturity, which ranges between January 2009 and March 2010. The structured finance investments are secured by the borrowers' pledge of their respective membership interests in the entities which own the respective real estate. As of December 31, 2007 and 2006, the outstanding principal balance of the structured finance investments was \$14,359,000 and \$13,917,000, respectively.

Commercial Mortgage Residual Interests

Orange Avenue Mortgage Investments, Inc. ("OAMI"), a majority owned and consolidated subsidiary of NNN, holds the residual interests ("Residuals") from seven commercial real estate loan securitizations. Each of the Residuals is reported at fair value based upon an independent valuation; unrealized gains or losses are reported as other comprehensive income in stockholders' equity, and

other than temporary losses as a result of a change in timing or amount of estimated cash flows are recorded as an other than temporary valuation impairment. The Residuals had an estimated fair value of \$24,340,000 at December 31, 2007.

Inventory Assets

The TRS develops Inventory Properties (“Development Properties” or “Development Portfolio”) as well as acquires existing Inventory Properties (“Exchange Properties” or “Exchange Portfolio”). NNN’s Inventory Portfolio is held with the intent to sell the properties to purchasers who are looking for replacement like-kind exchange property or to other purchasers with different investment objectives. As of December 31, 2007, the TRS owned 23 Development Properties (eight completed, nine under construction and six land parcels) and 33 Exchange Properties. Reference is made to the Schedule of Real Estate and Accumulated Depreciation and Amortization filed with this report for a listing of the Inventory Properties and their respective carrying costs.

The following table summarizes the eight completed Development Properties and 33 Exchange Properties as of December 31, 2007 (in thousands):

	Size ⁽¹⁾			Cost ⁽²⁾		
	High	Low	Average	High	Low	Average
Completed Development Properties:						
Land	1,255	47	378	\$ 8,959	\$ 244	\$ 172
Building	125	8	34	37,007	1,635	9,212
Exchange Properties:						
Land	294	11	64	\$ 3,665	\$ 121	\$ 1,403
Building	47	2	15	4,785	184	2,033

⁽¹⁾ Approximate square feet.

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

Under Construction. In connection with the development of nine Inventory Properties by the TRS, NNN has agreed to fund total construction commitments (including land costs) of \$24,097,000, of which \$17,125,000 has been funded as of December 31, 2007.

Governmental Regulations Affecting Properties

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

NNN has 70 Investment Properties currently under some level of environmental remediation. In general, the seller, the tenant or an adjacent land owner is responsible for the cost of the environmental remediation for each of these Investment Properties.

Americans with Disabilities Act of 1990. The Investment and Inventory Properties, as commercial facilities, are required to comply with Title III of the Americans with Disabilities Act of 1990 (the “ADA”). Investigation of a property may reveal non-compliance with the ADA. The tenants will typically have primary responsibility for complying with the ADA, but NNN may incur costs if the tenant does not comply. As of February 15, 2008, NNN has not been notified by any governmental authority of, nor is NNN’s management aware of, any non-compliance with the ADA that NNN’s management believes would have a material adverse effect on its business, financial condition or results of operations.

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

Item 1A. Risk Factors.

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

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

NNN’s five largest tenants accounted for an aggregate of approximately 25 percent of NNN’s annual base rent as of December 31, 2007. The default, financial distress or bankruptcy of one or more of NNN’s tenants could cause substantial vacancies among NNN’s Investment Portfolio. Vacancies reduce NNN’s revenues until NNN is able to re-lease the affected properties and could decrease the ultimate sale value of each such vacant property. Upon the expiration of the leases that are currently in place, NNN may not be able to re-lease a vacant property at a comparable lease rate or without incurring additional expenditures in connection with such re-leasing.

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

As of December 31, 2007, an aggregate of approximately 38 percent of NNN’s annual base rent is generated from two retail lines of trade, convenience stores and restaurants, each representing more than 10 percent. In addition, as of December 31, 2007, an aggregate of approximately 32 percent of NNN’s annual base rent is generated from properties in Texas and Florida, each representing more than 10 percent. Any financial hardship and/or changes in these industries or states could have an adverse effect on NNN’s financial results.

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

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

- changes in national, regional and local economic conditions and outlook,
- decreases in consumer spending and retail sales,

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

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

NNN's real estate investments are illiquid.

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

NNN may be subject to known or unknown environmental liabilities.

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

NNN has 70 Investment Properties currently under some level of environmental remediation. In general, the seller, the tenant or an adjacent land owner is responsible for the cost of the environmental remediation for each of these Investment Properties. In the event of a bankruptcy or other inability on the part of these parties to cover these costs, NNN may have to cover the costs of remediation, fines or other environmental liabilities at these and other properties. NNN may also own properties where required remediation has not begun or adverse environmental conditions have not yet been detected. This may require remediation or otherwise subject NNN to liability. NNN cannot assure that (i) it will not be required to undertake or pay for removal or remediation of any contamination of the properties currently or previously owned by NNN, (ii) NNN will not be subject to fines by governmental authorities or litigation, or (iii) the costs of such removal, remediation fines or litigation would not be material.

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

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

NNN has historically leased properties, NNN will also be subject to the risks associated with investment in new markets or with new tenants that may be relatively unfamiliar to NNN's management team.

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

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

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

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

As of December 31, 2007, the Residuals had a carrying value of \$24,340,000. The value of these Residuals is based on discount rate, loan loss, prepayment speed and interest rate assumptions made by NNN to determine their value. If actual experience differs materially from these assumptions, the actual future cash flow could be less than expected and the value of the Residuals, as well as NNN's earnings, could decline.

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

If a borrower defaults on a mortgage, structured finance loan or other loan made by NNN, and does not have sufficient assets to satisfy the loan, NNN may suffer a loss of principal and interest. In the event of the bankruptcy of a borrower, NNN may not be able to recover against all of the assets of the borrower, or the assets of the borrower may not be sufficient to satisfy the balance due on the loan. In addition, certain of NNN's loans may be subordinate to other debt of a borrower. These investments are typically loans secured by a borrower's pledge of its ownership interests in the entity that owns the real estate or other assets. These agreements are typically subordinated to senior loans secured by other loans encumbering the underlying real estate or assets. Subordinated positions are generally subject to a higher risk of nonpayment of principal and interest than the more senior loans. As of December 31, 2007, mortgages and notes receivables had an outstanding principal balance of \$51,556,000 and the structured finance investments had an outstanding principal balance of \$14,359,000. If a borrower defaults on the debt senior to NNN's loan, or in the event of the bankruptcy of a borrower, NNN's loan will be satisfied only after the borrower's senior creditors' claims are satisfied. Where debt senior to NNN's loans exists, the presence of intercreditor arrangements may limit NNN's ability to amend loan documents, assign the loans, accept prepayments, exercise remedies and control decisions made in bankruptcy proceedings relating to borrowers. Bankruptcy proceedings and litigation can significantly increase the time needed for NNN to acquire underlying collateral in the event of a default, during which time the collateral may decline in value. In addition, there are significant costs and delays associated with the foreclosure process.

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

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

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

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

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

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

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

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

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

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

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

More generally, any of these events or threats of these events could cause consumer confidence and spending to decrease or result in increased volatility in the United States and worldwide financial

markets and economies. They also could result in, or cause a deepening of, economic recession in the United States or abroad. Any of these occurrences could have a significant adverse impact on NNN's financial condition or results of operations.

Vacant properties or bankrupt tenants could adversely affect NNN.

As of December 31, 2007, NNN owned 12 vacant, unleased Investment Properties, which accounted for approximately two percent of the total gross leasable area of NNN's Investment Portfolio, in addition to three vacant land parcels. NNN is actively marketing these properties for sale or lease but may not be able to sell or lease these properties on favorable terms or at all. The lost revenues and increased property expenses resulting from the rejection by any bankrupt tenant of any of their respective leases with NNN could have a material adverse effect on the liquidity and results of operations of NNN if NNN is unable to re-lease the Investment Properties at comparable rental rates and in a timely manner. Less than one percent of the total gross leasable area of NNN's Investment Portfolio is leased to three tenants that have filed a voluntary petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. As a result, these tenants have the right to reject or affirm their lease with NNN.

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

As of December 31, 2007, NNN had total mortgage debt and secured notes payable outstanding of approximately \$39,480,000, total unsecured notes payable of \$890,790,000 and \$129,800,000 outstanding on the Credit Facility. NNN's organizational documents do not limit the level or amount of debt that it may incur. If NNN incurs additional indebtedness and permits a higher degree of leverage, debt service requirements would increase and could adversely affect NNN's financial condition and results of operations, as well as NNN's ability to pay principal and interest on the outstanding indebtedness or dividends to its stockholders. In addition, increased leverage could increase the risk that NNN may default on its debt obligations. The Credit Facility contains financial covenants that could limit the amount of distributions to NNN's common and preferred stockholders.

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

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

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

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

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

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

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

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

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

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

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

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

The market value of NNN's equity and debt securities could be substantially affected by various factors.

As with other publicly traded securities, the market price of NNN's equity and debt securities depends on various factors, which may change from time-to-time and may be unrelated to NNN's operating performance or prospects. These factors include among many:

- general economic and financial market conditions,
- level and trend of interest rates,
- NNN's financial condition and performance,
- market perception of NNN compared to other REITs, and
- market perception of REITs compared to other investment sectors.

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

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

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

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

Even if NNN remains qualified for taxation as a REIT, NNN may be subject to certain federal, state and local taxes on its income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes, such as mortgage recording taxes. Any of these taxes would decrease earnings and cash available for distribution to stockholders. In addition, in order to meet the REIT qualification requirements, NNN holds some of its assets through the TRS.

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

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

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

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

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

To maintain its status as a REIT for U.S. federal income tax purposes, NNN must meet certain requirements, on an on-going basis, including requirements regarding its sources of income, the nature and diversification of its assets, the amounts NNN distributes to its stockholders and the ownership of its shares. NNN may also be required to make distributions to its stockholders when it does not have funds readily available for distribution or at times when NNN's funds are otherwise needed to fund capital expenditures or to fund debt service requirements. NNN generally will not be subject to federal income taxes on amounts distributed to stockholders, providing it distributes 100 percent of its REIT taxable income and meets certain other requirements for qualifying as a REIT. For each of the years in the three-year period ended December 31, 2007, NNN believes it has qualified as a REIT. Notwithstanding NNN's qualification for taxation as a REIT, NNN is subject to certain state taxes on its income and real estate.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties

Please refer to Item 1. “Business.”

Item 3. Legal Proceedings

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

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

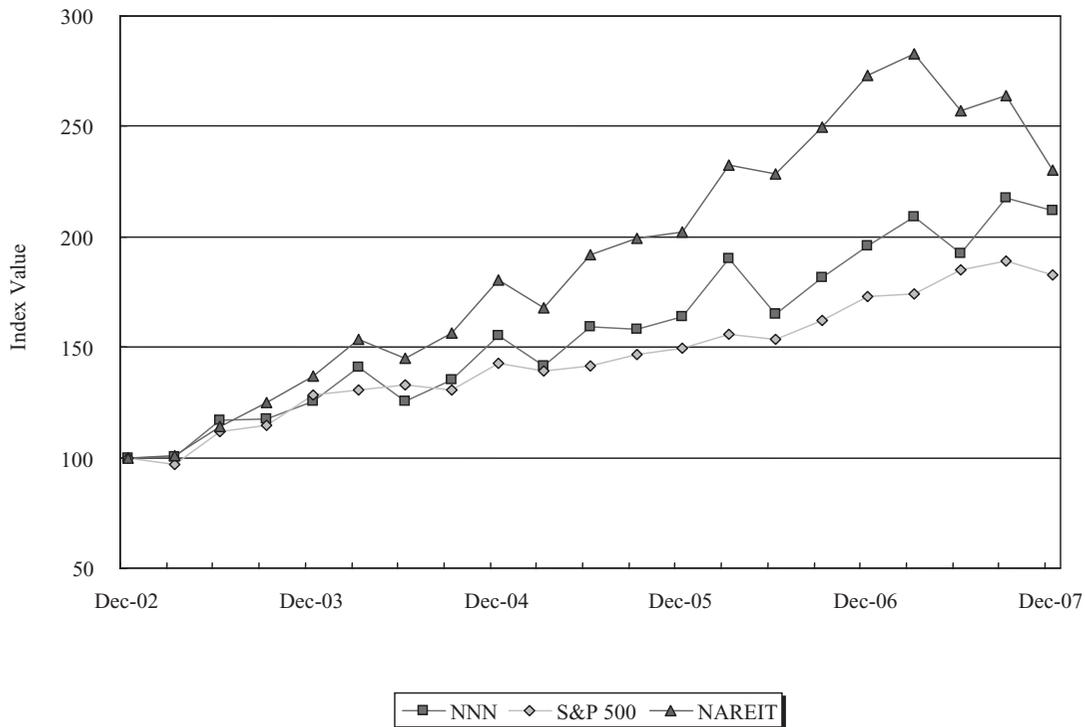
None.

PART II

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

The common stock of NNN currently is traded on the NYSE under the symbol "NNN." Set forth below is a line graph comparing the cumulative total stockholder return on NNN's common stock, based on the market price of the common stock and assuming reinvestment of dividends, with the FTSE National Association of Real Estate Investment Trusts Equity Index ("NAREIT") and the S&P 500 Index ("S&P 500") for the five year period commencing December 31, 2002 and ending December 31, 2007. The graph assumes an investment of \$100 on December 31, 2002.

**Indexed Total Annual Return
(As of December 31, 2007)**



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

2007	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
High	\$ 25.950	\$ 25.450	\$ 24.580	\$ 26.150	\$ 26.150
Low	22.390	21.760	20.200	22.480	20.200
Close	24.190	21.860	24.380	23.380	23.380
Dividends paid per share	0.335	0.355	0.355	0.355	1.400
2006	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
High	\$ 23.540	\$ 23.370	\$ 22.460	\$ 24.100	\$ 24.100
Low	20.220	18.810	19.820	21.250	18.810
Close	23.300	19.950	21.600	22.950	22.950
Dividends paid per share	0.325	0.325	0.335	0.335	1.320

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

	2007		2006	
Ordinary dividends	\$ 1.397402	99.8144%	\$ 1.150780	87.1803%
Qualified dividends	0.000414	0.0296%	-	-
Capital gain	0.002184	0.1560%	0.150261	11.3834%
Unrecaptured Section 1250 Gain	-	-	0.018959	1.4363%
	<u>\$1.400000</u>	<u>100.0000%</u>	<u>\$1.320000</u>	<u>100.0000%</u>

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

In February 2008, NNN paid dividends to its stockholders of \$21,598,000 or \$0.355 per share of common stock.

On January 31, 2008, there were 1,556 stockholders of record of common stock.

Item 6. Selected Financial Data

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

	2007	2006	2005	2004	2003
Gross revenues ⁽¹⁾	\$ 208,630	\$ 180,878	151,831	133,875	112,073
Earnings from continuing operations	85,150	64,695	35,610	30,317	22,519
Net earnings	157,110	182,505	89,400	64,934	53,473
Total assets	2,539,605	1,917,497	1,736,588	1,300,517	1,211,639
Total debt	1,060,070	776,737	861,045	524,241	467,419
Total equity	1,407,285	1,096,505	828,087	756,998	730,754
Cash dividends declared to:					
Common stockholders	92,989	76,035	69,018	66,272	55,473
Series A Preferred Stock stockholders	-	4,376	4,008	4,008	4,008
Series B Convertible Preferred Stock stockholders	-	419	1,675	1,675	502
Series C Preferred Stock stockholders	6,785	923	-	-	-
Weighted average common shares:					
Basic	66,152,437	57,428,063	52,984,821	51,312,434	43,108,213
Diluted	66,407,530	58,079,875	54,640,143	51,742,518	43,896,800
Per share information:					
Earnings from continuing operations:					
Basic	1.18	1.03	0.56	0.48	0.42
Diluted	1.18	1.02	0.58	0.48	0.42
Net earnings:					
Basic	2.27	3.08	1.58	1.15	1.14
Diluted	2.26	3.05	1.56	1.15	1.13
Dividends declared to:					
Common stockholders	1.40	1.32	1.30	1.29	1.28
Series A Preferred Stock stockholders	-	2.45625	2.25	2.25	2.25
Series B Convertible Preferred Stock stockholders	-	41.875	167.50	167.50	50.25
Series C Preferred Stock depository stockholders	1.84375	0.250955	-	-	-
Other data:					
Cash flows provided by (used in):					
Operating activities	129,634	1,676	19,226	85,800	54,215
Investing activities	(536,717)	(90,099)	(230,738)	(69,963)	(256,870)
Financing activities	432,907	81,864	217,844	(19,225)	205,965
Funds from operations – diluted ⁽²⁾	124,113	97,121	81,803	73,065	61,749

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

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

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

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

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Reconciliation of funds from operations:					
Net earnings	\$157,110	\$182,505	\$ 89,400	\$64,934	\$53,473
Real estate depreciation and amortization:					
Continuing operations	30,067	20,358	14,331	10,871	9,219
Discontinued operations	315	2,061	6,076	4,844	2,653
Partnership/joint venture real estate depreciation	31	463	606	622	699
Partnership gain on sale of asset	-	(262)	-	-	-
Gain on disposition of equity investment	-	(11,373)	-	-	-
Gain on disposition of investment assets	(56,625)	(91,332)	(9,816)	(2,523)	(287)
Extraordinary gain	-	-	(14,786)	-	-
FFO	<u>130,898</u>	<u>102,420</u>	<u>85,811</u>	<u>78,748</u>	<u>65,757</u>
Series A Preferred Stock dividends ⁽¹⁾	-	(4,376)	(4,008)	(4,008)	(4,008)
Series B Convertible Preferred Stock dividends ⁽¹⁾	-	(419)	(1,675)	(1,675)	(502)
Series C Preferred Stock dividends	<u>(6,785)</u>	<u>(923)</u>	<u>-</u>	<u>-</u>	<u>-</u>
FFO available to common stockholders – basic	124,113	96,702	80,128	73,065	61,247
Series B Convertible Preferred Stock dividends, if dilutive	<u>-</u>	<u>419</u>	<u>1,675</u>	<u>-</u>	<u>502</u>
FFO available to common stockholders – diluted	<u>\$124,113</u>	<u>\$ 97,121</u>	<u>\$ 81,803</u>	<u>\$73,065</u>	<u>\$61,749</u>

⁽¹⁾ The Series A and Series B Convertible Preferred stock issuances are no longer outstanding.

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

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

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

Overview

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

As of December 31, 2007, NNN owned 908 Investment Properties, with an aggregate leasable area of 10,610,000 square feet, located in 44 states. Approximately 98 percent of NNN's Investment Portfolio was leased at December 31, 2007. In addition to the Investment Properties, as of December 31, 2007, NNN had \$65,964,000 and \$24,340,000 in mortgages and notes receivable (including accrued interest receivable) and commercial mortgage residual interests, respectively. As of December 31, 2007, the TRS owned 23 Development Properties (eight completed inventory, nine under construction and six land parcels) and 33 Exchange 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 and structured finance investments (such as tenant, geographic and industry classification diversification), the occupancy rate of NNN's Investment Portfolio, certain financial performance ratios and profitability measures, industry trends and performance compared to that of NNN, and returns NNN receives on its invested capital.

The growth of the Investment Portfolio from 524 properties to 908 properties over the three years ending December 31, 2007 has increased property diversification. NNN has increased its investments in the convenience store sector. This sector represents a large part of the freestanding retail property marketplace which NNN believes represents an area of attractive investment opportunity. Similarly, NNN has some geographic concentration in the south and southeast which NNN believes are areas of above average population growth.

NNN formed a joint venture with an institutional investor in 2007. This joint venture plans to acquire up to \$220 million of real estate assets leased to convenience store operators. NNN owns a 15 percent equity ownership interest in the joint venture which mitigates NNN's convenience store sector concentration compared to acquiring these assets in the Investment Portfolio. Additionally, the joint venture provides an additional source of capital to fund property acquisitions.

As of December 31, 2007, 2006 and 2005, occupancy of the Investment Portfolio has averaged 98 percent. The Investment Portfolio's average remaining lease term of 13 years has remained fairly constant over the past three years which, coupled with its net lease structure, provide enhanced probability of maintaining occupancy and operating earnings in periods of soft economic conditions.

Critical Accounting Policies and Estimates

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

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

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

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

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

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

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

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

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

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

Use of Estimates. Additional critical accounting policies of NNN include management's estimates and assumptions relating to the reporting of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Additional critical accounting policies include management's estimates of the useful lives used in calculating depreciation expense relating to real estate assets, the recoverability of the carrying value of long-lived assets, including the commercial mortgage residual interests, the collectibility of receivables from tenants, including accrued rental income, and capitalized overhead relating to development projects. Actual results could differ from those estimates.

Results of Operations

Property Analysis – Investment Portfolio

General. The following table summarizes NNN's Investment Portfolio as of December 31:

	2007	2006	2005
Investment Properties Owned:			
Number	908	710	524
Total gross leasable area (square feet)	10,610,000	9,341,000	9,227,000
Investment Properties Leased:			
Number	892	697	512
Total gross leasable area (square feet)	10,355,000	9,173,000	9,066,000
Percent of total gross leasable area – leased	98%	98%	98%
Weighted average remaining lease term (years)	13	12	11

The following table summarizes the lease expirations of NNN's Investment Portfolio as of December 31, 2007:

	%		Gross		%		Gross
	of Annual	# of	Leasable		of Annual	# of	Leasable
	Base	Properties	Area ⁽²⁾		Base	Properties	Area ⁽²⁾
	Rent ⁽¹⁾				Rent ⁽¹⁾		
2008	0.7%	14	258,000	2014	5.0%	31	509,000
2009	1.8%	24	458,000	2015	2.9%	20	469,000
2010	3.1%	38	401,000	2016	2.3%	16	262,000
2011	2.3%	21	336,000	2017	4.9%	27	674,000
2012	4.0%	35	563,000	2018	4.3%	33	505,000
2013	4.3%	32	687,000	Thereafter	64.4%	601	5,233,000

(1) Based on the annualized base rent for all leases in place as of December 31, 2007.

(2) Approximate square feet.

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

Top 10 Lines of Trade	% of Annual Base Rent ⁽¹⁾		
	2007	2006	2005
1. Convenience Stores	23.9%	16.3%	12.1%
2. Restaurants – Full Service	10.3%	12.1%	6.6%
3. Drug Stores	5.0%	8.3%	10.0%
4. Automotive Parts	4.9%	1.6%	0.1%
5. Books	4.4%	5.7%	5.8%
6. Consumer Electronics	4.3%	5.6%	5.9%
7. Theaters	4.2%	-	-
8. Car Washes	4.0%	-	-
9. Sporting Goods	3.9%	7.3%	7.4%
10. Restaurants – Limited Service	3.7%	4.7%	3.0%
Other	31.4%	38.4%	49.1%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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

The following table shows the top 10 states in which NNN's Investment Properties are located in as of December 31, 2007:

State	# of Properties	% of Annual Base Rent ⁽¹⁾
1. Texas	201	20.2%
2. Florida	84	11.3%
3. North Carolina	62	6.8%
4. Illinois	38	6.6%
5. Georgia	48	5.3%
6. Pennsylvania	80	4.7%
7. Indiana	36	3.7%
8. Colorado	15	3.4%
9. Ohio	28	3.4%
10. Missouri	19	3.0%
Other	297	31.6%
	<u>908</u>	<u>100.0%</u>

(1) Based on annualized base rent for all leases in place as of December 31, 2007.

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

	2007	2006	2005
Acquisitions:			
Number of Investment Properties	235	213	170
Gross leasable area (square feet)	2,205,000	1,130,000	1,150,000
Total dollars invested ⁽¹⁾	\$ 696,682	\$ 371,898	\$ 332,461

(1) Includes dollars invested on projects under construction for each respective year.

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

	2007	2006	2005
Number of properties	37	30	12
Gross leasable area (square feet)	997,000	1,015,000	476,000
Net sales proceeds	\$ 146,041	\$ 319,361	\$ 40,377
Net gain	\$ 56,625	\$ 91,332	\$ 9,816

Property Analysis – Inventory Portfolio

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

	2007	2006	2005
Development Portfolio:			
Completed Inventory Properties	8	11	1
Properties under construction	9	5	12
Land parcels	6	13	4
	<u>23</u>	<u>29</u>	<u>17</u>
Exchange Portfolio:			
Inventory Properties	33	68	46
Total Inventory Properties	<u>56</u>	<u>97</u>	<u>63</u>

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

	2007	2006	2005
Development Portfolio:			
Number of properties acquired	3	16	15
Dollars invested ⁽¹⁾	\$ 64,694	\$ 82,524	\$ 67,846
Exchange Portfolio:			
Number of properties acquired	23	77	58
Dollars invested	\$ 105,152	\$ 118,553	\$ 66,527
Total dollars invested	\$ 169,846	\$ 201,077	\$ 134,373

⁽¹⁾ Includes dollars invested on projects under construction for each respective year.

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

	2007		2006		2005	
	# of Properties	Gain	# of Properties	Gain	# of Properties	Gain
Development ⁽¹⁾	13	\$ 5,125	9	\$ 5,774	12	\$ 12,987
Exchange	58	5,888	55	3,892	16	2,641
	<u>71</u>	<u>\$ 11,013</u>	<u>64</u>	<u>\$ 9,666</u>	<u>28</u>	<u>\$ 15,628</u>

⁽¹⁾ Net of any intercompany eliminations or minority interest.

Business Combinations

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

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

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

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

Prior to the acquisition of 78.9 percent equity interest in OAMI, NNN received \$2,749,000 in distribution from the LLCs during the year ended December 31, 2005. For the year ended December 31, 2005, NNN recognized \$1,467,000 of earnings from the LLCs.

In connection with the independent valuations of the Residuals' fair value, NNN reduced the carrying value of the Residuals to reflect such fair value at December 31, 2007. The reduction in the Residuals' value that related to the Residuals acquired at the time of the option exercise was recorded as a purchase price allocation adjustment. NNN recorded an other than temporary valuation impairment of \$638,000 and \$8,779,000 for the years ended December 31, 2007 and 2006, respectively. In addition, NNN recorded \$326,000 of unrealized losses and \$1,992,000 of unrealized gains as other comprehensive income for the years ended December 31, 2007 and 2006, respectively.

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

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

Revenue from Continuing Operations Analysis

General. During the year ended December 31, 2007, NNN's rental income increased primarily due to the acquisition of Investment Properties (See "Results of Operations – Property Analysis – Investment Portfolio – Property Acquisitions"). NNN anticipates any significant increase in rental income will continue to come primarily from additional property acquisitions.

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

	2007	2006	2005	Percent of Total			2007 Versus 2006 Percent Increase (Decrease)	2006 Versus 2005 Percent Increase (Decrease)
				2007	2006	2005		
Rental Income ⁽¹⁾	\$ 170,733	\$ 125,004	\$ 91,876	91.6%	88.6%	84.1%	36.6%	36.1%
Real estate expense								
reimbursement from tenants	5,720	4,619	3,902	3.1%	3.3%	3.6%	23.8%	18.4%
Interest and other income from								
real estate transactions	5,076	4,265	6,111	2.7%	3.0%	5.6%	19.0%	(30.2)%
Interest income on								
commercial mortgage								
residual interests	4,882	7,268	7,349	2.6%	5.1%	6.7%	(32.8)%	(1.1)%
Total revenues from								
continuing operations	\$ 186,411	\$ 141,156	\$ 109,238	100.0%	100.0%	100.0%	32.1%	29.2%

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

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

	2007	2006	2005	Percent of Total			2007	2006
				2007	2006	2005	Versus 2006 Percent Increase (Decrease)	Versus 2005 Percent Increase (Decrease)
Investment Assets	\$ 170,234	\$ 124,702	\$ 104,681	91.3%	88.3%	95.8%	36.5%	19.1%
Inventory Assets	16,177	16,454	4,557	8.7%	11.7%	4.2%	(1.7)%	261.1%
Total revenues	\$ 186,411	\$ 141,156	\$ 109,238	100.0%	100.0%	100.0%	32.1%	29.2%

Comparison of Year Ended December 31, 2007 to Year Ended December 31, 2006.

Rental Income. Rental income increased for the year ended December 31, 2007 as compared to the same period in 2006 primarily from NNN's acquisition of 235 Investment Properties with an aggregate gross leasable area of 2,205,000 square feet during the year ended December 31, 2007. The Investment Portfolio occupancy rate remained relatively stable at approximately 98 percent for each of the years ended December 31, 2007 and 2006.

Real Estate Expense Reimbursements from Tenants. Real estate expense reimbursements from tenants remained relatively constant as a percentage of revenues from continuing operations, but increased for the year ended December 31, 2007 as compared to the year ended December 31, 2006 was attributable to a full year of reimbursement from certain properties acquired in 2006 and the reimbursements from the newly acquired Investment Properties acquired in 2007.

Interest and Other Income from Real Estate Transactions. Interest and other income from real estate transactions increased for the year ended December 31, 2007 as compared to the same period in 2006. This increase is primarily attributable to an increase in interest income on its mortgages and notes receivables. The aggregate principal balance of NNN's mortgages and notes receivables at December 31, 2007 and 2006 was \$51,556,000 and \$17,227,000, respectively. The increase in interest income was partially offset by a lower weighted average outstanding principal balance on NNN's structured finance investments during 2007. NNN recorded interest income of \$4,240,000 and \$3,966,000 for the years ended December 31, 2007 and 2006, respectively.

Interest Income on Commercial Mortgage Residual Interests. The decrease in interest income on commercial mortgage residual interests for the year ended December 31, 2007 as compared to 2006 is primarily the result of the amortization and pre-payments of the underlying notes.

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

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

	2007		2006	
	# of Properties	Gain	# of Properties	Gain
Gain	2	\$ 332	6	\$ 8,000
Minority interest	-	-	-	(3,609)
Gain, net of minority interest	2	\$ 332	6	\$ 4,391

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

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

Real Estate Expense Reimbursements from Tenants. Real estate expense reimbursements from tenants remained fairly constant as a percent of total revenues from continuing operations. The increase for the year ended December 31, 2006 as compared to the year ended December 31, 2005 was attributable to a full year of reimbursements from certain tenants acquired in 2005 and the reimbursements from the newly acquired Investment Properties in 2006.

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

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

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

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

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

Analysis of Expenses from Continuing Operations

General. During 2007, operating expenses from continuing operations increased primarily as a result of the acquisition of additional properties and was offset by a decrease in impairments. Operating expenses from continuing operations decreased as a percentage from NNN's total revenues from continuing operations due to increased efficiencies. The following summarizes NNN's expenses from continuing operations (dollars in thousands):

	2007	2006	2005
General and administrative	\$ 23,542	\$ 24,009	\$ 22,401
Real estate	8,272	6,701	5,613
Depreciation and amortization	32,593	22,445	16,252
Impairment – real estate	791	-	1,673
Impairment – commercial mortgage residual interests valuation	638	8,779	2,382
Restructuring costs	-	1,580	-
Total operating expenses	\$ 65,836	\$ 63,514	\$ 48,321
Interest and other income	\$ (4,753)	\$ (3,816)	\$ (2,039)
Interest expense	49,286	45,872	33,309
Total other expenses (revenues)	\$ 44,533	\$ 42,056	\$ 31,270

	Percentage of Total Operating Expenses			Percentage of Revenues from Continuing Operations			2007 Versus 2006 Percent Increase (Decrease)	2006 Versus 2005 Percent Increase (Decrease)
	2007	2006	2005	2007	2006	2005		
General and administrative	35.8%	37.8%	46.4%	12.6%	17.0%	20.5%	(1.9)%	7.2%
Real estate	12.5%	10.6%	11.6%	4.5%	4.8%	5.1%	23.4%	19.4%
Depreciation and amortization	49.5%	35.3%	33.6%	17.5%	15.9%	14.9%	45.2%	38.1%
Impairment – real estate	1.2%	-	3.5%	0.4%	-	1.5%	100.0%	(100.0)%
Impairment – commercial mortgage residual interests valuation	1.0%	13.8%	4.9%	0.3%	6.2%	2.2%	(92.7)%	268.6%
Restructuring costs	-	2.5%	-	-	1.1%	-	(100.0)%	100.0%
Total operating expenses	100.0%	100.0%	100.0%	35.3%	45.0%	44.2%	3.7%	31.4%
Interest and other income	(10.7)%	(9.1)%	(6.5)%	(2.5)%	(2.7)%	(1.9)%	24.6%	87.2%
Interest expense	110.7%	109.1%	106.5%	26.4%	32.5%	30.5%	7.4%	37.7%
Total other expenses (revenues)	100.0%	100.0%	100.0%	23.9%	29.8%	28.6%	5.9%	34.5%

Comparison of Year End December 31, 2007 to Year Ended December 31, 2006.

General and Administrative. General and administrative expenses decreased slightly for the year ended December 31, 2007 as compared to the same period in 2006; however, such expenses remained fairly consistent as a percentage of total operating expense from continuing operations. The decrease in general and administrative expenses for 2007 was primarily attributable to a decrease in expenses related to personnel compensation, and a decrease in lost pursuit costs.

Real Estate. Real estate expenses increased for the year ended December 31, 2007, as compared to the year ended December 31, 2006; however, such expenses remained fairly consistent as a percentage of total revenues from continuing operations. The increase in real estate expenses for 2007 as compared to the same period for 2006 is primarily attributable to (i) an increase in tenant reimbursable real estate expenses, and (ii) an increase in certain real estate expenses that were not reimbursable by tenants.

Depreciation and Amortization. Depreciation and amortization expenses increased for the year ended December 31, 2007, as compared to the year ended December 31, 2006. The increase for the year ended December 31, 2007, as compared to the same period in 2006 is attributable to (i) the acquisition of 235 Investment Properties with an aggregate gross leasable area of 2,205,000 square feet in 2007, and (ii) a full year of depreciation and amortization on the 213 Investment Properties with an aggregate gross leasable area of 1,130,000 square feet which were acquired during 2006. The increase in depreciation and amortization was partially offset by the disposition of 37 Investment Properties with an aggregate gross leasable area of 997,000 square feet during the year ended December 31, 2007.

Impairment – Real Estate. NNN reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Events or circumstances that may occur include changes in real estate market conditions, the ability of NNN to re-lease properties that are currently vacant or become vacant, and the ability to sell properties at an attractive return. Generally, NNN calculates a possible impairment by comparing the future cash flows to the current net book value. Impairments are measured as the amount by which the current book value of the asset exceeds the fair value of the asset. During the year ended December 31, 2007, NNN recorded impairments totaling \$791,000. No impairments were recorded during the year ended December 31, 2006.

Impairment – Commercial Mortgage Residual Interests Valuation. In connection with the independent valuations of the Residuals' fair value, NNN reduced the carrying value of the Residuals to reflect such fair value at December 31, 2007 and 2006. In 2007, due to changes in market conditions relating to residual assets, the independent valuation increased the discount rate from 17% to 25%. Other than temporary valuation adjustments are recorded as a reduction of earnings from operations. For the years ended December 2007 and 2006, NNN recorded an other than temporary impairment of \$638,000 and \$8,779,000, respectively.

Restructuring Costs. During the year ended December 31, 2006, NNN recorded restructuring costs of \$1,580,000, which included severance costs and accelerated vesting of restricted stock in connection with a workforce reduction in April 2006. No such costs were incurred during 2007.

Interest Expense. The increase in interest expense for the year ended December 31, 2007, as compared to the year ended December 31, 2006, is primarily attributable to an increase of \$126,164,000 in weighted average long-term debt outstanding. The increase in the weighted average long-term debt was due to the increase in dollars invested in Investment and Inventory Properties. The increase in interest expense was partially offset by an increase of \$1,440,000 in the interest capitalized to construction

projects in 2007, as well as by a decrease in the overall weighted average interest rate for 2007 as compared to 2006. The following represents the primary changes in debt:

- (i) issuance of \$250,000,000 of notes payable in September 2007 with an effective interest rate of 6.92% due in October 2017,
- (ii) repayment of mortgage in September 2007 with balance of \$7,305,000 at December 31, 2006 and an interest rate of 7.37%,
- (iii) the decrease in the weighted average debt outstanding on the revolving credit facility (decreased by \$28,506,000),
- (iv) issuance of \$172,500,000 of notes payable in September 2006 with an effective interest rate of 3.95% due in September 2026,
- (v) payoff of the \$20,800,000 variable rate term note in October 2007, which was assumed in connection with the acquisition of NAPE in June 2005,
- (vi) repayment of a mortgage in February 2006 with a balance of \$18,538,000 at December 31, 2005 with an interest rate of 7.435%, and
- (vii) payoff of the \$10,500,000 OAMI secured note payable with a stated interest rate of 10.00%.

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

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

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

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

Impairment – Real Estate. NNN reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Events or

circumstances that may occur include changes in real estate market conditions, the ability of NNN to re-lease properties that are currently vacant or become vacant, and the ability to sell properties at an attractive return. Generally, NNN calculates a possible impairment by comparing the future cash flows to the current net book value. Impairments are measured as the amount by which the current book value of the asset exceeds the fair value of the asset.

Impairment – Commercial Mortgage Residual Interests Valuation. In connection with the independent valuations of the Residuals' fair value, NNN recorded an other than temporary valuation impairment of \$8,779,000 and \$2,382,000 for the years ended December 31, 2006 and 2005, respectively.

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

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

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

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

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

Investment in Unconsolidated Affiliates

In September 2007, NNN entered into a joint venture, NNN Retail Properties Fund I LLC (the “NNN Crow JV I”) with an affiliate of Crow Holdings Realty Partners IV, L.P. and holds a 15 percent equity interest in the joint venture which it accounts for under the equity method of accounting. Net income and losses of the joint venture are allocated to the members in accordance with their respective percentage interests. During the year ended December 31, 2007, in accordance with the terms of the joint venture agreement, NNN loaned \$2,749,000 to the joint venture at an interest rate of 7.75%. The loan balance was paid in full in November 2007.

In October 2006, NNN sold its equity investment in CNL Plaza, Ltd. and CNL Plaza Venture, Ltd. (collectively, “Plaza”) for \$10,239,000 and recognized a gain of \$11,373,000. Plaza owned a 346,000 square foot office building, one floor of which serves as NNN’s headquarters office, and an interest in an adjacent parking garage. In connection with the sale, NNN was released as a guarantor of Plaza’s \$14,000,000 unsecured promissory note.

During the years ended December 31, 2007, 2006 and 2005, NNN recognized equity in earnings of unconsolidated affiliates of \$49,000, \$122,000, and \$1,209,000, respectively. The decrease in equity in earnings of unconsolidated affiliates prior to the years ended December 31, 2007 and 2006, was primarily attributable to the decrease in the income earned on investments in commercial mortgage residual interests as a result of the acquisition of 78.9 percent equity interest in OAMI in May 2005. Subsequent to the acquisition, NNN’s interest in the LLCs was no longer being accounted for as an equity investment and is now included as a part of OAMI in NNN’s consolidated financial statements.

Earnings from Discontinued Operations

In accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” NNN classified as discontinued operations the revenues and expenses related to its Investment Properties that were sold and its leasehold interests that expired subsequent to December 31, 2001, as well as, the revenues and expenses related to any Investment Property that was held for sale at December 31, 2007. NNN also classified as discontinued operations the revenues and expenses of its Inventory Properties which generated rental revenues. NNN records discontinued operations by NNN’s identified segments: (i) Investment Assets, and (ii) Inventory Assets. The following table summarizes the earnings from discontinued operations for the years ended December 31 (dollars in thousands):

	2007			2006			2005		
	<u># of Sold Properties</u>	<u>Gain</u>	<u>Earnings</u>	<u># of Sold Properties</u>	<u>Gain</u>	<u>Earnings</u>	<u># of Sold Properties</u>	<u>Gain</u>	<u>Earnings</u>
Investment Assets	37	\$ 56,625	\$ 63,338	30	\$ 91,332	\$ 109,664	12	\$ 9,816	\$ 29,453
Inventory Assets, net of minority interest	69	10,681	8,622	58	5,275	8,146	22	13,618	9,551
	<u>106</u>	<u>\$ 67,306</u>	<u>\$ 71,960</u>	<u>88</u>	<u>\$ 96,607</u>	<u>\$ 117,810</u>	<u>34</u>	<u>\$ 23,434</u>	<u>\$ 39,004</u>

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

Extraordinary Gain

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

Impact of Inflation

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

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

Liquidity

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

NNN expects to meet these requirements (other than amounts required for additional property investments, mortgages and notes receivables and structured finance investments) through cash provided from operations and NNN's revolving credit facility. NNN utilizes its credit facility to meet its short term working capital requirements. As of December 31, 2007, \$129,800,000 was outstanding and approximately \$270,200,000 was available for future borrowings under the credit facility, excluding undrawn letters of credit totaling \$2,685,000. NNN anticipates that any additional investments in properties, mortgages and notes receivables and structured finance investments during the next 12 months will be funded with cash provided from operations, long-term debt and the issuance of common or preferred equity, which may be initially funded with proceeds from NNN's revolving credit facility. However, there can be no assurance that additional financing or capital will be available, or that the terms will be acceptable or advantageous to NNN.

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash and cash equivalents:			
Provided by operating activities	\$ 129,634	\$ 1,676	\$ 19,226
Used in investing activities	(536,717)	(90,099)	(230,783)
Provided by financing activities	432,907	81,864	217,844
Increase (decrease)	25,824	(6,559)	6,287
January 1	1,675	8,234	1,947
December 31	<u>\$ 27,499</u>	<u>\$ 1,675</u>	<u>\$ 8,234</u>

Cash provided by operating activities represents cash received primarily from rental income from tenants, proceeds from the disposition of Inventory Properties and interest income less general and administrative expenses, interest expense and acquisition of Inventory Properties. NNN's cash flow from operating activities, net of cash used in and provided by the acquisition and disposition of its Inventory Properties, has been sufficient to pay the distributions for each period presented. NNN uses proceeds from its Credit Facility to fund the acquisition of its Inventory Properties. The change in cash provided by operations for the years ended December 31, 2007, 2006 and 2005, is primarily the result of changes in revenues and expenses as discussed in "Results of Operations." Cash generated from operations is expected to fluctuate in the future.

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

NNN's financing activities for the year ended December 31, 2007 included the following significant transactions:

- \$247,498,000 in net proceeds from issuance of notes due in October 2017,
- \$135,750,000 in net proceeds from the issuance of 5,750,000 shares of common stock,
- \$99,150,000 in net proceeds from the issuance of 4,000,000 shares of common stock,
- \$92,989,000 in dividends paid to common stockholders,
- \$6,785,000 in dividends paid to holders of the depositary shares of NNN's Series C Preferred stock,
- \$44,540,000 paid to redeem all outstanding shares of Series A Preferred stock,
- \$101,800,000 in net proceeds from NNN's credit facility,
- \$62,980,000 in net proceeds from the issuance of 2,645,257 common shares in connection with the Dividend Reinvestment and Stock Purchase Plan ("DRIP"),
- \$10,500,000 repayment of secured note payable,
- \$20,800,000 repayment of term note, and
- \$26,007,000 repurchase of the properties under the financing lease obligation.

Financing Strategy

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

NNN typically funds its short-term liquidity requirements including investments in additional Investment Properties with cash from its \$400,000,000 unsecured revolving credit facility ("Credit Facility"). As of December 31, 2007, \$129,800,000 was outstanding and approximately \$270,200,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$2,685,000.

For the year ended December 31, 2007, NNN's ratio of total indebtedness to total gross assets (before accumulated depreciation) was approximately 43 percent and the secured indebtedness to total gross assets was approximately one percent. The total debt to total market capitalization was approximately 39 percent. Certain financial agreements to which NNN is a party contain covenants that limit NNN's ability to incur debt under certain circumstances. The organizational documents of NNN do not limit the absolute amount or percentage of indebtedness that NNN may incur. Additionally, NNN may change its financing strategy.

Contractual Obligations and Commercial Commitments. The information in the following table summarizes NNN's contractual obligations and commercial commitments outstanding as of December 31, 2007. The table presents principal cash flows by year-end of the expected maturity for debt obligations and commercial commitments outstanding as of December 31, 2007.

	Total	Expected Maturity Date (dollars in thousands)					Thereafter
		2008	2009	2010	2011	2012	
Long-term debt ⁽¹⁾	\$ 931,980	\$ 113,190	\$ 1,001	\$ 21,022	\$ 173,598	\$ 69,291	\$ 553,878
Credit Facility	129,800	-	129,800	-	-	-	-
Operating lease	6,261	839	865	891	917	945	1,804
Total contractual cash obligations ⁽²⁾	<u>\$ 1,068,041</u>	<u>\$ 114,029</u>	<u>\$ 131,666</u>	<u>\$ 21,913</u>	<u>\$ 174,515</u>	<u>\$ 70,236</u>	<u>\$ 555,682</u>

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

(2) Excludes \$11,243 of accrued interest payable.

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

	# of Properties	Total Construction Commitment ⁽¹⁾	Amount Funded at December 31, 2007
Investment Portfolio	27	\$ 71,883	\$ 44,561
Inventory Portfolio	9	24,097	17,125
	<u>36</u>	<u>\$ 95,980</u>	<u>\$ 61,686</u>

(1) Including land costs.

As of December 31, 2007 NNN had outstanding letters of credit totaling \$2,685,000 under its Credit Facility.

As of December 31, 2007, NNN does not have any other contractual cash obligations, such as purchase obligations, financing lease obligations or other long-term liabilities other than those reflected in the table. In addition to items reflected in the table, NNN has preferred stock with cumulative preferential cash distributions, as described below under "Dividends."

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

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

The lost revenues and increased property expenses resulting from the rejection by any bankrupt tenant of any of their respective leases with NNN could have a material adverse effect on the liquidity and results of operations if NNN is unable to release the Investment Properties at comparable rental rates and in a timely manner. As of January 31, 2008, NNN owns 13 vacant, unleased Investment Properties which account for approximately three percent of the total gross leasable area of NNN's Investment Portfolio in addition to three vacant land parcels. Additionally, less than one percent of the total gross leasable area of NNN's Investment Portfolio is leased to three tenants that have filed a voluntary petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. As a result, these tenants have the right to reject or affirm their leases with NNN.

Dividends. NNN has made an election to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, and related regulations. 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 affect NNN's income and its ability to pay dividends. NNN believes it has been organized as, and its past and present operations qualify NNN as, a REIT. Additionally, NNN intends to continue to operate so as to remain qualified as a REIT for federal income tax purposes.

One of NNN's primary objectives, consistent with its policy of retaining sufficient cash for reserves and working capital purposes and maintaining its status as a REIT, is to distribute a substantial portion of its funds available from operations to its stockholders in the form of dividends. During the years ended December 31, 2007, 2006 and 2005, NNN declared and paid dividends to its common stockholders of \$92,989,000, \$76,035,000, and \$69,018,000, respectively, or \$1.40, \$1.32 and \$1.30 per share respectively, of common stock.

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

	2007		2006		2005	
Ordinary dividends	\$ 1.397402	99.8144%	\$ 1.150780	87.1803%	\$ 1.068470	82.1900%
Qualified dividends	0.000414	0.0296%	-	-	0.224510	17.2700%
Capital gain	0.002184	0.1560%	0.150261	11.3834%	-	-
Unrecaptured Section 1250 Gain	-	-	0.018959	1.4363%	0.002210	0.1700%
Nontaxable distributions	-	-	-	-	0.004810	0.3700%
	<u>\$ 1.400000</u>	<u>100.0000%</u>	<u>\$ 1.320000</u>	<u>100.0000%</u>	<u>\$ 1.300000</u>	<u>100.0000%</u>

In February 2008, NNN paid dividends to its common stockholders of \$21,598,000, or \$0.355 per share of common stock.

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

Non-Voting Preferred Stock Issuance	Shares Outstanding At December 31, 2007	Liquidation Preference (per share)	Fixed Annual Cash Distribution (per share)	Dividends Declared and Paid For the Year Ended December 31,					
				2007		2006		2005	
				Total	Per Share	Total	Per Share	Total	Per Share
9% Series A ⁽¹⁾	-	\$ 25.00	\$ 25.00000	\$ -	\$ -	\$ 4,376	\$ 2.456250	\$ 4,008	\$ 2.25
6.7% Series B Convertible ⁽²⁾	-	2,500.00	167.50000	-	-	419	41.875000	1,675	167.50
7.375% Series C ⁽³⁾	3,680,000	25.00	1.84375	6,785,000	1.84375	923	0.250955	-	-

⁽¹⁾ Effective January 2, 2007, NNN redeemed all 1,781,589 shares of Series A Preferred Stock at their redemption price of \$25.00 per share plus all accumulated and unpaid dividends through the redemption date of \$0.20625 per share, for an aggregate redemption price of \$25.20625. Dividends declared and paid in 2006 include \$367 of dividends payable at December 31, 2006, which were paid in 2007.

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

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

Restricted Cash. Restricted cash consisted of amounts held in restricted accounts in connection with the sale of certain assets of OAMI to a third party (the "Buyer"). In December 2007, in accordance to agreements with the Buyer, all restrictions were released, therefore, as of December 31, 2007 NNN has no cash held in restricted accounts. The amount held in these accounts at December 31, 2006 was \$36,728,000. NNN used a portion of the amounts released to repay the \$10,500,000 OAMI secured note payable.

Capital Resources

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

Debt

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

	2007	Percentage of Total	2006	Percentage of Total
Line of credit payable	\$ 129,800	12.2%	\$ 28,000	3.6%
Mortgages payable	27,480	2.6%	35,892	4.6%
Notes payable – secured	12,000	1.1%	24,500	3.2%
Notes payable – convertible	172,500	16.3%	172,500	22.2%
Notes payable	718,290	67.8%	489,804	63.1%
Financing lease obligation	-	-	26,041	3.3%
Total outstanding debt	\$ 1,060,070	100.0%	\$ 776,737	100.0%

Line of Credit Payable. In October 2007, NNN exercised the \$100,000,000 accordion feature of its existing revolving Credit Facility increasing the borrowing capacity to \$400,000,000 from \$300,000,000. The terms of the Credit Facility provide for (i) a tiered interest rate structure of a maximum of 112.5 basis points above LIBOR (based upon the debt rating of NNN, the current interest rate is 80 basis points above LIBOR), (ii) requires NNN to pay a commitment fee based on a tiered rate structure to a maximum of 25 basis points per annum (based upon the debt rating of NNN, the current commitment fee is 20 basis points), (iii) provides for a competitive bid option for up to 50 percent of the facility amount and (iv) expires on May 8, 2009. The principal balance is due in full upon expiration of the Credit Facility in May 2009, which NNN may request to be extended for an additional 12 months. As of December 31, 2007, \$129,800,000 was outstanding and approximately \$270,200,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$2,685,000.

In accordance with the terms of the Credit Facility, NNN is required to meet certain restrictive financial covenants, which, among other things, require NNN to maintain certain (i) maximum leverage ratios, (ii) debt service coverage, (iii) cash flow coverage, and (iv) investment limitations. At December 31, 2007, NNN was in compliance with those covenants. In the event that NNN violates any of these restrictive financial covenants, its access to the debt or equity markets may become impaired.

Mortgages Payable. In September 2007, upon maturity, NNN repaid the outstanding principal balance on the long-term fixed rate loan which had an original principal balance of \$12,000,000, and was secured by a first mortgage on nine Investment Properties. Upon repayment of the loan, the encumbered Investment Properties were released from the mortgage. As of December 31, 2006, the outstanding principal balance was \$7,305,000 with an interest rate of 7.37%.

In February 2006, upon maturity, NNN repaid the outstanding principal balance of its long-term, fixed rate loan with an original principal balance of \$39,450,000, which was secured by a first mortgage on certain of NNN's Investment Properties. Upon repayment of the loan, the Investment Properties were released from the mortgage. As of December 31, 2005, the outstanding principal balance was \$18,538,000 with an interest rate of 7.44%.

In May 2006, NNN disposed of three Investment Properties that were subject to a first mortgage with an original and outstanding principal balance of \$95,000,000 with an interest rate of 5.40%. Upon disposition of these Investment Properties, the buyer assumed the mortgage.

Notes Payable – Secured. In December 2007, NNN repaid the outstanding principal balance of \$10,500,000 on one of its secured notes which had an interest rate of 10.00%. NNN repaid the outstanding balance of the note with the restricted cash that was released in December 2007.

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

The notes are convertible, at the option of the holder, at any time on or after September 15, 2025. Prior to September 15, 2025, holders may convert their Convertible Notes under certain circumstances. The initial conversion rate per \$1,000 principal amount of Convertible Notes was 40.9015 shares of NNN's

common stock, which was equivalent to an initial conversion price of \$24.4490 per share of common stock. The initial conversion rate is subject to adjustment in certain circumstances. As a result of the increase in NNN's dividend, the conversion rate was adjusted to 41.0028, which is equivalent to a conversion price of \$24.3886 per share. Upon conversion of each \$1,000 principal amount of Convertible Notes, NNN will settle any amounts up to the principal amount of the notes in cash and the remaining conversion value, if any, will be settled, at NNN's option, in cash, common stock or a combination thereof.

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

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

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

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

Notes	Issue Date	Principal	Discount ⁽³⁾	Net Price	Stated Rate	Effective Rate ⁽⁴⁾	Commencement of Semi-Annual Interest Payments	Maturity Date
2008 ⁽¹⁾⁽⁷⁾	March 1998	\$ 100,000	\$ 271	\$ 99,729	7.125%	7.163%	September 1998	March 2008
2010 ⁽¹⁾	September 2000	20,000	126	19,874	8.500%	8.595%	March 2001	September 2010
2012 ⁽¹⁾	June 2002	50,000	287	49,713	7.750%	7.833%	December 2002	June 2012
2014 ⁽¹⁾⁽²⁾⁽⁵⁾	June 2004	150,000	440	149,560	6.250%	5.910%	June 2004	June 2014
2015 ⁽¹⁾	November 2005	150,000	390	149,610	6.150%	6.185%	June 2006	December 2015
2017 ⁽¹⁾⁽⁶⁾	September 2007	250,000	877	249,123	6.875%	6.924%	April 2008	October 2017

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

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

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

⁽⁴⁾ Includes the effects of the discount and interest rate hedge (as applicable).

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

⁽⁶⁾ NNN entered into an interest rate hedge with a notional amount of \$100,000. Upon issuance of the 2017 Notes, NNN terminated the interest rate hedge agreement resulting in a loss of \$3,228. The loss has been deferred and is being amortized as an adjustment to interest expense over the term of the 2017 Notes using the effective interest method.

⁽⁷⁾ NNN anticipates using proceeds from the Credit Facility to fund the maturity of the 2008 Note.

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

In connection with the note offerings, NNN incurred debt issuance costs totaling \$6,667,000 consisting primarily of underwriting discounts and commissions, legal and accounting fees, rating agency fees and printing expenses. Debt issuance costs for all note issuances have been deferred and are being amortized over the term of the respective notes using the effective interest method.

In accordance with the terms of the indenture, pursuant to which NNN's notes have been issued, NNN is required to meet certain restrictive financial covenants, which, among other things, require NNN to maintain (i) certain leverage ratios and (ii) certain interest coverage. At December 31, 2007, NNN was in compliance with those covenants. In the event that NNN violates any of the certain restrictive financial covenants, its access to the debt or equity markets may become impaired.

In addition, in connection with the acquisition of NAPE, NNN assumed a \$20,800,000 term note payable ("Term Note"). In October 2007, NNN repaid the outstanding principal balance on its \$20,800,000 term note. The term note had a weighted interest rate of 6.62% as of December 2006.

Financing Lease Obligation. In July 2004, NNN sold five investment properties for approximately \$26,041,000 and subsequently leased back the properties under a 10-year financing lease obligation. NNN may repurchase one or more of the properties subject to put and call options included in the financing lease. In accordance with the provisions of SFAS No. 66, "Accounting for Sales of Real Estate," NNN has recognized the sale as a financing transaction. The 10-year financing lease bears an interest rate of 5.00% annually with monthly interest payments of \$109,000 and expires in June 2014 unless either the put or call option was exercised. In November 2007, NNN repurchased the properties under the agreements of the put option for approximately \$26,007,000.

Debt and Equity Securities.

NNN has used, and expects to use in the future, issuances of debt and equity securities primarily to pay down its outstanding indebtedness and to finance investment acquisitions. NNN has maintained investment grade debt ratings from Standard and Poor's, Moody's Investor Service and Fitch Ratings on its senior, unsecured debt since 1998. In February 2006, NNN filed a shelf registration statement with the Securities and Exchange Commission which permits the issuance by NNN of an indeterminate amount of debt and equity securities.

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

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

Holders of the depositary shares are entitled to receive, when and as authorized by the Board of Directors, cumulative preferential cash dividends at the rate of 7.375% of the \$25.00 liquidation preference per depositary share per annum (equivalent to a fixed annual amount of \$1.84375 per depositary share). The Series C Redeemable Preferred Stock underlying the depositary shares ranks senior to NNN's common stock with respect to dividend rights and rights upon liquidation, dissolution

or winding up of NNN. NNN may redeem the Series C Redeemable Preferred Stock underlying the depositary shares on or after October 12, 2011, for cash, at a redemption price of \$2,500.00 per share (or \$25.00 per depositary share), plus all accumulated, accrued and unpaid dividends.

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

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

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

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

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

	2007	2006
Shares of common stock	2,645,257	3,046,408
Net proceeds	\$ 62,980	\$ 65,722

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

Investment in Unconsolidated Affiliates – In September 2007, NNN entered into a joint venture, NNN Retail Properties Fund I LLC (the "NNN Crow JV I"), with an affiliate of Crow Holdings Realty Partners IV, L.P. NNN Crow JV I plans to acquire up to \$220,000,000 of real estate assets leased to convenience store operators from unrelated third parties. NNN owns a 15 percent equity interest in the joint venture which it accounts for under the equity method of accounting. Net income and losses of the joint venture are allocated to the members in accordance with their respective percentage interest. During the year ended December 31, 2007, in accordance with the terms of the joint venture agreement, NNN loaned \$2,749,000 to the joint venture at an interest rate of 7.75%. The loan balance was paid in full in November 2007.

Mortgages and Notes Receivable. Mortgages are loans secured by real estate, real estate securities or other assets. As of December 31, 2007, these receivables totaled \$49,336,000.

Structured finance agreements are typically loans secured by a borrower's pledge of ownership interests in the entity that owns or leases the real estate and/or other acceptable collateral such as fixtures, equipment or cash. These agreements are sometimes subordinated to senior loans secured by first mortgages encumbering the underlying real estate. Subordinated positions are generally subject to a higher risk of nonpayment of principal and interest than the more senior loans. As of December 31, 2007, the structured finance agreements had an outstanding principal balance of \$14,359,000.

As of December 31, 2007, the structured finance investments bear a weighted average interest rate of 11.26% per annum, of which 9.78% is payable monthly and the remaining 1.48% accrues and is due at maturity. The principal balance of each structured finance investment is due in full at maturity, which ranges between January 2009 and March 2010. The structured finance investments are secured by the borrowers' pledge of their respective membership interests in the certain subsidiaries which own the respective real estate.

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

	<u>2007</u>	<u>2006</u>
Mortgages and notes receivable	\$ 51,556	\$ 17,227
Structured Finance	14,359	13,917
Accrued interest receivables	<u>545</u>	<u>641</u>
	66,460	31,785
Less loan origination fees, net	(100)	(206)
Less allowance	<u>(396)</u>	<u>(634)</u>
	<u>\$ 65,964</u>	<u>\$ 30,945</u>

Commercial Mortgage Residual Interests. In connection with the independent valuations of the commercial mortgage residual interests' (the "Residuals") fair value, NNN adjusted carrying value of the Residuals to reflect such fair value at December 31, 2007. The adjustments in the Residuals' were recorded as an aggregate other than temporary valuation impairment of \$638,000 and \$8,779,000, for the years ended December 31, 2007 and 2006, respectively. NNN recorded \$326,000 of unrealized losses and \$1,992,000 of unrealized gains as other comprehensive income for the years ended December 31, 2007 and 2006, respectively.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

NNN is exposed to interest changes primarily as a result of its variable rate Credit Facility and its long-term, fixed rate debt used to finance NNN's development and acquisition activities, and for general corporate purposes. NNN's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve its objectives, NNN borrows at both fixed and variable rates on its long-term debt. As of December 31, 2007, NNN has one interest rate hedge with a value of \$109,000 which is included in other liabilities. As of December 31, 2006, NNN had no outstanding derivatives.

The information in the table below summarizes NNN's market risks associated with its debt obligations outstanding as of December 31, 2007 and 2006. The table presents principal cash flows and related interest rates by year for debt obligations outstanding as of December 31, 2007. The variable interest rates shown represent the weighted average rates for the Credit Facility and Term Note at the end of the periods. The table incorporates only those debt obligations that exist as of December 31, 2007 it does not consider those debt obligations or positions which could arise after this date. Moreover, because firm commitments are not presented in the table below, the information presented therein has limited predictive value. As a result, NNN's ultimate realized gain or loss with respect to interest rate fluctuations will depend on the exposures that arise during the period, NNN's hedging strategies at that time and interest rates. If interest rates on NNN's variable rate debt increased by one percent, NNN's interest expense would have increased approximately three percent for the year ended December 31, 2007.

	Debt Obligations (dollars in thousands)							
	Variable Rate Debt		Fixed Rate Debt					
	Credit Facility and Term Note ⁽¹⁾		Mortgages		Unsecured Debt ⁽³⁾⁽⁴⁾		Secured Debt	
	Debt Obligation	Weighted Average Interest Rate ⁽²⁾	Debt Obligation	Weighted Average Interest Rate	Debt Obligation	Effective Interest Rate	Debt Obligation	Weighted Average Interest Rate
2008	-	-	1,190	7.04%	99,992	7.16%	12,000	10.00%
2009	129,800	6.24%	1,000	7.02%	-	-	-	-
2010	-	-	1,022	7.01%	19,955	8.60%	-	-
2011	-	-	1,098	7.00%	172,500	3.95%	-	-
2012	-	-	19,291	6.73%	49,846	7.83%	-	-
Thereafter	-	-	3,879	7.60%	548,497	6.45%	-	-
Total	<u>\$ 129,800</u>	<u>6.24%</u>	<u>\$ 27,480</u>	<u>7.04%</u>	<u>\$ 890,790</u>	<u>6.17%</u>	<u>\$ 12,000</u>	<u>10.00%</u>
Fair Value:								
December 31, 2007	<u>\$ 129,800</u>	<u>6.24%</u>	<u>\$ 27,480</u>	<u>7.04%</u>	<u>\$ 921,507</u>	<u>6.17%</u>	<u>\$ 12,000</u>	<u>10.00%</u>
December 31, 2006	<u>\$ 48,800</u>	<u>5.98%</u>	<u>\$ 35,892</u>	<u>7.12%</u>	<u>\$ 690,198</u>	<u>5.84%</u>	<u>\$ 24,500</u>	<u>10.00%</u>

(1) In October 2007, NNN repaid the outstanding principal balance on the Term Note.

(2) The Credit Facility interest rate varies based upon a tiered rate structure ranging from 55 to 112.5 basis points above LIBOR based upon the debt rating of NNN.

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

(4) In July 2004, NNN sold Investment Properties for \$26,041 and subsequently leased back the properties under a 10 year financing lease obligation which was subsequently repurchased in November 2007.

NNN is also exposed to market risks related to NNN's Residuals. Factors that may impact the market value of the Residuals include delinquencies, loan losses, prepayment speeds and interest rates. The Residuals, which are reported at market value, had a carrying value of \$24,340,000 and \$31,512,000 as of December 31, 2007 and December 31, 2006, respectively. Unrealized gains and losses are reported as other comprehensive income in stockholders' equity. Losses are considered other than temporary and reported as a valuation impairment in earnings from operations if and when there has been a change in the timing or amount of estimated cash flows that leads to a loss in value.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
National Retail Properties, Inc.

We have audited National Retail Properties, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). National Retail Properties, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Managements' Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, National Retail Properties, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of National Retail Properties, Inc. as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended of National Retail Properties, Inc. and our report dated February 22, 2008, expressed an unqualified opinion thereon.

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

Certified Public Accountants

February 22, 2008
Miami, Florida

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
National Retail Properties, Inc.

We have audited the accompanying consolidated balance sheets of National Retail Properties, Inc. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of National Retail Properties, Inc. and subsidiaries at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), National Retail Properties, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2008, expressed an unqualified opinion thereon.

Ernst + Young LLP

February 22, 2008
Miami, Florida

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated statements of earnings, stockholders' equity, and cash flows of National Retail Properties, Inc. and subsidiaries for the year ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements for 2005 based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and the cash flows of National Retail Properties, Inc. and subsidiaries for the year ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Orlando, Florida
February 17, 2006, except as to notes 2, 19, 26 which are as of February 22, 2008
Certified Public Accountants

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share data)

<u>ASSETS</u>	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Real estate, Investment Portfolio:		
Accounted for using the operating method, net of accumulated depreciation and amortization	\$ 2,055,846	\$ 1,440,996
Accounted for using the direct financing method	37,497	71,334
Real estate, Inventory Portfolio, held for sale	248,611	228,159
Investment in unconsolidated affiliates	4,139	-
Mortgages, notes and accrued interest receivable, net of allowance	65,964	30,945
Commercial mortgage residual interests	24,340	31,512
Cash and cash equivalents	27,499	1,675
Restricted cash	-	36,587
Receivables, net of allowance of \$1,582 and \$722, respectively	3,818	7,915
Accrued rental income, net of allowance	24,652	26,510
Debt costs, net of accumulated amortization of \$13,424 and \$11,339, respectively	8,548	8,180
Other assets	38,691	33,684
Total assets	<u>\$ 2,539,605</u>	<u>\$ 1,917,497</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Line of credit payable	\$ 129,800	\$ 28,000
Mortgages payable	27,480	35,892
Notes payable – secured	12,000	24,500
Notes payable – convertible	172,500	172,500
Notes payable, net of unamortized discount of \$1,710 and \$996, respectively	718,290	489,804
Financing lease obligation	-	26,041
Accrued interest payable	11,243	5,989
Other liabilities	57,002	30,828
Income tax liability	1,671	6,340
Total liabilities	<u>1,129,986</u>	<u>819,894</u>
Commitments and contingencies (Note 28)		
Minority interest	2,334	1,098
Stockholders' equity:		
Preferred stock, \$0.01 par value. Authorized 15,000,000 shares		
Series A, 1,781,589 shares issued and outstanding, stated liquidation value of \$25 per share	-	44,540
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; 72,527,729 and 59,823,031 shares issued and outstanding at December 31, 2007 and 2006, respectively	725	598
Excess stock, \$0.01 par value. Authorized 205,000,000 shares; none issued or outstanding	-	-
Capital in excess of par value	1,175,364	873,885
Retained earnings (accumulated dividends in excess of net earnings)	137,599	80,263
Accumulated other comprehensive income	1,597	5,219
Total stockholders' equity	<u>1,407,285</u>	<u>1,096,505</u>
	<u>\$ 2,539,605</u>	<u>\$ 1,917,497</u>

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS
Years Ended December 31, 2007, 2006 and 2005
(dollars in thousands, except per share data)

	Year Ended December 31,		
	2007	2006	2005
Revenues:			
Rental income from operating leases	\$165,511	\$120,632	\$ 87,559
Earned income from direct financing leases	3,650	3,640	3,874
Percentage rent	1,572	732	443
Real estate expense reimbursement from tenants	5,720	4,619	3,902
Interest and other income from real estate transactions	5,076	4,265	6,111
Interest income on commercial mortgage residual interests	4,882	7,268	7,349
	<u>186,411</u>	<u>141,156</u>	<u>109,238</u>
Disposition of real estate, Inventory Portfolio:			
Gross proceeds	1,750	36,705	13,569
Costs	(1,418)	(28,705)	(11,559)
Gain	<u>332</u>	<u>8,000</u>	<u>2,010</u>
Operating expenses:			
General and administrative	23,542	24,009	22,401
Real estate	8,272	6,701	5,613
Depreciation and amortization	32,593	22,445	16,252
Impairment – real estate	791	-	1,673
Impairment – commercial mortgage residual interests valuation	638	8,779	2,382
Restructuring costs	-	1,580	-
	<u>65,836</u>	<u>63,514</u>	<u>48,321</u>
Earnings from operations	<u>120,907</u>	<u>85,642</u>	<u>62,927</u>
Other expenses (revenues):			
Interest and other income	(4,753)	(3,816)	(2,039)
Interest expense	49,286	45,872	33,309
	<u>44,533</u>	<u>42,056</u>	<u>31,270</u>
Earnings from continuing operations before income tax benefit, minority interest, equity in earnings of unconsolidated affiliates and gain on disposition of equity investment	76,374	43,586	31,657
Income tax benefit	8,537	11,206	2,882
Minority interest	190	(1,592)	(138)
Equity in earnings of unconsolidated affiliates	49	122	1,209
Gain on disposition of equity investment	-	11,373	-
Earnings from continuing operations	<u>85,150</u>	<u>64,695</u>	<u>35,610</u>
Earnings from discontinued operations:			
Real estate, Investment Portfolio	63,338	109,664	29,453
Real estate, Inventory Portfolio, net of income tax expense and minority interest	8,622	8,146	9,551
	<u>71,960</u>	<u>117,810</u>	<u>39,004</u>
Earnings before extraordinary gain	157,110	182,505	74,614
Extraordinary gain	-	-	14,786
Net earnings	157,110	182,505	89,400
Other comprehensive income	(3,622)	5,219	-
Total comprehensive income	<u>\$153,488</u>	<u>\$187,724</u>	<u>\$ 89,400</u>

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS – CONTINUED

Years Ended December 31, 2007, 2006 and 2005

(dollars in thousands, except per share data)

	Year Ended December 31,		
	2007	2006	2005
Net earnings	\$ 157,110	\$ 182,505	\$ 89,400
Series A preferred stock dividends	-	(4,376)	(4,008)
Series B Convertible preferred stock dividends	-	(419)	(1,675)
Series C preferred stock dividends	(6,785)	(923)	-
Net earnings available to common stockholders – basic	150,325	176,787	83,717
Series B Convertible preferred stock dividends, if dilutive	-	419	1,675
Net earnings available to common stockholders – diluted	<u>\$ 150,325</u>	<u>\$ 177,206</u>	<u>\$ 85,392</u>
Net earnings per share of common stock:			
Basic:			
Continuing operations	\$ 1.18	\$ 1.03	\$ 0.56
Discontinued operations	1.09	2.05	0.74
Extraordinary gain	-	-	0.28
Net earnings	<u>\$ 2.27</u>	<u>\$ 3.08</u>	<u>\$ 1.58</u>
Diluted:			
Continuing operations	\$ 1.18	\$ 1.02	\$ 0.58
Discontinued operations	1.08	2.03	0.71
Extraordinary gain	-	-	0.27
Net earnings	<u>\$ 2.26</u>	<u>\$ 3.05</u>	<u>\$ 1.56</u>
Weighted average number of common shares outstanding:			
Basic	<u>66,152,437</u>	<u>57,428,063</u>	<u>52,984,821</u>
Diluted	<u>66,407,530</u>	<u>58,079,875</u>	<u>54,640,143</u>

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2007, 2006 and 2005
(dollars in thousands, except per share data)

	Series A Preferred Stock	Series B Convertible Preferred Stock	Series C Preferred Stock	Common Stock	Capital in Excess of Par Value	Retained Earnings (Accumulated Dividends in Excess of Net Earnings)	Accumulated Other Comprehensive Income	Total
Balances at December 31, 2004	44,540	25,000	-	521	722,125	(35,188)	-	756,998
Net earnings	-	-	-	-	-	89,400	-	89,400
Dividends declared and paid:								
\$2.25 per share of Series A Preferred Stock	-	-	-	-	-	(4,008)	-	(4,008)
\$167.50 per share of Series B Convertible Preferred Stock	-	-	-	-	-	(1,675)	-	(1,675)
\$1.30 per share of common stock	-	-	-	1	2,684	(69,018)	-	(66,333)
Issuance of common stock:								
1,636,532 shares in connection with business combination	-	-	-	16	31,143	-	-	31,159
180,580 shares	-	-	-	2	2,649	-	-	2,651
912,334 shares under discounted stock purchase program	-	-	-	9	18,063	-	-	18,072
Issuance of 216,168 shares of restricted common stock	-	-	-	2	(2)	-	-	-
Stock issuance costs	-	-	-	-	(8)	-	-	(8)
Amortization of deferred compensation	-	-	-	-	1,831	-	-	1,831
Balances at December 31, 2005	\$ 44,540	\$ 25,000	\$ -	\$ 551	\$ 778,485	\$ (20,489)	\$ -	\$ 828,087

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY – CONTINUED
Years Ended December 31, 2007, 2006 and 2005
(dollars in thousands, except per share data)

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

⁽¹⁾ Includes \$367 dividends paid in January 2007.

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

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY – CONTINUED
Years Ended December 31, 2007, 2006 and 2005
(dollars in thousands, except per share data)

	Series A Preferred Stock	Series B Convertible Preferred Stock	Series C Preferred Stock	Common Stock	Capital in Excess of Par Value	Retained Earnings (Accumulated Dividends in Excess of Net Earnings)	Accumulated Other Comprehensive Income	Total
Balances at December 31, 2006	\$ 44,540	\$ -	\$ 92,000	\$ 598	\$ 873,885	\$ 80,263	\$ 5,219	\$ 1,096,505
Net earnings	-	-	-	-	-	157,110	-	157,110
Dividends declared and paid:								
\$1.84375 per depositary share of Series C Preferred Stock	-	-	-	-	-	(6,785)	-	(6,785)
\$1.40 per share of common stock	-	-	-	6	13,947	(92,989)	-	(79,036)
Redemption of 1,781,589 shares of Series A Preferred Stock	(44,540)	-	-	-	-	-	-	(44,540)
Issuance of common stock:								
9,861,323 shares	-	-	-	98	247,643	-	-	247,741
2,054,805 shares – discounted stock purchase program	-	-	-	21	49,006	-	-	49,027
Issuance of 198,119 shares of restricted common stock	-	-	-	2	(2)	-	-	-
Stock issuance costs	-	-	-	-	(11,206)	-	-	(11,206)
Amortization of deferred compensation	-	-	-	-	2,091	-	-	2,091
Interest rate hedge termination	-	-	-	-	-	-	(3,119)	(3,119)
Amortization of interest rate hedges	-	-	-	-	-	-	(309)	(309)
Unrealized loss – Commercial mortgage residual interests	-	-	-	-	-	-	(326)	(326)
Stock value adjustment	-	-	-	-	-	-	132	132
Balances at December 31, 2007	\$ -	\$ -	\$ 92,000	\$ 725	\$ 1,175,364	\$ 137,599	\$ 1,597	\$ 1,407,285

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See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2007	2006	2005
Cash flows from operating activities:			
Net earnings	\$ 157,110	\$ 182,505	\$ 89,400
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Stock compensation expense	2,091	3,170	1,971
Depreciation and amortization	32,976	24,524	22,350
Impairment – real estate	1,970	693	3,729
Impairment – commercial mortgage residual interests valuation adjustment	638	8,779	2,382
Amortization of notes payable discount	164	137	105
Amortization of deferred interest rate hedges	(309)	(345)	(326)
Equity in earnings of unconsolidated affiliates	(49)	(122)	(1,209)
Distributions received from unconsolidated affiliates	30	864	3,293
Minority interests	1,143	2,622	(5,854)
Gain on disposition of real estate, Investment Portfolio	(56,625)	(91,165)	(9,816)
Gain on disposition of equity investment	-	(11,373)	-
Gain on disposition of real estate, Inventory Portfolio	(12,133)	(13,781)	(21,627)
Extraordinary gain	-	-	(14,786)
Deferred income taxes	(4,590)	(8,366)	(1,709)
Change in operating assets and liabilities, net of assets acquired and liabilities assumed in business combinations:			
Additions to real estate, Inventory Portfolio	(165,160)	(195,956)	(137,286)
Proceeds from disposition of real estate, Inventory Portfolio	160,173	101,324	79,065
Decrease in real estate leased to others using the direct financing method	2,130	2,982	2,915
Increase in work in process	(4,217)	(3,315)	(4,355)
Decrease (increase) in mortgages, notes and accrued interest receivable	(301)	795	6,465
Decrease in receivables	3,924	642	7,730
Decrease (increase) in accrued rental income	(2,631)	(5,777)	593
Decrease (increase) in other assets	3,615	(520)	877
Increase in accrued interest payable	5,254	450	913
Increase (decrease) in other liabilities	4,510	1,951	(4,365)
Increase (decrease) in current tax liability	(79)	958	(1,229)
Net cash provided by operating activities	<u>129,634</u>	<u>1,676</u>	<u>19,226</u>
Cash flows from investing activities:			
Proceeds from the disposition of real estate, Investment Portfolio	136,295	222,778	38,982
Proceeds from the disposition of equity investment	-	10,239	-
Additions to real estate, Investment Portfolio:			
Accounted for using the operating method	(677,101)	(351,100)	(267,488)
Accounted for using the direct financing method	-	(1,449)	(309)
Investment in unconsolidated affiliates	(4,156)	-	-
Increase in mortgages and notes receivable	(44,888)	(18,371)	(17,738)
Mortgage and notes payments received	19,862	39,075	16,846
Cash received from commercial mortgage residual interests	6,208	16,885	11,704
Business combination, net of cash acquired	-	-	2,183
Restricted cash	36,587	(6,396)	(12,764)
Acquisition of 1.3 percent interest in Services	-	-	(829)
Payment of lease costs	(2,912)	(2,790)	(1,253)
Other	(6,612)	1,030	(117)
Net cash used in investing activities	<u>(536,717)</u>	<u>(90,099)</u>	<u>(230,783)</u>

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES

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

	Year Ended December 31,		
	2007	2006	2005
Cash flows from financing activities:			
Proceeds from line of credit payable	\$ 662,300	\$ 379,000	\$ 373,500
Repayment of line of credit payable	(560,500)	(513,300)	(229,100)
Repayment of mortgages payable	(8,412)	(20,241)	(6,644)
Proceeds from notes payable – convertible	-	172,500	-
Repayment of notes payable – secured	(33,300)	-	-
Proceeds from notes payable	249,122	-	149,610
Repayment of notes payable	-	(3,750)	(11,150)
Payment of interest rate hedge	(3,228)	-	-
Payment of debt costs	(2,453)	(3,864)	(3,073)
Repayment of financing lease obligation	(26,007)	-	-
Proceeds from issuance of common stock	310,721	70,392	23,268
Proceeds from issuance of preferred stock	-	88,902	-
Redemption of 1,781,589 shares of Series A Preferred Stock	(44,540)	-	-
Payment of Series A Preferred Stock dividends	-	(4,376)	(4,008)
Payment of Series B Convertible Preferred Stock dividends	-	(419)	(1,675)
Payment of Series C Preferred Stock dividends	(6,785)	(923)	-
Payment of common stock dividends	(92,989)	(76,039)	(69,018)
Minority interest distributions	(62)	(5,817)	(3,858)
Minority interest contributions	155	2	-
Stock issuance costs	(11,115)	(203)	(8)
	432,907	81,864	217,844
Net cash provided by financing activities			
Net increase (decrease) in cash and cash equivalents	25,824	(6,559)	6,287
Cash and cash equivalents at beginning of year	1,675	8,234	1,947
Cash and cash equivalents at end of year	\$ 27,499	\$ 1,675	\$ 8,234
Supplemental disclosure of cash flow information:			
Interest paid, net of amount capitalized	\$ 51,824	\$ 50,774	\$ 38,684
Taxes paid	\$ 1,375	\$ 1,137	\$ 4,494
Supplemental disclosure of non-cash investing and financing activities:			
Issued 206,718, 79,500 and 223,468 shares of restricted and unrestricted common stock in 2007, 2006 and 2005, respectively, pursuant to NNN's performance incentive plan	\$ 4,214	\$ 1,763	\$ 4,003
Converted 10,000 shares of Series B Convertible Preferred Stock to 1,293,996 shares of common stock in 2006	\$ -	\$ 25,000	\$ -
Issued 7,750 and 14,062 shares of common stock in 2007 and 2006, respectively to directors pursuant to NNN's performance incentive plan	\$ 182	\$ 307	\$ -
Issued 16,346 and 33,379 shares of common stock in 2007 and 2006, respectively pursuant to NNN's Deferred Director Fee Plan	\$ 331	\$ 655	\$ -
Surrender of 8,600 and 30,135 shares of restricted common stock in 2007 and 2005, respectively	\$ 182	\$ -	\$ 461
Dividends on unvested restricted stock shares	-	\$ 4	\$ -
Change in other comprehensive income	\$ (3,622)	\$ 5,219	\$ 1,254
Change in lease classification	\$ -	\$ 885	\$ 2,158
Transfer of real estate from Inventory Portfolio to Investment Portfolio	\$ 14,845	\$ 12,933	\$ 4,752
Note and mortgage notes receivable accepted in connection with real estate transactions	\$ 9,747	\$ 1,582	\$ 2,415
Assignment of mortgage payable in connection with the disposition of real estate	\$ -	\$ 95,000	\$ 406
Issued 1,636,532 shares of common stock in connection with the acquisition of National Properties Corporation ("NAPE") in 2005	\$ -	\$ -	\$ 31,160
Interest rate hedge	\$ 109	\$ -	\$ -

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2007, 2006 and 2005

Note 1 – Organization and Summary of Significant Accounting Policies:

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

NNN’s operations are divided into two primary business segments: (i) investment assets, including real estate assets, mortgages and notes receivable (including structured finance investments) on the consolidated balance sheets and commercial mortgage residual interests (collectively, “Investment Assets”), and (ii) inventory real estate assets (“Inventory Assets”). The Investment Assets are operated through National Retail Properties, Inc. and its wholly owned subsidiaries. NNN acquires, owns, invests in, manages and develops properties that are leased primarily to retail tenants under long-term net leases (“Investment Properties” or “Investment Portfolio”). As of December 31, 2007, NNN owned 908 Investment Properties, with an aggregate gross leasable area of 10,610,000 square feet, located in 44 states. In addition to the Investment Properties, as of December 31, 2007, NNN had \$65,964,000 and \$24,340,000 in mortgages and notes receivables (including structured finance investments) and commercial mortgage residual interests, respectively. The Inventory Assets are operated through the TRS. The TRS, directly and indirectly, through investment interests, acquires and develops real estate primarily for the purpose of selling the real estate (“Inventory Properties” or “Inventory Portfolio”). As of December 31, 2007, the TRS owned 56 Inventory Properties.

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

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

The TRS develops real estate through various joint venture development affiliate agreements. NNN consolidates the joint venture development entities listed in the table below based upon either NNN being the primary beneficiary of the respective variable interest entity or NNN having a controlling interest over the respective entity. NNN eliminates significant intercompany balances and transactions and records a minority interest for its other partners' ownership percentage. The following table summarizes each of the investments as of December 31, 2007:

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

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

In September 2007, NNN entered into a joint venture, NNN Retail Properties Fund I LLC (the "NNN Crow JVI") with an affiliate of Crow Holdings Realty Partners IV, LP (see Note 4).

In May 2005, NNN (through a wholly owned subsidiary of the TRS) exercised its option to purchase 78.9 percent of the common shares of Orange Avenue Mortgage Investments, Inc. ("OAMI"). As a result, NNN has consolidated OAMI in its consolidated financial statements (see Note 22).

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

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

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

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

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

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

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

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

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

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

Real Estate – Inventory Portfolio – The TRS acquires, develops and owns properties that it intends to sell. The properties that are classified as held for sale at any given time may consist of properties that have been acquired in the marketplace with the intent to sell and properties that have been, or are currently being, constructed by the TRS. The TRS records the acquisition of the real estate at cost, including the acquisition and closing costs. The cost of the real estate developed by the TRS includes direct and indirect costs of construction, interest and other miscellaneous costs incurred during the development period until the project is substantially complete and available for occupancy. Real estate held for sale is not depreciated. In accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” the TRS classifies its real estate held for sale as discontinued operations for each property in which rental revenues are generated (see Note 19).

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

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

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

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

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. NNN limits investment of temporary cash investments to financial institutions with high credit standing; therefore, management believes it is not exposed to any significant credit risk on cash and cash equivalents.

Restricted Cash – Restricted cash consisted of amounts held in restricted accounts in connection with the sale of certain assets of OAMI to a third party (the “Buyer”). As of December 31, 2007, NNN has no cash held in restricted accounts. The amount held in these accounts at December 31, 2006 was \$36,728,000. In December 2007, in accordance to agreements with the Buyer, the restrictions expired. NNN used a portion of the amounts released to repay the \$10,500,000 OAMI secured note payable.

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

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

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

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

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Weighted average number of common shares outstanding	66,519,519	57,698,533	53,272,997
Unvested restricted stock	<u>(367,082)</u>	<u>(270,470)</u>	<u>(288,176)</u>
Weighted average number of common shares outstanding used in basic earnings per share	<u>66,152,437</u>	<u>57,428,063</u>	<u>52,984,821</u>
Weighted average number of common shares outstanding used in basic earnings per share	66,152,437	57,428,063	52,984,821
Effect of dilutive securities:			
Restricted stock	143,550	114,367	221,337
Common stock options	69,040	107,909	128,944
Assumed conversion of Series B Convertible Preferred			
Stock to common stock	-	400,607	1,293,996
Directors' deferred fee plan	<u>42,503</u>	<u>28,929</u>	<u>11,045</u>
Weighted average number of common shares outstanding used in diluted earnings per share	<u>66,407,530</u>	<u>58,079,875</u>	<u>54,640,143</u>

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

Stock-Based Compensation – On January 1, 2006, NNN adopted the provisions of SFAS No. 123 (R), “Share-Based Payments” (“SFAS 123R”), under the modified prospective method. Under the modified prospective method, compensation cost is recognized for all awards granted after the adoption of this standard and for the unvested portion of previously granted awards that are outstanding as of that date. In accordance with SFAS 123R, NNN will estimate the fair value of restricted stock and stock option grants at the date of grant and amortize those amounts into expense on a straight line basis or amount vested, if greater, over the appropriate vesting period. Adoption of SFAS 123R did not have a significant impact on NNN’s earnings from continuing operations, net earnings, cash flow from operations, cash flow from financing activities and basic and diluted earnings per share for the year ended December 31, 2007.

Income Taxes – NNN has made an election to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, and related regulations. NNN generally will not be subject to federal income taxes on amounts distributed to stockholders, providing it distributes 100 percent of its real estate investment trust taxable income and meets certain other requirements for qualifying as a REIT. For each of the years in the three-year period ended December 31, 2007, NNN believes it has qualified as a REIT. Notwithstanding NNN’s qualification for taxation as a REIT, NNN is subject to certain state taxes on its income and real estate.

NNN and its taxable REIT subsidiaries have made timely TRS elections pursuant to the provisions of the REIT Modernization Act. A TRS is able to engage in activities resulting in income that previously would have been disqualified from being eligible REIT income under

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

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

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

In February 2007, FASB issued SFAS Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"), which expands the scope of what companies may carry at fair value. This statement also includes an amendment to SFAS Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"). SFAS 159 offers an irrevocable option to carry the vast majority of recognized financial assets and liabilities at fair value with changes in fair value recorded in earnings. This statement can be applied instrument by instrument but must be applied to the entire financial instrument and not portions thereof. This statement does not apply to: (a) financial assets and financial liabilities recognized under leases as defined in SFAS Statement No. 13 "Accounting for Leases" with the exception of a guarantee of a third party lease obligation or a contingent obligation arising from a cancelled lease; (b) financial instruments that are in whole or part,

classified by the issuer as a component of stockholder's equity (such as convertible debt security with a non-contingent beneficial conversion feature); (c) non-financial insurance contracts and warranties; and (d) financial instruments resulting from the separation of an embedded non-financial derivative instrument from a non-financial hybrid instrument and various employers' and plan obligations for pension benefits, post retirement benefits and other forms of deferred compensation arrangements including stock purchase plans and stock option plans. The amendment to SFAS 115 affects entities with available-for-sale and trading securities. This statement is effective as of the beginning of the first fiscal year that begins after November 15, 2007. The adoption of SFAS 159 will not have a significant impact on NNN's financial position or results of operation.

In May 2007, a FASB Staff Position ("FSP FIN 48-1"), "Definition of Settlement in FASB Interpretation 48," was issued to amend Financial Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," ("FIN 48"). FSP FIN 48-1 clarifies that a tax position could be effectively settled upon examination by a taxing authority. An enterprise should make the assessment on a position-by-position basis, but an enterprise could conclude that all positions in a particular tax year are effectively settled. In determining effective settlement an enterprise shall evaluate all the following conditions (a) the taxing authority has completed its examination procedures including all appeals and administrative reviews that the taxing authority is required and expected to perform for the tax position; (b) the enterprise does not intend to appeal or litigate any aspect of the tax position included in the completed examination, and (c) it is remote that the taxing authority would examine or reexamine any aspect of the tax position. In making this assessment management shall consider the taxing authority's policy on reopening closed examinations and the specific facts and circumstances of the tax position. Management shall presume the taxing authority has full knowledge of all relevant information in making the assessment on whether the taxing authority would reopen a previously closed examination. This FSP was applied upon initial adoption of FIN 48. If an enterprise did not apply FIN 48 in a manner consistent to this FSP then adoption of the provisions of FSP FIN 48-1 should be retrospectively applied to the date of the initial adoption of FIN 48. The adoption of this FSP did not have a significant impact on the NNN's financial position or results of operations.

In June 2007, FASB issued and ratified Emerging Issues Task Force No. 06-11, ("EITF 06-11"), "Accounting for Income Tax Benefits of Dividends On Share-Based Payment Award." EITF 06-11 concludes that a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity classified non-vested equity shares, nonvested equity share units and outstanding equity share options should be recognized as an increase in additional paid-in capital. EITF 06-11 should be applied prospectively and is effective for fiscal years beginning after December 15, 2007 and interim periods within those fiscal years. Retroactive application to previously issued financial statements is prohibited. The adoption of EITF 06-11 will not have a significant impact on NNN's financial position or results of operation.

In December 2007, FASB issued Statements No. 141 (revised 2007), "Business Combinations" ("SFAS 141(R)") the objective of which is to improve and simplify the accounting for business combinations. SFAS 141(R) will improve reporting by creating greater consistency in the accounting and financial reporting of business combinations. This statement requires the new acquiring entity to recognize all assets acquired and liabilities assumed in business combination

transactions; establishes an acquisition-date fair value for said assets and liabilities; and fully disclose to investors the financial effect the acquisition will have. SFAS 141(R) applies to business combinations between mutual entities, including those combinations achieved in the absence of a transaction involving the acquirer such as through the lapse of minority veto rights and combinations achieved without the transfer of consideration, for example, by contract alone. FAS 141(R) specifically excludes joint ventures and common control transactions. SFAS 141(R) is effective for fiscal years beginning on or after December 15, 2008 and should be applied prospectively. NNN is currently evaluating the provisions for SFAS 141(R) to determine the potential impact, if any, the adoption will have on NNN's financial position or results of operations.

In December 2007, FASB issued Statements No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160"), an amendment to Accounting Research Board No. 51 SFAS 160 objective is to improve the relevance, comparability and transparency of financial information that a reporting entity provides in its consolidated financial statements. The key aspects of SFAS 160 are (i) the minority interests in subsidiaries should be presented in the consolidated balance sheet within equity of the consolidated group, separate from the parent's shareholders' equity, (ii) acquisitions or dispositions of noncontrolling interests in a subsidiary that do not result in a change of control should be accounted for as equity transactions, (iii) a parent recognizes a gain or loss in net income when a subsidiary is deconsolidated, measured using the fair value of the non-controlling equity investment, (iv) the acquirer should attribute net income and each component of other comprehensive income between controlling and noncontrolling interests based on any contractual arrangements or relative ownership interests, and (v) a reconciliation of beginning to ending total equity is required for both controlling and noncontrolling interests. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008 and should be applied prospectively. NNN is currently evaluating the provisions for SFAS 160 to determine the potential impact, if any, the adoption will have on NNN's financial position or results of operations.

The FASB is currently reviewing comments on a proposed FASB Staff Position (the "proposed FSP") which, if issued, would require separate accounting for the debt and equity components of convertible instruments. The proposed FSP would require the value assigned to the debt component to be the estimated fair value of a similar bond without the conversion feature, which would result in the debt being recorded at a discount. The debt discount would be amortized over the expected life of the debt as additional interest expense. The proposed FSP would be effective for financial statements issued for fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. The guidance in the proposed FSP would be applied retrospectively to all periods presented and could result in additional annual interest expense recognized by NNN if adopted, as proposed.

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

Reclassification – Certain items in the prior year’s consolidated financial statements and notes to consolidated financial statements have been reclassified to conform to the 2007 presentation. These reclassifications had no effect on stockholders’ equity or net earnings.

The statements of cash flow for the years ended December 31, 2006 and 2005 reflect a reclassification of \$16,855,000 and \$11,704,000, respectively, to reclassify the cash received from commercial mortgage residual assets from “cash flows from operating activities” to “cash flows from investing activities.” For the year ended December 31, 2006, the reclassification resulted in a change in the “net cash provided by operating activities” from \$18,561,000 to \$1,676,000 and a change in the “net cash used in investing activities” from \$106,984,000 to \$90,099,000. For the year ended December 31, 2005, the reclassification resulted in a change in the “net cash provided by operating activities” from \$30,930,000 to \$19,226,000 and a change in the “net cash used in investing activities” from \$242,487,000 to \$230,783,000. The reclassification does not effect the net change in cash for either of the years ended December 31, 2006 and 2005 and has no impact on the consolidated balance sheets, consolidated statements of earnings and the related earnings per share amounts or the consolidated statements of stockholders’ equity.

Note 2 – Real Estate – Investment Portfolio:

Leases – NNN generally leases its Investment Properties to established tenants. As of December 31, 2007, 892 of the Investment Property leases have been classified as operating leases and 26 leases have been classified as direct financing leases. For the Investment Property leases classified as direct financing leases, the building portions of the property leases are accounted for as direct financing leases while the land portions of 10 of these leases are accounted for as operating leases. Substantially all leases have initial terms of 10 to 20 years (expiring between 2008 and 2027) and provide for minimum rentals. In addition, the tenant leases generally provide for limited increases in rent as a result of fixed increases, increases in the consumer price index, and/or increases in the tenant’s sales volume. Generally, the tenant is also required to pay all property taxes and assessments, substantially maintain the interior and exterior of the building and carry property and liability insurance coverage. Certain of NNN’s Investment Properties are subject to leases under which NNN retains responsibility for certain costs and expenses of the property. As of December 31, 2007, the weighted average remaining lease term was approximately 13 years. Generally, the leases of the Investment Properties provide the tenant with one or more multi-year renewal options subject to generally the same terms and conditions as the initial lease.

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

	2007	2006
Land and improvements	\$ 938,804	\$ 693,187
Buildings and improvements	1,201,999	830,450
Leasehold interests	2,532	2,532
	<u>2,143,335</u>	<u>1,526,169</u>
Less accumulated depreciation and amortization	(111,087)	(87,359)
	2,032,248	1,438,810
Work in progress	25,556	3,769
	2,057,804	1,442,579
Less impairment	(1,958)	(1,583)
	<u>\$ 2,055,846</u>	<u>\$ 1,440,996</u>

Some leases provide for scheduled rent increases throughout the lease term. Such amounts are recognized on a straight-line basis over the terms of the leases. For the years ended December 31, 2007, 2006 and 2005, NNN recognized collectively in continuing and discontinued operations, \$2,672,000, \$3,160,000, and \$2,053,000, respectively, of such income. At December 31, 2007 and 2006, the balance of accrued rental income, net of allowances of \$3,077,000 and \$2,536,000, respectively, was \$24,652,000 and \$26,510,000, respectively.

In connection with the development of 27 Investment Properties, NNN has agreed to fund construction commitments (including land costs) of \$71,883,000, of which \$44,561,000 has been funded as of December 31, 2007.

The following is a schedule of future minimum lease payments to be received on noncancellable operating leases at December 31, 2007 (dollars in thousands):

2008	\$	189,858
2009		188,275
2010		185,705
2011		181,700
2012		176,464
Thereafter		1,652,500
	\$	<u>2,574,502</u>

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

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

	<u>2007</u>	<u>2006</u>
Minimum lease payments to be received	\$ 54,967	\$ 104,756
Estimated unguaranteed residual values	13,622	25,015
Less unearned income	<u>(31,092)</u>	<u>(58,437)</u>
Net investment in direct financing leases	<u>\$ 37,497</u>	<u>\$ 71,334</u>

The following is a schedule of future minimum lease payments to be received on direct financing leases held for investment at December 31, 2007 (dollars in thousands):

2008	\$	5,024
2009		5,104
2010		5,123
2011		5,108
2012		5,139
Thereafter		29,469
	\$	<u>54,967</u>

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

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Continuing operations:			
Real estate	\$ 503	\$ -	\$ 345
Intangibles ⁽¹⁾	288	-	1,328
	<u>791</u>	<u>-</u>	<u>1,673</u>
Discontinued operations:			
Real estate	335	693	2,056
	<u>\$ 1,126</u>	<u>\$ 693</u>	<u>\$ 3,729</u>

⁽¹⁾ Included in Other Assets on the Consolidated Balance Sheets.

Note 3 – Real Estate – Inventory Portfolio:

As of December 31, 2007, the TRS owned 56 Inventory Properties: 41 completed inventory, nine under construction and six land parcels. As of December 31, 2006, the TRS owned 97 Inventory Properties: 79 complete inventory, five under construction and 13 land parcels. The real estate Inventory Portfolio consisted of the following (dollars in thousands):

	<u>2007</u>	<u>2006</u>
Inventory:		
Land	\$ 65,983	\$ 62,554
Building	140,970	101,168
	<u>206,953</u>	<u>163,722</u>
Construction projects:		
Land	30,477	42,303
Work in process	12,025	22,134
	<u>42,502</u>	<u>64,437</u>
Less impairment	(844)	-
	<u>\$ 248,611</u>	<u>\$ 228,159</u>

In connection with the development of nine Inventory Properties by the TRS, NNN has agreed to fund construction commitments of \$24,097,000, of which \$17,125,000 has been funded as of December 31, 2007.

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

	2007		2006		2005	
	# of Properties	Gain	# of Properties	Gain	# of Properties	Gain
Continuing operations	2	\$ 332	6	\$ 8,000	6	\$ 2,010
Minority interest		-		(3,609)		-
Total continuing operations		332		4,391		2,010
Discontinued operations	69	10,957	58	5,590	22	18,696
Intersegment eliminations		844		190		921
Minority interest		(1,120)		(505)		(5,999)
Total discontinued operations		10,681		5,275		13,618
	<u>71</u>	<u>\$ 11,013</u>	<u>64</u>	<u>\$ 9,666</u>	<u>28</u>	<u>\$ 15,628</u>

Note 4 – Investments in Unconsolidated Affiliates:

Crow Holdings. In September 2007, NNN entered into a joint venture, NNN Retail Properties Fund I LLC (the “NNN Crow JV I”), with an affiliate of Crow Holdings Realty Partners IV, L.P. NNN Crow JV I plans to acquire up to \$220,000,000 of real estate assets leased to convenience store operators from unrelated third parties. NNN owns a 15 percent equity interest in the joint venture which it accounts for under the equity method of accounting. Net income and losses of the joint venture are allocated to the members in accordance with their respective percentage interest. For the year ended December 31, 2007, NNN recognized earnings of \$49,000 for NNN Crow JV I. NNN manages the joint venture pursuant to a management agreement and earned management fees of \$21,000 for the year ended December 31, 2007.

During the year ended December 31, 2007, in accordance with the terms of the joint venture agreement, NNN loaned \$2,749,000 to the joint venture at an interest rate of 7.75%. The loan balance was repaid in full in November 2007.

CNL Plaza. In May 2002, NNN purchased a 25 percent partnership interest in CNL Plaza Ltd. and CNL Plaza Venture Ltd. (collectively “Plaza”) for \$750,000. The remaining partnership interests in Plaza were owned by affiliates of James M. Seneff, Jr. and Robert A. Bourne, each a former member of NNN’s Board of Directors. Plaza owned a 346,000 square foot office building and an interest in an adjacent parking garage. NNN had severally guaranteed 41.67 percent of a \$14,000,000 unsecured promissory note on behalf of Plaza. In October 2006, NNN sold its equity investment in Plaza for \$10,239,000 and recognized a gain of \$11,373,000. In connection with the sale, NNN was released as guarantor of Plaza’s \$14,000,000 unsecured promissory note.

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

Since November 1999, NNN has leased its headquarters office space from Plaza. NNN’s lease expires in October 2014. In October 2006, NNN amended its lease with Plaza to reduce the square footage leased by NNN. During the years ended December 31, 2007, 2006 and 2005, NNN incurred rental expenses in connection with the lease of \$938,000, \$1,024,000 and

\$1,035,000, respectively. In May 2000, NNN subleased a portion of its office space to affiliates of James M. Seneff, Jr. In October 2006, NNN terminated these subleases in connection with NNN's amendment. During the years ended December 31, 2006 and 2005, NNN earned \$337,000 and \$397,000, respectively, in rental and accrued rental income from these affiliates.

The following is a schedule of NNN's future minimum lease payments related to the office space leased from Plaza at December 31, 2007 (dollars in thousands):

2008	\$	839
2009		865
2010		891
2011		917
2012		945
Thereafter		1,804
	\$	<u>6,261</u>

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

Note 5 – Mortgages, Notes and Accrued Interest Receivable:

Mortgage receivables and structured finance are loans secured by real estate, real estate securities or other assets.

As of December 31, 2007 and 2006, NNN held mortgages and notes receivable with an aggregate principal balance of \$51,556,000 and \$17,227,000, respectively. The mortgage receivables bear interest rates ranging from 7.00% to 12.00% with maturity dates ranging from May 2008 through October 2028.

As of December 31, 2007, the structured finance investments bear a weighted average interest rate of 11.26% per annum, of which 9.78% is payable monthly and the remaining 1.48% accrues and is due at maturity. The principal balance of each structured finance investment is due in full at maturity, which ranges between January 2009 and March 2010. The structured finance investments are secured by the borrowers' pledge of their respective membership interests in the certain subsidiaries which own the respective real estate.

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

	<u>2007</u>	<u>2006</u>
Mortgages and notes receivable	\$ 51,556	\$ 17,227
Structured Finance	14,359	13,917
Accrued interest receivables	<u>545</u>	<u>641</u>
	66,460	31,785
Less loan origination fees, net	(100)	(206)
Less allowance	<u>(396)</u>	<u>(634)</u>
	<u>\$ 65,964</u>	<u>\$ 30,945</u>

Note 6 – Commercial Mortgage Residual Interests:

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

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

- (1) NNN owned these investment interests prior to its acquisition of the equity interest in OAMI.
(2) NNN owns 78.9 percent of OAMI’s investment interest.

Each of the Residuals is recorded at fair value based upon an independent valuation. Unrealized gains and losses are reported as other comprehensive income in stockholders’ equity, and other than temporary losses as a result of a change in the timing or amount of estimated cash flows are recorded as an other than temporary valuation impairment. Due to changes in market conditions relating to residual assets, the independent valuation increased the discount rate from 17% to 25% during 2007. As a result of the increase in discount rate and an increase in prepayments of underlying loans of the Residuals, NNN recognized an other than temporary valuation impairment of \$638,000 for the year ended 2007. In 2006, as a result of the increase in historical prepayments, the independent valuation changed the assumption in future pay prepayments. As a result, NNN recognized an other than temporary valuation impairment of \$8,779,000 for the year ended December 31, 2006.

NNN recorded \$326,000 of unrealized losses and \$1,992,000 of unrealized gains as other comprehensive income for the years ended December 31, 2007 and 2006, respectively.

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

	2007	2006
Discount rate	25%	17%
Average life equivalent CPR speeds range	33.0% to 45.7% CPR	38.7% to 47.6% CPR
Foreclosures:		
Frequency curve default model	1.1% maximum rate	1.1% maximum rate
Loss severity of loans in foreclosure	10%	10%
Yield:		
LIBOR	Forward 3-month curve	Forward 3-month curve
Prime	Forward curve	Forward curve

The following table shows the effects on the key assumptions affecting the fair value of the Residuals at December 31, 2007 (dollars in thousands).

	<u>Residuals</u>
Carrying amount of retained interests	\$ 24,340
Discount rate assumption	
Fair value at 27% discount rate	\$ 23,807
Fair value at 30% discount rate	\$ 23,041
Prepayment speed assumption	
Fair value of 1% increases above the CPR Index	\$ 24,317
Fair value of 2% increases above the CPR Index	\$ 25,727
Expected credit losses	
Fair value 2% adverse change	\$ 25,745
Fair value 3% adverse change	\$ 25,742
Yield Assumptions	
Fair value of Prime/LIBOR spread contracting 25 basis points	\$ 26,172
Fair value of Prime/LIBOR spread contracting 50 basis points	\$ 26,608

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

Note 7 – Line of Credit Payable:

In October 2007, NNN exercised the \$100,000,000 accordion feature of its existing revolving credit facility (the “Credit Facility”) increasing the borrowing capacity to \$400,000,000 from \$300,000,000. NNN’s Credit Facility’s current loan agreement terms as amended and restated in December 2005, (i) lowers the interest rates of the tiered rate structure from a maximum of 135 points above LIBOR to a maximum rate of 112.5 basis points above LIBOR (based upon the debt rating of NNN, the current interest rate is 80 basis points above LIBOR), (ii) requires NNN to pay a commitment fee based on a tiered rate structure to a maximum of 25 basis points per annum (based upon the debt rating of NNN, the current commitment fee is 20 basis points), (iii) provides for a competitive bid option for up to 50 percent of the facility amount, (iv) extends the expiration date to May 8, 2009 and (v) amends certain of the financial covenants of NNN. The principal balance is due in full upon expiration of the Credit Facility in May 2009, which NNN may request to be extended for an additional 12 months. As of December 31, 2007, \$129,800,000 was outstanding and approximately \$270,200,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$2,685,000. The Credit Facility had a weighted average interest rate of 6.24% and 5.91% for the years ended December 31, 2007 and 2006, respectively. In accordance with the terms of the Credit Facility, NNN is required to meet certain restrictive financial covenants, which, among other things, require NNN to maintain certain (i) maximum leverage ratios, (ii) debt service coverage, (iii) cash flow coverage and (iv) investment and dividend limitations. At December 31, 2007, NNN was in compliance with those covenants.

For the years ended December 31, 2007, 2006 and 2005, interest cost incurred was \$5,937,000, \$7,310,000, and \$2,948,000 respectively, of which \$3,718,000, \$2,278,000 and \$2,563,000, respectively, was capitalized by NNN as a cost of buildings constructed. For the years ended December 31, 2007, 2006 and 2005, \$2,219,000, \$5,032,000 and \$385,000, respectively, were charged to operations.

Note 8 – Mortgages Payable:

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

<u>Entered</u>	<u>Balance</u>	<u>Interest Rate</u>	<u>Maturity⁽⁴⁾</u>	<u>Carrying Value of Encumbered Asset(s)⁽¹⁾</u>	<u>Outstanding Principal Balance at December 31,</u>	
					<u>2007</u>	<u>2006</u>
June 1996 ⁽²⁾	\$ 1,916	8.250%	December 2008	\$ 1,739 ⁽⁵⁾	\$ 263	\$ 506
December 1999	350	8.500%	December 2009	3,270	95	136
December 2001	623	9.000%	April 2014	962	358	398
December 2001	698	9.000%	April 2019	1,344	441	463
December 2001	485	9.000%	April 2019	1,317	226	236
June 2002	21,000	6.900%	July 2012	25,654	19,759	20,027
February 2004 ⁽²⁾	6,952	6.900%	January 2017	12,248	5,487	5,907
February 2004 ⁽³⁾	12,000	7.370%	September 2007	-	-	7,304
March 2005 ⁽²⁾	1,015	8.140%	September 2016	1,380	851	915
				<u>\$ 47,914</u>	<u>\$ 27,480</u>	<u>\$ 35,892</u>

(1) Each loan is secured by a first mortgage lien on certain of NNN’s properties. The carrying values of the assets are as of December 31, 2007.

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

(3) NNN assumed this long term fixed rate loan when NNN increased its ownership in Net Lease Institutional Realty, L.P. In September 2007, upon maturity, NNN repaid the outstanding principal balance on this long-term fixed rate loan.

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

(5) NNN has a \$354,000 letter of credit that also secures the loan.

The following is a schedule of the annual maturities of NNN’s mortgages payable at December 31, 2007 (dollars in thousands):

2008	\$ 1,190
2009	1,000
2010	1,022
2011	1,098
2012	19,291
Thereafter	3,879
	<u>\$ 27,480</u>

Note 9 – Notes Payable – Secured:

NNN’s consolidated financial statements include the following notes payable, resulting from the acquisition of OAMI (see Note 22) (dollars in thousands):

	Outstanding Principal Balance at December 31,		Stated Rate	Maturity Date
	2007	2006		
02-1 Notes ⁽¹⁾	\$ -	\$ 10,500	10%	December 2007
03-1 Notes ⁽²⁾⁽³⁾	12,000	14,000	10%	June 2008
	<u>\$ 12,000</u>	<u>\$ 24,500</u>		

⁽¹⁾ NNN repaid the outstanding principal amount in December 2007.

⁽²⁾ Secured by certain equity investments in commercial mortgage residual interests of NNN with a carrying value of \$5,445.

⁽³⁾ Interest is payable quarterly with annual principal payments of \$2,000 payable June 30.

The 03-1 Note can be prepaid at the option of OAMI, in whole or in part, without premium or penalty after the pre-payment date, as defined in each respective note.

Note 10 – Notes Payable:

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

Notes	Issue Date	Principal	Discount ⁽³⁾	Net Price	Stated Rate	Effective Rate ⁽⁴⁾	Commencement of Semi-Annual Interest Payments	Maturity Date
2008 ⁽¹⁾	March 1998	\$ 100,000	\$ 271	\$ 99,729	7.125%	7.163%	September 1998	March 2008
2010 ⁽¹⁾	September 2000	20,000	126	19,874	8.500%	8.595%	March 2001	September 2010
2012 ⁽¹⁾	June 2002	50,000	287	49,713	7.750%	7.833%	December 2002	June 2012
2014 ⁽¹⁾⁽²⁾⁽⁵⁾	June 2004	150,000	440	149,560	6.250%	5.910%	June 2004	June 2014
2015 ⁽¹⁾	November 2005	150,000	390	149,610	6.150%	6.185%	June 2006	December 2015
2017 ⁽⁶⁾	September 2007	250,000	877	249,123	6.875%	6.924%	April 2008	October 2017

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

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

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

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

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

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

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

In connection with the debt offerings, NNN incurred debt issuance costs totaling \$6,667,000 consisting primarily of underwriting discounts and commissions, legal and accounting fees, rating agency fees and printing expenses. Debt issuance costs for all note issuances have been

deferred and are being amortized over the term of the respective notes using the effective interest method.

In accordance with the terms of the indenture, pursuant to which NNN's notes have been issued, NNN is required to meet certain restrictive financial covenants, which, among other things, require NNN to maintain (i) certain leverage ratios and (ii) certain interest coverage. At December 31, 2007, NNN was in compliance with those covenants.

Term Note – In connection with the acquisition of NAPE (see Note 22), NNN assumed a \$20,800,000 term note payable (“Term Note”). The principal balance on the Term Note was due in full upon June 2009. The Term Note bore interest based on a tiered rate structure to a maximum rate of 165 basis points above LIBOR. In accordance with the terms of Term Note, NNN was required to meet certain restrictive financial covenants, which among other things, required NNN to maintain certain (i) maximum leverage ratios, (ii) debt service coverage and (iii) cash flow coverage.

In October 2007, NNN repaid the outstanding principal balance on the Term Note. For the year ended December 31, 2006, the Term Note had a weighted average interest rate of 6.62%.

Note 11 – Notes Payable – Convertible:

In September 2006, NNN filed a prospectus supplement to the prospectus contained in its February 2006 shelf registration statement and issued \$150,000,000 of 3.95% convertible senior notes due September 2027 (with a 2011 put option). Subsequently, NNN issued an additional \$22,500,000 in connection with the underwriters' over-allotment option (collectively, the “Convertible Notes”). The Convertible Notes were sold at par with interest payable semi-annually commencing on March 15, 2007 (effective interest rate of 3.95%).

The notes are convertible, at the option of the holder, at any time on or after September 15, 2025. Prior to September 15, 2025, holders may convert their Convertible Notes under certain circumstances. The initial conversion rate per \$1,000 principal amount of Convertible Notes was 40.9015 shares of NNN's common stock, which was equivalent to an initial conversion price of \$24.4490 per share of common stock. The initial conversion rate is subject to adjustment in certain circumstances. As a result of the increase in NNN's dividend, the conversion rate was adjusted to 41.0028, which is equivalent to a conversion price of \$24.3886. Upon conversion of each \$1,000 principal amount of Convertible Notes, NNN will settle any amounts up to the principal amount of the notes in cash and the remaining conversion value, if any, will be settled, at NNN's option, in cash, common stock or a combination thereof.

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

In connection with the Convertible Note offering, NNN incurred debt issuance costs totaling \$3,850,000 consisting primarily of underwriting discounts and commissions, legal and accounting fees, rating agency fees and printing expenses. Debt issuance costs have been

deferred and are being amortized over the period to the earliest put option of the holders, September 20, 2011 using the effective interest method.

Note 12 – Financing Lease Obligation:

In July 2004, NNN sold five investment properties for approximately \$26,041,000 and subsequently leased back the properties under a 10-year financing lease obligation. NNN may repurchase one or more of the properties subject to put and call options included in the financing lease. In accordance with the provisions of SFAS No. 66, “Accounting for Sales of Real Estate,” NNN has recognized the sale as a financing transaction. The 10-year financing lease bears an interest rate of 5.00% annually with monthly interest payments of \$109,000 and expires in June 2014 unless either the put or call option was exercised. In November 2007, NNN repurchased the properties under the agreements of the put option for approximately \$26,007,000.

Note 13 – Preferred Stock:

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

<u>Non-Voting Preferred Stock Issuance</u>	<u>Shares Outstanding At December 31, 2007</u>	<u>Liquidation Preference (per share)</u>	<u>Fixed Annual Cash Distribution (per share)</u>
9% Series A	-	\$ 25.00	\$ 2.25000
6.7% Series B Convertible	-	2,500.00	167.50000
7.375% Series C Redeemable Depositary Shares	3,680,000	25.00	1.84375

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

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

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

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

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

Note 14 – Common Stock:

In June 2005, NNN issued 1,636,532 shares of common stock pursuant to the acquisition of National Properties Corporation (“NAPE”) (see Note 22).

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

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

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

Dividend Reinvestment and Stock Purchase Plan. In February 2006, NNN filed a shelf registration statement with the Securities and Exchange Commission for its Dividend Reinvestment and Stock Purchase Plan (“DRIP”) which permits the issuance by NNN of 12,191,394 shares of common stock. The following outlines the common stock issuances pursuant to the DRIP for the years ended December 31:

	<u>2007</u>	<u>2006</u>
Shares of common stock	2,645,257	3,046,408
Net proceeds	\$ 62,980	\$ 65,722

Note 15 – Employee Benefit Plan:

Effective January 1, 1998, NNN adopted a defined contribution retirement plan (the “Retirement Plan”) covering substantially all of the employees of NNN. The Retirement Plan permits participants to defer up to a maximum of 60 percent of their compensation, as defined in the Retirement Plan, subject to limits established by the Internal Revenue Code. NNN matches up to 60 percent of the participants’ contributions based on a tiered rate structure up to a maximum of eight percent of a participant’s annual compensation. NNN’s contributions to the Retirement Plan for the years ended December 31, 2007, 2006 and 2005 totaled \$428,000, \$248,000, and \$194,000, respectively.

Note 16 – Dividends:

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Ordinary dividends	\$ 1.397402	\$ 1.150780	\$ 1.068470
Qualified dividends	0.000414	-	0.224510
Capital gain	0.002184	0.150261	-
Unrecaptured Section 1250 Gain	-	0.018959	0.002210
Nontaxable distributions	-	-	0.004810
	<u>\$ 1.400000</u>	<u>\$ 1.320000</u>	<u>\$ 1.300000</u>

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

	<u>Total</u>	<u>Ordinary Dividends</u>	<u>Qualified Dividend</u>	<u>Capital Gain</u>	<u>Unrecaptured Section 1250 Gain</u>
2007:					
Series A ⁽¹⁾	\$ 0.206250	\$ 0.205867	\$ 0.000061	\$ 0.000322	\$ -
Series C	1.843750	1.840328	0.000546	0.002876	-
2006:					
Series A	2.250000	1.961557	-	0.256127	0.032316
Series B Convertible ⁽¹⁾	41.875000	36.506800	-	4.766800	0.601400
Series C ⁽²⁾	0.250955	0.218784	-	0.028567	0.003604
2005:					
Series A	2.250000	2.250000	-	-	-
Series B Convertible	167.500000	167.500000	-	-	-

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

⁽²⁾ Issued in October 2006.

Note 17 – Restructuring Costs:

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

Note 18 – Income Taxes:

In June 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

NNN is subject to the provisions of FIN 48 as of January 1, 2007, and has analyzed its various federal and state filing positions. NNN believes that its income tax filing positions and deductions are well documented and supported. Additionally, NNN believes that its accruals for tax liabilities are adequate. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48. In addition, NNN did not record a cumulative effect adjustment related to the adoption of FIN 48.

NNN has had no increases or decreases in unrecognized tax benefits for current or prior years since the date of adoption. Further, no interest or penalties have been included since no reserves were recorded and no significant increases or decreases are expected to occur within the next 12 months. When applicable, such interest and penalties will be recorded in non-operating expenses. The periods that remain open under federal statute are 2004 through 2007. NNN also files in many states with varying open years under statute.

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

NNN treats some depreciation expense and certain other items differently for tax than for financial reporting purposes. The principal differences between NNN's effective tax rates for the years ended December 31, 2007, 2006 and 2005, and the statutory rates relate to state taxes and nondeductible expenses such as meals and entertainment expenses.

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

	<u>2007</u>	<u>2006</u>
Temporary differences:		
Built-in-gain	\$ (6,768)	\$ (9,480)
Depreciation	(632)	(600)
Other	79	8
Excess interest expense carryforward	5,676	2,010
Net operating loss carryforward	<u>134</u>	<u>1,961</u>
Net deferred income tax asset (liability)	\$(1,511)	\$(6,101)
Current income tax asset (payable)	<u>(160)</u>	<u>(239)</u>
Income tax asset (liability)	<u><u>\$(1,671)</u></u>	<u><u>\$(6,340)</u></u>

In assessing the ability to realize a deferred tax asset, management considers whether it is more likely than not that some portion or the entire deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The net operating loss carryforwards were generated by NNN's taxable REIT subsidiaries. The net operating loss carryforwards expire in 2027. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that NNN will realize all of the benefits of these deductible differences that existed as of December 31, 2007.

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net earnings before income taxes	\$ 153,849	\$ 176,283	\$ 92,362
Provision for income tax benefit (expense):			
Current:			
Federal	(1,120)	(1,805)	(2,402)
State and local	(209)	(339)	(451)
Deferred:			
Federal	3,570	6,493	(44)
State and local	1,020	1,873	(65)
Total provision for income taxes	<u>3,261</u>	<u>6,222</u>	<u>(2,962)</u>
Total net earnings	<u>\$ 157,110</u>	<u>\$ 182,505</u>	<u>\$ 89,400</u>

Note 19 – Earnings from Discontinued Operations:

Real Estate – Investment Portfolio – In accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” NNN has classified the revenues and expenses related to (i) all Investment Properties that were sold and expired leasehold interests, and (ii) any Investment Property that was held for sale as of December 31, 2007, as discontinued operations. The following is a summary of the earnings from discontinued operations from the Investment Portfolio for each of the years ended December 31 (dollars in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Revenues:			
Rental income from operating leases	\$ 4,400	\$ 18,855	\$ 28,059
Earned income from direct financing leases	2,267	5,552	6,645
Percentage rent	-	34	37
Real estate expense reimbursement from tenants	318	1,077	2,448
Interest and other income from real estate transactions	624	505	390
	<u>7,609</u>	<u>26,023</u>	<u>37,579</u>
Operating expenses:			
General and administrative	(45)	97	(66)
Real estate	294	2,848	6,736
Depreciation and amortization	315	2,071	6,076
Impairments – real estate	335	693	2,056
	<u>899</u>	<u>5,709</u>	<u>14,802</u>
Other expenses (revenues):			
Interest and other income	(3)	(1)	(14)
Interest expense	0	1,816	3,154
	<u>(3)</u>	<u>1,815</u>	<u>3,140</u>
Earnings before gain on disposition of real estate and loss on extinguishment of mortgage payable	6,713	18,499	19,637
Gain on disposition of real estate	56,625	91,332	9,816
Loss on extinguishment of mortgage payable	-	(167)	-
Earnings from discontinued operations	<u>\$ 63,338</u>	<u>\$ 109,664</u>	<u>\$ 29,453</u>

Real Estate – Inventory Portfolio – NNN has classified the revenues and expenses related to (i) its Inventory Properties, which generated rental revenues prior to disposition, and (ii) the Inventory Properties which had generated rental revenues and were held for sale as of December 31, 2007, as discontinued operations. The following is a summary of the earnings from discontinued operations from the Inventory Portfolio for each of the years ended December 31 (dollars in thousands):

	2007	2006	2005
Revenues:			
Rental income from operating leases	\$ 8,616	\$ 9,235	\$ 1,986
Percentage rent	-	-	6
Real estate expense reimbursement from tenants	1,008	311	69
Interest and other from real estate transactions	224	336	899
	<u>9,848</u>	<u>9,882</u>	<u>2,960</u>
Disposition of real estate:			
Gross proceeds	164,338	80,856	70,967
Costs	(152,537)	(75,076)	(51,350)
Gain	<u>11,801</u>	<u>5,780</u>	<u>19,617</u>
Operating expenses:			
General and administrative	78	57	8
Real estate	1,504	389	318
Depreciation and amortization	68	8	21
Impairments – real estate	844	-	-
	<u>2,494</u>	<u>454</u>	<u>347</u>
Other expenses (revenues):			
Interest and other income	(5)	-	(1)
Interest expense	3,928	1,049	815
Earnings before income tax expense and minority interest	15,232	14,159	21,416
Income tax expense	(5,276)	(4,984)	(5,844)
Minority interest	(1,334)	(1,029)	(6,021)
Earnings from discontinued operations	<u>\$ 8,622</u>	<u>\$ 8,146</u>	<u>\$ 9,551</u>

Real Estate – Impairment – NNN reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Events or circumstances that may occur include changes in real estate market conditions, the ability of NNN to re-lease properties that are currently vacant or become vacant, and the ability to sell properties at an attractive return. Generally, NNN makes a provision for impairment loss if estimated future undiscounted operating cash flows plus estimated disposition proceeds are less than the current book value. Impairment losses are measured as the amount by which the current book value of the asset exceeds the estimated fair value of the asset. After such review, NNN recognized a \$335,000, \$693,000 and \$2,056,000 impairment in discontinued operations in the Investment Portfolio during the years ended December 31, 2007, 2006 and 2005, respectively. Additionally, NNN recognized an \$844,000 impairment in discontinued operations in the Inventory Portfolio during the year ended December 31, 2007. NNN had no impairments in the Inventory Portfolio for the years ended December 31, 2006 and 2005.

Note 20 – Derivatives:

SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by SFAS No. 133, NNN records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

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

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

NNN discontinues hedge accounting prospectively when it is determined that the derivative is no longer highly 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.

NNN is hedging its exposure to the variability in future cash flows for forecasted transactions over a maximum period of 6 months (excluding forecasted transactions related to the payment of variable interest on existing financial instruments).

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

In June 2004, NNN terminated its forward-starting interest rate swaps with a notional amount of \$94,000,000 that was hedging the risk of changes in forecasted interest payments on a forecasted issuance of long-term debt. The fair value of the interest rate swaps when terminated was an asset of \$4,148,000, which was deferred in other comprehensive income.

As of December 31, 2007, \$229,000 remains in other comprehensive income related to the fair value of the interest rate hedges. During the year ended December 31, 2007 and 2006, NNN reclassified \$309,000 and \$345,000, respectively, out of other comprehensive income as a reduction to interest expense. During 2008, NNN estimates that an additional \$162,000 will be reclassified 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.

As of December 31, 2007 NNN has one interest rate hedge with a positive fair value of \$109,000 included in other liabilities. NNN recorded an immaterial amount of hedge ineffectiveness on cash flow hedges as interest expense during the year ended December 31, 2007.

Additionally, NNN does not use derivatives for trading or speculative purposes or currently have any derivatives that are not designated as hedges. NNN had no derivative financial instruments outstanding at December 31, 2006.

Note 21 – Performance Incentive Plan:

In June 2007, NNN filed a registration statement on Form S-8 with the Securities and Exchange Commission which permits the issuance of up to 5,900,000 shares of common stock pursuant to NNN's 2007 Performance Incentive Plan (the "2007 Plan"). The 2007 Plan replaces NNN's previous Performance Incentive Plan. The 2007 Plan allows NNN to award or grant to key employees, directors and persons performing consulting or advisory services for NNN or its affiliates, stock options, stock awards, stock appreciation rights, Phantom Stock Awards, Performance Awards and Leveraged Stock Purchase Awards, each as defined in the 2007 Plan. The following summarizes NNN's stock-based compensation activity for each of the years ended December 31:

	Number of Shares		
	2007	2006	2005
Outstanding, January 1	236,371	461,175	639,765
Options granted	-	-	-
Options exercised	(82,767)	(224,804)	(173,280)
Options surrendered	(34,800)	-	(5,310)
Outstanding, December 31	<u>118,804</u>	<u>236,371</u>	<u>461,175</u>
Exercisable, December 31	<u>118,804</u>	<u>236,371</u>	<u>457,000</u>

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

	2007	2006	2005
Outstanding, January 1	\$ 14.92	\$ 15.66	\$ 15.33
Granted during the year	-	-	-
Exercised during the year	16.12	16.43	14.48
Outstanding, December 31	13.64	14.92	15.66
Exercisable, December 31	13.64	14.92	15.67

The following summarizes the outstanding options and the exercisable options at December 31, 2007:

	Option Price Range		
	\$10.1875 to \$13.6875	\$14.5700 To \$17.3750	Total
Outstanding options:			
Number of shares	52,600	66,204	118,804
Weighted-average exercise price	\$ 11.32	\$ 15.49	\$ 13.64
Weighted-average remaining contractual life in years	2.64	3.96	3.38
Exercisable options:			
Number of shares	52,600	66,204	118,804
Weighted-average exercise price	\$ 11.32	\$ 15.49	\$ 13.64

One-third of the option grant to each individual becomes exercisable at the end of each of the first three years of service following the date of the grant and the options' maximum term is 10 years. At December 31, 2007, the intrinsic value of options outstanding was \$1,038,000. All options outstanding at December 31, 2007, were exercisable. During the years ended December 31, 2007, 2006 and 2005, NNN received proceeds totaling \$1,334,000, \$3,694,000 and \$2,509,000, respectively, in connection with the exercise of options. NNN issued new common stock to satisfy share option exercises. The total intrinsic value of options exercised during the year ended December 31, 2007, 2006 and 2005, was \$664,000, \$1,300,000 and \$1,026,000, respectively.

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

	Number of Shares	Weighted Average Share Price
Non-vested restricted shares, January 1	284,689	\$ 18.44
Restricted shares granted	206,719	20.16
Restricted shares vested	(96,047)	17.59
Restricted shares forfeited	(8,600)	21.18
Non-vested restricted shares, December 31	<u>386,761</u>	19.51

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

During the years ended December 31, 2007 and 2005, NNN cancelled 8,600 and 30,135 shares, respectively, of restricted stock. No restricted stock was cancelled in 2006.

Compensation expense for the restricted stock which is not tied to performance goals is determined based upon the fair value at the date of grant, assuming a 1.3% forfeiture rate, and is recognized as the greater of the amount amortized over a straight lined basis or the amount vested over the vesting periods. Vesting periods for officers and key associates of NNN range from four to seven years and generally vest yearly on a straight line basis. Vesting periods for directors are over a two year period and vest yearly on a straight line basis.

During the year ended December 31, 2007, NNN granted 79,000 performance based shares with a weighted average grant price of \$12.94 to certain executive officers of NNN. The compensation expense for the grant is based upon the fair value of the grant lattice model with the following assumptions: (i) risk free interest rate of 4.8%, (ii) a dividend rate of 5.3%, (iii) a term of five years, and (iv) volatility of 17.5%. Volatility is based upon the historical volatility of NNN's stock and other factors. The term is assumed to be the vesting date for each tranche. The vesting of these shares is contingent upon achievement of certain performance goals by January 1, 2012.

During the year ended December 31, 2005, NNN granted 38,273 performance based shares with a weighted average grant price of \$11.23 to certain executive officers of NNN. Compensation expense for the grant is based upon the fair value of the grant calculated by a third party using a Monte Carlo Simulation model coupled with a binomial lattice model using the following assumptions: (i) average interest rate of 4.43%, (ii) \$0.01 increase in annual dividend, (iii) expected life of five years, and (iv) volatility of 21.26%. Volatility is based upon the historical volatility of NNN's stock and other factors. The term is assumed to be the vesting date for each tranche. Vesting of these shares is contingent upon achievement of certain performance goals by January 1, 2010. As of December 31, 2007, 15,309 of these shares have vested as a result of the achievement of certain of these performance goals.

The following summarizes other grants made during the year ended December 31, 2007, pursuant to the 2000 Plan.

	Shares	Weighted Average Share Price
Other share grants under the 2007 Plan:		
Directors' fees	7,750	23.54
Deferred Directors' fees	16,346	23.59
Non-restricted grant	4,400	24.70
	<u>28,496</u>	23.75
Shares available under the 2007 Plan for grant, end of period	<u>2,964,191</u>	

The total compensation cost for share-based payments for the years ended December 31, 2007, 2006 and 2005, totaled \$2,583,000, \$3,766,000 and \$2,156,000, respectively, of such compensation expense. At December 31, 2007, NNN had \$5,321,000 of unrecognized compensation cost related to non-vested share-based compensation arrangements under the 2007 Plan. This cost is expected to be recognized over a weighted average period of 3.1 years.

Note 22 – Business Combinations:

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

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

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

NNN's share of net assets acquired	\$ 24,434
Less option price	(9,379)
Basis of option	<u>(269)</u>
Extraordinary gain	<u>\$ 14,786</u>

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

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

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

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

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

In connection with the independent valuations of the Residuals' fair value, NNN reduced the carrying value of the Residuals to reflect such fair value at December 31, 2007, 2006 and 2005. The reduction in the Residuals' value that related to the Residuals acquired at the time of the option exercise was recorded as a purchase price allocation adjustment.

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

National Properties Corporation – On June 16, 2005, NNN acquired 100 percent of National Properties Corporation (“NAPE”), a publicly traded company, which owned 43 freestanding properties located in 12 states. Results of NAPE operations have been included in the consolidated financial statements since the date of acquisition. NAPE stockholders received 1,636,532 newly issued shares of NNN’s common stock.

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

Note 23 – 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, restricted cash, mortgages, notes and accrued interest receivable, receivables, mortgages payable, note payable – secured, accrued interest payable, financing lease obligation and other liabilities at December 31, 2007 and 2006, approximate fair value based upon current market prices of similar issues. At December 31, 2007 and 2006, the fair value of NNN’s notes and convertible notes, collectively, was \$921,507, 000 and \$690,198,000, respectively, based upon the quoted market price.

Note 24 – Related Party Transactions:

For additional related party disclosures see Note 4 and Note 22.

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

NNN has revolving lines of credit with the TRS that allow for an aggregate borrowing capacity of \$280,000,000, as of December 31, 2007. The lines of credit each bear interest at 75 percent of the Prime rate plus 4.10% per annum and expire on May 8, 2009 and are secured by a pledge of the real estate and/or the other assets owned by the respective borrower. The outstanding aggregate principal balance of the lines of credit at December 31, 2007 and 2006 was \$220,515,000 and \$208,395,000, and bore interest at a rate of 9.54% and 10.29%, respectively. In connection with the lines of credit from the TRS, NNN earned \$15,851,000, \$16,287,000 and \$3,511,000 in interest and fees during the years ended December 31, 2007, 2006 and 2005, respectively, each of which was eliminated in consolidation.

In 2005, NNN provided disposition and development services to an affiliate of the Retired Directors. In connection therewith, NNN received an aggregate of \$886,000 in fees during the years ended December 31, 2005. There were no fees recognized during the years ended December 31, 2007 and 2006.

In 2002, NNN extended the maturity dates to dates between June and December 2007 of four mortgages securing an original aggregate principal indebtedness totaling \$8,514,000 from affiliates of the Retired Directors. In June 2005, NNN received the outstanding principal balance for three of the mortgage loans. In July 2005, NNN received the entire outstanding principal balance for the remaining mortgage loan. In connection therewith, NNN recorded \$96,000, as interest and other income from real estate transactions during the year ended December 31, 2005.

Note 25 – Quarterly Financial Data (unaudited):

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

<u>2007</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
Revenues as originally reported	\$ 42,713	\$ 46,421	\$ 47,783	\$ 52,565
Reclassified to discontinued operations	(2,269)	(679)	(123)	-
Adjusted revenue	<u>\$ 40,444</u>	<u>\$ 45,742</u>	<u>\$ 47,660</u>	<u>\$ 52,565</u>
Net earnings	<u>\$ 26,704</u>	<u>48,655</u>	<u>47,386</u>	<u>34,365</u>
Net earnings per share ⁽¹⁾ :				
Basic	\$ 0.41	\$ 0.71	\$ 0.68	\$ 0.46
Diluted	0.41	0.70	0.68	0.46
<u>2006</u>				
Revenues as originally reported	\$ 37,026	\$ 37,570	\$ 37,966	\$ 41,578
Reclassified to discontinued operations	(3,760)	(3,725)	(3,009)	(2,490)
Adjusted revenue	<u>\$ 33,266</u>	<u>\$ 33,845</u>	<u>\$ 34,957</u>	<u>\$ 39,088</u>
Net earnings	<u>\$ 23,448</u>	<u>\$ 80,201</u>	<u>\$ 21,455</u>	<u>\$ 57,401</u>
Net earnings per share ⁽¹⁾ :				
Basic	\$ 0.40	\$ 1.38	\$ 0.35	\$ 0.93
Diluted	0.39	1.37	0.35	0.93

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

Note 26 – Segment Information:

NNN has identified two primary financial segments: (i) Investment Assets and (ii) Inventory Assets. The following tables represent the segment data and reconciliation to NNN's consolidated totals for the years ended December 31, 2007, 2006 and 2005 (dollars in thousands):

	<u>Investment Assets</u>	<u>Inventory Assets</u>	<u>Eliminations (Intercompany)</u>	<u>Consolidated Totals</u>
<u>2007</u>				
External revenues	\$ 177,596	\$ 327	\$ -	\$ 177,923
Intersegment revenues	15,851	-	(15,851)	-
Interest revenue	8,319	40	-	8,359
Interest revenue on commercial mortgage residuals interests	4,882	-	-	4,882
Gain on the disposition of real estate, Inventory Portfolio	-	332	-	332
Interest expense	55,633	8,502	(14,849)	49,286
Depreciation and amortization	32,484	109	-	32,593
Operating expenses	24,109	7,705	-	31,814
Impairments – real estate	1,302	128	(1)	1,429
Equity in earnings of unconsolidated affiliates	(1,334)	-	1,383	49
Income tax benefit	2,675	5,862	-	8,537
Minority interest	(689)	879	-	190
Earnings (loss) from continuing operations	93,772	(9,004)	382	85,150
Earnings from discontinued operations	63,338	7,778	844	71,960
Net earnings (loss)	<u>\$ 157,110</u>	<u>\$ (1,226)</u>	<u>\$ 1,226</u>	<u>\$ 157,110</u>
Assets	<u>\$ 2,519,360</u>	<u>\$ 263,369</u>	<u>\$ (243,124)</u>	<u>\$ 2,539,605</u>
Additions to long-lived assets: Real estate	<u>\$ 677,101</u>	<u>\$ 165,160</u>	<u>\$ -</u>	<u>\$ 842,261</u>

	Investment Assets	Inventory Assets	Eliminations (Intercompany)	Consolidated Totals
<u>2006</u>				
External revenues	\$ 130,230	\$ 441	\$ -	\$ 130,671
Intersegment revenues	16,379	-	(16,379)	-
Interest revenue	6,972	61	-	7,033
Interest revenue on commercial mortgage residuals interests	7,268	-	-	7,268
Gain on the disposition of real estate, Inventory Portfolio	-	8,000	-	8,000
Interest expense	48,801	12,352	(15,281)	45,872
Depreciation and amortization	22,386	59	-	22,445
Operating expenses	22,103	10,189	(2)	32,290
Impairments – real estate	8,779	-	-	8,779
Equity in earnings of unconsolidated affiliates	(2,677)	-	2,799	122
Gain on disposition of equity investment	11,335	38	-	11,373
Income tax benefit	5,050	6,156	-	11,206
Minority interest	353	(1,945)	-	(1,592)
Earnings (loss) from continuing operations	72,841	(9,849)	1,703	64,695
Earnings from discontinued operations	109,664	7,955	191	117,810
Net earnings (loss)	<u>\$ 182,505</u>	<u>\$ (1,894)</u>	<u>\$ 1,894</u>	<u>\$ 182,505</u>
Assets	<u>\$ 1,910,003</u>	<u>\$ 242,466</u>	<u>\$ (234,971)</u>	<u>\$ 1,917,498</u>
Additions to long-lived assets: Real estate	<u>\$ 352,549</u>	<u>\$ 195,956</u>	<u>\$ -</u>	<u>\$ 548,505</u>
<u>2005</u>				
External revenues	\$ 96,550	\$ 1,240	\$ -	\$ 97,790
Intersegment revenues	3,511	-	(3,511)	-
Interest revenue	5,702	436	-	6,138
Interest revenue on commercial mortgage residuals interests	7,349	-	-	7,349
Gain on the disposition of real estate, Inventory Portfolio	-	2,010	-	2,010
Interest expense	32,554	3,335	(2,580)	33,309
Depreciation and amortization	16,031	221	-	16,252
Operating expenses	18,629	9,395	(9)	28,015
Equity in earnings of unconsolidated affiliates	2,859	(40)	(1,610)	1,209
Impairments – real estate	4,055	-	-	4,055
Income tax benefit	835	2,047	-	2,882
Minority interest	(378)	240	-	(138)
Earnings (loss) from continuing operations	45,161	(7,018)	(2,532)	35,611
Earnings from discontinued operations	29,453	8,629	921	39,003
Extraordinary gain	14,786	-	-	14,786
Net earnings	<u>\$ 89,400</u>	<u>\$ 1,611</u>	<u>\$ (1,611)</u>	<u>\$ 89,400</u>
Assets	<u>\$ 1,729,778</u>	<u>\$ 137,291</u>	<u>\$ (130,481)</u>	<u>\$ 1,736,588</u>
Additions to long-lived assets: Real estate	<u>\$ 267,797</u>	<u>\$ 137,286</u>	<u>\$ -</u>	<u>\$ 405,083</u>

Note 27 – Major Tenants:

In the year ended December 31, 2005, NNN recorded rental and earned income from one of its tenants, the United States of America, of \$18,827,000. The rental and earned income from the United States of America represented more than 10 percent of NNN's rental and earned income for the year ended December 2005. As of December 31, 2007 and 2006, NNN did not have any one tenant that accounts for ten percent or more of its rental and earned income.

Note 28 – Commitments and Contingencies:

As of December 31, 2007, NNN had letters of credit totaling \$2,685,000 outstanding under its Credit Facility.

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

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

None.

Item 9A. Controls and Procedures

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

NNN carried out an assessment as of December 31, 2007 of the effectiveness of the design and operation of its disclosure controls and procedures and its internal control over financial reporting. This assessment was done under the supervision and with the participation of management, including NNN's Chief Executive Officer and Chief Financial Officer. Rules adopted by the Commission require NNN to present the conclusions of the Chief Executive Officer and Chief Financial Officer about the effectiveness of NNN's disclosure controls and procedures and the conclusions of NNN's management about the effectiveness of NNN's internal control over financial reporting as of the end of the period covered by this annual report.

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

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

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

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of NNN's assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that NNN's receipts and expenditures are being made in accordance with authorizations of management or the Board of Directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of NNN's assets that could have a material adverse effect on NNN's financial statements.

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

NNN's internal control over financial reporting is also assessed on an ongoing basis by personnel in NNN's Accounting department and by NNN's internal auditors in connection with their internal audit activities. The overall goals of these various assessment activities are to monitor NNN's disclosure controls and procedures and NNN's internal control over financial reporting and to make modifications as necessary. NNN's intent in this regard is that the disclosure controls and procedures and the internal control over financial reporting will be maintained and updated (including with improvements and corrections) as conditions warrant. Management also sought to deal with other control matters in the assessment, and in each case if a problem was identified, management considered what revision, improvement and/or correction was necessary to be made in accordance with NNN's on-going procedures. The assessments of NNN's disclosure controls and procedures and NNN's internal control over financial reporting is done on a quarterly basis so that the conclusions concerning effectiveness of those controls can be reported in NNN's Quarterly Reports on Form 10-Q and Annual Report on Form 10-K.

Assessment of Effectiveness of Disclosure Controls and Procedures.

Based upon the assessments, NNN's Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2007, NNN's disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting.

Management, including NNN's Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal control over financial reporting for NNN. Management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework to assess the effectiveness of NNN's internal control over financial reporting. Based upon the assessments, NNN's Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2007, NNN's internal control over financial reporting was effective. NNN's independent registered public accounting firm has audited the consolidated financial statements in this Annual Report on Form 10-K and have issued an attestation report on management's assessment of NNN's internal control over financial reporting and its opinion on the effectiveness of internal control over financial reporting, which appears in this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting.

During the three months ended December 31, 2007, there were no changes in NNN's internal control over financial reporting that has materially affected, or are reasonably likely to materially affect, NNN's internal control for financial reporting.

Limitations on the Effectiveness of Controls.

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

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

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

Item 11. Executive Compensation

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

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

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

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

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

Item 14. Principal Accountant Fees and Services

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

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

(1) Financial Statements

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2007 and 2006

Consolidated Statements of Earnings for the years ended December 31, 2007, 2006 and 2005

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2007, 2006 and 2005

Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules

Schedule III – Real Estate and Accumulated Depreciation and Amortization and Notes as of December 31, 2007

Schedule IV – Mortgage Loans on Real Estate and Notes as of December 31, 2007

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

(3) Exhibits

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

3. Articles of Incorporation and By-laws

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

4. Instruments Defining the Rights of Security Holders, Including Indentures
- 4.1 Specimen Certificate of Common Stock, par value \$0.01 per share, of the Registrant (filed as Exhibit 3.4 to the Registrant's Registration Statement No. 1-11290 on Form 8-B and incorporated herein by reference).
 - 4.2 Indenture, dated as of March 25, 1998, between the Registrant and First Union National Bank, as trustee (filed as Exhibit 4.4 to the Registrant's Form S-3 (Registration No. 333-132095) filed with the Securities and Exchange Commission on February 28, 2006, and incorporated herein by reference).
 - 4.3 Form of Supplemental Indenture No. 1 dated March 25, 1998, by and among Registrant and First Union National Bank, Trustee, relating to \$100,000,000 of 7.125% Notes due 2008 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated March 20, 1998, and incorporated herein by reference).
 - 4.4 Form of 7.125% Note due 2008 (filed as Exhibit 4.3 to the Registrant's Current Report on Form 8-K dated March 20, 1998, and incorporated herein by reference).
 - 4.5 Form of Supplemental Indenture No. 3 dated September 20, 2000, by and among Registrant and First Union National Bank, Trustee, relating to \$20,000,000 of 8.5% Notes due 2010 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated September 20, 2000, and incorporated herein by reference).
 - 4.6 Form of 8.5% Notes due 2010 (filed as Exhibit 4.3 to the Registrant's Current Report on Form 8-K dated September 20, 2000, and incorporated herein by reference).
 - 4.7 Form of Supplemental Indenture No. 4 dated as of May 30, 2002, by and among Registrant and Wachovia Bank, National Association, Trustee, relating to \$50,000,000 of 7.75% Notes due 2012 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated June 4, 2002, and incorporated herein by reference).
 - 4.8 Form of 7.75% Notes due 2012 (filed as Exhibit 4.3 to the Registrant's Current Report on Form 8-K dated June 4, 2002, and incorporated herein by reference).
 - 4.9 Form of Supplemental Indenture No. 5 dated as of June 18, 2004, by and among Registrant and Wachovia Bank, National Association, Trustee, relating to \$150,000,000 of 6.25% Notes due 2014 (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated June 15, 2004, and incorporated herein by reference).
 - 4.10 Form of 6.25% Notes due 2014 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated June 15, 2004, and incorporated herein by reference).

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

10. Material Contracts

- 10.1 2000 Performance Incentive Plan (filed as Exhibit 99 to the Registrant's Registration Statement No. 333-64794 on Form S-8 and incorporated herein by reference).
- 10.2 Form of Restricted Stock Agreement between NNN and the Participant of NNN (filed as Exhibit 10.2 to the Registrant's Form 10-K dated March 14, 2005, and filed with the Securities and Exchange Commission on March 15, 2005, and incorporated herein by reference).

- 10.3 Employment Agreement dated May 16, 2006, between the Registrant and Craig Macnab (filed as Exhibit 10.3 to the Registrant's Form 10-Q filed with the Securities and Exchange Commission on August 3, 2006, and incorporated herein by reference).
- 10.4 Employment Agreement dated August 17, 2006, between the Registrant and Julian E. Whitehurst (filed as Exhibit 10.1 to the Registrant's Form 8-K dated August 17, 2006, and filed with the Securities and Exchange Commission on August 22, 2006, and incorporated herein by reference).
- 10.5 Employment Agreement dated August 17, 2006, as amended, between the Registrant and Kevin B. Habicht (filed as Exhibit 10.2 to the Registrant's Form 8-K dated August 17, 2006, and filed with the Securities and Exchange Commission on August 22, 2006, and incorporated herein by reference).
- 10.6 Eighth Amended and Restated Line of Credit and Security Agreement, dated December 13, 2005, by and among Registrant, certain lenders and Wachovia Bank, N.A., as the Agent, relating to a \$300,000,000 loan (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated December 15, 2005, and incorporated herein by reference).
- 10.7 First Amendment to Eighth Amended and Restated Line of Credit and Security Agreement, dated February 20, 2007, by and among Registrant, certain lenders and Wachovia Bank, N.A., as the Agent, relating to a \$300,000,000 loan (filed as Exhibit 10.8 with the Securities and Exchange Commission on February 21, 2007, and incorporated herein by reference).
- 10.8 Employment Agreement dated January 2, 2007, between the Registrant and Paul Bayer (filed herewith).
- 10.9 Employment Agreement dated January 2, 2007, between Christopher P. Tessitore (filed herewith).
12. Statement of Computation of Ratios of Earnings to Fixed Charges (filed herewith).
21. Subsidiaries of the Registrant (filed herewith).
23. Consent of Independent Accountants
 - 23.1 Ernst & Young LLP dated February 22, 2008 (filed herewith).
 - 23.2 KPMG LLP dated February 22, 2008 (filed herewith).
24. Power of Attorney (included on signature page).
31. Section 302 Certifications
 - 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32. Section 906 Certifications
 - 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
 - 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 99. Additional Exhibits
 - 99.1 Certification of Chief Executive Officer pursuant to Section 303A.12(a) of the New York Stock Exchange Listed Company Manual (filed herewith).

Exhibit Index

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- \$50,000,000 of 7.75% Notes due 2012 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated June 4, 2002, and incorporated herein by reference).
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- 4.16 Deposit Agreement, among the Registrant, American Stock Transfer & Trust Company, as Depositary, and the holders of depositary receipts (filed as Exhibit 4.18 to the Registrant's Form 10-Q filed with the Securities and Exchange Commission on November 6, 2006, and incorporated herein by reference).
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- 10.4 Employment Agreement dated August 17, 2006, between the Registrant and Julian E. Whitehurst (filed as Exhibit 10.1 to the Registrant's Form 8-K dated August 17, 2006, and filed with the Securities and Exchange Commission on August 22, 2006, and incorporated herein by reference).
- 10.5 Employment Agreement dated August 17, 2006, as amended, between the Registrant and Kevin B. Habicht (filed as Exhibit 10.2 to the Registrant's Form 8-K dated August 17, 2006, and filed with the Securities and Exchange Commission on August 22, 2006, and incorporated herein by reference).
- 10.6 Eighth Amended and Restated Line of Credit and Security Agreement, dated December 13, 2005, by and among Registrant, certain lenders and Wachovia Bank, N.A., as the Agent, relating to a \$300,000,000 loan (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated December 15, 2005, and incorporated herein by reference).
- 10.7 First Amendment to Eighth Amended and Restated Line of Credit and Security Agreement, dated February 20, 2007, by and among Registrant, certain lenders and Wachovia Bank, N.A., as the Agent, relating to a \$300,000,000 loan (filed as Exhibit 10.8 with the Securities and Exchange Commission on February 21, 2007, and incorporated herein by reference).
- 10.8 Employment Agreement dated January 2, 2007, between the Registrant and Paul Bayer (filed herewith).
- 10.9 Employment Agreement dated January 2, 2007, between Christopher P. Tessitore (filed herewith).

12. Statement of Computation of Ratios of Earnings to Fixed Charges (filed herewith).
21. Subsidiaries of the Registrant (filed herewith).
23. Consent of Independent Accountants
 - 23.1 Ernst & Young LLP dated February 22, 2008 (filed herewith).
 - 23.2 KPMG LLP dated February 22, 2008 (filed herewith).
24. Power of Attorney (included on signature page).
31. Section 302 Certifications
 - 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
 - 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32. Section 906 Certifications
 - 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
 - 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
99. Additional Exhibits
 - 99.1 Certification of Chief Executive Officer pursuant to Section 303A.12(a) of the New York Stock Exchange Listed Company Manual (filed herewith).

NATIONAL RETAIL PROPERTIES, INC. AND SUBSIDIARIES

SCHEDULE III — REAL ESTATE AND ACCUMULATED DEPRECIATION AND AMORTIZATION
December 31, 2007

	Encumbrances (k)	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed
		Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests	Total				
Real Estate Held for Investment the Company has Invested in Under Operating Leases:												
Academy:												
Beaumont, TX	\$—	\$1,423,701	\$ 2,449,261	\$ —	\$—	\$1,423,701	\$ 2,449,261	\$ 3,872,962	\$ 538,327	1992	03/99	40 years
Houston, TX	—	2,310,845	1,627,872	—	—	2,310,845	1,627,872	3,938,717	357,793	1976	03/99	40 years
Pasadena, TX	—	899,768	2,180,574	—	—	899,768	2,180,574	3,080,342	479,272	1994	03/99	40 years
College Station, TX	—	1,407,855	2,230,756	—	—	1,407,855	2,230,756	3,638,611	141,746	2002	06/05	40 years
Franklin, TN	—	1,807,096	2,108,278	—	—	1,807,096	2,108,278	3,915,374	178,618	1999	06/05	30 years
Ace Hardware and Lighting:												
Bourbonnais, IL	—	298,192	1,329,492	—	—	298,192	1,329,492	1,627,684	228,506	1997	11/98	37 years
A.C. Moore Arts & Crafts Inc.												
Dover, NJ	—	1,138,296	3,238,083	—	—	1,138,296	3,238,083	4,376,379	738,687	1995	11/98	40 years
Advanced Auto Parts:												
Miami, FL	—	867,177	—	1,035,275	—	867,177	1,035,275	1,902,452	65,783	2005	12/04(g)	40 years
AJ Petroleum:												
Lake Placid, FL	—	2,531,533	1,157,265	—	—	2,531,533	1,157,265	3,688,798	64,942	1990	12/05	40 years
All Star Sports:												
Wichita, KS	—	3,275,372	1,630,685	—	—	3,275,372	1,630,685	4,906,057	25,479	1988	05/07	40 years
Wichita, KS	—	1,550,654	965,402	—	—	1,550,654	965,402	2,516,056	15,084	1987	05/07	40 years
Amazing Jakes:												
Aurora, CO	—	5,075,945	13,873,887	—	—	5,075,945	13,873,887	18,949,832	245,683	1986	04/07	40 years
American Payday Loans:												
Des Moines, IA	—	108,421	379,067	—	—	108,421	379,067	487,488	24,087	1979	06/05	40 years
AmerUs Group Warehouse:												
Des Moines, IA	—	28,465	85,396	—	—	28,465	85,396	113,861	21,705	1949	06/05	10 years
Amoco:												
Miami, FL	—	969,156	—	—	—	969,156	—	969,156	—	(i)	05/03	(i)
Sunrise, FL	—	949,185	—	—	—	949,185	—	949,185	—	(i)	06/03	(i)
Amscot:												
Tampa, FL	—	1,159,733	352,305	—	—	1,159,733	352,305	1,512,038	19,450	1981	10/05	40 years
Orlando, FL	—	764,473	—	865,674	—	764,473	865,674	1,630,147	35,168	2006	12/05	40 years
Orlando, FL	—	664,213	1,010,821	—	—	664,213	1,010,821	1,675,034	30,535	2006	12/05	40 years
Orlando, FL	—	358,354	—	922,218	—	358,354	922,218	1,280,572	33,623	2006	02/06(g)	40 years
Orlando, FL	—	546,475	—	937,758	—	546,475	937,758	1,484,233	32,235	2006	02/06(g)	40 years
Clearwater, FL	—	455,524	331,614	—	—	455,524	331,614	787,138	10,708	1967	09/06(g)	40 years
Applebee's:												
Ballwin, MO	—	1,496,173	1,403,581	—	—	1,496,173	1,403,581	2,899,754	211,999	1995	12/01	40 years
Arby's:												
Colorado Springs, CO	—	205,957	533,540	—	—	205,957	533,540	739,497	80,587	1998	12/01	40 years
Thomson, GA	—	267,842	503,550	—	—	267,842	503,550	771,392	76,057	1997	12/01	40 years
Washington Courthouse, OH	—	156,875	545,841	—	—	156,875	545,841	702,716	82,445	1998	12/01	40 years
Whitmore Lake, MI	—	170,515	468,916	—	—	170,515	468,916	639,431	70,826	1993	12/01	40 years
Ashley Furniture:												
Altamonte Springs, FL	—	2,906,409	4,877,225	315,000	—	2,906,409	5,192,225	8,098,634	1,302,103	1997	09/97	40 years
Louisville, KY	—	1,666,700	4,989,452	—	—	1,666,700	4,989,452	6,656,152	348,222	2005	03/05	40 years
Babies "R" Us:												
Arlington, TX	—	830,689	2,611,867	—	—	830,689	2,611,867	3,442,556	751,456	1996	06/96	40 years
Independence, MO	—	1,678,794	2,301,909	114,769	—	1,678,794	2,416,678	4,095,472	349,896	1996	12/01	40 years

See accompanying report of independent registered public accounting firm.

	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed	
	Encumbrances (k)	Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests					Total
Barnes & Noble:												
Brandon, FL	—	1,476,407	1,527,150	—	—	1,476,407	1,527,150	3,003,557	495,486	1995	08/94(f)	40 years
Denver, CO	—	3,244,785	2,722,087	—	—	3,244,785	2,722,087	5,966,872	901,803	1994	09/94	40 years
Houston, TX	—	3,307,562	2,396,024	—	—	3,307,562	2,396,024	5,703,586	733,790	1995	10/94(f)	40 years
Plantation, FL	4,820,120(p)	3,616,357	—	—	—	3,616,457	(c)	3,616,457	(c)	1996	05/95(f)	(c)
Freehold, NJ (r)	—	2,917,219	2,260,663	—	—	2,917,219	2,260,663	5,177,882	673,803	1995	01/96	40 years
Dayton, OH	—	1,412,614	3,324,525	—	—	1,412,614	3,324,525	4,737,139	857,649	1996	05/97	40 years
Redding, CA	—	497,179	1,625,702	—	—	497,179	1,625,702	2,122,881	428,440	1997	06/97	40 years
Memphis, TN	—	1,573,875	2,241,639	—	—	1,573,875	2,241,639	3,815,514	219,494	1997	09/97	40 years
Marlton, NJ	—	2,831,370	4,318,554	—	—	2,831,370	4,318,554	7,149,924	985,170	1995	11/98	40 years
Bassett Furniture:												
Fairview Heights, IL	—	1,257,729	2,622,952	—	—	1,257,729	2,622,952	3,880,681	144,809	1980	10/05	40 years
Beall's:												
Sarasota, FL	—	1,077,802	1,795,174	—	—	1,077,802	1,795,174	2,872,976	184,009	1996	09/97	40 years
Beautiful America Dry Cleaners:												
Orlando, FL	65,839(o)	40,200	110,531	—	—	40,200	110,531	150,731	10,708	2001	02/04	40 years
Bed, Bath & Beyond:												
Richmond, VA	2,762,751(p)	1,184,144	2,842,759	—	—	1,184,144	2,842,759	4,026,903	396,802	1997	06/98	40 years
Glendale, AZ	—	1,082,092	—	2,758,452	—	1,082,092	2,758,452	3,840,544	583,297	1999	12/98(g)	40 years
Midland, MI	—	231,356	—	2,702,271	—	231,356	2,702,271	2,933,627	76,430	2006	07/03	40 years
Beneficial:												
Eden Prairie, MN	—	75,736	210,628	94,277	—	75,736	304,905	380,641	42,574	1997	12/01	40 years
Bennigan's:												
Milford, CT (r)	—	921,200	697,298	—	—	921,200	697,298	1,618,498	105,321	1985	12/01	40 years
Altamonte Springs, FL	—	1,088,282	924,425	—	—	1,088,282	924,425	2,012,707	139,627	1979	12/01	40 years
Schaumburg, IL	—	2,064,964	1,311,190	—	—	2,064,964	1,311,190	3,376,154	198,044	1998	12/01	40 years
Wichita Falls, TX	—	818,611	1,107,418	—	—	818,611	1,107,418	1,926,029	167,266	1982	12/01	40 years
Best Buy:												
Brandon, FL	—	2,985,156	2,772,137	—	—	2,985,156	2,772,137	5,757,293	753,675	1996	02/97	40 years
Cuyahoga Falls, OH	—	3,708,980	2,359,377	—	—	3,708,980	2,359,377	6,068,357	621,794	1970	06/97	40 years
Rockville, MD	—	6,233,342	3,418,783	—	—	6,233,342	3,418,783	9,652,125	893,869	1995	07/97	40 years
Fairfax, VA	—	3,052,477	3,218,018	—	—	3,052,477	3,218,018	6,270,495	834,673	1995	08/97	40 years
St. Petersburg, FL	4,408,646(p)	4,031,744	2,610,980	—	—	4,031,744	2,610,980	6,642,724	416,513	1997	09/97	35 years
Pittsburgh, PA	—	2,330,847	2,292,932	—	—	2,330,847	2,292,932	4,623,779	546,960	1997	06/98	40 years
Denver, CO	—	8,881,890	4,372,684	—	—	8,881,890	4,372,684	13,254,574	715,116	1991	06/01	40 years
Billy Bob's:												
Gresham, OR	—	817,311	108,294	—	—	817,311	108,294	925,605	16,357	1993	12/01	40 years
BJ's Wholesale Club:												
Orlando, FL	5,097,052(o)	3,270,851	8,626,657	366,650	—	3,270,851	8,993,307	12,264,158	844,379	2001	02/04	40 years
Blockbuster Video:												
Conyers, GA	—	320,029	556,282	—	—	320,029	556,282	876,311	146,604	1997	06/97	40 years
Alice, TX	—	318,285	578,268	—	—	318,285	578,268	896,553	87,342	1995	12/01	40 years
Gainesville, GA	—	294,882	611,570	—	—	294,882	611,570	906,452	92,372	1997	12/01	40 years
Glasgow, KY	—	302,859	560,904	—	—	302,859	560,904	863,763	84,719	1997	12/01	40 years
Kingsville, TX	—	498,849	457,695	29,555	—	498,849	487,250	986,099	69,382	1995	12/01	40 years
Mobile, AL	—	491,453	498,488	—	—	491,453	498,488	989,941	75,292	1997	12/01	40 years
Mobile, AL	—	843,121	562,498	—	—	843,121	562,498	1,405,619	84,961	1997	12/01	40 years
BMW:												
Duluth, GA	—	4,433,613	4,080,186	4,225,787	—	4,504,324	8,305,973	12,810,297	660,297	1984	12/01	40 years
Borders Books & Music:												
Wilmington, DE	—	3,030,764	6,061,538	—	—	2,994,395	6,061,538	9,055,933	1,974,073	1994	12/94	40 years
Richmond, VA	—	2,177,310	2,599,587	—	—	2,177,310	2,599,587	4,776,897	816,343	1995	06/95	40 years
Ft. Lauderdale, FL	4,643,774(p)	3,164,984	3,319,234	—	—	3,164,984	3,319,234	6,484,218	561,588	1995	02/96	33 years
Bangor, ME	—	1,546,915	2,486,761	—	—	1,546,915	2,486,761	4,033,676	716,671	1996	06/96	40 years
Altamonte Springs, FL	—	1,947,198	—	—	—	1,947,198	(c)	1,947,198	(c)	1997	09/97	(c)
Boston Market:												
Burton, MI	—	619,778	707,242	—	—	619,778	707,242	1,327,020	106,823	1997	12/01	40 years

See accompanying report of independent registered public accounting firm.

	Encumbrances (k)	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed
		Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests	Total				
Geneva, IL	—	1,125,347	1,036,952	—	—	1,125,347	893,485	2,018,833	137,129	1996	12/01	40 years
North Olmsted, OH	—	601,800	460,521	—	—	601,800	389,065	990,865	59,849	1996	12/01	40 years
Novi, MI	—	835,669	651,108	—	—	835,669	297,567	1,133,236	50,304	1995	12/01	40 years
Orland Park, IL	—	562,384	556,201	—	—	562,384	377,244	939,628	59,692	1995	12/01	40 years
Warren, OH	—	562,446	467,592	—	—	562,446	467,592	1,030,038	70,625	1997	12/01	40 years
Wheaton, IL	—	1,115,457	1,014,184	—	—	1,115,457	872,736	1,988,193	133,964	1995	12/01	40 years
Buck's:												
St. Louis, MO	—	775,246	—	—	—	775,246	—	775,246	—	(e)	12/07(q)	(e)
Buffalo Wild Wings:												
Michigan City, IN	—	162,538	492,007	—	—	162,538	492,007	654,545	74,313	1996	12/01	40 years
Bugaboo Creek:												
Lithonia, GA	—	922,578	1,276,222	—	—	922,578	1,276,222	2,198,800	17,282	2002	06/07	40 years
Rochester, NY	—	792,275	1,535,158	—	—	792,275	1,535,158	2,327,433	20,789	1995	06/07	40 years
Burger King:												
Colonial Heights, VA	—	662,345	609,787	—	—	662,345	609,787	1,272,132	92,103	1997	12/01	40 years
Carino's:												
Beaumont, TX	—	439,076	1,363,447	—	—	439,076	1,363,447	1,802,523	205,937	2000	12/01	40 years
Lewisville, TX	—	1,369,836	1,018,659	—	—	1,369,836	1,018,659	2,388,495	153,860	1994	12/01	40 years
Lubbock, TX	—	1,007,432	1,205,512	—	—	1,007,432	1,205,512	2,212,944	182,082	1995	12/01	40 years
Carl's Jr.:												
Chandler, AZ	—	729,291	644,148	—	—	729,291	644,148	1,373,439	81,860	1984	06/05	20 years
Tucson, AZ	—	681,386	536,023	103,000	—	681,386	639,023	1,320,409	144,734	1988	06/05	10 years
CarMax:												
Albuquerque, NM	—	10,197,135	—	8,128,062	—	10,197,135	8,128,062	18,325,197	635,005	2004	04/04(f)	40 years
Cash Advance:												
Mesa, AZ	—	43,043	112,764	250,696	—	43,043	363,460	406,503	4,543	1997	12/01	40 years
Certified Auto Sales:												
Albuquerque, NM	—	1,112,876	—	1,418,552	—	1,112,876	1,418,552	2,531,428	87,182	2005	04/04(f)	40 years
Champps:												
Alpharetta, GA	—	3,032,965	1,641,820	—	—	3,032,965	1,641,820	4,674,785	247,983	1999	12/01	40 years
Irving, TX	—	1,760,020	1,724,220	—	—	1,760,020	1,724,220	3,484,240	260,429	2000	12/01	40 years
Charhut:												
Sunrise, FL	—	286,834	423,837	—	—	286,834	423,837	710,671	38,277	1979	05/04	40 years
Checkers:												
Orlando, FL	—	256,568	—	—	—	256,568	(c)	256,568	(c)	1988	07/92	(c)
Chili's:												
Camden, SC	—	626,897	1,887,732	—	—	626,897	1,887,732	2,514,629	108,151	2005	09/05	40 years
Milledgeville, GA	—	516,118	1,996,627	—	—	516,118	1,996,627	2,512,745	114,390	2005	09/05	40 years
Sumter, SC	—	800,329	1,717,221	—	—	800,329	1,717,221	2,517,550	87,650	2004	12/05	40 years
Hinesville, GA	—	920,971	1,898,416	—	—	920,971	1,898,416	2,819,387	41,528	2006	02/07	40 years
Albany, GA	—	610,385	—	—	—	610,385	—	610,385	(e)	(e)	06/07(q)	(e)
Statesboro, GA	—	687,947	—	—	—	687,947	—	687,947	(e)	(e)	06/07(q)	(e)
Florence, SC	—	888,837	1,715,454	—	—	888,837	1,715,454	2,604,291	23,230	2007	06/07	40 years
Valdosta, GA	—	716,196	—	—	—	716,196	—	716,196	(e)	(e)	07/07(q)	(e)
Chili Verde Restaurant:												
Indianapolis, IN	—	639,584	1,015,173	91,738	—	639,584	1,106,911	1,746,495	154,884	1996	12/01	40 years
Circuit City:												
Gastonia, NC	—	2,548,040	3,879,911	—	—	2,548,040	3,879,911	6,427,951	295,035	2004	12/04	40 years
St. Peters, MO	—	1,740,807	5,406,298	—	—	1,740,807	5,406,298	7,147,105	332,262	2005	06/05(g)	40 years
East Palo Alto, CA	—	2,271,634	3,404,843	—	—	2,271,634	3,404,843	5,676,477	748,356	1998	12/98(f)	40 years
Foothill Ranch, CA	—	1,456,113	2,505,022	—	—	1,456,113	2,505,022	3,961,135	689,218	1995	12/96	40 years
Claim Jumper:												
Roseville, CA	—	1,556,732	2,013,650	—	—	1,556,732	2,013,650	3,570,382	304,145	2000	12/01	40 years
Tempe, AZ	—	2,530,892	2,920,575	—	—	2,530,892	2,920,575	5,451,467	441,128	2000	12/01	40 years
CompUSA:												
Baton Rouge, LA (r)	—	609,069	913,603	—	—	609,069	913,603	1,522,672	274,142	1995	12/95	40 years
Roseville, MN (r)	—	1,599,311	1,419,396	—	—	1,599,311	1,419,396	3,018,707	72,448	1994	12/05	40 years

See accompanying report of independent registered public accounting firm.

	Encumbrances (k)	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed
		Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests	Total				
Cool Crest:												
Independence, MO	—	1,837,672	1,533,729	—	—	1,837,672	1,533,729	3,371,401	23,965	1988	05/07	40 years
CORA Rehabilitation Clinics:												
Orlando, FL	131,678(o)	80,400	221,063	—	—	80,400	221,063	301,463	21,415	2001	02/04	40 years
Corpus Christi Flea Market:												
Corpus Christi, TX	—	223,998	2,158,955	—	—	223,998	2,158,955	2,382,953	474,520	1983	03/99	40 years
CVS:												
San Antonio, TX	—	440,985	—	—	—	440,985	(c)	440,985	(c)	1993	12/93	(c)
Lafayette, LA	—	967,528	—	—	—	967,528	(c)	967,528	(c)	1995	01/96	(c)
Midwest City, OK	—	673,369	1,103,351	—	—	673,369	1,103,351	1,776,720	326,185	1996	03/96	40 years
Irving, TX (r)	—	1,000,222	—	—	—	1,000,222	(c)	1,000,222	(c)	1996	12/96	(c)
Pantego, TX	—	1,016,062	1,448,911	—	—	1,016,062	1,448,911	2,464,973	381,848	1997	06/97	40 years
Ellenwood, GA	—	616,289	921,173	—	—	616,289	921,173	1,537,462	90,198	1996	09/97	40 years
Flower Mound, TX	—	932,233	881,448	—	—	932,233	881,448	1,813,681	86,308	1996	09/97	40 years
Ft. Worth, TX	—	558,657	—	—	—	558,657	(c)	558,657	(c)	1996	09/97	(c)
Arlington, TX	—	2,078,542	—	1,396,508	—	2,078,542	1,396,508	3,475,050	327,306	1998	11/97(g)	40 years
Leavenworth, KS	—	726,438	—	1,330,830	—	726,438	1,330,830	2,057,268	317,458	1998	11/97(g)	40 years
Lewisville, TX	—	789,237	—	1,335,426	—	789,237	1,335,426	2,124,663	310,208	1998	04/98(g)	40 years
Forest Hill, TX	—	692,165	—	1,174,549	—	692,165	1,174,549	1,866,714	275,285	1998	04/98(g)	40 years
Garland, TX	—	1,476,838	—	1,400,278	—	1,476,838	1,400,278	2,877,116	319,439	1998	06/98(g)	40 years
Garland, TX	—	522,461	—	1,418,531	—	522,461	1,418,531	1,940,992	320,647	1998	06/98(g)	40 years
Oklahoma City, OK	—	1,581,480	—	1,471,105	—	1,581,480	1,471,105	3,052,585	329,466	1999	08/98(g)	40 years
Dallas, TX	—	2,617,656	—	2,570,569	—	2,617,656	2,570,569	5,188,225	270,445	2003	06/99	40 years
Gladstone, MO	94,795	1,851,374	—	1,739,568	—	1,851,374	1,739,568	3,590,942	320,733	2000	12/99(g)	40 years
Dave & Buster's:												
Hilliard, OH	—	934,210	4,689,004	—	—	934,210	4,689,004	5,623,214	131,878	1998	11/06	40 years
Denny's:												
Columbus, TX	—	428,429	816,644	—	—	428,429	816,644	1,245,073	123,347	1997	12/01	40 years
Alexandria, VA	—	603,730	195,658	—	—	603,730	195,658	799,388	12,636	1981	09/06	20 years
Amarillo, TX	—	589,996	632,121	—	—	589,996	632,121	1,222,117	40,824	1982	09/06	20 years
Arlington Heights, IL	—	469,593	227,673	—	—	469,593	227,673	697,266	14,703	1977	09/06	20 years
Austintown, OH	—	466,124	397,387	—	—	466,124	397,387	863,511	25,665	1980	09/06	20 years
Boardman Township, OH	—	497,083	257,518	—	—	497,083	257,518	754,601	16,631	1977	09/06	20 years
Campbell, CA	—	459,751	238,205	—	—	459,751	238,205	697,956	15,384	1976	09/06	20 years
Carson, CA	—	1,245,768	157,375	—	—	1,245,768	157,375	1,403,143	10,164	1975	09/06	20 years
Chelais, WA	—	414,994	287,174	—	—	414,994	287,174	702,168	18,546	1977	09/06	20 years
Chubbock, ID	—	350,461	394,243	—	—	350,461	394,243	744,704	25,461	1983	09/06	20 years
Clackamas, OR	—	468,281	407,268	—	—	468,281	407,268	875,549	26,303	1993	09/06	20 years
Collinsville, IL	—	675,704	282,912	—	—	675,704	282,912	958,616	18,271	1979	09/06	20 years
Colorado Springs, CO	—	321,006	376,744	—	—	321,006	376,744	697,750	24,331	1984	09/06	20 years
Colorado Springs, CO	—	585,425	390,275	—	—	585,425	390,275	975,700	25,202	1978	09/06	20 years
Corpus Christi, TX	—	344,821	775,618	—	—	344,821	775,618	1,120,439	50,092	1980	09/06	20 years
Dallas, TX	—	497,170	149,862	—	—	497,170	149,862	647,032	9,679	1979	09/06	20 years
Enfield, CT	—	684,235	228,981	—	—	684,235	228,981	913,216	14,788	1976	09/06	20 years
Fairfax, VA	—	768,438	682,921	—	—	768,438	682,921	1,451,359	44,105	1979	09/06	20 years
Federal Way, WA	—	542,951	192,650	—	—	542,951	192,650	735,601	12,441	1977	09/06	20 years
Florissant, MO	—	442,700	237,959	—	—	442,700	237,959	680,659	15,368	1977	09/06	20 years
Ft. Worth, TX	—	392,306	314,262	—	—	392,306	314,262	706,568	20,296	1974	09/06	20 years
Hermitage, PA	—	320,918	419,980	—	—	320,918	419,980	740,898	27,123	1980	09/06	20 years
Hialeah, FL	—	432,479	175,245	—	—	432,479	175,245	607,724	11,318	1978	09/06	20 years
Houston, TX	—	503,797	347,749	—	—	503,797	347,749	851,546	22,459	1976	09/06	20 years
Indianapolis, IN	—	325,937	511,345	—	—	325,937	511,345	837,282	33,024	1978	09/06	20 years
Indianapolis, IN	—	310,383	589,689	—	—	310,383	589,689	900,072	38,084	1981	09/06	20 years
Indianapolis, IN	—	358,295	766,627	—	—	358,295	766,627	1,124,922	49,511	1978	09/06	20 years
Indianapolis, IN	—	222,629	482,909	—	—	222,629	482,909	705,538	31,188	1979	09/06	20 years
Indianapolis, IN	—	231,236	511,175	—	—	231,236	511,175	742,411	33,013	1974	09/06	20 years
Kernersville, NC	—	406,544	557,465	—	—	406,544	557,465	964,009	36,002	2000	09/06	20 years
Lafayette, IN	—	423,516	773,096	—	—	423,516	773,096	1,196,612	49,929	1978	09/06	20 years
Laurel, MD	—	527,596	379,327	—	—	527,596	379,327	906,923	24,498	1976	09/06	20 years
Little Rock, AR	—	671,665	76,507	—	—	671,665	76,507	748,172	4,941	1979	09/06	20 years

See accompanying report of independent registered public accounting firm.

	Encumbrances (k)	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed
		Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests	Total				
Little Rock, AR	—	702,789	179,699	—	—	702,789	179,699	882,488	11,606	1979	09/06	20 years
Maplewood, MN	—	630,007	271,268	—	—	630,007	271,268	901,275	17,519	1983	09/06	20 years
Merriville, IN	—	368,152	813,167	—	—	368,152	813,167	1,181,319	52,517	1976	09/06	20 years
Middleburg Heights, OH	—	496,963	259,581	—	—	496,963	259,581	756,544	16,764	1976	09/06	20 years
N. Miami, FL	—	855,381	151,216	—	—	855,381	151,216	1,006,597	9,766	1977	09/06	20 years
Nampa, ID	—	356,591	729,175	—	—	356,591	729,175	1,085,766	47,093	1979	09/06	20 years
North Palm Beach, FL	—	450,257	161,978	—	—	450,257	161,978	612,235	10,461	1977	09/06	20 years
North Richland Hills, TX	—	500,352	129,840	—	—	500,352	129,840	630,192	8,386	1970	09/06	20 years
Novi, MI	—	545,175	305,344	—	—	545,175	305,344	850,519	19,720	1979	09/06	20 years
Omaha, NE	—	496,452	314,303	—	—	496,452	314,303	810,755	20,298	1994	09/06	20 years
Parma, OH	—	370,120	238,145	—	—	370,120	238,145	608,265	15,380	1977	09/06	20 years
Pompano Beach, FL	—	436,153	393,590	—	—	436,153	393,590	829,743	25,419	1976	09/06	20 years
Portland, OR	—	764,431	161,462	—	—	764,431	161,462	925,893	10,428	1977	09/06	20 years
Provo, UT	—	519,038	216,015	—	—	519,038	216,015	735,053	13,951	1978	09/06	20 years
Pueblo, CO	—	475,420	301,725	—	—	475,420	301,725	777,145	19,486	1980	09/06	20 years
Raleigh, NC	—	1,094,361	482,297	—	—	1,094,361	482,297	1,576,658	31,148	1984	09/06	20 years
Santa Ana, CA	—	515,866	279,400	—	—	515,866	279,400	795,266	18,045	1977	09/06	20 years
Sherman, TX	—	232,670	126,149	—	—	232,670	126,149	358,819	8,147	1969	09/06	20 years
Southfield, MI	—	401,401	330,496	—	—	401,401	330,496	731,897	21,344	1980	09/06	20 years
St. Louis, MO	—	519,641	265,824	—	—	519,641	265,824	785,465	17,168	1973	09/06	20 years
Sugarland, TX	—	315,186	334,027	—	—	315,186	334,027	649,213	21,573	1997	09/06	20 years
Tacoma, WA	—	580,288	200,559	—	—	580,288	200,559	780,847	12,953	1984	09/06	20 years
Tulsa, OK	—	324,751	313,897	—	—	324,751	313,897	638,648	20,273	1978	09/06	20 years
Tuscon, AZ	—	922,401	290,221	—	—	922,401	290,221	1,212,622	18,743	1979	09/06	20 years
W. Palm Beach, FL	—	619,003	160,924	—	—	619,003	160,924	779,927	10,393	1984	09/06	20 years
Weathersfield, CT	—	883,538	176,136	—	—	883,538	176,136	1,059,674	11,375	1978	09/06	20 years
Worcester, MA	—	383,194	492,602	—	—	383,194	492,602	875,796	31,814	1978	09/06	20 years
Boise, ID	—	514,340	476,967	—	—	514,340	476,967	991,307	24,842	1983	12/06	20 years
St. Louis, MO	—	634,924	302,979	—	—	634,924	302,979	937,903	14,518	1980	01/07	20 years
Virginia Gardens, FL	—	793,432	132,605	—	—	793,432	132,605	926,037	6,354	1977	01/07	20 years
Dick's Sporting Goods:												
Taylor, MI	—	1,920,032	3,526,868	—	—	1,920,032	3,526,868	5,446,900	995,961	1996	08/96	40 years
White Marsh, MD	—	2,680,532	3,916,889	—	—	2,680,532	3,916,889	6,597,421	1,106,100	1996	08/96	40 years
Dollar Tree:												
Garland, TX	—	239,014	626,170	—	—	239,014	626,170	865,183	101,753	1994	02/94	40 years
Copperas Cove, TX	—	241,650	511,624	194,167	—	241,650	705,791	947,441	145,122	1972	11/98	40 years
Donato's:												
Medina, OH	—	405,113	463,582	—	—	405,113	463,582	868,696	70,020	1996	12/01	40 years
Dr. Clean Dry Cleaners:												
Monticello, NY	—	19,625	71,570	—	—	19,625	71,570	91,195	4,995	1996	03/05	40 years
Easyhome:												
Cohoes, NY	—	58,969	317,885	—	—	58,969	317,885	376,854	26,815	1994	09/04	40 years
Eckerd:												
Douglasville, GA	—	413,438	995,209	—	—	413,438	995,209	1,408,647	296,627	1996	01/96	40 years
Conyers, GA	—	574,666	998,900	—	—	574,666	998,900	1,573,566	263,252	1997	06/97	40 years
Augusta, GA	—	568,606	1,326,748	—	—	568,606	1,326,748	1,895,354	333,069	1997	12/97	40 years
Riverdale, GA	—	1,088,896	1,707,448	—	—	1,088,896	1,707,448	2,796,344	428,640	1997	12/97	40 years
Warner Robins, GA	—	707,488	—	1,227,330	—	707,488	1,227,330	1,934,818	274,871	1999	03/98(g)	40 years
West Mifflin, PA	—	1,401,632	2,043,862	—	—	1,401,632	2,043,862	3,445,494	300,192	1999	02/02	40 years
Norfolk, VA	—	2,742,194	1,796,508	—	—	2,742,194	1,796,508	4,538,702	263,862	2001	02/02	40 years
Thorndale, PA	—	2,260,618	2,472,039	—	—	2,260,618	2,472,039	4,732,657	363,081	2001	02/02	40 years
El Mariachi Grill:												
Montgomery, AL	—	1,418,158	1,140,080	—	—	1,418,158	1,044,075	2,462,233	166,034	1999	12/01	40 years
El Meskal:												
Hammond, LA	—	247,600	813,514	62,287	—	247,600	627,601	875,201	109,955	1997	12/01	40 years
El Paso Barbeque:												
Tuscon, AZ	—	996,435	—	2,741,660	—	996,435	2,741,660	3,738,095	19,991	2007	12/06(q)	40 years
Farmington, NM	—	2,756,524	—	—	—	2,756,524	—	2,756,524	(e)	(e)	12/07(q)	(e)
Enterprise Rent-A-Car:												
Wilmington, NC	—	218,126	327,329	—	—	218,126	327,329	545,455	49,440	1981	12/01	40 years

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	Encumbrances (k)	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed
		Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests	Total				
Fallas Paredes:												
Arlington, TX	—	317,838	1,680,428	242,483	—	317,838	1,922,911	2,240,749	465,560	1996	06/96	38 years
Family Dollar:												
Cohoes, NY	—	95,644	515,502	—	—	95,644	515,502	611,146	41,712	1994	09/04	40 years
Hudson Falls, NY	—	51,055	379,789	—	—	51,055	379,789	430,844	31,253	1993	09/04	40 years
Monticello, NY	—	96,445	351,721	—	—	96,445	351,721	448,166	24,547	1996	03/05	40 years
Fantastic Sams:												
Eden Prairie, MN	—	64,916	180,538	80,809	—	64,916	261,347	326,263	36,492	1997	12/01	40 years
Fazoli's Restaurant:												
Bay City, MI	—	647,055	633,899	—	—	647,055	633,899	1,280,953	95,745	1997	12/01	40 years
Ferguson:												
Destin, FL	—	553,552	1,011,898	—	—	553,552	1,011,898	1,565,450	20,027	2006	03/07	40 years
Food Fast:												
Bossier City, LA	—	882,882	657,929	—	—	882,882	657,929	1,540,811	23,759	1975	06/07	15 years
Brownsboro, TX	—	327,611	385,088	—	—	327,611	385,088	712,699	6,952	1990	06/07	30 years
Flint, TX	—	272,007	410,803	—	—	272,007	410,803	682,810	8,900	1985	06/07	25 years
Forney, TX	—	545,133	707,160	—	—	545,133	707,160	1,252,293	12,768	1989	06/07	30 years
Forney, TX	—	473,290	653,516	—	—	473,290	653,516	1,126,806	11,800	1990	06/07	30 years
Gun Barrel City, TX	—	241,890	467,271	—	—	241,890	467,271	709,161	10,124	1988	06/07	25 years
Gun Barrel City, TX	—	269,871	386,429	—	—	269,871	386,429	656,300	8,372	1986	06/07	25 years
Jacksonville, TX	—	660,275	632,166	—	—	660,275	632,166	1,292,441	22,828	1976	06/07	15 years
Kemp, TX	—	580,596	505,102	—	—	580,596	505,102	1,085,698	10,944	1986	06/07	25 years
Longview, TX	—	252,373	303,925	—	—	252,373	303,925	556,298	6,585	1983	06/07	25 years
Longview, TX	—	271,236	430,518	—	—	271,236	430,518	701,754	7,773	1990	06/07	30 years
Longview, TX	—	425,860	381,585	—	—	425,860	381,585	807,445	8,268	1984	06/07	25 years
Longview, TX	—	359,539	535,304	—	—	359,539	535,304	894,843	11,598	1983	06/07	25 years
Longview, TX	—	403,420	571,962	—	—	403,420	571,962	975,382	12,393	1985	06/07	25 years
Longview, TX	—	178,176	235,972	—	—	178,176	235,972	414,148	6,391	1977	06/07	20 years
Mabank, TX	—	229,097	493,568	—	—	229,097	493,568	722,665	10,694	1986	06/07	25 years
Mt. Vernon, TX	—	292,251	666,046	—	—	292,251	666,046	958,297	14,430	1990	06/07	25 years
Shreveport, LA	—	360,801	249,918	—	—	360,801	249,918	610,719	9,025	1969	06/07	15 years
Tyler, TX	—	323,146	283,153	—	—	323,146	283,153	606,299	7,669	1978	06/07	20 years
Tyler, TX	—	487,716	831,325	—	—	487,716	831,325	1,319,041	22,515	1980	06/07	20 years
Tyler, TX	—	742,070	545,967	—	—	742,070	545,967	1,288,037	11,829	1985	06/07	25 years
Tyler, TX	—	256,415	542,486	—	—	256,415	542,486	798,901	14,692	1980	06/07	20 years
Tyler, TX	—	188,162	328,622	—	—	188,162	328,622	516,784	7,120	1984	06/07	25 years
Tyler, TX	—	542,144	403,494	—	—	542,144	403,494	945,638	8,742	1984	06/07	25 years
Tyler, TX	—	257,981	418,816	—	—	257,981	418,816	676,797	11,343	1978	06/07	20 years
Tyler, TX	—	316,208	544,790	—	—	316,208	544,790	860,998	9,836	1989	06/07	30 years
Tyler, TX	—	301,853	455,181	—	—	301,853	455,181	757,034	12,328	1981	06/07	20 years
Food 4 Less:												
Chula Vista, CA	—	3,568,862	—	—	—	3,568,862	(c) 3,568,862	(c)		1995	11/98	(c)
Fresh Market:												
Gainesville, FL	—	317,386	1,248,404	655,827	—	317,386	1,904,231	2,221,617	144,321	1982	03/99	40 years
Furr's Family Dining:												
Las Cruces, NM	—	947,476	—	2,181,954	—	947,476	2,181,954	3,129,430	70,459	2006	01/06(q)	40 years
Tuscon, AZ	—	1,170,722	—	—	—	1,170,722	—	1,170,722	—	(e)	07/06(q)	(e)
Moore, OK	—	938,701	—	2,429,401	—	938,701	2,429,401	3,368,102	12,653	2007	03/07(q)	40 years
Gander Mountain:												
Amarillo, TX	—	1,513,714	5,781,294	—	—	1,513,714	5,781,294	7,295,008	451,664	2004	11/04	40 years
Gate Petroleum:												
Concord, NC	—	852,225	1,200,862	—	—	852,225	1,200,862	2,053,087	76,305	2001	06/05	40 years
Rocky Mountain, NC	—	258,764	1,164,438	—	—	258,764	1,164,438	1,423,202	73,990	2000	06/05	40 years
Gen-X Clothing:												
Federal Way, WA	—	2,037,392	1,661,577	257,414	—	2,037,392	1,918,991	3,956,383	423,437	1998	06/98	40 years
Golden Corral:												
Abbeville, LA	—	98,577	362,416	—	—	98,577	362,416	460,993	240,748	1985	04/85	35 years
Lake Placid, FL	—	115,113	305,074	43,797	—	115,113	348,871	463,984	211,416	1985	05/85	35 years
Tampa, FL	—	1,329,793	1,390,502	—	—	1,329,793	1,390,502	2,720,296	210,024	1998	12/01	40 years
Dallas, TX	—	1,138,129	1,024,747	—	—	1,138,129	1,024,747	2,162,875	154,779	1994	12/01	40 years
Temple Terrace, FL	—	1,187,614	1,339,000	—	—	1,187,614	1,339,000	2,526,614	202,245	1997	12/01	40 years

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	Encumbrances (k)	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed
		Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests	Total				
Goodyear Truck & Tire:												
Wichita, KS	—	213,640	686,700	—	—	213,640	686,700	900,340	87,268	1989	06/05	20 years
Anthony, TX	—	(l)	1,241,517	—	—	(l)	1,241,517	1,241,517	14,226	2007	02/07	40 years
GymKix:												
Copperas Cove, TX	—	203,908	431,715	171,477	—	203,908	603,192	807,100	123,601	1972	11/98	40 years
H&R Block:												
Swansea, IL	—	45,842	132,440	69,029	—	45,842	201,469	247,311	29,307	1997	12/01	40 years
Hastings:												
Nacogdoches, TX	—	397,074	1,257,402	—	—	397,074	1,257,402	1,654,477	286,845	1997	11/98	40 years
Haverty's:												
Clearwater, FL	—	1,184,938	2,526,207	44,005	—	1,189,188	2,570,212	3,759,400	930,917	1992	05/93	40 years
Orlando, FL	—	820,397	2,184,721	176,425	—	820,397	2,361,146	3,181,543	811,364	1992	05/93	40 years
Pensacola, FL	263,188	633,125	1,595,405	—	—	603,111	1,595,405	2,198,516	459,122	1994	06/96	40 years
Bowie, MD	—	1,965,508	4,221,074	—	—	1,965,508	4,221,074	6,186,582	927,357	1997	12/97	38 years
Healthy Pet:												
Suwannee, GA	—	175,183	1,038,492	—	—	175,183	1,038,492	1,213,675	27,044	1997	12/06	40 years
Colonial Heights, VA	—	159,879	746,261	—	—	159,879	746,261	906,140	17,879	1996	01/07	40 years
Heilig-Meyers:												
Baltimore, MD	—	469,781	813,073	—	—	469,781	813,073	1,282,854	185,482	1968	11/98	40 years
Glen Burnie, MD	—	631,712	931,931	—	—	631,712	931,931	1,563,643	212,550	1968	11/98	40 years
Hollywood Video:												
Cincinnati, OH	—	282,200	520,623	279,308	—	543,438	538,693	1,082,132	78,787	1998	12/01	40 years
Clifton, CO	—	245,462	732,477	—	—	245,462	732,477	977,939	110,634	1998	12/01	40 years
Lafayette, LA	—	603,190	1,149,251	—	—	603,190	1,149,251	1,752,441	58,660	1999	12/05	40 years
Ridgeland, MS	—	778,874	933,314	—	—	778,874	933,314	1,712,188	47,638	1997	12/05	40 years
Home Décor:												
Memphis, TN	—	549,309	539,643	364,460	—	549,309	904,103	1,453,412	176,448	1998	11/98	40 years
Home Depot:												
Sunrise, FL	—	5,148,657	—	—	—	5,148,657	—	5,148,657	—	(i)	05/03	(i)
HomeGoods:												
Fairfax, VA	—	977,839	1,414,261	937,301	—	977,839	2,351,562	3,329,401	249,166	1995	12/95	40 years
Hooters:												
Tampa, FL	—	783,923	504,768	—	—	783,923	504,768	1,288,692	76,241	1993	12/01	40 years
Hope Rehab:												
Houston, TX	—	112,150	509,179	—	—	112,150	509,179	621,329	26,202	1995	12/05	40 years
Horizon Travel Plaza:												
Midland City, AL	—	728,990	2,538,232	—	—	728,990	2,538,232	3,267,222	66,100	2006	12/06	40 years
Dothan, AL	—	773,671	1,886,333	—	—	773,671	1,886,333	2,660,004	37,334	2007	03/07	40 years
Lebanon, TN	—	581,612	—	—	—	581,612	—	581,612	(e)	(e)	03/07(q)	(e)
Humana:												
Sunrise, FL	—	800,271	252,717	—	—	800,271	252,717	1,052,988	22,849	1984	05/04	40 years
Hy-Vee:												
St. Joseph, MO	—	1,579,583	2,849,246	—	—	1,579,583	2,849,246	4,428,829	376,938	1991	09/02	40 years
International House of Pancakes:												
Sunset Hills, MO	—	271,853	—	—	—	271,853	(c)	271,853	(c)	1993	10/93	(c)
Matthews, NC	—	380,043	—	—	—	380,043	(c)	380,043	(c)	1993	12/93	(c)
Midwest City, OK	—	407,268	—	—	—	407,268	—	407,268	(i)	(i)	11/00	(i)
Ankeny, IA	—	692,956	515,035	—	—	692,956	515,035	1,207,991	43,635	2002	06/05	30 years
Jack-in-the-Box:												
Plano, TX	—	1,055,433	1,236,590	—	—	1,055,433	1,236,590	2,292,023	78,575	2001	06/05	40 years
Jacobson Industrial:												
Des Moines, IA	—	60,517	112,390	—	—	60,517	112,390	172,907	14,283	1973	06/05	20 years
Jared Jewelers:												
Richmond, VA	—	955,134	1,336,152	—	—	955,134	1,336,152	2,291,286	201,815	1998	12/01	40 years
Brandon, FL	—	1,196,900	1,182,150	—	—	1,196,900	1,182,150	2,379,050	166,409	2001	05/02	40 years
Lithonia, GA	—	1,270,517	1,215,818	—	—	1,270,517	1,215,818	2,486,335	171,149	2001	05/02	40 years
Houston, TX	—	1,675,739	1,439,597	—	—	1,675,739	1,439,597	3,115,336	181,449	1999	12/02	40 years

See accompanying report of independent registered public accounting firm.

	Encumbrances (k)	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed
		Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests	Total				
Jo-Ann Etc:												
Corpus Christi, TX	—	818,448	896,395	12,222	—	818,448	908,617	1,727,065	320,316	1967	11/93	40 years
Kangaroo Express:												
Belleview, FL	—	471,029	1,451,277	—	—	471,029	1,451,277	1,922,306	49,888	2006	08/06	40 years
Carthage, NC	—	485,461	353,643	—	—	485,461	353,643	839,104	12,156	1989	08/06	40 years
Jacksonville, FL	—	807,477	1,239,085	—	—	807,477	1,239,085	2,046,562	42,594	1975	08/06	40 years
Jacksonville, FL	—	684,639	1,361,897	—	—	682,510	1,361,897	2,044,407	46,815	1969	08/06	40 years
Sanford, NC	—	666,330	660,594	—	—	666,330	660,594	1,326,924	22,708	2000	08/06	40 years
Sanford, NC	—	1,638,444	1,370,558	—	—	1,638,444	1,370,558	3,009,002	47,112	2003	08/06	40 years
Siler City, NC	—	586,174	645,290	—	—	586,174	645,290	1,231,464	22,182	1998	08/06	40 years
West End, NC	—	426,114	516,010	—	—	426,114	516,010	942,124	17,738	1999	08/06	40 years
Destin, FL	—	1,365,569	1,192,192	—	—	1,365,569	1,192,192	2,557,761	38,498	2000	09/06	40 years
Niceville, FL	—	1,433,652	1,124,109	—	—	1,433,652	1,124,109	2,557,761	36,299	2000	09/06	40 years
Interlachen, FL	—	518,814	—	—	—	518,814	—	518,814	(e)	(e)	10/06	(e)
Kill Devil Hills, NC	—	679,169	552,393	—	—	679,169	552,393	1,231,562	16,691	1990	10/06	40 years
Kill Devil Hills, NC	—	490,309	741,222	—	—	490,309	741,222	1,231,531	22,397	1995	10/06	40 years
Clarksville, TN	—	521,023	709,784	—	—	521,023	709,784	1,230,807	18,484	1999	12/06	40 years
Clarksville, TN	—	275,897	954,910	—	—	275,897	954,910	1,230,807	24,867	1999	12/06	40 years
Gallatin, TN	—	474,297	756,510	—	—	474,297	756,510	1,230,807	19,406	1999	12/06	40 years
Naples, FL	—	3,194,938	1,403,297	—	—	3,194,938	1,403,297	4,598,235	36,544	2001	12/06	40 years
Oxford, MS	—	440,413	1,096,748	—	—	440,413	1,096,748	1,537,161	28,561	1998	12/06	40 years
Columbiana, AL	—	770,793	988,907	—	—	770,793	988,907	1,759,700	23,693	1982	01/07	40 years
Naples, FL	—	3,161,883	1,596,602	—	—	3,161,883	1,596,602	4,758,485	34,926	1995	02/07	40 years
Kentwood, LA	—	985,372	891,185	—	—	985,372	891,185	1,876,557	17,638	2001	03/07	40 years
Longs, SC	—	745,488	757,865	—	—	745,488	757,865	1,503,353	14,999	2001	03/07	40 years
Naples, FL	—	2,412,119	1,589,011	—	—	2,412,119	1,589,011	4,001,130	24,828	2000	05/07	40 years
Montgomery, AL	—	666,002	1,185,069	—	—	666,002	1,185,069	1,851,071	16,048	1998	06/07	40 years
Cary, NC	—	1,314,197	2,124,513	—	—	1,314,197	2,124,513	3,438,711	19,917	2007	08/07	40 years
Kash N' Karry:												
Brandon, FL	3,124,261(p)	322,476	1,221,661	—	—	322,476	1,221,661	1,544,137	128,529	1983	03/99	40 years
Sarasota, FL	—	470,600	1,343,746	—	—	470,600	1,343,746	1,814,346	141,373	1983	03/99	40 years
Keg Steakhouse:												
Bellingham, WA (r)	—	397,443	455,605	—	—	397,443	455,605	853,048	68,815	1981	12/01	40 years
Lynnwood, WA	—	1,255,513	649,236	—	—	1,255,513	649,236	1,904,748	98,062	1992	12/01	40 years
Tacoma, WA	—	526,792	794,722	—	—	526,792	794,722	1,321,515	120,036	1981	12/01	40 years
Kerasotes:												
Bloomington, IN	—	2,337,910	4,000,182	—	—	2,337,910	4,000,182	6,338,092	46,669	1987	09/07	25 years
Bolingbrook, IL	—	2,937,193	3,032,087	—	—	2,937,193	3,032,087	5,969,280	29,479	1994	09/07	30 years
Brighton, CO	—	1,069,710	5,490,668	—	—	1,069,710	5,490,668	6,560,379	40,036	2005	09/07	40 years
Castle Rock, CO	—	2,904,550	5,001,791	—	—	2,904,550	5,001,791	7,906,342	36,471	2005	09/07	40 years
Evansville, IN	—	1,300,359	4,268,824	—	—	1,300,359	4,268,824	5,569,183	35,574	1999	09/07	35 years
Galesburg, IL	—	1,204,699	2,441,058	—	—	1,204,699	2,441,058	3,645,758	17,799	2003	09/07	40 years
Machesney Park, IL	—	3,017,551	8,769,548	—	—	3,017,551	8,769,548	11,787,099	63,945	2005	09/07	40 years
Michigan City, IN	—	1,995,639	8,421,666	—	—	1,995,639	8,421,666	10,417,305	61,407	2005	09/07	40 years
Muncie, IN	—	1,243,157	5,511,584	—	—	1,243,157	5,511,584	6,754,741	40,189	2005	09/07	40 years
Naperville, IL	—	6,141,054	11,624,187	—	—	6,141,054	11,624,187	17,765,241	84,760	2006	09/07	40 years
New Lenox, IL	—	6,777,804	10,979,958	—	—	6,777,804	10,979,958	17,757,762	80,062	2004	09/07	40 years
KFC:												
Erie, PA	—	516,508	496,092	—	—	516,508	496,092	1,012,601	74,931	1996	12/01	40 years
Marysville, WA	—	646,779	545,592	—	—	646,779	545,592	1,192,371	82,407	1996	12/01	40 years
Evansville, IN	—	369,740	766,635	—	—	369,740	766,635	1,136,375	31,145	2004	05/06	40 years
Fenton, MO	—	307,068	496,410	—	—	307,068	496,410	803,478	233,667	1985	07/92	33 years
Kohl's:												
Florence, AL	—	817,661	—	1,046,515	—	817,661	1,046,515	1,864,176	32,704	(i)	06/04	40 years
Kum & Go:												
Omaha, NE	—	392,847	214,280	—	—	392,847	214,280	607,127	27,231	1979	06/05	20 years
Light Restaurant:												
Columbus, OH	—	1,032,008	1,107,250	—	—	1,032,008	1,107,250	2,139,258	167,240	1998	12/01	40 years

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	Encumbrances (k)	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed
		Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests	Total				
Lil' Champ:												
Gainesville, FL	—	900,141	—	1,800,281	—	900,141	1,800,281	2,700,422	35,631	2007	07/05(q)	40 years
Jacksonville, FL	—	2,225,177	315,315	—	—	2,225,177	315,315	2,540,492	18,722	2006	08/05	40 years
Ocala, FL	—	845,827	—	1,563,500	—	845,827	1,563,500	2,409,327	21,172	2007	02/06(q)	40 years
Logan's Roadhouse:												
Alexandria, LA	—	1,217,567	3,048,693	—	—	1,217,567	3,048,693	4,266,260	85,744	1998	11/06	40 years
Beckley, WV	—	1,396,024	2,404,817	—	—	1,396,024	2,404,817	3,800,841	67,635	2006	11/06	40 years
Cookeville, TN	—	1,262,430	2,270,596	—	—	1,262,430	2,270,596	3,533,026	63,860	1997	11/06	40 years
Fort Wayne, IN	—	1,274,315	2,109,860	—	—	1,274,315	2,109,860	3,384,175	59,340	2003	11/06	40 years
Greenwood, IN	—	1,341,188	2,105,213	—	—	1,341,188	2,105,213	3,446,401	59,209	2000	11/06	40 years
Hurst, TX	—	1,857,628	1,915,877	—	—	1,857,628	1,915,877	3,773,505	53,884	1999	11/06	40 years
Jackson, TN	—	1,199,765	2,246,330	—	—	1,199,765	2,246,330	3,446,095	63,178	1994	11/06	40 years
Lake Charles, LA	—	1,284,898	2,202,447	—	—	1,284,898	2,202,447	3,487,345	61,944	1998	11/06	40 years
McAllen, TX	—	1,607,806	2,177,715	—	—	1,607,806	2,177,715	3,785,521	61,248	2005	11/06	40 years
Opelika, AL	—	1,028,484	1,753,045	—	—	1,028,484	1,753,045	2,781,529	49,304	2005	11/06	40 years
Roanoke, VA	—	2,302,414	1,947,141	—	—	2,302,414	1,947,141	4,249,555	54,763	1998	11/06	40 years
San Marcos, TX	—	836,979	1,453,300	—	—	836,979	1,453,300	2,290,279	40,874	2000	11/06	40 years
Sanford, FL	—	1,677,782	1,730,390	—	—	1,677,782	1,730,390	3,408,172	48,667	1999	11/06	40 years
Smyrna, TN	—	1,334,998	2,047,465	—	—	1,334,998	2,047,465	3,382,463	57,585	2002	11/06	40 years
Warner Robins, GA	—	905,301	1,533,748	—	—	905,301	1,533,748	2,439,049	43,136	2004	11/06	40 years
Franklin, TN	—	2,519,485	1,704,790	—	—	2,519,485	1,704,790	4,224,275	44,396	1995	12/06	40 years
Southaven, MS	—	1,297,767	1,338,118	—	—	1,297,767	1,338,118	2,635,885	34,847	2005	12/06	40 years
Lowe's:												
Memphis, TN	—	3,214,835	9,169,885	—	—	3,214,835	9,169,885	12,384,720	1,271,710	2001	06/02	40 years
Magic China Café:												
Orlando, FL	65,839(o)	40,200	110,531	—	—	40,200	110,531	150,731	10,708	2001	02/04	40 years
Magic Mountain:												
Columbus, OH	—	2,075,527	1,906,370	—	—	2,075,527	1,906,370	3,981,897	25,815	1990	06/07	40 years
Columbus, OH	—	5,379,851	2,693,295	—	—	5,379,851	2,693,295	8,073,146	36,471	1990	06/07	40 years
Majestic Liquors:												
Arlington, TX	—	1,235,214	1,222,434	—	—	1,235,214	1,222,434	2,457,648	87,862	1990	02/05	40 years
Coffee City, TX	—	1,330,427	3,858,445	—	—	1,330,427	3,858,445	5,188,872	277,326	1996	02/05	40 years
Ft. Worth, TX	—	1,461,333	1,673,229	—	—	1,461,333	1,673,229	3,134,562	120,263	1999	02/05	40 years
Ft. Worth, TX	—	1,651,570	2,017,770	—	—	1,651,570	2,017,770	3,669,340	145,027	2000	02/05	40 years
Ft. Worth, TX	—	2,505,249	2,138,400	—	—	2,505,249	2,138,400	4,643,649	153,698	1988	02/05	40 years
Ft. Worth, TX	—	977,290	2,368,447	—	—	977,290	2,368,447	3,345,737	170,232	1997	02/05	40 years
Ft. Worth, TX	—	611,366	1,608,555	—	—	611,366	1,608,555	2,219,921	115,615	1974	02/05	40 years
Hudson Oaks, TX	—	361,371	1,029,053	—	—	361,371	1,029,053	1,390,424	73,963	1993	02/05	40 years
Granbury, TX	—	786,159	1,233,984	—	—	786,159	1,233,984	2,020,143	55,272	2006	05/05(g)	40 years
Dallas, TX	—	1,554,411	1,228,778	—	—	1,554,411	1,228,778	2,783,189	78,079	1982	06/05	40 years
Dallas, TX	—	2,407,203	2,050,580	248,000	—	2,407,203	2,298,580	4,705,783	139,344	1971	06/05	40 years
Azle, TX	—	648,274	859,435	—	—	648,274	859,435	1,507,709	11,638	1970	06/07	40 years
Ft. Worth, TX	—	574,618	933,091	—	—	574,618	933,091	1,507,709	12,636	1982	06/07	40 years
Lubbock, TX	—	1,293,214	1,210,826	—	—	1,293,214	1,210,826	2,504,040	13,874	1983	07/07	40 years
Lubbock, TX	—	2,606,118	2,897,922	—	—	2,606,118	2,897,922	5,504,040	33,205	1983	07/07	40 years
Merchant's Tires:												
Hampton, VA	—	179,835	426,895	—	—	179,835	426,895	606,730	29,794	1986	03/05	40 years
Newport News, VA	—	233,812	259,046	—	—	233,812	259,046	492,858	18,079	1986	03/05	40 years
Norfolk, VA	—	398,132	507,743	—	—	398,132	507,743	905,875	35,436	1986	03/05	40 years
Rockville, MD	—	1,030,156	306,147	—	—	1,030,156	306,147	1,336,303	21,367	1974	03/05	40 years
Washington, DC	—	623,607	577,948	—	—	623,607	577,948	1,201,555	40,336	1983	03/05	40 years
Mi Pueblo Foods:												
Watsonville, CA	—	805,056	1,648,934	—	—	805,056	1,648,934	2,453,990	173,482	1984	03/99	40 years
Michaels:												
Fairfax, VA	—	986,131	1,426,254	706,501	—	986,131	2,132,755	3,118,886	476,206	1995	12/95	40 years
Grapevine, TX (r)	—	1,017,934	2,066,715	—	—	1,017,934	2,066,715	3,084,649	492,997	1998	06/98	40 years
Plymouth Meeting, PA	—	2,911,111	—	2,594,720	—	2,911,111	2,594,720	5,505,831	494,507	1999	10/98(g)	40 years

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	Encumbrances (k)	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed
		Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests	Total				
Mister Car Wash:												
Anoka, MN	—	212,378	214,461	—	—	212,378	214,461	426,839	10,127	1968	04/07	15 years
Brooklyn Park, MN	—	438,259	778,217	—	—	438,259	778,217	1,216,476	22,050	1985	04/07	25 years
Cedar Rapids, IA	—	390,848	816,402	—	—	390,848	816,402	1,207,250	23,131	1989	04/07	25 years
Clive, IA	—	1,141,010	934,829	—	—	1,141,010	934,829	2,075,839	33,109	1983	04/07	20 years
Cottage Grove, MN	—	274,404	484,572	—	—	274,404	484,572	758,976	13,730	1992	04/07	25 years
Des Moines, IA	—	212,694	475,795	—	—	212,694	475,795	688,489	16,851	1964	04/07	20 years
Des Moines, IA	—	248,517	595,659	—	—	248,517	595,659	844,176	14,064	1990	04/07	30 years
Eden Prairie, MN	—	865,400	751,139	—	—	865,400	751,139	1,616,539	26,603	1984	04/07	20 years
Edina, MN	—	894,483	686,718	—	—	894,483	686,718	1,581,201	24,321	1985	04/07	20 years
Houston, TX	—	287,729	465,697	—	—	287,729	465,697	753,426	21,991	1970	04/07	15 years
Houston, TX	—	2,260,395	1,806,419	—	—	2,260,395	1,806,419	4,066,814	51,182	1975	04/07	25 years
Houston, TX	—	3,193,137	1,305,127	—	—	3,193,137	1,305,127	4,498,264	26,413	1995	04/07	35 years
Houston, TX	—	1,846,219	1,592,457	—	—	1,846,219	1,592,457	3,438,676	45,120	1983	04/07	25 years
Houston, TX	—	1,960,385	1,144,516	—	—	1,960,385	1,144,516	3,104,901	32,427	1983	04/07	25 years
Houston, TX	—	1,347,305	1,701,671	—	—	1,347,305	1,701,671	3,048,976	40,178	1984	04/07	30 years
Houston, TX	—	795,775	678,201	—	—	795,775	678,201	1,473,976	19,216	1986	04/07	25 years
Houston, TX	—	623,760	1,108,129	—	—	623,760	1,108,129	1,731,889	26,164	1988	04/07	30 years
Houston, TX	—	5,125,771	1,267,125	—	—	5,125,771	1,267,125	6,392,896	25,644	1995	04/07	35 years
Humble, TX	—	1,204,234	1,516,641	—	—	1,204,234	1,516,641	2,720,875	30,694	1993	04/07	35 years
Plymouth, MN	—	827,427	181,549	—	—	827,427	181,549	1,008,976	12,860	1955	04/07	10 years
Roseville, MN	—	861,100	563,575	—	—	861,100	563,575	1,424,675	19,959	1963	04/07	20 years
Spokane, WA	—	214,246	580,318	—	—	214,246	580,318	794,564	13,702	1990	04/07	30 years
Spokane, WA	—	1,252,856	1,146,358	—	—	1,252,856	1,146,358	2,399,214	23,200	1997	04/07	35 years
St. Cloud, MN	—	242,717	391,259	—	—	242,717	391,259	633,976	13,857	1986	04/07	20 years
Stillwater, MN	—	288,745	214,419	—	—	288,745	214,419	503,164	10,125	1971	04/07	15 years
Sugarland, TX	—	3,789,092	1,972,484	—	—	3,789,092	1,972,484	5,761,576	39,919	1995	04/07	35 years
West St Paul, MN	—	835,651	235,825	—	—	835,651	235,825	1,071,476	8,352	1972	04/07	20 years
Rochester, MN	—	318,975	451,053	—	—	318,975	451,053	770,028	2,349	1994	10/07	40 years
Rochester, MN	—	1,054,930	2,327,307	—	—	1,054,930	2,327,307	3,382,237	12,121	2003	10/07	40 years
Birmingham, AL	—	2,377,589	2,144,987	—	—	2,377,589	2,144,987	4,522,576	8,937	1985	11/07	30 years
Clearwater, FL	—	825,012	765,491	—	—	825,012	765,491	1,590,503	3,827	1969	11/07	25 years
Mesquite, TX	—	1,595,876	2,201,161	—	—	1,595,876	2,201,161	3,797,037	11,005	1987	11/07	25 years
Seminole, FL	—	2,165,896	1,495,994	—	—	2,165,896	1,495,994	3,661,890	6,233	1985	11/07	30 years
Tampa, FL	—	2,992,859	1,669,069	—	—	2,992,859	1,669,069	4,661,928	8,345	1969	11/07	25 years
Vestavia Hills, AL	—	1,008,794	955,811	—	—	1,008,794	955,811	1,964,605	4,779	1967	11/07	25 years
El Paso, TX	—	988,006	1,046,430	—	—	988,006	1,046,430	2,034,436	1,246	1998	12/07	40 years
El Paso, TX	—	1,399,045	1,467,945	—	—	1,399,045	1,467,945	2,866,990	1,748	1991	12/07	40 years
El Paso, TX	—	664,183	823,521	—	—	664,183	823,521	1,487,704	980	1991	12/07	40 years
El Paso, TX	—	1,423,681	1,305,604	—	—	1,423,681	1,305,604	2,729,285	1,813	1986	12/07	30 years
El Paso, TX	—	1,807,249	2,287,451	—	—	1,807,249	2,287,451	4,094,700	3,177	1983	12/07	40 years
Mountain Jack's:												
Centerville, OH	—	850,625	1,059,430	—	—	850,625	1,059,430	1,910,055	160,018	1986	12/01	40 years
Mr. E's Music Supercenter:												
Arlington, TX	—	435,002	2,299,881	334,059	—	435,002	2,633,940	3,068,942	637,178	1996	06/96	40 years
Muchas Gracias Mexican Restaurant:												
Salem, OR	—	555,951	735,651	—	—	555,951	735,651	1,291,602	111,114	1996	12/06	40 years
New Covenant Church:												
Augusta, GA	—	176,656	674,253	—	—	176,656	674,253	850,909	101,840	1998	12/01	40 years
Office Depot:												
Arlington, TX	—	596,024	1,411,432	—	—	596,024	1,411,432	2,007,456	490,980	1991	01/94	40 years
Richmond, VA	—	888,772	1,948,036	—	—	888,772	1,948,036	2,836,808	564,380	1996	05/96	40 years
Hartsdale, NY	—	4,508,753	2,327,448	—	—	4,508,753	2,327,448	6,836,201	227,831	1996	09/97	40 years
OfficeMax:												
Cincinnati, OH	—	543,489	1,574,551	—	—	543,489	1,574,551	2,118,040	530,737	1994	07/94	40 years
Evanston, IL	—	1,867,831	1,757,618	—	—	1,867,831	1,757,618	3,625,449	551,941	1995	06/95	40 years
Altamonte Springs, FL	—	1,689,793	3,050,160	—	—	1,689,793	3,050,160	4,739,953	905,775	1995	01/96	40 years
Cutler Ridge, FL	—	989,370	1,479,119	—	—	989,370	1,479,119	2,468,489	425,555	1995	06/96	40 years
Sacramento, CA	—	1,144,167	2,961,206	—	—	1,144,167	2,961,206	4,105,373	814,528	1996	12/96	40 years
Salinas, CA	—	1,353,217	1,829,325	—	—	1,353,217	1,829,325	3,182,542	497,348	1995	02/97	40 years
Redding, CA	—	667,174	2,181,563	—	—	667,174	2,181,563	2,848,737	574,933	1997	06/97	40 years

See accompanying report of independent registered public accounting firm.

	Encumbrances (k)	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed
		Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests	Total				
Kelso, WA	—	868,003	—	1,805,539	—	868,003	1,805,539	2,673,542	449,504	1998	09/97(g)	40 years
Lynchburg, VA	—	561,509	—	1,851,326	—	561,509	1,851,326	2,412,835	430,047	1998	02/98	40 years
Leesburg, FL	—	640,019	—	1,929,028	—	640,019	1,929,028	2,569,047	436,040	1998	08/98	40 years
Griffin, GA	—	685,470	—	1,801,905	—	685,470	1,801,905	2,487,375	392,290	1999	11/98(g)	40 years
Tigard, OR	—	1,539,873	2,247,321	—	—	1,539,873	2,247,321	3,787,194	512,670	1995	11/98	40 years
Orlando Metro Gymnastics:												
Orlando, FL	—	427,661	1,344,660	—	—	427,661	1,344,660	1,772,321	99,448	2003	01/05	40 years
Palais Royale:												
Sealy, TX	—	475,185	519,176	—	—	475,185	519,176	994,361	115,508	1982	03/99	40 years
Palm Tree Computer Systems:												
Orlando, FL	60,351(o)	36,850	101,320	—	—	36,850	101,320	138,170	9,815	2001	02/04	40 years
Party City:												
Memphis, TN	—	266,383	—	1,136,334	—	266,383	1,136,334	1,402,717	242,655	1999	06/99	40 years
Pep Boys:												
Chicago, IL	—	1,077,006	3,756,102	—	—	1,077,006	3,756,102	4,833,108	13,414	1993	11/07	35 years
Cicero, IL	—	1,341,244	3,760,263	—	—	1,341,244	3,760,263	5,101,507	13,429	1993	11/07	35 years
Cornwell Heights, PA	—	2,058,189	3,101,900	—	—	2,058,189	3,101,900	5,160,089	15,510	1972	11/07	25 years
East Brunswick, NJ	—	2,449,212	5,025,778	—	—	2,449,212	5,025,778	7,474,990	20,940	1987	11/07	30 years
Jacksonville, FL	—	809,881	2,330,983	—	—	809,881	2,330,983	3,140,864	8,325	1989	11/07	35 years
Joliet, IL	—	1,505,821	3,726,894	—	—	1,505,821	3,726,894	5,232,715	13,310	1993	11/07	35 years
Lansing, IL	—	868,936	3,439,711	—	—	868,936	3,439,711	4,308,647	12,284	1993	11/07	35 years
Las Vegas, NV	—	1,917,220	2,530,354	—	—	1,917,220	2,530,354	4,447,574	9,037	1989	11/07	35 years
Marietta, GA	—	1,311,037	3,555,989	—	—	1,311,037	3,555,989	4,867,026	14,817	1987	11/07	30 years
Marlton, NJ	—	1,608,391	4,141,816	—	—	1,608,391	4,141,816	5,750,207	17,258	1983	11/07	30 years
Philadelphia, PA	—	1,300,283	3,830,376	—	—	1,300,283	3,830,376	5,130,659	13,680	1995	11/07	35 years
Quakertown, PA	—	1,128,592	3,251,721	—	—	1,128,592	3,251,721	4,380,313	11,613	1995	11/07	35 years
Roswell, GA	—	930,986	2,732,320	—	—	930,986	2,732,320	3,663,306	11,385	2007	11/07	30 years
Turnersville, NJ	—	989,911	3,493,815	—	—	989,911	3,493,815	4,483,726	14,558	1986	11/07	30 years
Perfect Teeth:												
Rio Rancho, NM	—	61,517	122,142	—	—	61,517	122,142	183,659	18,465	1997	12/01	40 years
Perkins Restaurant:												
Des Moines, IA	—	255,874	136,103	—	—	255,874	136,103	391,977	34,593	1976	06/05	10 years
Des Moines, IA	—	225,922	203,330	—	—	225,922	203,330	429,252	51,679	1976	06/05	10 years
Des Moines, IA	—	269,938	218,248	—	—	269,938	218,248	488,186	55,471	1977	06/05	10 years
Newton, IA	—	353,816	401,630	—	—	353,816	401,630	755,446	102,081	1979	06/05	10 years
Urbandale, IA	—	376,690	581,414	—	—	376,690	581,414	958,104	73,888	1979	06/05	20 years
Petco:												
Grand Forks, ND	—	306,629	909,671	—	—	306,629	909,671	1,216,301	228,389	1996	12/97	40 years
Petro Express:												
Belmont, NC	—	1,507,766	1,622,165	—	—	1,507,766	1,622,165	3,129,931	32,829	2001	04/07	35 years
Charlotte, NC	—	1,025,233	1,604,698	—	—	1,025,233	1,604,698	2,629,931	37,888	1986	04/07	30 years
Charlotte, NC	—	1,292,976	1,836,951	—	—	1,292,976	1,836,951	3,129,927	43,372	1987	04/07	30 years
Charlotte, NC	—	1,457,711	2,047,217	—	—	1,457,711	2,047,217	3,504,928	48,337	1987	04/07	30 years
Charlotte, NC	—	1,290,989	1,838,939	—	—	1,290,989	1,838,939	3,129,928	43,419	1988	04/07	30 years
Charlotte, NC	—	1,777,717	1,977,210	—	—	1,777,717	1,977,210	3,754,927	46,684	1992	04/07	30 years
Charlotte, NC	—	1,322,626	869,805	—	—	1,322,626	869,805	2,192,431	20,537	1982	04/07	30 years
Charlotte, NC	—	506,975	697,953	—	—	506,975	697,953	1,204,928	24,719	1967	04/07	20 years
Charlotte, NC	—	629,337	875,591	—	—	629,337	875,591	1,504,928	20,674	1986	04/07	30 years
Charlotte, NC	—	429,432	425,496	—	—	429,432	425,496	854,928	10,046	1983	04/07	30 years
Charlotte, NC	—	2,315,876	2,064,051	—	—	2,315,876	2,064,051	4,379,927	41,772	1996	04/07	35 years
Charlotte, NC	—	1,037,423	1,467,505	—	—	1,037,423	1,467,505	2,504,928	29,700	1997	04/07	35 years
Charlotte, NC	—	2,165,285	1,964,643	—	—	2,165,285	1,964,643	4,129,928	39,761	1997	04/07	35 years
Charlotte, NC	—	1,339,787	1,790,140	—	—	1,339,787	1,790,140	3,129,927	36,229	1998	04/07	35 years
Charlotte, NC	—	2,784,480	3,720,448	—	—	2,784,480	3,720,448	6,504,928	75,295	1998	04/07	35 years
Charlotte, NC	—	1,532,107	1,972,821	—	—	1,532,107	1,972,821	3,504,928	39,926	1998	04/07	35 years
Charlotte, NC	—	1,030,292	1,724,636	—	—	1,030,292	1,724,636	2,754,928	40,721	1983	04/07	30 years
Charlotte, NC	—	1,810,009	2,569,919	—	—	1,810,009	2,569,919	4,379,928	45,509	2004	04/07	40 years
Charlotte, NC	—	1,257,718	1,559,712	—	—	1,257,718	1,559,712	2,817,430	27,619	2004	04/07	40 years
Charlotte, NC	—	1,696,967	2,418,814	—	—	1,696,967	2,418,814	4,115,781	42,833	2005	04/07	40 years
Concord, NC	—	2,144,009	1,985,919	—	—	2,144,009	1,985,919	4,129,928	40,191	2000	04/07	35 years

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	Encumbrances (k)	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed
		Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests	Total				
Concord, NC	—	1,828,292	1,676,647	—	—	1,828,292	1,676,647	3,504,939	33,932	2002	04/07	35 years
Conover, NC	—	917,090	1,275,337	—	—	917,090	1,275,337	2,192,427	25,810	1999	04/07	35 years
Cornelius, NC	—	1,653,202	2,664,228	—	—	1,653,202	2,664,228	4,317,430	53,919	2000	04/07	35 years
Denver, NC	—	2,317,321	1,750,110	—	—	2,317,321	1,750,110	4,067,431	35,418	1999	04/07	35 years
Fort Mill, SC	—	3,825,461	2,554,459	—	—	3,825,461	2,554,459	6,379,920	51,697	1998	04/07	35 years
Fort Mill, SC	—	1,883,231	1,559,190	—	—	1,883,231	1,559,190	3,442,421	36,814	1988	04/07	30 years
Gastonia, NC	—	964,906	1,227,521	—	—	964,906	1,227,521	2,192,427	24,843	2001	04/07	35 years
Gastonia, NC	—	335,424	544,504	—	—	335,424	544,504	879,928	9,642	2000	04/07	40 years
Gastonia, NC	—	1,070,390	1,184,517	—	—	1,070,390	1,184,517	2,254,907	23,972	1990	04/07	35 years
Gastonia, NC	—	744,571	760,356	—	—	744,571	760,356	1,504,927	13,465	2003	04/07	40 years
Hickory, NC	—	1,975,267	1,529,667	—	—	1,975,267	1,529,667	3,504,934	30,957	2002	04/07	35 years
Kings Mountain, NC	—	1,210,397	982,031	—	—	1,210,397	982,031	2,192,428	19,874	1988	04/07	35 years
Lake Wylie, SC	—	1,972,180	1,282,737	—	—	1,972,180	1,282,737	3,254,917	25,960	2003	04/07	35 years
Lake Wylie, SC	—	1,380,939	2,061,482	—	—	1,380,939	2,061,482	3,442,421	41,720	1998	04/07	35 years
Lincolnton, NC	—	722,773	532,154	—	—	722,773	532,154	1,254,927	12,565	1989	04/07	30 years
Lincolnton, NC	—	2,358,754	1,771,201	—	—	2,358,754	1,771,201	4,129,955	35,846	2000	04/07	35 years
Matthews, NC	—	1,196,544	1,745,883	—	—	1,196,544	1,745,883	2,942,427	41,222	1987	04/07	30 years
Mineral Springs, NC	—	677,575	577,353	—	—	677,575	577,353	1,254,928	10,224	2002	04/07	40 years
Monroe, NC	—	420,625	834,302	—	—	420,625	834,302	1,254,927	16,885	1997	04/07	35 years
Monroe, NC	—	709,082	795,846	—	—	709,082	795,846	1,504,928	16,106	1999	04/07	35 years
Monroe, NC	—	857,369	1,022,565	—	—	857,369	1,022,565	1,879,934	18,108	2004	04/07	40 years
Rock Hill, SC	—	2,118,790	1,886,128	—	—	2,118,790	1,886,128	4,004,918	38,172	1998	04/07	35 years
Rock Hill, SC	—	3,095,160	1,909,758	—	—	3,095,160	1,909,758	5,004,918	38,650	1999	04/07	35 years
Rock Hill, SC	—	777,836	727,082	—	—	777,836	727,082	1,504,918	17,167	1990	04/07	30 years
Statesville, NC	—	1,885,746	2,181,682	—	—	1,885,746	2,181,682	4,067,428	44,153	1999	04/07	35 years
Thomasville, NC	—	993,898	1,761,032	—	—	993,898	1,761,032	2,754,930	35,640	2000	04/07	35 years
Waxhaw, NC	—	508,235	746,698	—	—	508,235	746,698	1,254,933	13,223	2002	04/07	40 years
York, SC	—	2,306,150	1,448,777	—	—	2,306,150	1,448,777	3,754,927	29,320	1999	04/07	35 years
Charlotte, NC	—	1,231,265	1,214,175	—	—	1,231,265	1,214,175	2,445,440	18,971	1997	05/07	40 years
Charlotte, NC	—	1,849,143	2,279,590	—	—	1,849,143	2,279,590	4,128,733	35,618	2005	05/07	40 years
Rock Hill, SC	—	3,107,907	2,145,815	—	—	3,107,907	2,145,815	5,253,722	33,528	1999	05/07	40 years
PETSMART:												
Chicago, IL	—	2,724,138	3,565,721	—	—	2,724,138	3,565,721	6,289,859	828,279	1998	09/98	40 years
Picture Factory:												
Sarasota, FL	—	1,167,618	1,903,810	218,564	—	1,167,618	2,122,374	3,289,992	205,716	1996	09/97	40 years
Pier 1 Imports:												
Anchorage, AK	—	928,321	1,662,584	—	—	928,321	1,662,584	2,590,905	492,087	1995	02/96	40 years
Memphis, TN	—	713,319	821,770	—	—	713,319	821,770	1,535,089	216,571	1997	09/96(f)	40 years
Sanford, FL	—	738,051	803,082	—	—	738,051	803,082	1,541,133	196,588	1998	06/97(f)	40 years
Knoxville, TN	—	467,169	734,833	—	—	467,169	734,833	1,202,002	164,571	1999	01/98(f)	40 years
Mason, OH	—	593,571	885,047	—	—	593,571	885,047	1,478,617	188,994	1999	06/98(f)	40 years
Harlingen, TX	—	316,640	756,406	—	—	316,640	756,406	1,073,046	155,221	1999	11/98(f)	40 years
Valdosta, GA	—	390,838	805,912	—	—	390,838	805,912	1,196,750	163,701	1999	01/99(f)	40 years
Pizza Hut:												
Monroeville, AL	—	547,300	44,237	—	—	547,300	44,237	591,537	6,682	1976	12/01	40 years
Pizza Place, The:												
Cohoes, NY	—	16,396	88,372	—	—	16,396	88,372	104,768	7,151	1994	09/04	40 years
Popeye's:												
Snellville, GA	—	642,169	436,512	—	—	642,169	436,512	1,078,681	65,931	1995	12/01	40 years
Pueblo Viejo Restaurant:												
Chandler, AZ	—	654,765	765,164	7,500	—	654,765	772,664	1,427,429	122,640	1997	12/01	40 years
Pull-A-Part:												
Birmingham, AL	—	1,164,780	2,090,094	—	—	1,164,780	2,090,094	3,254,874	71,847	1964	08/06	40 years
Augusta, GA	—	1,414,381	—	1,450,906	—	1,414,381	1,450,906	2,865,287	19,648	2007	08/06(q)	40 years
Conley, GA	—	1,685,604	1,387,170	—	—	1,685,604	1,387,170	3,072,774	47,684	1999	08/06	40 years
Norcross, GA	—	1,831,129	1,040,317	—	—	1,831,129	1,040,317	2,871,446	35,761	1998	08/06	40 years
Louisville, KY	—	3,205,591	1,531,842	—	—	3,205,591	1,531,842	4,737,433	52,657	2006	08/06	40 years
Harvey, LA	—	1,881,371	—	—	—	1,881,371	—	1,881,371	(e)	(e)	08/06(q)	(e)
Charlotte, NC	—	2,912,842	1,724,045	—	—	2,912,842	1,724,045	4,636,887	59,264	2006	08/06	40 years
Knoxville, TN	—	961,067	—	2,384,443	—	961,067	2,384,443	3,345,510	27,322	2007	08/06(q)	40 years
Nashville, TN	—	2,164,234	1,414,129	—	—	2,164,234	1,414,129	3,578,363	48,611	2006	08/06	40 years

See accompanying report of independent registered public accounting firm.

	Initial Cost to Company			Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed
	Encumbrances (k)	Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests	Total				
Lafayette, LA	—	1,034,830	—	—	—	1,034,830	—	1,034,830	(e)	(e)	08/06(q)	(e)
Cleveland, OH	—	4,555,684	—	2,096,448	—	4,555,684	2,096,448	6,652,132	6,551	2007	08/06	40 years
Montgomery, AL	—	934,023	—	—	—	934,023	—	934,023	(e)	(e)	11/06(q)	(e)
Jackson, MS	—	1,314,846	—	—	—	1,314,846	—	1,314,846	(e)	(e)	12/06(q)	(e)
Baton Rouge, LA	—	890,122	—	—	—	890,122	—	890,122	(e)	(e)	01/07(q)	(e)
Memphis, TN	—	1,779,169	—	—	—	1,779,169	—	1,779,169	(e)	(e)	05/07(q)	(e)
Mobile, AL	—	549,485	—	—	—	549,485	—	549,485	(e)	(e)	06/07(q)	(e)
Winston-Salem, NC	—	845,948	—	—	—	845,948	—	845,948	(e)	(e)	08/07(q)	(e)
Lithonia, GA	—	2,409,908	—	—	—	2,409,908	—	2,409,908	(e)	(e)	08/07(q)	(e)
Columbia, SC	—	934,755	—	—	—	934,755	—	934,755	(e)	(e)	09/07(q)	(e)
QuikTrip:												
Alpharetta, GA	—	1,048,309	606,916	—	—	1,048,309	606,916	1,655,225	38,564	1996	06/05	40 years
Clive, IA	—	623,473	556,970	—	—	623,473	556,970	1,180,443	47,188	1994	06/05	30 years
Des Moines, IA	—	258,759	792,448	—	—	258,759	792,448	1,051,207	67,138	1990	06/05	30 years
Des Moines, IA	—	379,435	455,322	—	—	379,435	455,322	834,757	38,576	1996	06/05	30 years
Gainesville, GA	—	592,192	912,962	—	—	592,192	912,962	1,505,154	77,348	1989	06/05	30 years
Herculaneum, MO	—	856,001	1,612,887	—	—	856,001	1,612,887	2,468,888	136,647	1991	06/05	30 years
Johnston, IA	—	394,289	385,119	—	—	394,289	385,119	779,408	32,628	1991	06/05	30 years
Lee's Summit, MO	—	373,770	1,224,099	—	—	373,770	1,224,099	1,597,869	77,781	1999	06/05	40 years
Norcross, GA	—	948,051	293,896	—	—	948,051	293,896	1,241,947	24,900	1993	06/05	30 years
Norcross, GA	—	844,216	296,867	—	—	838,826	296,867	1,135,693	25,151	1989	06/05	30 years
Norcross, GA	—	966,145	202,430	—	—	966,145	202,430	1,168,575	17,150	1994	06/05	30 years
Olathe, KS	—	792,656	1,391,981	—	—	792,656	1,391,981	2,184,637	88,449	1999	06/05	40 years
Tulsa, OK	—	1,224,843	649,917	—	—	1,224,843	649,917	1,874,760	55,062	1990	06/05	30 years
Urbandale, IA	—	339,566	764,025	—	—	339,566	764,025	1,103,591	48,547	1993	06/05	40 years
Wichita, KS	—	127,250	542,934	—	—	127,250	542,934	670,184	45,999	1990	06/05	30 years
Wichita, KS	—	118,012	453,891	—	—	118,012	453,891	571,903	38,455	1989	06/05	30 years
Woodstock, GA	—	488,383	1,041,883	—	—	488,383	1,041,883	1,530,266	66,203	1997	06/05	40 years
Quizno's:												
Rio Rancho, NM	—	48,566	96,428	13,398	—	48,566	109,826	158,392	16,186	1997	12/01	40 years
Qwest Corporation Service Center:												
Cedar Rapids, IA	—	184,490	628,943	—	—	184,490	628,943	813,433	79,928	1976	06/05	20 years
Decorah, IA	—	71,899	271,620	—	—	71,899	271,620	343,519	69,037	1974	06/05	10 years
Rally's:												
Toledo, OH	—	125,882	319,770	—	—	125,882	319,770	445,652	127,868	1989	07/92	39 years
REB Oil:												
Deerfield Beach, FL	—	769,522	273,756	—	—	769,522	273,756	1,043,278	13,973	1980	12/05	40 years
Red Lion Chinese Restaurant:												
Cohoes, NY	—	27,327	147,286	—	—	27,327	147,286	174,613	11,918	1994	09/04	40 years
Reliable:												
St. Louis, MO	—	2,077,893	13,762,491	—	—	2,077,893	13,762,491	15,840,384	1,192,793	1975	05/04	40 years
Rent-A-Center:												
Rio Rancho, NM	—	145,698	289,284	40,193	—	145,698	329,477	475,175	48,883	1997	12/01	40 years
Rite Aid:												
Mobile, AL	—	1,136,618	1,694,187	—	—	1,136,618	1,694,187	2,830,805	255,893	2000	12/01	40 years
Orange Beach, AL	—	1,409,980	1,996,043	—	—	1,409,980	1,996,043	3,406,023	301,486	2000	12/01	40 years
Albany, NY	—	24,707	867,257	—	—	24,707	867,257	891,964	71,367	1994	09/04	40 years
Albany, NY (r)	—	33,794	823,923	—	—	33,794	823,923	857,717	67,802	1992	09/04	40 years
Hudson Falls, NY	—	56,737	780,091	38,787	—	56,737	818,878	875,615	64,802	1990	09/04	40 years
Saratoga Springs, NY	—	762,303	590,978	—	—	762,303	590,978	1,353,281	48,633	1980	09/04	40 years
Ticonderoga, NY	—	88,867	688,622	—	—	88,867	688,622	777,489	56,668	1993	09/04	40 years
Monticello, NY	850,549	664,400	768,795	—	—	664,400	768,795	1,433,195	53,656	1996	03/05	40 years
Rite Rug:												
Columbus, OH	—	1,596,197	934,236	13,345	—	1,604,615	939,163	2,543,778	73,339	1970	11/04	40 years
Roadhouse Grill:												
Cheektowaga, NY	—	689,040	386,251	—	—	689,040	386,251	1,075,290	58,340	1994	12/01	40 years

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	Encumbrances (k)	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed
		Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests	Total				
Road Ranger:												
Belvidere, IL	—	748,237	1,256,106	—	—	748,237	1,256,106	2,004,344	48,412	1997	06/06	40 years
Brazil, IN	—	2,199,280	907,034	—	—	2,199,280	907,034	3,106,314	34,958	1990	06/06	40 years
Cherry Valley, IL	—	1,409,312	1,897,360	—	—	1,409,312	1,897,360	3,306,672	73,127	1991	06/06	40 years
Cottage Grove, WI	—	2,174,548	1,733,398	—	—	2,174,548	1,733,398	3,907,946	66,808	1990	06/06	40 years
Decatur, IL	—	815,213	1,314,354	—	—	815,213	1,314,354	2,129,568	50,657	2002	06/06	40 years
Dekalb, IL	—	747,109	1,657,951	—	—	747,109	1,657,951	2,405,060	63,900	2000	06/06	40 years
Elk Run Heights, IA	—	1,537,734	2,470,191	—	—	1,537,734	2,470,191	4,007,925	95,205	1989	06/06	40 years
Lake Station, IN	—	3,171,775	1,111,643	—	—	3,171,775	1,111,643	4,283,418	42,845	1987	06/06	40 years
Mendota, IL	—	959,012	1,295,780	—	—	959,012	1,295,780	2,254,792	49,941	1996	06/06	40 years
Oakdale, WI	—	1,844,068	1,663,137	—	—	1,844,068	1,663,137	3,507,205	64,100	1998	06/06	40 years
Rockford, IL	—	1,094,045	1,661,684	—	—	1,094,045	1,661,684	2,755,729	64,044	1996	06/06	40 years
Rockford, IL	—	623,214	1,331,082	—	—	623,214	1,331,082	1,954,296	51,302	2000	06/06	40 years
Springfield, IL	—	704,648	1,500,279	—	—	704,648	1,500,279	2,204,927	57,823	1997	06/06	40 years
Springfield, IL	—	1,794,961	1,862,562	—	—	1,794,961	1,862,562	3,657,523	71,786	1978	06/06	40 years
Champaign, IL	—	3,241,075	2,007,662	—	—	3,241,075	2,007,662	5,248,737	43,918	2006	02/07	40 years
Dekalb, IL	—	504,730	1,503,084	—	—	504,730	1,503,084	2,007,814	32,880	2004	02/07	40 years
Fenton, MO	—	2,583,565	2,621,722	—	—	2,583,565	2,621,722	5,205,287	57,350	2007	02/07	40 years
Hampshire, IL	—	1,307,002	1,500,812	1,629,412	—	1,307,002	3,130,224	4,437,226	34,560	1988	02/07	40 years
Princeton, IL	—	1,141,447	3,066,368	—	—	1,141,447	3,066,368	4,207,815	67,077	2003	02/07	40 years
South Beloit, IL	—	3,823,872	2,308,942	—	—	3,823,872	2,308,942	6,132,814	50,508	2002	02/07	40 years
Cedar Rapids, IA	—	1,024,606	983,509	—	—	1,024,606	983,509	2,008,115	19,465	1990	03/07	40 years
Marion, IA	—	736,574	1,071,226	—	—	736,574	1,071,226	1,807,800	21,201	1974	03/07	40 years
Okawville, IL	—	929,718	1,147,323	—	—	929,718	1,147,323	2,077,041	10,756	1997	08/07	40 years
Dubuque, IA	—	560,523	1,941,477	—	—	560,523	1,941,477	2,502,000	14,157	2000	09/07	40 years
Belvidere, IL	—	520,800	—	—	—	520,800	—	520,800	(e)	(e)	09/07	40 years
South Beloit, IL	—	1,182,152	—	—	—	1,182,152	—	1,182,152	(e)	(e)	09/07	40 years
Robb & Stucky:												
Ft. Myers, FL	—	2,188,440	6,225,401	—	—	2,188,440	6,225,401	8,413,841	1,580,217	1997	12/97	40 years
Roger & Mary's:												
Kenosha, WI	—	1,917,606	3,431,364	—	—	1,917,606	3,431,364	5,348,970	928,213	1992	02/97	40 years
Ross Dress For Less:												
Coral Gables, FL	—	1,782,346	1,661,174	—	—	1,782,346	1,661,174	3,443,520	427,005	1994	06/96	40 years
Lodi, CA	—	613,710	1,414,592	—	—	613,710	1,414,592	2,028,302	148,827	1984	03/99	40 years
Schlotszky's Deli:												
Phoenix, AZ	—	706,306	315,469	—	—	706,306	315,469	1,021,775	47,649	1995	12/01	40 years
Scottsdale, AZ	—	717,138	310,610	—	—	717,138	310,610	1,027,748	46,915	1995	12/01	40 years
7-Eleven:												
Land O' Lakes, FL	—	1,076,572	—	816,944	—	1,076,572	816,944	1,893,516	182,961	1999	10/98(g)	40 years
Tampa, FL	—	1,080,670	—	917,432	—	1,080,670	917,432	1,998,102	201,644	1999	12/98(g)	40 years
Shek's Chinese Express:												
Eden Prairie, MN	—	64,916	261,347	—	—	64,916	261,347	326,263	36,492	1997	12/01	40 years
Shoes on a Shoestring:												
Albuquerque, NM	—	1,441,777	2,335,475	—	—	1,441,777	2,335,475	3,777,251	615,495	1997	06/97	40 years
Shop-a-Snak:												
Jasper, AL	—	551,417	747,418	—	—	551,417	747,418	1,298,835	30,364	1998	05/06	40 years
Bessemer, AL	—	563,863	742,457	—	—	563,863	742,457	1,306,320	30,162	2002	05/06	40 years
Birmingham, AL	—	489,664	769,343	—	—	489,664	769,343	1,259,007	31,254	1992	05/06	40 years
Birmingham, AL	—	438,536	704,005	—	—	438,536	704,005	1,142,541	28,600	1989	05/06	40 years
Birmingham, AL	—	361,182	744,195	—	—	361,182	744,195	1,105,377	30,233	1989	05/06	40 years
Chelsea, AL	—	391,275	627,502	—	—	391,275	627,502	1,018,777	25,492	1981	05/06	40 years
Homewood, AL	—	467,950	656,964	—	—	467,950	656,964	1,124,914	26,689	1990	05/06	40 years
Hoover, AL	—	712,752	864,527	—	—	712,752	864,527	1,577,279	35,121	1998	05/06	40 years
Hoover, AL	—	764,461	1,156,598	—	—	764,461	1,156,598	1,921,059	46,987	2005	05/06	40 years
Hoover, AL	—	445,980	671,989	—	—	445,980	671,989	1,117,969	27,300	1989	05/06	40 years
Trussville, AL	—	271,728	541,741	—	—	271,728	541,741	813,469	22,008	1992	05/06	40 years
Tuscaloosa, AL	—	385,947	732,669	—	—	385,947	732,669	1,118,616	29,765	1991	05/06	40 years
Tuscaloosa, AL	—	525,165	462,868	—	—	525,165	462,868	988,033	18,804	1991	05/06	40 years
Tuscaloosa, AL	—	431,917	559,403	—	—	431,917	559,403	991,320	22,726	1991	05/06	40 years

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	Encumbrances (k)	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed
		Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests	Total				
Shop & Save:												
Homestead, PA	—	1,139,419	—	2,158,167(j)	—	1,139,419	2,158,167	3,297,586	166,837	1994	02/97	40 years
Soaks Express Car Wash:												
Ankeny, IA	—	661,958	—	—	—	661,958	—	661,958	—	(e)	06/05	(e)
Sofa Express:												
Buford, GA	—	1,925,129	5,034,846	—	—	1,925,129	5,034,846	6,959,975	435,304	2004	07/04	40 years
Sonic Automotive:												
Charlotte, NC	—	3,618,837	4,853,587	—	—	3,618,837	4,853,587	8,472,424	75,837	1996	05/07	40 years
Spa and Nails Club:												
Orlando, FL	65,839(o)	40,200	110,531	—	—	40,200	110,531	150,731	10,708	2001	02/04	40 years
Spencer's A/C & Appliances:												
Glendale, AZ	—	341,713	982,429	—	—	341,713	982,429	1,324,143	207,301	1999	12/98(g)	40 years
Sports Authority:												
Tampa, FL	—	2,127,503	1,521,730	—	—	2,127,503	1,521,730	3,649,233	437,814	1994	06/96	40 years
Sarasota, FL	—	1,427,840	1,702,852	—	—	1,427,840	1,702,852	3,130,692	166,738	1996	09/97	40 years
Memphis, TN (r)	—	820,340	—	2,573,264	—	820,340	2,573,264	3,393,604	592,387	1998	12/97(g)	40 years
Little Rock, AR	—	3,113,375	2,660,206	—	—	3,113,375	2,660,206	5,773,581	617,944	1997	09/98	40 years
Woodbridge, NJ	—	3,749,990	5,982,660	—	—	3,749,990	5,982,660	9,732,650	741,600	1994	01/03	40 years
Bradenton, FL	—	1,526,340	4,139,363	—	—	1,526,340	4,139,363	5,665,703	409,624	1997	01/04	40 years
Sportsman's Warehouse:												
Sioux Falls, SD	—	2,619,810	1,929,895	—	—	2,619,810	1,929,895	4,549,705	163,505	1998	06/05	30 years
Steak & Ale:												
Jacksonville, FL	—	986,565	855,523	—	—	986,565	855,523	1,842,088	129,220	1996	12/01	40 years
Stone Mountain Chevrolet:												
Lilburn, GA	—	3,027,056	4,685,189	—	—	3,027,056	4,685,189	7,712,245	395,313	2004	08/04	40 years
Stop & Go:												
Grand Prairie, TX	—	421,254	684,568	—	—	421,254	684,568	1,105,822	103,398	1986	12/01	40 years
Kennedale, TX	—	399,988	692,190	—	—	391,208	692,190	1,083,398	104,549	1985	12/01	40 years
Stripes:												
Brownsville, TX	—	1,842,992	1,418,941	—	—	1,842,992	1,418,941	3,261,933	72,425	2000	12/05	40 years
Brownsville, TX	—	1,181,713	1,105,326	—	—	1,181,713	1,105,326	2,287,039	56,418	2000	12/05	40 years
Brownsville, TX	—	2,915,173	1,800,409	—	—	2,915,173	1,800,409	4,715,582	91,896	2000	12/05	40 years
Brownsville, TX	—	2,416,656	1,828,304	—	—	2,416,656	1,828,304	4,244,960	93,320	2000	12/05	40 years
Brownsville, TX	—	1,015,092	1,307,774	—	—	1,015,092	1,307,774	2,322,866	66,751	2003	12/05	40 years
Brownsville, TX	—	1,038,788	1,144,916	—	—	1,038,788	1,144,916	2,183,704	58,438	2004	12/05	40 years
Brownsville, TX	—	1,392,201	1,443,817	—	—	1,392,201	1,443,817	2,836,018	73,695	2005	12/05	40 years
Brownsville, TX	—	1,279,447	1,014,702	—	—	1,279,447	1,014,702	2,294,149	51,792	1990	12/05	40 years
Brownsville, TX	—	2,529,864	1,124,953	—	—	2,529,864	1,124,953	3,654,817	57,419	1990	12/05	40 years
Brownsville, TX	—	2,033,467	1,287,564	—	—	2,033,467	1,287,564	3,321,031	65,719	1995	12/05	40 years
Brownsville, TX	—	933,149	699,086	—	—	933,149	699,086	1,632,235	35,683	1999	12/05	40 years
Corpus Christi, TX	—	1,384,743	1,418,948	—	—	1,384,743	1,418,948	2,803,691	72,425	1982	12/05	40 years
Corpus Christi, TX	—	852,629	1,416,208	—	—	852,629	1,416,208	2,268,837	72,286	2005	12/05	40 years
Corpus Christi, TX	—	1,399,622	1,530,910	—	—	1,399,622	1,530,910	2,930,532	78,140	1984	12/05	40 years
Corpus Christi, TX	—	703,182	1,036,506	—	—	703,182	1,036,506	1,739,688	52,905	1986	12/05	40 years
Donna, TX	—	1,003,876	1,126,591	—	—	1,003,876	1,126,591	2,130,466	57,503	1995	12/05	40 years
Edinburg, TX	—	1,317,408	1,623,891	—	—	1,317,408	1,623,891	2,941,299	82,886	1999	12/05	40 years
Edinburg, TX	—	970,145	1,286,006	—	—	970,145	1,286,006	2,256,151	65,640	2003	12/05	40 years
Falfurias, TX	—	4,243,940	4,458,007	—	—	4,243,940	4,458,007	8,701,947	227,544	2002	12/05	40 years
Freer, TX	—	1,150,862	1,158,251	—	—	1,150,862	1,158,251	2,309,113	59,119	1984	12/05	40 years
George West, TX	—	1,243,224	695,074	—	—	1,243,224	695,074	1,938,298	35,478	1996	12/05	40 years
Harlingen, TX	—	906,427	952,530	—	—	906,427	952,530	1,858,957	48,619	1991	12/05	40 years
Harlingen, TX	—	753,595	1,152,311	—	—	753,595	1,152,311	1,905,906	58,816	1999	12/05	40 years
Harlingen, TX	—	755,002	600,721	—	—	755,002	600,721	1,355,723	30,662	1987	12/05	40 years
La Feria, TX	—	900,096	1,346,774	—	—	900,096	1,346,774	2,246,870	68,742	1988	12/05	40 years
Laredo, TX	—	1,552,558	1,774,827	—	—	1,552,558	1,774,827	3,327,385	90,590	2000	12/05	40 years
Laredo, TX	—	840,629	738,907	—	—	840,629	738,907	1,579,536	37,715	2001	12/05	40 years
Laredo, TX	—	736,451	670,332	—	—	736,451	670,332	1,406,784	34,215	1984	12/05	40 years
Laredo, TX	—	459,027	459,946	—	—	459,027	459,946	918,973	23,476	1983	12/05	40 years
Laredo, TX	—	1,494,871	1,400,482	—	—	1,494,871	1,400,482	2,895,353	71,482	1993	12/05	40 years

See accompanying report of independent registered public accounting firm.

	Encumbrances (k)	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed
		Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests	Total				
Laredo, TX	—	675,128	533,047	—	—	675,128	533,047	1,208,175	27,208	1993	12/05	40 years
Lawton, OK	—	696,670	964,441	—	—	696,670	964,441	1,661,111	49,227	1984	12/05	40 years
Los Indios, TX	—	1,386,972	1,456,932	—	—	1,386,972	1,456,932	2,843,903	74,364	2005	12/05	40 years
McAllen, TX	—	975,217	1,029,752	—	—	975,217	1,029,752	2,004,968	52,560	2003	12/05	40 years
McAllen, TX	—	987,020	893,376	—	—	987,020	893,376	1,880,396	45,599	1999	12/05	40 years
Mission, TX	—	880,169	1,101,301	—	—	880,169	1,101,301	1,981,471	56,212	1999	12/05	40 years
Mission, TX	—	1,125,457	1,213,398	—	—	1,125,457	1,213,398	2,338,855	61,934	2003	12/05	40 years
Olmito, TX	—	3,687,971	2,880,099	—	—	3,687,971	2,880,099	6,568,070	147,005	2002	12/05	40 years
Pharr, TX	—	981,840	1,177,948	—	—	981,840	1,177,948	2,159,788	60,124	1988	12/05	40 years
Pharr, TX	—	784,402	804,743	—	—	784,402	804,743	1,589,144	41,075	2000	12/05	40 years
Pharr, TX	—	2,426,134	1,880,867	—	—	2,426,134	1,880,867	4,307,001	96,003	2003	12/05	40 years
Port Isabel, TX	—	2,062,009	1,298,501	—	—	2,062,009	1,298,501	3,360,510	66,278	1994	12/05	40 years
Portland, TX	—	655,735	914,512	—	—	655,735	914,512	1,570,247	46,678	1983	12/05	40 years
Progreso, TX	—	1,768,974	1,811,221	—	—	1,768,974	1,811,221	3,580,195	92,448	1999	12/05	40 years
Riviera, TX	—	2,351,060	2,158,069	—	—	2,351,060	2,158,069	4,509,128	110,151	2005	12/05	40 years
San Benito, TX	—	1,103,210	1,586,235	—	—	1,103,210	1,586,235	2,689,445	80,964	2005	12/05	40 years
San Benito, TX	—	790,629	1,857,158	—	—	790,629	1,857,158	2,647,787	94,792	1994	12/05	40 years
San Juan, TX	—	1,123,838	1,171,582	—	—	1,123,838	1,171,582	2,295,420	59,800	1996	12/05	40 years
San Juan, TX	—	1,424,383	1,545,557	—	—	1,424,383	1,545,557	2,969,940	78,888	2004	12/05	40 years
South Padre Island, TX	—	1,366,721	1,388,764	—	—	1,366,721	1,388,764	2,755,485	70,885	1988	12/05	40 years
Wichita Falls, TX	—	905,117	1,350,908	—	—	905,117	1,350,908	2,256,025	68,953	2000	12/05	40 years
Wichita Falls, TX	—	484,202	827,999	—	—	484,202	827,999	1,312,201	42,262	1983	12/05	40 years
Wichita Falls, TX	—	439,646	751,484	—	—	439,646	751,484	1,191,130	38,356	1984	12/05	40 years
Palm View, TX	—	835,383	1,372,061	—	—	835,383	1,372,061	2,207,444	41,447	2005	10/06	40 years
Harlingen, TX	—	638,186	1,806,562	—	—	638,186	1,806,562	2,444,748	47,046	2006	12/06	40 years
Rio Grande City	—	1,871,354	1,612,282	—	—	1,871,354	1,612,282	3,483,636	41,987	2006	12/06	40 years
San Juan, TX	—	815,902	1,433,890	—	—	815,902	1,433,890	2,249,792	37,341	2006	12/06	40 years
Zapata, TX	—	1,332,662	1,772,564	—	—	1,332,662	1,772,564	3,105,226	46,161	2006	12/06	40 years
Orange Grove, TX	—	1,766,745	1,838,068	—	—	1,766,745	1,838,068	3,604,813	32,549	2007	04/07	40 years
Harlingen, TX	—	407,920	825,732	—	—	407,920	825,732	1,233,652	3,440	1982	11/07	30 years
Laredo, TX	—	467,915	727,548	—	—	467,915	727,548	1,195,463	3,031	1973	11/07	30 years
Laredo, TX	—	584,244	958,472	—	—	584,244	958,472	1,542,716	3,994	1981	11/07	30 years
Laredo, TX	—	447,733	734,498	—	—	447,733	734,498	1,182,231	3,060	1981	11/07	30 years
Laredo, TX	—	698,261	1,168,532	—	—	698,261	1,168,532	1,866,793	4,869	1981	11/07	30 years
Laredo, TX	—	348,351	1,168,124	—	—	348,351	1,168,124	1,516,475	4,867	1983	11/07	30 years
San Benito, TX	—	419,729	1,135,228	—	—	419,729	1,135,228	1,554,957	4,730	1985	11/07	40 years
Del Rio, TX	—	1,565,013	758,296	—	—	1,565,013	758,296	2,323,309	2,369	1996	11/07	40 years
Kerrville, TX	—	640,368	1,616,290	—	—	640,368	1,616,290	2,256,658	5,051	1996	11/07	40 years
Monahans, TX	—	2,627,558	2,973,453	—	—	2,627,558	2,973,453	5,601,011	9,293	1996	11/07	40 years
Odessa, TX	—	2,632,935	3,198,762	—	—	2,632,935	3,198,762	5,831,697	9,996	2006	11/07	40 years
San Angelo, TX	—	194,277	471,407	—	—	194,277	471,407	665,684	1,473	1998	11/07	40 years
Pharr, TX	—	573,354	1,228,572	—	—	573,354	1,228,572	1,801,926	1,280	2000	12/07	40 years
Subway:												
Eden Prairie, MN	—	54,097	150,449	67,341	—	54,097	217,790	271,887	30,410	1997	12/01	40 years
Albany, NY	—	2,734	66,667	—	—	2,734	66,667	69,401	5,486	1992	09/04	40 years
Cohoes, NY	—	21,862	117,829	—	—	21,862	117,829	139,691	9,534	1994	09/04	40 years
SuperValu:												
Huntington, WV	—	1,254,238	760,602	—	—	1,254,238	760,602	2,014,840	206,788	1971	02/97	40 years
Maple Heights, OH	—	1,034,758	2,874,414	—	—	1,034,758	2,874,414	3,909,172	781,481	1985	02/97	40 years
Susser:												
Corpus Christi, TX	—	630,043	3,131,407	—	—	630,043	3,131,407	3,761,450	688,257	1983	03/99	40 years
Swansea Quick Cash:												
Swansea, IL	—	45,815	132,365	—	—	45,815	132,365	178,180	19,995	1997	12/01	40 years
Taco Bell:												
Ocala, FL	—	275,023	754,990	—	—	275,023	754,990	1,030,013	114,035	2001	12/01	40 years
Ormond Beach, FL	—	632,337	525,616	—	—	632,337	525,616	1,157,953	79,390	2001	12/01	40 years
Phoenix, AZ	—	593,718	282,777	—	—	593,718	282,777	876,495	42,711	1995	12/01	40 years
Bedford, IN	—	796,772	936,942	—	—	796,772	936,942	1,733,714	38,063	1989	05/06	40 years
Columbus, IN	—	1,256,948	2,054,570	—	—	1,256,948	2,054,570	3,311,518	83,466	1990	05/06	40 years
Columbus, IN	—	690,142	1,212,681	—	—	690,142	1,212,681	1,902,823	49,265	2005	05/06	40 years
Evansville, IN	—	221,196	828,023	—	—	221,196	828,023	1,049,219	33,638	2003	05/06	40 years

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	Encumbrances (k)	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed
		Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests	Total				
Evansville, IN	—	308,068	1,300,511	—	—	308,068	1,300,511	1,608,579	52,833	2000	05/06	40 years
Evansville, IN	—	524,368	1,815,101	—	—	524,368	1,815,101	2,339,469	73,738	2005	05/06	40 years
Fishers, IN	—	989,998	486,260	—	—	989,998	486,260	1,476,258	19,754	1998	05/06	40 years
Greensburg, IN	—	648,296	1,079,007	—	—	648,296	1,079,007	1,727,303	43,834	1998	05/06	40 years
Indianapolis, IN	—	1,031,743	1,649,975	—	—	1,031,743	1,649,975	2,681,718	67,030	2004	05/06	40 years
Indianapolis, IN	—	547,218	703,287	—	—	547,218	703,287	1,250,505	28,571	2004	05/06	40 years
Madisonville, KY	—	682,108	1,192,867	—	—	682,108	1,192,867	1,874,975	48,460	1999	05/06	40 years
Owensboro, KY	—	638,693	1,326,161	—	—	638,693	1,326,161	1,964,854	53,875	2005	05/06	40 years
Shelbyville, IN	—	670,216	1,755,847	—	—	670,216	1,755,847	2,426,063	71,331	1998	05/06	40 years
Speedway, IN	—	407,707	1,426,319	—	—	407,707	1,426,319	1,834,026	57,944	2003	05/06	40 years
Terre Haute, IN	—	1,037,327	1,655,660	—	—	1,037,327	1,655,660	2,692,987	67,261	2003	05/06	40 years
Terre Haute, IN	—	1,313,692	2,249,313	—	—	1,313,692	2,249,313	3,563,005	91,378	2003	05/06	40 years
Vincennes, IN	—	501,783	879,791	—	—	501,783	879,791	1,381,574	35,742	2004	05/06	40 years
Taco Bron Restaurant:												
Tucson, AZ	—	827,002	305,209	17,814	—	844,816	305,209	1,150,025	52,810	1974	12/01	40 years
Texas Roadhouse:												
Grand Junction, CO	—	584,237	920,143	—	—	584,237	920,143	1,504,380	138,979	1997	12/01	40 years
Thornton, CO	—	598,556	1,019,164	—	—	598,556	1,019,164	1,617,720	153,936	1998	12/01	40 years
TGI Friday's:												
Corpus Christi, TX	—	1,209,702	1,532,125	—	—	1,209,702	1,532,125	2,741,827	231,414	1995	12/01	40 years
Thomasville:												
Buford, GA	—	1,266,527	2,405,629	—	—	1,266,527	2,405,629	3,672,156	207,987	2004	07/04	40 years
Top's:												
Lacey, WA	—	2,777,449	7,082,150	—	—	2,777,449	7,082,150	9,859,599	1,925,460	1992	02/97	40 years
Tractor Supply Co.:												
Aransas Pass, TX	—	100,967	1,599,293	—	—	100,967	1,599,293	1,700,260	305,694	1983	03/99	40 years
Ultra Car Wash:												
Mobile, AL	—	1,070,724	1,086,104	—	—	1,070,724	1,086,104	2,156,828	10,182	2005	08/07	40 years
Uni-Mart:												
Avis, PA	—	391,801	326,046	—	—	391,801	326,046	717,847	38,718	1976	08/05	20 years
Bear Creek, PA (r)	—	190,558	230,193	—	—	190,558	230,193	420,752	27,335	1980	08/05	20 years
Bloomsburg, PA (r)	—	206,402	501,424	—	—	206,402	501,424	707,826	59,544	1981	08/05	20 years
Bloomsburg, PA (r)	—	540,561	146,127	—	—	540,561	146,127	686,689	17,352	1967	08/05	20 years
Bloomsburg, PA (r)	—	515,108	888,074	—	—	515,108	888,074	1,403,182	105,459	1998	08/05	20 years
Chambersburg, PA (r)	—	75,678	197,035	—	—	75,678	197,035	272,713	23,397	1990	08/05	20 years
Coraopolis, PA	—	475,572	347,360	—	—	475,572	347,360	822,932	41,248	1983	08/05	20 years
Dallas, PA (r)	—	890,855	1,435,745	—	—	890,855	1,435,745	2,326,601	170,494	1995	08/05	20 years
East Brady, PA (r)	—	269,433	583,204	—	—	269,433	583,204	852,637	69,255	1987	08/05	20 years
Emporium, PA	—	380,032	568,625	—	—	380,032	568,625	948,657	67,524	1996	08/05	20 years
Hazleton, PA	—	670,271	377,355	—	—	670,271	377,355	1,047,625	44,811	1974	08/05	20 years
Hazleton, PA (r)	—	2,529,165	727,550	—	—	2,529,165	727,550	3,256,716	86,396	2001	08/05	20 years
Johnsonburg, PA (r)	—	780,536	503,662	—	—	780,536	503,662	1,284,198	59,809	1978	08/05	20 years
Larksville, PA (r)	—	245,870	333,875	—	—	245,870	333,875	579,745	39,648	1990	08/05	20 years
Luzerne, PA	—	170,866	415,295	—	—	170,866	415,295	586,161	49,316	1989	08/05	20 years
Moosic, PA (r)	—	323,126	308,844	—	—	323,126	308,844	631,970	36,675	1980	08/05	20 years
Pleasant Gap, PA (r)	—	331,885	592,844	—	—	331,885	592,844	924,730	70,400	1996	08/05	20 years
Port Vue, PA (r)	—	824,158	117,629	—	—	824,158	117,629	941,787	13,968	1953	08/05	20 years
Punxsutawney, PA (r)	—	252,648	541,842	—	—	252,648	541,842	794,490	64,344	1983	08/05	20 years
Ridgway, PA	—	382,341	258,740	—	—	382,341	258,740	641,081	30,725	1975	08/05	20 years
Shamokin, PA (r)	—	323,994	506,335	—	—	323,994	506,335	830,329	60,127	1956	08/05	20 years
Shippensburg, PA (r)	—	203,610	330,098	—	—	203,610	330,098	533,708	39,199	1989	08/05	20 years
St. Clair, PA	—	212,150	475,086	—	—	212,150	475,086	687,236	56,416	1984	08/05	20 years
St. Mary's, PA	—	274,323	260,942	—	—	274,323	260,942	535,265	30,986	1979	08/05	20 years
Taylor, PA (r)	—	180,533	526,884	—	—	180,533	526,884	707,417	62,567	1973	08/05	20 years
White Haven, PA (r)	—	485,984	866,602	—	—	485,984	866,602	1,352,587	102,909	1990	08/05	20 years
Wilkes-Barre, PA (r)	—	178,104	471,437	—	—	178,104	471,437	649,541	55,983	1989	08/05	20 years
Wilkes-Barre, PA (r)	—	171,040	422,438	—	—	171,040	422,438	593,478	50,164	1999	08/05	20 years
Wilkes-Barre, PA (r)	—	875,774	1,956,613	—	—	875,774	1,956,613	2,832,386	232,348	1998	08/05	20 years
Williamsport, PA (r)	—	908,758	122,164	—	—	908,758	122,164	1,030,922	14,507	1950	08/05	20 years

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	Encumbrances (k)	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed
		Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests	Total				
Yeagertown, PA	—	142,061	180,073	—	—	142,061	180,073	322,134	21,384	1977	08/05	20 years
Ashland, PA (r)	—	355,322	545,140	—	—	355,322	545,140	900,462	62,464	1977	09/05	20 years
Bear Creek, PA (r)	—	689,374	274,920	—	—	689,374	274,920	964,294	31,501	1980	09/05	20 years
Mountaintop, PA (r)	—	422,770	616,488	—	—	422,770	616,488	1,039,259	70,639	1987	09/05	20 years
Abbottstown, PA	—	110,362	400,101	—	—	110,362	400,101	510,463	19,588	2000	01/06	40 years
Beech Creek, PA	—	476,516	612,664	—	—	476,516	612,664	1,089,180	29,994	1988	01/06	40 years
Canistota, NY	—	141,912	485,183	—	—	141,912	485,183	627,095	23,753	1983	01/06	40 years
Carlisle, PA	—	347,858	411,491	—	—	347,858	411,491	759,349	20,145	1988	01/06	40 years
Curwensville, PA (r)	—	226,015	607,989	—	—	226,015	607,989	834,004	29,766	1983	01/06	40 years
Dansville, PA (r)	—	179,736	359,203	—	—	179,736	359,203	538,939	17,585	1988	01/06	40 years
Effort, PA (r)	—	1,297,431	1,201,954	—	—	1,297,431	1,201,954	2,499,385	58,845	2000	01/06	40 years
Ellwood City, PA	—	196,089	526,155	—	—	196,089	526,155	722,244	25,760	1987	01/06	40 years
Export, PA (r)	—	221,840	214,852	—	—	221,840	214,852	436,692	10,519	1988	01/06	40 years
Hastings, PA	—	199,089	455,379	—	—	199,089	455,379	654,468	22,295	1989	01/06	40 years
Howard, PA	—	136,416	374,695	—	—	136,416	374,695	511,111	18,345	1987	01/06	40 years
Hughesville, PA (r)	—	290,136	566,229	—	—	290,136	566,229	856,365	27,721	1977	01/06	40 years
Jersey Shore, PA (r)	—	514,708	381,372	—	—	514,708	381,372	896,080	18,671	1960	01/06	40 years
Leeper, PA	—	285,510	643,886	—	—	285,510	643,886	929,396	31,523	1987	01/06	40 years
Lewisberry, PA	—	412,356	533,848	—	—	412,356	533,848	946,204	26,136	1988	01/06	40 years
McSherrytown, PA (r)	—	134,501	364,946	—	—	134,501	364,946	499,447	17,867	1988	01/06	40 years
Mercersburg, PA	—	672,259	746,309	—	—	672,259	746,309	1,418,568	36,538	1988	01/06	40 years
Milesburg, PA (r)	—	133,831	372,913	—	—	133,831	372,913	506,744	18,257	1987	01/06	40 years
Minersville, PA (r)	—	679,595	581,718	—	—	679,595	581,718	1,261,313	28,479	1974	01/06	40 years
Montoursville, PA (r)	—	158,346	415,372	—	—	158,346	415,372	573,718	20,336	1988	01/06	40 years
Nanticoke, PA (r)	—	174,583	482,239	—	—	174,583	482,239	656,822	23,610	1988	01/06	40 years
New Florence, PA	—	298,364	812,449	—	—	298,364	812,449	1,110,813	39,776	1989	01/06	40 years
Newstead, NY	—	254,635	835,411	—	—	254,635	835,411	1,090,046	40,900	1990	01/06	40 years
Nuangola, PA (r)	—	1,062,388	1,202,832	—	—	1,062,388	1,202,832	2,265,220	58,888	2000	01/06	40 years
Phillipsburg, PA	—	428,193	268,962	—	—	428,193	268,962	697,155	13,168	1978	01/06	40 years
Pittsburgh, PA	—	905,332	1,346,177	—	—	905,332	1,346,177	2,251,509	65,907	1967	01/06	40 years
Plainfield, PA (r)	—	243,945	382,518	—	—	243,945	382,518	626,463	18,727	1988	01/06	40 years
Plains, PA (r)	—	204,417	401,264	—	—	204,417	401,264	605,681	19,645	1994	01/06	40 years
Punxsutawney, PA (r)	—	293,717	649,800	—	—	293,717	649,800	943,517	31,813	1983	01/06	40 years
Reynoldsville, PA	—	113,312	327,933	—	—	113,312	327,933	441,245	16,055	1983	01/06	40 years
Summerville, PA	—	92,798	271,832	—	—	92,798	271,832	364,630	13,308	1988	01/06	40 years
Warriors Mark, PA (r)	—	148,499	404,981	—	—	148,499	404,981	553,480	19,827	1995	01/06	40 years
Williamsport, PA (r)	—	295,036	378,715	—	—	295,036	378,715	673,751	18,541	1988	01/06	40 years
Zelienople, PA (r)	—	160,219	437,168	—	—	160,219	437,168	597,387	21,403	1988	01/06	40 years
United Rentals:												
Carrollton, TX	—	477,893	534,807	—	—	477,893	534,807	1,012,700	40,667	1981	12/04	40 years
Cedar Park, TX	—	535,091	829,241	—	—	535,091	829,241	1,364,332	63,056	1990	12/04	40 years
Clearwater, FL	—	1,173,292	1,810,665	—	—	1,173,292	1,810,665	2,983,957	137,685	2001	12/04	40 years
Fort Collins, CO	—	2,057,322	977,971	—	—	2,057,322	977,971	3,035,293	74,367	1975	12/04	40 years
Irving, TX	—	708,389	910,786	—	—	708,389	910,786	1,619,175	69,257	1984	12/04	40 years
La Porte, TX	—	1,114,553	2,125,426	—	—	1,114,553	2,125,426	3,239,979	161,620	2000	12/04	40 years
Littleton, CO	—	1,743,092	1,943,650	—	—	1,743,092	1,943,650	3,686,742	147,798	2002	12/04	40 years
Oklahoma City, OK	—	744,145	1,264,885	—	—	744,145	1,264,885	2,009,030	96,183	1997	12/04	40 years
Perrysburg, OH	—	641,867	1,119,085	—	—	641,867	1,119,085	1,760,952	85,097	1979	12/04	40 years
Plano, TX	—	1,030,426	1,148,065	—	—	1,030,426	1,148,065	2,178,491	87,301	1996	12/04	40 years
Temple, TX	—	1,159,775	1,360,379	—	—	1,159,775	1,360,379	2,520,154	103,445	1998	12/04	40 years
Ft. Worth, TX	—	510,490	1,127,796	—	—	510,490	1,127,796	1,638,286	83,409	1997	01/05	40 years
Ft. Worth, TX	—	1,427,764	—	—	—	1,427,764	—	1,427,764	(i)	(i)	01/05	(i)
Melbourne, FL	—	746,558	607,128	—	—	746,558	607,128	1,353,686	39,843	1970	05/05	40 years
United Trust Bank:												
Bridgeview, IL	—	673,238	744,154	—	—	673,238	744,154	1,417,392	112,398	1997	12/01	40 years
Vacant Land:												
Longwood, FL	—	585,152	—	—	—	585,152	—	585,152	(e)	(e)	03/06	(e)
Florence, AL	—	1,022,509	—	—	—	1,022,509	—	1,022,509	(e)	(e)	06/04	(e)
Florence, AL	—	243,266	—	—	—	243,266	—	243,266	(e)	(e)	06/04	(e)
Vacant Property:												
Mesa, AZ	—	152,609	399,801	112,765	—	152,609	512,566	665,175	77,418	1997	12/01	40 years
Dallas, GA	—	1,287,630	1,952,791	—	—	1,287,630	1,952,791	3,240,421	225,793	1997	05/03	40 years

See accompanying report of independent registered public accounting firm.

	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed	
	Encumbrances (k)	Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests					Total
Woodstock, GA	—	1,937,017	1,284,901	—	—	1,890,769	1,284,901	3,175,670	148,568	1997	05/03	40 years
Bonham, TX	—	54,999	202,085	—	—	54,999	104,974	159,973	17,360	1984	07/04	40 years
Red Oak, TX	—	73,290	520,950	—	—	73,290	242,896	316,186	78,344	1986	12/01	40 years
Corpus Christi, TX	—	893,270	978,344	76,664	—	893,270	1,055,008	1,948,278	372,149	1967	11/93	40 years
Spokane, WA	—	470,840	530,289	—	—	470,840	530,289	1,001,130	80,096	1996	12/01	40 years
Swansea, IL	—	91,709	264,956	—	—	91,709	264,956	356,665	40,055	1997	12/01	40 years
Everett, PA	—	226,366	1,159,833	7,830	—	226,366	817,667	1,044,033	148,722	1998	11/98	40 years
Aransas Pass, TX	—	89,537	1,240,882	—	—	89,537	1,240,882	1,330,419	275,219	1983	03/99	40 years
Houston, TX	—	421,897	1,915,483	—	—	421,897	1,915,483	2,337,380	97,557	1995	12/05	40 years
Sealy, TX	—	873,758	964,185	—	—	873,758	964,185	1,837,943	210,523	1982	03/99	40 years
Southfield, MI	—	405,107	643,759	—	—	405,107	643,759	1,048,866	111,798	1976	12/01	40 years
Montgomery, AL	—	592,730	1,186,705	—	—	592,730	1,186,705	1,779,435	60,571	1998	12/05	40 years
Cohoes, NY	—	48,482	261,352	—	—	48,482	261,352	309,834	22,048	1994	09/04	40 years
Value City:												
Florissant, MO	—	2,490,210	2,937,449	—	—	2,490,210	2,937,449	5,427,659	345,762	1996	04/03	40 years
Value City Furniture:												
White Marsh, MD	—	3,762,030	—	3,006,391	—	3,762,030	3,006,391	6,768,421	735,939	1998	03/98(g)	40 years
Walgreens:												
Sunrise, FL	—	1,957,974	1,400,970	—	—	1,957,974	1,400,970	3,358,944	161,987	1994	05/03	40 years
Tulsa, OK	—	1,193,187	3,055,724	—	—	1,193,187	3,055,724	4,248,911	194,165	2003	06/05	40 years
Wal-Mart:												
Beeville, TX	—	507,231	2,315,424	—	—	507,231	2,315,424	2,822,655	508,910	1983	03/99	40 years
Winfield, AL	—	419,811	1,684,505	—	—	419,811	1,684,505	2,104,316	370,240	1983	03/99	40 years
Washington Bike Center:												
Fairfax, VA	—	192,830	278,892	83,773	—	192,830	362,665	555,495	35,690	1995	12/95	40 years
Wendy's Old Fashioned Hamburger:												
Sacramento, CA	—	585,872	—	—	—	585,872	—	585,872	(i)	(i)	02/98	(i)
New Kensington, PA	—	501,136	333,445	—	—	501,136	333,445	834,581	50,364	1980	12/01	40 years
Whataburger:												
Albuquerque, NM	—	624,318	418,975	—	—	624,318	418,975	1,043,293	63,282	1995	12/01	40 years
Brunswick, GA	—	290,860	—	910,051	—	290,860	910,051	1,200,911	16,115	2007	12/06(q)	40 years
Jacksonville, FL	—	823,643	934,191	—	—	823,643	934,191	1,757,834	22,381	2006	01/07	40 years
Starke, FL	—	476,055	981,779	—	—	476,055	981,779	1,457,834	23,521	2006	01/07	40 years
Yulee, FL	—	893,834	1,013,995	—	—	893,834	1,013,995	1,907,829	24,293	2006	01/07	40 years
Wherehouse Music:												
Homewood, AL	—	1,031,974	696,950	—	—	1,031,974	696,950	1,728,924	105,269	1997	12/01	40 years
Independence, MO	—	502,623	1,209,307	—	—	502,623	1,209,307	1,711,930	61,725	1994	12/05	40 years
Wingfoot:												
Beaverdam, OH	—	(l)	1,521,190	—	—	(l)	1,521,190	1,521,190	23,768	2004	05/07	40 years
Benton, AR	—	(l)	308,519	—	—	(l)	308,519	308,519	3,535	2001	05/07	40 years
Bowman, SC	—	(l)	969,274	—	—	(l)	969,274	969,274	17,308	1998	05/07	40 years
Brunswick, GA	—	(l)	1,450,274	—	—	(l)	1,450,274	1,450,274	22,661	2003	05/07	40 years
Dalton, GA	—	(l)	1,540,648	—	—	(l)	1,540,648	1,540,648	24,017	2004	05/07	40 years
Dandridge, TN	—	(l)	1,030,351	—	—	(l)	1,030,351	1,030,351	18,399	1989	05/07	35 years
Franklin, OH	—	(l)	562,698	—	—	(l)	562,698	562,698	10,048	1998	05/07	40 years
Gary, IN	—	(l)	1,486,297	—	—	(l)	1,486,297	1,486,297	23,223	2004	05/07	40 years
Georgetown, KY	—	(l)	678,799	—	—	(l)	678,799	678,799	14,141	1997	05/07	40 years
Mebane, NC	—	(l)	561,025	—	—	(l)	561,025	561,025	10,018	1998	05/07	35 years
Piedmont, SC	—	(l)	566,582	—	—	(l)	566,582	566,582	10,117	1999	05/07	35 years
Port Wentworth, GA	—	(l)	551,919	—	—	(l)	551,919	551,919	9,856	1998	05/07	35 years
Valdosta, GA	—	(l)	1,476,879	—	—	(l)	1,476,879	1,476,879	23,076	2004	05/07	40 years
Whiteland, IN	—	(l)	1,471,230	—	—	(l)	1,471,230	1,471,230	16,857	2004	07/07	40 years
Des Moines, IA	—	(l)	816,275	—	—	(l)	816,275	816,275	9,353	1987	07/07	40 years
Evansville, IN	—	(l)	575,761	—	—	(l)	575,761	575,761	6,597	2002	07/07	40 years
Kearney, MO	—	(l)	1,268,709	—	—	(l)	1,268,709	1,268,709	14,537	2003	07/07	40 years
Winn-Dixie:												
Columbus, GA	—	1,023,371	1,874,875	—	—	1,023,371	1,874,875	2,898,246	208,970	1984	07/03	40 years
Ziebart:												
Maplewood, MN	—	307,846	311,313	—	—	307,846	311,313	619,159	22,376	1990	02/05	40 years
Middleburg Heights, OH	—	199,234	148,106	—	—	199,234	148,106	347,340	10,799	1961	02/05	40 years
Zio's Restaurant:												
Aurora, CO	—	1,168,457	1,104,345	—	—	1,168,457	1,104,345	2,272,802	93,706	2000	06/05	30 years
Leasehold Interests:	—	2,532,133	—	—	—	2,532,133	—	2,532,133	1,547,131	—	(n)	(m)
	\$26,454,684	\$941,102,953	\$1,116,459,120	\$85,827,593	\$—	\$941,336,554	\$1,200,041,008	\$2,141,377,563	\$111,086,973			

See accompanying report of independent registered public accounting firm.

	Encumbrances (k)	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed
		Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests	Total				
Real Estate Held for Investment the Company has Invested in Under Direct Financing Leases:												
Barnes and Noble:												
Plantation, FL	—	—	3,498,559	—	—	—	(c)	(c)	(c)	1996	05/95	(c)
Borders Books & Music:												
Altamonte Springs, FL	—	—	3,267,579	—	—	—	(c)	(c)	(c)	1997	09/97	(c)
Checkers:												
Orlando, FL	—	—	286,910	—	—	—	(c)	(c)	(c)	1988	07/92	(c)
CVS:												
San Antonio, TX	—	—	783,974	—	—	—	(c)	(c)	(c)	1993	12/93	(c)
Amarillo, TX	—	158,851	855,348	—	—	(d)	(d)	(d)	(d)	1994	12/94	(d)
Lafayette, LA	—	—	949,128	—	—	—	(c)	(c)	(c)	1995	01/96	(c)
Irving, TX	—	—	1,228,436	—	—	—	(c)	(c)	(c)	1996	12/96	(c)
Oklahoma City, OK	—	(l)	1,365,125	—	—	(l)	(c)	(c)	(c)	1997	06/97	(c)
Oklahoma City, OK	—	(l)	1,419,093	—	—	(l)	(c)	(c)	(c)	1997	06/97	(c)
Ft. Worth, TX	—	—	1,135,110	—	—	—	(c)	(c)	(c)	1996	09/97	(c)
Haltom City, TX	—	413,918	1,660,859	—	—	(d)	(d)	(d)	(d)	1996	09/97	(d)
Denny's:												
Stockton, CA	—	939,974	508,573	—	—	(d)	(d)	(d)	(d)	1982	09/06	(d)
Eckerd:												
Kennett Square, PA	—	(l)	—	1,984,435	—	(l)	(c)	(c)	(c)	2000	12/00	(c)
Arlington, VA	—	—	3,201,489	—	—	—	(c)	(c)	(c)	2002	02/02	(c)
Food 4 Less:												
Chula Vista, CA	—	—	4,266,181	—	—	—	(c)	(c)	(c)	1995	11/98	(c)
Heilig-Meyers:												
Marlow Heights, MD	—	415,926	1,397,178	—	—	(d)	(d)	(d)	(d)	1968	11/98	(d)
York, PA	—	279,312	1,109,609	—	—	(d)	(d)	(d)	(d)	1997	11/98	(d)
International House of Pancakes:												
Sunset Hills, MO	—	—	736,345	—	—	—	(c)	(c)	(c)	1993	10/93	(c)
Matthews, NC	—	—	655,668	—	—	—	(c)	(c)	(c)	1993	12/93	(c)
Jared Jewelers:												
Glendale, AZ	—	(l)	1,599,105	—	—	(l)	(c)	(c)	(c)	1998	12/01	(c)
Lewisville, TX	225,603	(l)	1,502,903	—	—	(l)	(c)	(c)	(c)	1998	12/01	(c)
Oviedo, FL	441,309	(l)	1,500,145	—	—	(l)	(c)	(c)	(c)	1998	12/01	(c)
Phoenix, AZ	358,516	(l)	1,241,827	—	—	(l)	(c)	(c)	(c)	1998	12/01	(c)
Toledo, OH	—	(l)	1,457,625	—	—	(l)	(c)	(c)	(c)	1998	12/01	(c)
Kash N' Karry:												
Valrico, FL	—	1,234,519	3,255,257	—	—	(d)	(d)	(d)	(d)	1997	06/02	(d)
Uni-Mart:												
Olean, NY (r)	—	41,774	267,755	—	—	(d)	(d)	(d)	(d)	1990	08/05	(d)
	<u>\$1,025,428</u>	<u>\$3,484,274</u>	<u>\$39,149,782</u>	<u>\$1,984,435</u>	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>			
Real Estate Held for Sale the Company has Invested in:												
AJ Petroleum:												
Hollywood, FL	—	417,487	184,170	—	—	417,487	184,170	601,657	—	1961	12/05	—
Hollywood, FL	—	645,533	313,657	—	—	645,533	313,657	959,190	—	1960	12/05	—
Keybank:												
Beavercreek, OH	—	422,184	—	—	—	422,184	—	422,184	—	(e)	02/07	(e)
Pep Boys:												
Anaheim, CA	—	2,671,814	2,586,628	—	—	2,671,814	2,586,628	5,258,442	—	1983	11/07	—
Annandale, VA	—	2,718,604	3,048,482	—	—	2,718,604	3,048,482	5,767,086	—	1970	11/07	—
Artesia, CA	—	3,140,404	2,630,276	—	—	3,140,404	2,630,276	5,770,680	—	1983	11/07	—
Escondido, CA	—	3,664,675	4,785,117	—	—	3,664,675	4,785,117	8,449,792	—	1983	11/07	—
Fullerton, CA	—	3,555,665	1,885,292	—	—	3,555,665	1,885,292	5,440,957	—	1959	11/07	—

See accompanying report of independent registered public accounting firm.

	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed	
	Encumbrances (k)	Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests					Total
Glendale, AZ	—	2,117,771	2,885,232	—	—	2,117,771	2,885,232	5,003,003	—	1990	11/07	—
Guayama, PR	—	1,729,000	2,731,785	—	—	1,729,000	2,731,785	4,460,785	—	1998	11/07	—
Houston, TX	—	892,935	4,502,444	—	—	892,935	4,502,444	5,395,379	—	1994	11/07	—
Manassas, VA	—	1,374,760	3,486,484	—	—	1,374,760	3,486,484	4,861,244	—	1992	11/07	—
Merced, CA	—	228,337	2,305,923	—	—	228,337	2,305,923	2,534,260	—	1988	11/07	—
North Hollywood, CA	—	3,586,201	2,262,137	—	—	3,586,201	2,262,137	5,848,338	—	1996	11/07	—
Oceanside, CA	—	3,380,442	4,466,453	—	—	3,380,442	4,466,453	7,846,895	—	1988	11/07	—
Orlando, FL	—	1,719,331	1,978,950	—	—	1,719,331	1,978,950	3,698,281	—	1991	11/07	—
Phoenix, AZ	—	972,652	1,674,741	—	—	972,652	1,674,741	2,647,393	—	1988	11/07	—
Rancho Cucamonga, CA	—	2,022,876	3,374,339	—	—	2,022,876	3,374,339	5,397,215	—	1985	11/07	—
Reading, PA	—	1,188,532	3,366,975	—	—	1,188,532	3,366,975	4,555,507	—	1989	11/07	—
Reseda, CA	—	1,522,988	2,025,447	—	—	1,522,988	2,025,447	3,548,435	—	1986	11/07	—
San Bernardino, CA	—	960,573	2,207,543	—	—	960,573	2,207,543	3,168,116	—	1969	11/07	—
Tempe, AZ	—	1,084,055	1,923,866	—	—	1,084,055	1,923,866	3,007,921	—	1974	11/07	—
West Covina, CA	—	2,783,506	3,059,286	—	—	2,783,506	3,059,286	5,842,792	—	1983	11/07	—
Power Center:												
Big Flats, NY	—	2,248,422	7,159,309	—	—	2,248,422	6,314,756	8,563,178	—	2006	08/05	—
Bismarck, ND	—	1,839,240	10,262,109	10,406,939	—	1,839,240	20,669,048	22,508,288	—	2006	10/04	—
Midland, MI	—	1,085,180	1,634,602	—	—	1,085,180	1,634,602	2,719,782	—	2005	05/05	—
Topsham, ME	—	1,884,772	1,734,694	—	—	1,884,772	1,734,694	3,619,466	—	2007	02/06	—
Irving, TX	—	910,077	—	—	—	910,077	—	910,077	—	(e)	02/06	(e)
Waxahachie, TX	—	1,208,017	—	—	—	1,208,017	—	1,208,017	—	(e)	02/06	(e)
Harlingen, TX	—	745,992	—	—	—	745,992	—	745,992	—	(e)	10/06	(e)
Lapeer, MI	—	729,834	3,733,213	—	—	729,834	3,733,213	4,463,047	—	2007	09/06	—
Lapeer, MI	—	243,535	1,759,243	—	—	243,535	1,759,243	2,002,778	—	2007	09/06	—
Rockwall, TX	—	8,958,882	37,006,653	—	—	8,958,882	37,006,653	45,965,535	—	2007	02/06	—
Rite Aid:												
Largo, MD	—	1,927,636	—	—	—	1,927,636	—	1,927,636	—	(e)	03/07	(e)
Road Ranger:												
Rockford, IL	—	635,452	1,118,486	—	—	635,452	1,118,486	1,753,938	—	1988	06/06	—
Stock Building Supply:												
Hillman, MI	—	166,886	822,950	—	—	166,886	822,950	989,836	—	1952	10/06	—
Stripes:												
Corpus Christi, TX	—	1,308,398	2,151,142	—	—	1,308,398	2,151,142	3,459,540	—	1995	12/05	—
Uni-Mart:												
Bradford, PA	—	184,231	761,512	—	—	184,231	761,512	945,743	—	1983	08/05	—
Kane, PA	—	156,967	913,017	—	—	156,967	913,017	1,069,984	—	1984	08/05	—
Midway, PA	—	310,893	708,427	—	—	310,893	708,427	1,019,320	—	1990	01/06	—
Clairton, PA	—	215,405	700,821	—	—	215,405	700,821	916,226	—	1986	01/06	—
Houtzdale, PA	—	311,707	729,052	—	—	311,707	729,052	1,040,759	—	1977	01/06	—
Burnham, PA (r)	—	264,741	510,262	—	—	264,741	510,262	775,003	—	1978	07/06	—
Mechanicsburg, PA	—	120,639	357,897	—	—	120,639	357,897	478,536	—	1972	07/06	—
Port Royal, PA	—	238,052	635,213	—	—	238,052	635,213	873,265	—	1989	07/06	—
Vacant Land:												
Grand Prairie, TX	—	386,807	—	—	—	386,807	—	386,807	—	(e)	12/02	(e)
Fairfield Township, OH	—	3,201,116	—	—	—	3,201,116	—	3,201,116	—	(e)	08/06	(e)
Bonita Springs, FL	—	151,781	—	—	—	151,781	—	151,781	—	(e)	09/06	(e)
Topsham, ME	—	311,714	—	—	—	1,034,215	—	1,034,215	—	(e)	02/06	(e)
Plano, TX	—	10,034,740	—	—	—	10,034,740	—	10,034,740	—	(e)	12/05	(e)
Harlingen, TX	—	245,483	—	—	—	245,483	—	245,483	—	(e)	09/06	(e)
Harlingen, TX	—	284,907	—	—	—	284,907	—	284,907	—	(e)	09/06	(e)
Rockwall, TX	—	9,275,959	—	—	—	9,275,959	—	9,275,959	—	(e)	09/06	(e)
Vacant Property:												
North Richland Hills, TX	—	583,650	179,509	—	—	583,650	179,509	763,159	—	1989	02/06	—
Walgreens:												
Beavercreek, OH	—	1,445,473	—	—	—	1,445,473	—	1,445,473	—	(e)	10/07	(e)
Harlingen, TX	—	1,321,108	—	—	—	1,321,108	—	1,321,108	—	(e)	09/06	(e)
	\$—	\$95,738,021	\$130,563,338	\$10,406,939	\$—	\$96,460,522	\$140,125,724	\$236,586,246	\$—			

See accompanying report of independent registered public accounting firm.

NATIONAL RETAIL PROPERTIES, INC. AND SUBSIDIARIES

**NOTES TO SCHEDULE III - REAL ESTATE AND
ACCUMULATED DEPRECIATION AND AMORTIZATION**

**December 31, 2007
(dollars in thousands)**

- (a) Transactions in real estate and accumulated depreciation during 2007, 2006, and 2005 are summarized as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Land, buildings, and leasehold interests:			
Balance at the beginning of year	\$1,756,514	\$1,508,664	\$1,129,126
Acquisitions, completed construction and tenant improvements	864,116	558,766	469,384
Disposition of land, buildings, and leasehold interests	(203,403)	(310,223)	(87,446)
Provision for loss on impairment of real estate	(1,683)	(693)	(2,400)
Balance at the close of year	<u>\$2,415,544</u>	<u>\$1,756,514</u>	<u>\$1,508,664</u>
Accumulated depreciation and amortization:			
Balance at the beginning of year	\$ 87,359	\$ 79,197	\$ 61,802
Disposition of land, buildings, and leasehold interests	(3,667)	(12,413)	(1,665)
Depreciation and amortization expense	27,395	20,575	19,060
Balance at the close of year	<u>\$ 111,087</u>	<u>\$ 87,359</u>	<u>\$ 79,197</u>

- (b) As of December 31, 2007, the leases are treated as either operating or financing leases for federal income tax purposes. As of December 31, 2007, the aggregate cost of the properties owned by the Company that under operating leases were \$2,262,306, and financing leases were \$9,048.
- (c) For financial reporting purposes, the portion of the lease relating to the building has been recorded as a direct financing lease; therefore, depreciation is not applicable.
- (d) For financial reporting purposes, the lease for the land and building has been recorded as a direct financing lease; therefore, depreciation is not applicable.
- (e) The Company owns only the land for this property.
- (f) Date acquired represents acquisition date of land. Pursuant to lease agreement, the Company purchased the buildings from the tenants upon completion of construction, generally within 12 months from the acquisition of the land.
- (g) Date acquired represents acquisition date of land. The Company developed the buildings, generally completing construction within 12 months from the acquisition date of the land.
- (h) Date acquired represents date of building construction completion. The land has been recorded as operating lease.
- (i) The Company owns only the land for this property, which is subject to a ground lease between the Company and the tenant. The tenant funded the improvements on the property.
- (j) In 2005, there was a lease amendment to this property, resulting in a reclassification from a direct financing lease to an operating lease.
- (k) Encumbered properties for which the portion of the lease relating to the land is accounted for as an operating lease and the portion of the lease relating to the building is accounted for as a direct financing lease, the total amount of the encumbrance is listed with the land portion of the property.
- (l) The Company owns only the building for this property. The land is subject to a ground lease between the Company and an unrelated third party.
- (m) The leasehold interests are amortized over the life of the respective leases which range from 12 years to 12.5 years.
- (n) The leasehold interest sites were acquired between August 1999 and August 2001.
- (o) Property is encumbered as a part of the Company's \$6,952 long-term, fixed rate mortgage and security agreement.
- (p) Property is encumbered as a part of the Company's \$21,000 long-term, fixed rate mortgage and security agreement.
- (q) Date acquired represents acquisition date of land. Pursuant to lease agreement, the Company funds the tenant's construction draws, final funding occurs generally within 12 months from the acquisition of the land.
- (r) The tenant of this property has subleased the property. The tenant continues to be responsible for complying with all the terms of the lease agreement and is continuing to pay rent on this property to the Company.

See accompanying report of independent registered public accounting firm.

NATIONAL RETAIL PROPERTIES, INC. AND SUBSIDIARIES

SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE

December 31, 2007

(dollars in thousands)

Description	Interest Rate	Maturity Date	Periodic Payment Terms	Prior Liens	Face Amount of Mortgages	Carrying Amount of Mortgages (e)	Principal Amount of Loans Subject to Delinquent Principal or Interest
First mortgages on properties:							
National City, CA	11.500%	2009	(b)	—	\$ 2,765	\$ 486	\$ —
San Jose, CA	11.500%	2009	(b)	—	2,565	536	—
Bellingham, WA	7.200%	2013	(b)	—	2,605	2,497	2,497(g)
Lake Jackson, TX	7.500%	2008	(b)	—	1,875	1,750	—
Paramus, NJ	9.000%	2022	(b)	—	6,000	5,652	—
Des Moines, IA	8.000%	2010	(d)	—	400	361	—
Terre Haute, IN	7.000%	2011	(c)	—	1,582	1,582	—
Plano, TX	9.500%	2008	(c)	—	22,737	11,082	—
Lubbock, TX	8.750%	2009	(c)	—	14,000	11,384	—
Cleveland, OH	10.000%	2028	(c)	—	6,644	4,430	—
Corpus Christi, TX	8.375%	2008	(c)	—	985	985	—
Corpus Christi, TX	8.375%	2008	(c)	—	1,222	1,222	—
Elsa, TX	8.375%	2008	(c)	—	869	869	—
Keystone Heights, FL	8.000%	2009	(c)	—	1,650	1,650	—
Chattanooga, TN	8.000%	2009	(c)	—	1,600	1,600	—
Lynchburg, VA	8.000%	2009	(c)	—	1,600	1,600	—
Martinsburg, WV	8.000%	2009	(c)	—	1,650	1,650	—
					<u>\$70,749</u>	<u>\$49,336(a)</u>	<u>\$2,497</u>

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

	2007	2006	2005
Balance at beginning of year	\$13,627	\$19,418	\$11,528
New mortgage loans	39,088(f)	1,582(f)	13,150(f)
Deductions during the year:			
Collections of principal	(3,379)	(7,373)	(5,260)
Balance at the close of year	<u>\$49,336</u>	<u>\$13,627</u>	<u>\$19,418</u>

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

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

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

(e) Mortgages held by NNN and its subsidiaries for federal income tax purposes for the years ended December 31, 2007, 2006 and 2005 were \$49,336, \$13,627 and \$19,418, respectively.

(f) Mortgages totaling \$39,088, \$1,582 and \$13,150 were accepted in connection with real estate transactions for the year ended December 31, 2007, 2006 and 2005, respectively.

(g) National Retail Properties, Inc. initiated foreclosure process in February 2008.

See accompanying report of independent registered public accounting firm.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") dated as of January 2, 2007, by and between National Retail Properties, Inc., with its principal place of business at 450 South Orange Avenue, Suite 900, Orlando, Florida 32801 (the "Company"), and Paul E. Bayer, residing at the address set forth on the signature page hereof ("Executive").

WHEREAS, the Company desires to continue to employ Executive, and Executive desires to continue to be employed by the Company; and

WHEREAS, the Company and Executive desire to enter into an Employment Agreement which sets forth the terms and conditions of Executive's continuing employment by the Company.

Accordingly, the parties hereto agree as follows:

1. Term. The Company hereby employs Executive, and Executive hereby accepts such employment, for a term (as the same may be extended, the "Term") commencing as of the date hereof and continuing for a two-year period, unless terminated earlier in accordance with the provisions of Section 4. On the second anniversary of the date hereof, the Term shall automatically be extended for successive two-year periods in accordance with the terms of this Agreement (subject to termination as aforesaid) unless either party notifies the other party of non-renewal in writing, in accordance with Section 8, 180 days prior to the expiration of the initial two-year period or any subsequent renewal period.

2. Duties. During the Term, Executive shall be employed by the Company as Executive Vice President, and, as such, Executive shall faithfully perform for the Company the duties of said office and shall perform such other duties of an executive, managerial or administrative nature as shall be specified and designated from time to time by the Board of Directors of the Company (the "Board") or the Chief Executive Officer of the Company, which duties shall not be materially inconsistent with the duties performed by executives holding similar offices with real estate investment trusts. Executive shall devote substantially all of his business time and effort to the performance of his duties hereunder, except that Executive may devote reasonable time and attention to civic, charitable, business or social activities so long as such activities do not interfere with Executive's employment duties. Executive shall comply with the policies, standards, and regulations established from time to time by the Company.

3. Compensation.

3.1 Salary. For purposes of this Agreement, a "Contract Year" shall mean each calendar year during the Term. During the first Contract Year of the Term, the Company shall pay Executive a base salary at the rate of \$170,000 per annum, in accordance with the customary payroll practices of the Company applicable to senior executives, but not less frequently than monthly. The Compensation Committee of the Board shall review Executive's base salary each Contract Year during the Term and may increase such amount as it may deem advisable (such salary, as the same may be increased, the "Annual Salary").

3.2 Bonus and Incentive Compensation. Executive will be entitled to participate in the Company's Annual Bonus Program (the "Bonus Plan") as follows:

(a) Annual Bonus Compensation. Executive shall be eligible to receive a bonus each Contract Year ("Annual Bonus") as the Compensation Committee of the Board of Directors shall determine. Executive's Annual Bonus shall be determined in accordance with the Company's executive compensation policies as in effect from time to time during the Term and shall be based, in part, on his achieving his individual performance goals for the year and, in part, on the Company's achieving its performance goals for the year.

(b) Equity Incentive Awards. Executive shall be eligible to participate each Contract Year in the Company's equity incentive plans pursuant to the Company's 2000 Performance Incentive Plan or such other plans or programs as the Compensation Committee shall determine.

3.3 Benefits - In General. Except with respect to benefits of a type otherwise provided for under Section 3.4, Executive shall be permitted during the Term to participate in any group life, hospitalization or disability insurance plans, health programs, retirement plans, fringe benefit programs and similar benefits that may be available to other senior executives of the Company generally, on the same terms as such other executives, in each case to the extent that Executive is eligible under the terms of such plans or programs.

3.4 Specific Benefits. Without limiting the generality of Section 3.3, the Company shall make available to Executive the fringe benefits set forth on Attachment "A" to this Agreement. Executive shall be entitled to 20 days of paid time off ("PTO") per Contract Year. Unless otherwise required by law, no more than 10 days of unused PTO may be carried forward (on a "first-in, first-out" basis) to the immediately following year (but not thereafter).

3.5 Expenses. The Company shall pay or reimburse Executive for all ordinary and reasonable out-of-pocket expenses incurred by Executive during the Term in the performance of Executive's services under this Agreement; provided that such expenses are incurred and accounted for by Executive in accordance with the policies and procedures established from time to time by the Company.

4. Termination of Employment.

4.1 Termination upon Death or Disability. If Executive dies during the Term, the obligations of the Company to or with respect to Executive shall terminate in their entirety except as otherwise provided under this Section 4.1. If Executive becomes eligible for disability benefits under the Company's long-term disability plans and arrangements (or, if none, if Executive by virtue of ill health or other disability is unable to perform substantially and continuously the duties assigned to him for at least 120 consecutive or non-consecutive days out of any consecutive 12-month period), the Company shall have the right, to the extent permitted by law, to terminate the employment of Executive upon notice in writing to Executive; provided that the Company will have no right to terminate Executive's employment if, in the reasonable opinion of a qualified physician acceptable to the Company, it is substantially certain that Executive will be able to resume Executive's duties on a regular full-time basis within 30 days of the date Executive receives notice of such termination. Upon death or other termination of employment by virtue of disability in accordance with this Section 4.1, Executive (or Executive's estate or beneficiaries in the case of the death of Executive) shall have no right to receive any compensation or benefit hereunder on and after the effective date of the termination of employment other than (i) Annual Salary and other benefits earned and accrued under this Agreement prior to the date of termination (and reimbursement under this Agreement for expenses incurred prior to the date of termination); (ii) a cash payment equal to the prorated portion of the Annual Bonus at the "target" level for the Contract Year or partial Contract Year in which

Executive's employment hereunder terminates; (iii) elimination of any exclusively time-based vesting conditions on any restricted stock, stock option or other equity awards in the Company he had been granted which he then continues to hold, to the extent then unvested (it being expressly understood and agreed that any performance-based vesting conditions (whether or not in tandem with such time-based vesting conditions) will continue in effect in accordance with their terms, except as may otherwise be provided to the contrary in the applicable award agreements); (iv) in the event of Executive's death, (A) a cash payment equal to two months of Executive's Annual Salary payable no later than 10 days after such termination, and (B) continuation to Executive's spouse and dependents of fully paid health insurance benefits under the Company's health plans and programs applicable to senior executives of the Company generally (if and as in effect from time to time) during the one year following the date of termination; and (v) Executive (or, in the case of his death, his estate and beneficiaries) shall have no further rights to any other compensation or benefits hereunder on or after the termination of employment, or any other rights hereunder.

4.2 Termination by the Company for Cause; Termination by Executive without Good Reason.

(a) For purposes of this Agreement, "Cause" shall mean Executive's:

- (i) conviction of (or pleading nolo contendere to), or an indictment or information is filed against Executive and is not discharged or otherwise resolved within 12 months thereafter, and said indictment or information charged Executive with a felony, any crime of moral turpitude, or any crime which is likely to result in material injury to the Company;
- (ii) the continued failure by Executive substantially to perform his duties or to carry out the lawful directives of the Board of Directors;
- (iii) material breach of a fiduciary duty relating to Executive's employment with the Company, or otherwise engaging in gross misconduct or willful or gross neglect (in connection with the performance of his duties) which is materially injurious to the Company; or
- (iv) material breach of any of Section 6 or any other provisions of this Agreement

provided, that the Company shall not be permitted to terminate Executive for Cause except on written notice given to Executive at any time following the occurrence of any of the events described in clause (i), (ii), (iii) or (iv) above. Notwithstanding the foregoing, Executive shall not be deemed to have been terminated for Cause under clause (ii) or (iv) above unless the Company provided written notice to Executive setting forth in reasonable detail the reasons for the Company's intention to terminate for Cause, Executive has been provided the opportunity, together with counsel, not later than 14 days following such notice to be heard before the Board and Executive failed within 30 days (or, if later, five business days after such hearing) to cure the event or deficiency set forth in the written notice.

(b) The Company may terminate Executive's employment hereunder for Cause, and Executive may terminate his employment at any time upon 60 days prior written notice to the Company. If the Company terminates Executive for Cause, or Executive terminates his employment

and the termination by Executive is not covered by Section 4.3, (i) Executive shall receive Annual Salary and other benefits (but, in all events, and without increasing Executive's rights under any other provision hereof, excluding any Annual Bonus not yet paid) earned and accrued under this Agreement prior to the termination of employment (and reimbursement under this Agreement for expenses incurred prior to the termination of employment), and (ii) Executive shall have no further rights to any other compensation or benefits hereunder on or after the termination of employment, or any other rights hereunder.

4.3 Termination by the Company without Cause; Termination by Executive for Good Reason.

(a) For purposes of this Agreement, "Good Reason" shall mean, unless otherwise consented to by Executive:

- (i) a material reduction in Executive's position, authority, duties or responsibilities;
- (ii) a reduction in Annual Salary of Executive;
- (iii) the relocation of Executive's office to more than 50 miles from the Company's principal place of business in Orlando, Florida;
- (iv) the Company's material breach of this Agreement; or
- (v) the Company's failure to obtain an agreement from any successor to the business of the Company by which the successor assumes and agrees to perform this Agreement.

Notwithstanding the foregoing, Good Reason under clause (i), (ii), (iii) or (iv) above shall not be deemed to exist unless notice of termination on account thereof (specifying a termination date no later than 15 days from the date of such notice) is given by Executive to the Company no later than 30 days after the time at which Executive first becomes or should have become aware of the event or condition purportedly giving rise to Good Reason; and, in such event, the Company shall have 30 days from the date notice of such a termination is given to cure such event or condition and, if the Company does so, such event or condition shall not constitute Good Reason hereunder.

(b) The Company may terminate Executive's employment at any time for any reason or no reason upon 30 days' prior written notice to Executive and Executive may terminate Executive's employment with the Company for Good Reason. If the Company terminates Executive's employment and the termination is not covered by Sections 4.1, 4.2 or 4.4 or Executive terminates his employment for Good Reason:

- (i) Executive shall (subject, in the case of the following clauses (C), (D), (E) and (H), to Executive's delivery of a general release reasonably acceptable to the Company which shall have become irrevocable) be entitled to:
 - (A) any accrued but unpaid Annual Salary and PTO due to Executive as of the termination of employment;

- (B) reimbursement under this Agreement for expenses incurred but unpaid prior to the termination of employment;
 - (C) a cash payment equal to 200% of Executive's Annual Salary, payable in equal installments over a 12-month period in accordance with the Company's usual and customary payroll practices, commencing on the first payday following Executive's termination; provided, however, that, in the event of such a termination upon or after a Change of Control, such payment shall be paid to Executive in a single sum no later than 10 days following delivery of the release referenced above and the release having become irrevocable; and provided, further, that no payments shall be made less than six months after termination to the extent required to comply with Section 409A of the Code (in which case any payments deferred under this provision shall be paid upon the six-month anniversary of termination);
 - (D) a cash payment equal to 200% of Executive's average Annual Bonus for the three Contract Years immediately preceding the date of termination, payable in equal installments over a 12-month period in accordance with the Company's usual and customary payroll practices, commencing on the first payday following Executive's termination; provided, however, that, in the event of such a termination upon or after a Change of Control, such payment shall be paid to Executive in a single sum no later than 10 days following delivery of the release referenced above and the release's having become irrevocable; and provided, further, that no payments shall be made less than six months after termination to the extent required to comply with Section 409A of the Code (in which case any payments deferred under this provision shall be paid upon the six-month anniversary of termination);
 - (E) any payment due under Section 5 hereof;
 - (F) vesting of any restricted stock, stock options or other equity awards in the Company Executive had been granted which Executive then continues to hold, to the extent then unvested;
 - (G) for a period of one year after termination, such health benefits under the Company's health plans and programs applicable to senior executives of the Company generally (if and as in effect from time to time) as Executive would have received under this Agreement (and at such costs to Executive as would have applied in the absence of such termination); provided, however, that the Company shall in no event be required to provide any benefits otherwise required by this clause (G) after such time as Executive becomes entitled to receive benefits of the same type from another employer or recipient of Executive's services (such entitlement being determined without regard to any individual waivers or other similar arrangements); and
 - (H) in the event of such a termination upon or after a Change of Control, a prorated Annual Bonus at the "target" level for the Contract Year or partial Contract Year in which Executive's employment hereunder terminates;
- provided that the amounts referred to in clauses (A), (B), (E) and (H) shall be paid to Executive in a single sum no later than 10 days following delivery of the release referenced above, except to the extent that a six-month delay is necessary to avoid tax under Section 409A of the Code; and
- (ii) Executive shall have no further rights to any other compensation or benefits hereunder on or after the termination of employment, or any other rights hereunder.

4.4 Natural Termination. In the event that Executive's employment by the Company pursuant to this Agreement terminates at the scheduled expiration of the Term because of a non-renewal of the Term as a result of a decision by the Company not to renew as contemplated by and in accordance with the last sentence of Section 1 (and not theretofore under Section 4.1, 4.2 or 4.3),

- (i) Executive shall (subject, in the case of the following clauses (C), (D) and (F), to Executive's delivery of a general release reasonably acceptable to the Company which shall have become irrevocable) be entitled to:
 - (A) any accrued but unpaid Annual Salary and PTO due to Executive as of the termination of employment;
 - (B) reimbursement under this Agreement for expenses incurred but unpaid prior to the termination of employment;
 - (C) a cash payment equal to 200% of Executive's Annual Salary in the case of expiration of the initial Term, or 100% of Executive's Annual Salary in the case of expiration of a renewal of the Term, payable in equal installments over a 12-month period in accordance with the Company's usual and customary payroll practices, commencing on the first payday following termination of this Agreement; provided, however, that no payments shall be made less than six months after termination to the extent required to comply with Section 409A of the Code (in which case any payments deferred under this provision shall be paid upon the six-month anniversary of termination);
 - (D) any payment due under Section 5 hereof;
 - (E) for a period of one year after termination, such health benefits under the Company's health plans and programs applicable to senior executives of the Company generally (if and as in effect from time to time) as Executive would have received under this Agreement (and at such costs to Executive as would have applied in the absence of such termination upon expiration); provided, however, that the Company shall in no event be required to provide any benefits otherwise required by this clause (E) after such time as Executive becomes entitled to receive benefits of the same type from another employer or recipient of Executive's services (such entitlement being determined without regard to any individual waivers or other similar arrangements);
 - (F) a prorated Annual Bonus at the "target" level for the Contract Year or partial Contract Year in which Executive's employment hereunder terminates; and
 - (G) only in the case of expiration of the initial Term, elimination of any exclusively time-based vesting conditions on any restricted stock, stock option or other equity awards in the Company Executive had been granted which Executive then continues to hold, to the extent then unvested (it being expressly understood and agreed that any performance-based vesting conditions (whether or not in tandem with such time-based vesting conditions) will continue in effect in accordance with their terms, except as may otherwise be provided to the contrary in the applicable award agreements);provided that the amounts referred to in clauses (A), (B), (D) and (F) shall be paid to Executive in a single sum no later than 10 days following delivery of the release referenced above, except to the extent that a six-month delay is necessary to avoid tax under Section 409A of the Code; and
- (ii) Executive shall have no further rights to any other compensation or benefits hereunder on or after the termination of employment, or any other rights hereunder.

5. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding and except as set forth below, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 5) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, and taking into account any withholding obligation on the part of the Company, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Subject to the provisions of Section 5(c), all determinations required to be made under this Section 5, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be used in arriving at such determination, shall be made by the Company's regular independent accounting firm (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and Executive within 15 business days of the receipt of notice from Executive that there has been a Payment, or such earlier time as is requested by the Company. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 5, shall be paid by the Company to Executive, net of any of the Company's federal or state withholding obligations with respect to such Payment, within five days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (each, an "Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 5(c) and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of Executive.

(c) Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of a Gross-Up Payment (or an additional Gross-Up Payment). Such notification shall be given as soon as practicable but no later than 10 business days after Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

- (i) give the Company any information reasonably requested by the Company relating to such claim,
- (ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,
- (iii) cooperate with the Company in good faith in order to effectively contest such claim, and
- (iv) permit the Company to participate in any proceedings relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall

indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation of the foregoing provisions of this Section 5(c), the Company shall control all proceedings taken in connection with such contest (to the extent applicable to the Excise Tax and the Gross-Up Payment) and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to Executive, on an interest-free basis and shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 5(c), Executive becomes entitled to receive any refund with respect to such claim, Executive shall (subject to the Company's complying with the requirements of Section 5(c)) promptly pay (in no more than five business days) to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 5(c), a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

6. Non-Competition, Non-Solicitation, and Confidentiality; Certain Other Covenants.

6.1 Disclosure of Confidential Information. Executive acknowledges that the Company will provide Executive with confidential and proprietary information regarding the business in which the Company or any of its current or future subsidiaries or affiliates (collectively, other than the Company, the "Company Affiliates") are involved, and the Company and the Company Affiliates will provide Executive with trade secrets, as defined in Section 688.002(4) of the Florida Statutes, of the Company and the Company Affiliates (hereinafter all such confidential information and trade secrets referred to as the "Confidential Information"). For purposes of this Agreement, "Confidential Information" includes, but is not limited to:

(a) Information related to the business of the Company and the Company Affiliates, including but not limited to marketing strategies and plans, sales procedures, operating policies and procedures, pricing and pricing strategies, business and strategic plans, financial statements and projections, accounting and tax positions and procedures, and other business and financial information of the Company and the Company Affiliates;

(b) Information regarding the customers of the Company and the Company Affiliates which Executive acquired as a result of his employment with the Company, including but not limited to, customer contracts, customer lists, work performed for customers, customer contacts, customer requirements and needs, data used by the Company and the Company Affiliates to formulate customer proposals, customer financial information and other information regarding the customer's business;

(c) Information regarding the vendors of the Company and the Company Affiliates which Executive acquired as a result of his employment with the Company, including but not limited to, product and service information and other information regarding the business activities of such vendors;

(d) Training materials developed by and utilized by the Company and the Company Affiliates;

(e) Any other information which Executive acquired as a result of his employment with the Company and which Executive has a reasonable basis to believe the Company or the Company Affiliates, as the case may be, would not want disclosed to a business competitor or to the general public; and

(f) Information which:

- (i) is proprietary to, about or created by the Company or the Company Affiliates;
- (ii) gives the Company or any of the Company Affiliates some competitive advantage, the opportunity of obtaining such advantage or the disclosure of which could be detrimental to the interests of the Company or the Company Affiliates;
- (iii) is not typically disclosed to non-executives by the Company or otherwise is treated as confidential by the Company or the Company Affiliates; or
- (iv) is designated as Confidential Information by the Company or from all the relevant circumstances should reasonably be assumed by Executive to be confidential to the Company or any Company Affiliates;

provided, however, that Confidential Information shall not include information which (x) at the time of receipt or thereafter becomes publicly known through no wrongful act of Executive, (y) is obtainable in the public domain, or (z) if Executive gives prior notice to the Company of any

disclosure of information described in the following provisions of this clause (z), can be and is demonstrated by Executive as not having been developed by use of or reference to other Confidential Information and as not having been acquired or developed by Executive in connection with Executive's employment or affiliation with the Company.

6.2 Covenant Not to Compete. While employed by the Company and, in the event of a termination of Executive's employment (other than in the event of a Change of Control and subsequent termination by the Company without Cause or by Executive for Good Reason or a termination due to non-renewal of the Term by the Company at the first time on or after the Change of Control that the Term is up for renewal), for a period of one year thereafter, in consideration of the obligations of the Company hereunder, including without limitation its disclosure of Confidential Information to Executive, Executive shall not, directly or indirectly, for compensation or otherwise, engage in or have any interest in any sole proprietorship, partnership, corporation, company, association, business or any other person or entity (whether as an employee, officer, corporation, business or any creditor, consultant or otherwise) that, directly or indirectly, competes with the Company's "Business" (as defined below) in any and all states in which the Company or any Company Affiliate conducts such business while Executive is employed by the Company or any Company Affiliate; provided, however, Executive may continue to hold securities of the Company or any Company Affiliate or continue to hold or acquire, solely as an investment, shares of capital stock or other equity securities of any company if (x) he currently holds an interest in such stock or other securities, and before the date hereof has disclosed to the Board in detail (I) the applicable company (or companies) and (II) the specific stock or other equity securities of the entity he owns, or (y) the stock or other securities are traded on any national securities exchange or are regularly quoted in the over-the-counter market, so long as Executive does not control, acquire a controlling interest in, or become a member of a group which exercises direct or indirect control of more than 5% of any class of capital stock of such corporation. For purposes of this Agreement, the Company's "Business" is defined so as to consist of the development, acquisition, ownership, management, and sale of a diversified portfolio of high-quality, freestanding net-lease properties leased to retail, restaurant, convenience-store and similar businesses, and such other businesses conducted by the Company after the date hereof, and from time to time during the Term, that shall become material and substantial with respect to the Company's then-overall business.

6.3 Non-Solicitation of Clients. While employed by the Company and, in the event of a termination of Executive's employment (other than in the event of a Change of Control and subsequent termination by the Company without Cause or by Executive for Good Reason or a termination due to non-renewal of the Term by the Company at the first time on or after the Change of Control that the Term is up for renewal), for a period of one year thereafter, in consideration of the obligations of the Company hereunder, including without limitation its disclosure of Confidential Information to Executive, Executive shall not, directly or indirectly, for himself or as principal, agent, independent contractor, consultant, director, officer, member, or employee of any other person, firm, corporation, partnership, company, association, business or other entity, solicit, attempt to contract with, or enter into a contractual or business relationship of any kind pertaining to any aspect of the Company's Business, or any other business conducted by the Company or any Company Affiliate at the time of termination of employment or at any time in the prior 12-month period, with any person or entity with which the Company or any Company Affiliate has any contractual or business relationship, or engaged in negotiations toward such a contract, in the previous 12 months, if such solicitation, attempt to contract with, or entering into a contractual or business relationship would have a material adverse effect on the Company's operations, financial condition, prospects or relationship with such person or entity.

6.4 Non-Solicitation of Employees. While employed by the Company and, in the event of a termination of Executive's employment (other than in the event of a Change of Control and subsequent termination by the Company without Cause or by Executive for Good Reason or a termination due to non-renewal of the Term by the Company at the first time on or after the Change of Control that the Term is up for renewal), for a period of one year thereafter, in consideration of the obligations of the Company hereunder, including without limitation its disclosure of Confidential Information to Executive, Executive shall not directly or indirectly, for himself or as principal, agent, independent contractor, consultant, director, officer, member, or employee of any other person, firm, corporation, partnership, company, association or other entity, either (i) hire, attempt to employ, contact with respect to hiring, solicit with respect to hiring or enter into any contractual arrangement with any employee or former employee of the Company or any Company Affiliate, or (ii) induce or otherwise advise or encourage any employee of the Company or any Company Affiliate to leave his or her employment; unless, in each such case, such employee or former employee has not been employed by the Company or a Company Affiliate for a period in excess of six months at the time of such solicitation, attempt to employ, contact, employment or inducement.

6.5 Confidentiality. While employed by the Company and after Executive's employment terminates, in consideration of the obligations of the Company hereunder, including without limitation its disclosure of Confidential Information to Executive, Executive shall keep secret and retain in strictest confidence, shall not disclose to any third-party, and shall not use for his benefit or the benefit of others, except in connection with the business affairs of the Company, any Company Affiliate, or any of their officers or directors (collectively, the "Benefited Persons"), all confidential and proprietary information and trade secrets relating to the business of the Company or any of the other Benefited Persons (but not if expressly excluded from being Confidential Information under the proviso of Section 6.1(f)), including, without limitation, the Confidential Information, unless such disclosure is required by a valid subpoena or other legal mandate or otherwise by rule of law or other valid order of a court or government body or agency. In the event disclosure so is required, Executive shall provide the Company with written notice of same at least five business days prior to the date on which Executive is required to make the disclosure. Notwithstanding the foregoing, the express terms of this Section 6.5 shall not apply in the event of a Change of Control and subsequent termination by the Company without Cause or by Executive for Good Reason or a termination due to non-renewal of the Term by the Company at the first time on or after the Change of Control that the Term is up for renewal.

6.6 Tangible Items. All files, records, documents, manuals, books, forms, reports, memoranda, studies, data, calculations, recordings, or correspondence, whether visually perceptible, machine-readable or otherwise, in whatever form they may exist, and all copies, abstracts and summaries of the foregoing, and all physical items related to the business of the Company, whether of a public nature or not, and whether prepared by Executive or not, are and shall remain the exclusive property of the Company, and shall not be removed from its premises, except as required in the course of Executive's employment by the Company, without the prior written consent of the Company. Such items, including any copies or other reproductions thereof, shall be promptly returned by Executive to the Company at any time upon the written request of the Company. Notwithstanding the foregoing, the express terms of this Section 6.6 shall not apply in the event of a Change of Control and subsequent termination by the Company without Cause or by Executive for Good Reason or a termination due to non-renewal of the Term by the Company at the first time on or after the Change of Control that the Term is up for renewal.

6.7 Remedies.

(a) The Company and Executive acknowledge and agree that a breach by Executive of any of the covenants contained in this Section 6 will cause immediate and irreparable harm and damage to the Company and any other Benefited Person, and that monetary damages will be inadequate to compensate the Company, and any other Benefited Person, as the case may be, for such breach. Accordingly, Executive acknowledges that the Company and any other Benefited Person affected shall, in addition to any other remedies available to it at law or in equity, be entitled to an injunction from any court of competent jurisdiction enjoining and restraining any violation of said covenants by Executive or any of his affiliates, associates, partners or agents, either directly or indirectly, without the necessity of proving the inadequacy of legal remedies or irreparable harm.

(b) Except with regard to Section 6.7(a), all disputes between the parties or any claims concerning the performance, breach, construction or interpretation of this Agreement, or in any manner arising out of this Agreement, shall be submitted to binding arbitration in accordance with the Commercial Arbitration Rules, as amended from time to time, of the American Arbitration Association (the "AAA"), which arbitration shall be carried out in the manner set forth below:

- (i) Within 15 days after written notice by one party to the other party of its demand for arbitration, which demand shall set forth the name and address of its designated arbitrator, the other party shall appoint its designated arbitrator and so notify the demanding party. Within 15 days thereafter, the two arbitrators so appointed shall appoint the third arbitrator. If the two appointed arbitrators cannot agree on the third arbitrator, then the AAA shall appoint an independent arbitrator as the third arbitrator. The dispute shall be heard by the arbitrators within 90 days after appointment of the third arbitrator. The decision of any two or all three of the arbitrators shall be binding upon the parties without any right of appeal. The decision of the arbitrators shall be final and binding upon the Company, its successors and assigns, and upon Executive, his heirs, personal representatives, and legal representatives.
- (ii) The arbitration proceedings shall take place in Orlando, Florida, and the judgment and determination of such proceedings shall be binding on all parties. Judgment upon any award rendered by the arbitrators may be entered into any court having competent jurisdiction without any right of appeal.
- (iii) Each party shall pay its or his own expenses of arbitration, and the expenses of the arbitrators and the arbitration proceeding shall be shared equally. However, if in the opinion of a majority of the arbitrators, any claim or defense was unreasonable, the arbitrators may assess, as part of their award, all or any part of the arbitration expenses of the other party (including reasonable attorneys' fees) and of the arbitrators and the arbitration proceeding.

6.8 Change of Control. For the purposes of this Agreement, "Change of Control" shall be a change of control under the applicable definition contained in Section 2.4 of the Company's 2000 Performance Incentive Plan, or successor thereto of comparable import; provided, however, that

in no event shall a Change of Control for purposes of this Agreement be deemed to have arisen merely by virtue of a “person” or “group” (which terms shall have the meaning they have when used in Section 13(d) of the Securities Exchange Act of 1934, as amended) having become a direct or indirect owner of Company securities (such that a Change of Control would, without regard to this proviso, otherwise have been deemed to have occurred), if Executive is or is a member of such person or group.

7. Severability. As the provisions of this Agreement are independent of and severable from each other, the Company and Executive agree that if, in any action before any court or agency legally empowered to enforce this Agreement, any term, restriction, covenant, or promise hereof is found to be unreasonable or otherwise unenforceable, then such decision shall not effect the validity of the other provisions of this Agreement, and such invalid term, restriction, covenant, or promise shall also be deemed modified to the extent necessary to make it enforceable.

8. Notice. For purposes of this Agreement, notices, demands and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when received if delivered in person, the next business day if delivered by overnight commercial courier (e.g., Federal Express), or the third business day if mailed by United States certified mail, return receipt requested, postage prepaid, to the following addresses:

(a) If to the Company, to:

National Retail Properties, Inc.
450 South Orange Avenue, Suite 900
Orlando, Florida 32801
Attn: Chairman of the Compensation Committee of the Board of Directors

with a copy to:

National Retail Properties, Inc.
450 South Orange Avenue, Suite 900
Orlando, Florida 32801
Attention: General Counsel

and

Pillsbury Winthrop Shaw Pittman LLP
2300 N Street, N.W.
Washington, DC 20037
Attn: Jeffrey B. Grill, Esq.

(b) If to Executive, to:

Paul E. Bayer
at the address set forth on the signature page hereof

Either party may change its address for notices in accordance with this Section 8 by providing written notice of such change to the other party.

9. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Florida.

10. Benefits; Binding Effect; Assignment. This Agreement shall be binding upon and inure to the benefit of the parties and their respective heirs, personal representatives, legal representatives, successors and permitted assigns. Executive shall not assign this Agreement. However, the Company is expressly authorized to assign this Agreement to a Company Affiliate upon written notice to Executive, provided that (i) the assignee assumes all of the obligations of the Company under this Agreement, (ii) Executive's role when viewed from the perspective of Company Affiliates in the aggregate is comparable to such role immediately before the assignment, and (iii) the Company, for so long as an affiliate of the assignee, remains secondarily liable for the financial obligations hereunder.

11. Attorney's Fees. The Company agrees to reimburse Executive for his reasonable legal fees incurred in reviewing this Agreement. In the event of any legal proceeding relating to this Agreement or any term or provision thereof, the losing party shall be responsible to pay or reimburse the prevailing party for all reasonable attorneys' fees incurred by the prevailing party in connection with such proceeding, except that, in the event of an arbitration, the provisions of Section 6.7(b)(iii) shall apply.

12. Entire Agreement Amendment. This Agreement, including its incorporated Attachment "A," constitutes the entire agreement between the parties, and all prior understandings, agreements or undertakings between the parties concerning Executive's employment or the other subject matters of this Agreement (including without limitation the Existing Employment Agreement) are superseded in their entirety by this Agreement.

13. Waivers and Amendments. This Agreement may be amended, superseded, canceled, renewed or extended, and the terms hereof may be waived, only by a written instrument signed by the parties or, in the case of a waiver, by the party waiving compliance. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any such right, power or privilege nor any single or partial exercise of any such right, power or privilege, preclude any other or further exercise thereof or the exercise of any other such right, power or privilege.

14. No Duty to Mitigate. Executive shall not be required to mitigate damages or the amount of any payment provided for under this Agreement by seeking other employment or otherwise, nor will any payments hereunder be subject to offset in the event Executive does mitigate (except as otherwise provided in clause (i)(G) of the second sentence of Section 4.3(b) or clause (i)(E) of Section 4.4).

15. Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original, but which together shall be one and the same instrument.

16. Tax Advice. Executive confirms and represents to the Company that he has had the opportunity to obtain the advice of legal counsel, financial and tax advisers, and such other professionals as he deems necessary for entering into this Agreement, and he has not relied upon the advice of the Company or the Company's officers, directors, or employees.

17. Interpretation. As both parties having had the opportunity to consult with legal counsel, no provision of this Agreement shall be construed against or interpreted to the disadvantage of any party by reason of such party having, or being deemed to have, drafted, devised, or imposed such provision.

IN WITNESS WHEREOF, the parties hereto have signed their names as of the day and year first above written.

NATIONAL RETAIL PROPERTIES, INC.

By: /s/ Craig Macnab
Name: Craig Macnab
Title: Chief Executive Officer

/s/ Paul E. Bayer
Paul E. Bayer

ATTACHMENT "A"

Additional Fringe Benefits

- \$500/month car allowance
- Long-term disability coverage providing benefits equal to two-thirds of Annual Salary
- Life insurance benefits with a face amount equal to Annual Salary (provided that, if at any time the Company cannot obtain such insurance at rates which are reasonable for the provision by the Company of such a benefit, the Company may then self-insure such benefits)

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") dated as of January 2, 2007, by and between National Retail Properties, Inc., with its principal place of business at 450 South Orange Avenue, Suite 900, Orlando, Florida 32801 (the "Company"), and Christopher P. Tessitore, residing at the address set forth on the signature page hereof ("Executive").

WHEREAS, the Company desires to continue to employ Executive, and Executive desires to continue to be employed by the Company; and

WHEREAS, the Company and Executive desire to enter into an Employment Agreement, which sets forth the terms and conditions of Executive's continuing employment by the Company.

Accordingly, the parties hereto agree as follows:

1. Term. The Company hereby employs Executive, and Executive hereby accepts such employment, for a term (as the same may be extended, the "Term") commencing as of the date hereof and continuing for a two-year period, unless terminated earlier in accordance with the provisions of Section 4. On the second anniversary of the date hereof, the Term shall automatically be extended for successive two-year periods in accordance with the terms of this Agreement (subject to termination as aforesaid) unless either party notifies the other party of non-renewal in writing, in accordance with Section 8, 180 days prior to the expiration of the initial two-year period or any subsequent renewal period.

2. Duties. During the Term, Executive shall be employed by the Company as Executive Vice President and General Counsel of the Company, and, as such, Executive shall faithfully perform for the Company the duties of said office and shall perform such other duties of an executive, managerial or administrative nature as shall be specified and designated from time to time by the Board of Directors of the Company (the "Board") or the Chief Executive Officer of the Company, which duties shall not be materially inconsistent with the duties performed by executives holding similar offices with real estate investment trusts. Executive shall devote substantially all of his business time and effort to the performance of his duties hereunder, except that Executive may devote reasonable time and attention to civic, charitable, business or social activities so long as such activities do not interfere with Executive's employment duties. Executive shall comply with the policies, standards, and regulations established from time to time by the Company.

3. Compensation.

3.1 Salary. For purposes of this Agreement, a "Contract Year" shall mean each calendar year during the Term. During the first Contract Year of the Term, the Company shall pay Executive a base salary at the rate of \$170,000 per annum, in accordance with the customary payroll practices of the Company applicable to senior executives, but not less frequently than monthly. The Compensation Committee of the Board shall review Executive's base salary each Contract Year during the Term and may increase such amount as it may deem advisable (such salary, as the same may be increased, the "Annual Salary").

3.2 Bonus and Incentive Compensation. Executive will be entitled to participate in the Company's Annual Bonus Program (the "Bonus Plan") as follows:

(a) Annual Bonus Compensation. Executive shall be eligible to receive a bonus each Contract Year ("Annual Bonus") as the Compensation Committee of the Board of Directors shall determine. Executive's Annual Bonus shall be determined in accordance with the Company's executive compensation policies as in effect from time to time during the Term and shall be based, in part, on his achieving his individual performance goals for the year and, in part, on the Company's achieving its performance goals for the year.

(b) Equity Incentive Awards. Executive shall be eligible to participate each Contract Year in the Company's equity incentive plans pursuant to the Company's 2000 Performance Incentive Plan or such other plans or programs as the Compensation Committee shall determine.

3.3 Benefits - In General. Except with respect to benefits of a type otherwise provided for under Section 3.4, Executive shall be permitted during the Term to participate in any group life, hospitalization or disability insurance plans, health programs, retirement plans, fringe benefit programs and similar benefits that may be available to other senior executives of the Company generally, on the same terms as such other executives, in each case to the extent that Executive is eligible under the terms of such plans or programs.

3.4 Specific Benefits. Without limiting the generality of Section 3.3, the Company shall make available to Executive the fringe benefits set forth on Attachment "A" to this Agreement. Executive shall be entitled to 20 days of paid time off ("PTO") per Contract Year. Unless otherwise required by law, no more than 10 days of unused PTO may be carried forward (on a "first-in, first-out" basis) to the immediately following year (but not thereafter).

3.5 Expenses. The Company shall pay or reimburse Executive for all ordinary and reasonable out-of-pocket expenses incurred by Executive during the Term in the performance of Executive's services under this Agreement; provided that such expenses are incurred and accounted for by Executive in accordance with the policies and procedures established from time to time by the Company.

4. Termination of Employment.

4.1 Termination upon Death or Disability. If Executive dies during the Term, the obligations of the Company to or with respect to Executive shall terminate in their entirety except as otherwise provided under this Section 4.1. If Executive becomes eligible for disability benefits under the Company's long-term disability plans and arrangements (or, if none, if Executive by virtue of ill health or other disability is unable to perform substantially and continuously the duties assigned to him for at least 120 consecutive or non-consecutive days out of any consecutive 12-month period), the Company shall have the right, to the extent permitted by law, to terminate the employment of Executive upon notice in writing to Executive; provided that the Company will have no right to terminate Executive's employment if, in the reasonable opinion of a qualified physician acceptable to the Company, it is substantially certain that Executive will be able to resume Executive's duties on a regular full-time basis within 30 days of the date Executive receives notice of such termination. Upon death or other termination of employment by virtue of disability in accordance with this Section 4.1, Executive (or Executive's estate or beneficiaries in the case of the death of Executive) shall have no right to receive any compensation or benefit hereunder on and after the effective date of the termination of employment other than (i) Annual Salary and other benefits earned and accrued under this Agreement prior to the date of termination (and reimbursement under this Agreement for expenses incurred prior to the date of termination); (ii) a cash payment equal to the prorated portion of the Annual Bonus at the "target" level for the Contract Year or partial Contract Year in which

Executive's employment hereunder terminates; (iii) elimination of any exclusively time-based vesting conditions on any restricted stock, stock option or other equity awards in the Company he had been granted which he then continues to hold, to the extent then unvested (it being expressly understood and agreed that any performance-based vesting conditions (whether or not in tandem with such time-based vesting conditions) will continue in effect in accordance with their terms, except as may otherwise be provided to the contrary in the applicable award agreements); (iv) in the event of Executive's death, (A) a cash payment equal to two months of Executive's Annual Salary payable no later than 10 days after such termination, and (B) continuation to Executive's spouse and dependents of fully paid health insurance benefits under the Company's health plans and programs applicable to senior executives of the Company generally (if and as in effect from time to time) during the one year following the date of termination; and (v) Executive (or, in the case of his death, his estate and beneficiaries) shall have no further rights to any other compensation or benefits hereunder on or after the termination of employment, or any other rights hereunder.

4.2 Termination by the Company for Cause; Termination by Executive without Good Reason.

(a) For purposes of this Agreement, "Cause" shall mean Executive's:

- (i) conviction of (or pleading nolo contendere to), or an indictment or information is filed against Executive and is not discharged or otherwise resolved within 12 months thereafter, and said indictment or information charged Executive with a felony, any crime of moral turpitude, or any crime which is likely to result in material injury to the Company;
- (ii) the continued failure by Executive substantially to perform his duties or to carry out the lawful directives of the Board of Directors;
- (iii) material breach of a fiduciary duty relating to Executive's employment with the Company, or otherwise engaging in gross misconduct or willful or gross neglect (in connection with the performance of his duties) which is materially injurious to the Company; or
- (iv) material breach of any of Section 6 or any other provisions of this Agreement

provided, that the Company shall not be permitted to terminate Executive for Cause except on written notice given to Executive at any time following the occurrence of any of the events described in clause (i), (ii), (iii) or (iv) above. Notwithstanding the foregoing, Executive shall not be deemed to have been terminated for Cause under clause (ii) or (iv) above unless the Company provided written notice to Executive setting forth in reasonable detail the reasons for the Company's intention to terminate for Cause, Executive has been provided the opportunity, together with counsel, not later than 14 days following such notice to be heard before the Board and Executive failed within 30 days (or, if later, five business days after such hearing) to cure the event or deficiency set forth in the written notice.

(b) The Company may terminate Executive's employment hereunder for Cause, and Executive may terminate his employment at any time upon 60 days prior written notice to the Company. If the Company terminates Executive for Cause, or Executive terminates his employment and the termination by Executive is not covered by Section 4.3, (i) Executive shall receive Annual

Salary and other benefits (but, in all events, and without increasing Executive's rights under any other provision hereof, excluding any Annual Bonus not yet paid) earned and accrued under this Agreement prior to the termination of employment (and reimbursement under this Agreement for expenses incurred prior to the termination of employment), and (ii) Executive shall have no further rights to any other compensation or benefits hereunder on or after the termination of employment, or any other rights hereunder.

4.3 Termination by the Company without Cause; Termination by Executive for Good Reason.

(a) For purposes of this Agreement, "Good Reason" shall mean, unless otherwise consented to by Executive:

- (i) a material reduction in Executive's position, authority, duties or responsibilities;
- (ii) a reduction in Annual Salary of Executive;
- (iii) the relocation of Executive's office to more than 50 miles from the Company's principal place of business in Orlando, Florida;
- (iv) the Company's material breach of this Agreement; or
- (v) the Company's failure to obtain an agreement from any successor to the business of the Company by which the successor assumes and agrees to perform this Agreement.

Notwithstanding the foregoing, Good Reason under clause (i), (ii), (iii) or (iv) above shall not be deemed to exist unless notice of termination on account thereof (specifying a termination date no later than 15 days from the date of such notice) is given by Executive to the Company no later than 30 days after the time at which Executive first becomes or should have become aware of the event or condition purportedly giving rise to Good Reason; and, in such event, the Company shall have 30 days from the date notice of such a termination is given to cure such event or condition and, if the Company does so, such event or condition shall not constitute Good Reason hereunder.

(b) The Company may terminate Executive's employment at any time for any reason or no reason upon 30 days' prior written notice to Executive and Executive may terminate Executive's employment with the Company for Good Reason. If the Company terminates Executive's employment and the termination is not covered by Sections 4.1, 4.2 or 4.4 or Executive terminates his employment for Good Reason:

- (i) Executive shall (subject, in the case of the following clauses (C), (D), (E) and (H), to Executive's delivery of a general release reasonably acceptable to the Company which shall have become irrevocable) be entitled to:
 - (A) any accrued but unpaid Annual Salary and PTO due to Executive as of the termination of employment;
 - (B) reimbursement under this Agreement for expenses incurred but unpaid prior to the termination of employment;

- (C) a cash payment equal to 200% of Executive's Annual Salary, payable in equal installments over a 12-month period in accordance with the Company's usual and customary payroll practices, commencing on the first payday following Executive's termination; provided, however, that, in the event of such a termination upon or after a Change of Control, such payment shall be paid to Executive in a single sum no later than 10 days following delivery of the release referenced above and the release having become irrevocable; and provided, further, that no payments shall be made less than six months after termination to the extent required to comply with Section 409A of the Code (in which case any payments deferred under this provision shall be paid upon the six-month anniversary of termination);
- (D) a cash payment equal to 200% of Executive's average Annual Bonus for the three Contract Years immediately preceding the date of termination, payable in equal installments over a 12-month period in accordance with the Company's usual and customary payroll practices, commencing on the first payday following Executive's termination; provided, however, that, in the event of such a termination upon or after a Change of Control, such payment shall be paid to Executive in a single sum no later than 10 days following delivery of the release referenced above and the release's having become irrevocable; and provided, further, that no payments shall be made less than six months after termination to the extent required to comply with Section 409A of the Code (in which case any payments deferred under this provision shall be paid upon the six-month anniversary of termination);
- (E) any payment due under Section 5 hereof;
- (F) vesting of any restricted stock, stock options or other equity awards in the Company Executive had been granted which Executive then continues to hold, to the extent then unvested;
- (G) for a period of one year after termination, such health benefits under the Company's health plans and programs applicable to senior executives of the Company generally (if and as in effect from time to time) as Executive would have received under this Agreement (and at such costs to Executive as would have applied in the absence of such termination); provided, however, that the Company shall in no event be required to provide any benefits otherwise required by this clause (G) after such time as Executive becomes entitled to receive benefits of the same type from another employer or recipient of Executive's services (such entitlement being determined without regard to any individual waivers or other similar arrangements); and

- (H) in the event of such a termination upon or after a Change of Control, a prorated Annual Bonus at the “target” level for the Contract Year or partial Contract Year in which Executive’s employment hereunder terminates;

provided that the amounts referred to in clauses (A), (B), (E) and (H) shall be paid to Executive in a single sum no later than 10 days following delivery of the release referenced above, except to the extent that a six-month delay is necessary to avoid tax under Section 409A of the Code; and

- (ii) Executive shall have no further rights to any other compensation or benefits hereunder on or after the termination of employment, or any other rights hereunder.

4.4 Natural Termination. In the event that Executive’s employment by the Company pursuant to this Agreement terminates at the scheduled expiration of the Term because of a non-renewal of the Term as a result of a decision by the Company not to renew as contemplated by and in accordance with the last sentence of Section 1 (and not theretofore under Section 4.1, 4.2 or 4.3),

- (i) Executive shall (subject, in the case of the following clauses (C), (D) and (F), to Executive’s delivery of a general release reasonably acceptable to the Company which shall have become irrevocable) be entitled to:
 - (A) any accrued but unpaid Annual Salary and PTO due to Executive as of the termination of employment;
 - (B) reimbursement under this Agreement for expenses incurred but unpaid prior to the termination of employment;
 - (C) a cash payment equal to 200% of Executive’s Annual Salary in the case of expiration of the initial Term, or 100% of Executive’s Annual Salary in the case of expiration of a renewal of the Term, payable in equal installments over a 12-month period in accordance with the Company’s usual and customary payroll practices, commencing on the first payday following termination of this Agreement; provided, however, that no payments shall be made less than six months after termination to the extent required to comply with Section 409A of the Code (in which case any payments deferred under this provision shall be paid upon the six-month anniversary of termination);
 - (D) any payment due under Section 5 hereof;
 - (E) for a period of one year after termination, such health benefits under the Company’s health plans and programs

applicable to senior executives of the Company generally (if and as in effect from time to time) as Executive would have received under this Agreement (and at such costs to Executive as would have applied in the absence of such termination upon expiration); provided, however, that the Company shall in no event be required to provide any benefits otherwise required by this clause (E) after such time as Executive becomes entitled to receive benefits of the same type from another employer or recipient of Executive's services (such entitlement being determined without regard to any individual waivers or other similar arrangements);

- (F) a prorated Annual Bonus at the "target" level for the Contract Year or partial Contract Year in which Executive's employment hereunder terminates; and
- (G) only in the case of expiration of the initial Term, elimination of any exclusively time-based vesting conditions on any restricted stock, stock option or other equity awards in the Company Executive had been granted which Executive then continues to hold, to the extent then unvested (it being expressly understood and agreed that any performance-based vesting conditions (whether or not in tandem with such time-based vesting conditions) will continue in effect in accordance with their terms, except as may otherwise be provided to the contrary in the applicable award agreements);

provided that the amounts referred to in clauses (A), (B), (D) and (F) shall be paid to Executive in a single sum no later than 10 days following delivery of the release referenced above, except to the extent that a six-month delay is necessary to avoid tax under Section 409A of the Code; and

- (ii) Executive shall have no further rights to any other compensation or benefits hereunder on or after the termination of employment, or any other rights hereunder.

5. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding and except as set forth below, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 5) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, and taking into account any withholding obligation on the part of the Company, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Subject to the provisions of Section 5(c), all determinations required to be made under this Section 5, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be used in arriving at such determination, shall be made by the Company's regular independent accounting firm (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and Executive within 15 business days of the receipt of notice from Executive that there has been a Payment, or such earlier time as is requested by the Company. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 5, shall be paid by the Company to Executive, net of any of the Company's federal or state withholding obligations with respect to such Payment, within five days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (each, an "Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 5(c) and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of Executive.

(c) Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of a Gross-Up Payment (or an additional Gross-Up Payment). Such notification shall be given as soon as practicable but no later than 10 business days after Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

- (i) give the Company any information reasonably requested by the Company relating to such claim,
- (ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,
- (iii) cooperate with the Company in good faith in order to effectively contest such claim, and
- (iv) permit the Company to participate in any proceedings relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with

respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation of the foregoing provisions of this Section 5(c), the Company shall control all proceedings taken in connection with such contest (to the extent applicable to the Excise Tax and the Gross-Up Payment) and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to Executive, on an interest-free basis and shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 5(c), Executive becomes entitled to receive any refund with respect to such claim, Executive shall (subject to the Company's complying with the requirements of Section 5(c)) promptly pay (in no more than five business days) to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 5(c), a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

6. Non-Competition, Non-Solicitation, and Confidentiality; Certain Other Covenants.

6.1 Disclosure of Confidential Information. Executive acknowledges that the Company will provide Executive with confidential and proprietary information regarding the business in which the Company or any of its current or future subsidiaries or affiliates (collectively, other than the Company, the "Company Affiliates") are involved, and the Company and the Company Affiliates will provide Executive with trade secrets, as defined in Section 688.002(4) of the Florida Statutes, of the Company and the Company Affiliates (hereinafter all such confidential information and trade secrets referred to as the "Confidential Information"). For purposes of this Agreement, "Confidential Information" includes, but is not limited to:

(a) Information related to the business of the Company and the Company Affiliates, including but not limited to marketing strategies and plans, sales procedures, operating policies and procedures, pricing and pricing strategies, business and strategic plans, financial statements and projections, accounting and tax positions and procedures, and other business and financial information of the Company and the Company Affiliates;

(b) Information regarding the customers of the Company and the Company Affiliates which Executive acquired as a result of his employment with the Company, including but not limited to, customer contracts, customer lists, work performed for customers, customer contacts, customer requirements and needs, data used by the Company and the Company Affiliates to formulate customer proposals, customer financial information and other information regarding the customer's business;

(c) Information regarding the vendors of the Company and the Company Affiliates which Executive acquired as a result of his employment with the Company, including but not limited to, product and service information and other information regarding the business activities of such vendors;

(d) Training materials developed by and utilized by the Company and the Company Affiliates;

(e) Any other information which Executive acquired as a result of his employment with the Company and which Executive has a reasonable basis to believe the Company or the Company Affiliates, as the case may be, would not want disclosed to a business competitor or to the general public; and

(f) Information which:

- (i) is proprietary to, about or created by the Company or the Company Affiliates;
- (ii) gives the Company or any of the Company Affiliates some competitive advantage, the opportunity of obtaining such advantage or the disclosure of which could be detrimental to the interests of the Company or the Company Affiliates;
- (iii) is not typically disclosed to non-executives by the Company or otherwise is treated as confidential by the Company or the Company Affiliates; or
- (iv) is designated as Confidential Information by the Company or from all the relevant circumstances should reasonably be assumed by Executive to be confidential to the Company or any Company Affiliates;

provided, however, that Confidential Information shall not include information which (x) at the time of receipt or thereafter becomes publicly known through no wrongful act of Executive, (y) is obtainable in the public domain, or (z) if Executive gives prior notice to the Company of any disclosure of information described in the following provisions of this clause (z), can be and is demonstrated by Executive as not having been developed by use of or reference to other Confidential Information and as not having been acquired or developed by Executive in connection with Executive's employment or affiliation with the Company.

6.2 Covenant Not to Compete. While employed by the Company and, in the event of a termination of Executive's employment (other than in the event of a Change of Control and subsequent termination by the Company without Cause or by Executive for Good Reason or a termination due to non-renewal of the Term by the Company at the first time on or after the Change of Control that the Term is up for renewal), for a period of one year thereafter, in consideration of the obligations of the Company hereunder, including without limitation its disclosure of Confidential Information to Executive, Executive shall not, directly or indirectly, for compensation or otherwise, engage in or have any interest in any sole proprietorship, partnership, corporation, company, association, business or any other person or entity (whether as an employee, officer, corporation, business or any creditor, consultant or otherwise) that, directly or indirectly, competes with the Company's "Business" (as defined below) in any and all states in which the Company or any Company Affiliate conducts such business while Executive is employed by the Company or any Company Affiliate; provided, however, Executive may continue to hold securities of the Company or any Company Affiliate or continue to hold or acquire, solely as an investment, shares of capital stock or other equity securities of any company if (x) he currently holds an interest in such stock or other securities, and before the date hereof has disclosed to the Board in detail (I) the applicable company (or companies) and (II) the specific stock or other equity securities of the entity he owns, or (y) the stock or other securities are traded on any national securities exchange or are regularly quoted in the over-the-counter market, so long as Executive does not control, acquire a controlling interest in, or become a member of a group which exercises direct or indirect control of more than 5% of any class of capital stock of such corporation. For purposes of this Agreement, the Company's "Business" is defined so as to consist of the development, acquisition, ownership, management, and sale of a diversified portfolio of high-quality, freestanding net-lease properties leased to retail, restaurant, convenience-store and similar businesses, and such other businesses conducted by the Company after the date hereof, and from time to time during the Term, that shall become material and substantial with respect to the Company's then-overall business.

6.3 Non-Solicitation of Clients. While employed by the Company and, in the event of a termination of Executive's employment (other than in the event of a Change of Control and subsequent termination by the Company without Cause or by Executive for Good Reason or a termination due to non-renewal of the Term by the Company at the first time on or after the Change of Control that the Term is up for renewal), for a period of one year thereafter, in consideration of the obligations of the Company hereunder, including without limitation its disclosure of Confidential Information to Executive, Executive shall not, directly or indirectly, for himself or as principal, agent, independent contractor, consultant, director, officer, member, or employee of any other person, firm, corporation, partnership, company, association, business or other entity, solicit, attempt to contract with, or enter into a contractual or business relationship of any kind pertaining to any aspect of the Company's Business, or any other business conducted by the Company or any Company Affiliate at the time of termination of employment or at any time in the prior 12-month period, with any person or entity with which the Company or any Company Affiliate has any contractual or business relationship, or engaged in negotiations toward such a contract, in the previous 12 months, if such solicitation, attempt to contract with, or entering into a contractual or business relationship would have a material adverse effect on the Company's operations, financial condition, prospects or relationship with such person or entity.

6.4 Non-Solicitation of Employees. While employed by the Company and, in the event of a termination of Executive's employment (other than in the event of a Change of Control and subsequent termination by the Company without Cause or by Executive for Good Reason or a

termination due to non-renewal of the Term by the Company at the first time on or after the Change of Control that the Term is up for renewal), for a period of one year thereafter, in consideration of the obligations of the Company hereunder, including without limitation its disclosure of Confidential Information to Executive, Executive shall not directly or indirectly, for himself or as principal, agent, independent contractor, consultant, director, officer, member, or employee of any other person, firm, corporation, partnership, company, association or other entity, either (i) hire, attempt to employ, contact with respect to hiring, solicit with respect to hiring or enter into any contractual arrangement with any employee or former employee of the Company or any Company Affiliate, or (ii) induce or otherwise advise or encourage any employee of the Company or any Company Affiliate to leave his or her employment; unless, in each such case, such employee or former employee has not been employed by the Company or a Company Affiliate for a period in excess of six months at the time of such solicitation, attempt to employ, contact, employment or inducement.

6.5 Confidentiality. While employed by the Company and after Executive's employment terminates, in consideration of the obligations of the Company hereunder, including without limitation its disclosure of Confidential Information to Executive, Executive shall keep secret and retain in strictest confidence, shall not disclose to any third-party, and shall not use for his benefit or the benefit of others, except in connection with the business affairs of the Company, any Company Affiliate, or any of their officers or directors (collectively, the "Benefited Persons"), all confidential and proprietary information and trade secrets relating to the business of the Company or any of the other Benefited Persons (but not if expressly excluded from being Confidential Information under the proviso of Section 6.1(f)), including, without limitation, the Confidential Information, unless such disclosure is required by a valid subpoena or other legal mandate or otherwise by rule of law or other valid order of a court or government body or agency. In the event disclosure so is required, Executive shall provide the Company with written notice of same at least five business days prior to the date on which Executive is required to make the disclosure. Notwithstanding the foregoing, the express terms of this Section 6.5 shall not apply in the event of a Change of Control and subsequent termination by the Company without Cause or by Executive for Good Reason or a termination due to non-renewal of the Term by the Company at the first time on or after the Change of Control that the Term is up for renewal.

6.6 Tangible Items. All files, records, documents, manuals, books, forms, reports, memoranda, studies, data, calculations, recordings, or correspondence, whether visually perceptible, machine-readable or otherwise, in whatever form they may exist, and all copies, abstracts and summaries of the foregoing, and all physical items related to the business of the Company, whether of a public nature or not, and whether prepared by Executive or not, are and shall remain the exclusive property of the Company, and shall not be removed from its premises, except as required in the course of Executive's employment by the Company, without the prior written consent of the Company. Such items, including any copies or other reproductions thereof, shall be promptly returned by Executive to the Company at any time upon the written request of the Company. Notwithstanding the foregoing, the express terms of this Section 6.6 shall not apply in the event of a Change of Control and subsequent termination by the Company without Cause or by Executive for Good Reason or a termination due to non-renewal of the Term by the Company at the first time on or after the Change of Control that the Term is up for renewal.

6.7 Remedies.

(a) The Company and Executive acknowledge and agree that a breach by Executive of any of the covenants contained in this Section 6 will cause immediate and irreparable harm and damage to the Company and any other Benefited Person, and that monetary damages will be inadequate to compensate the Company, and any other Benefited Person, as the case may be, for such

breach. Accordingly, Executive acknowledges that the Company and any other Benefited Person affected shall, in addition to any other remedies available to it at law or in equity, be entitled to an injunction from any court of competent jurisdiction enjoining and restraining any violation of said covenants by Executive or any of his affiliates, associates, partners or agents, either directly or indirectly, without the necessity of proving the inadequacy of legal remedies or irreparable harm.

(b) Except with regard to Section 6.7(a), all disputes between the parties or any claims concerning the performance, breach, construction or interpretation of this Agreement, or in any manner arising out of this Agreement, shall be submitted to binding arbitration in accordance with the Commercial Arbitration Rules, as amended from time to time, of the American Arbitration Association (the "AAA"), which arbitration shall be carried out in the manner set forth below:

- (i) Within 15 days after written notice by one party to the other party of its demand for arbitration, which demand shall set forth the name and address of its designated arbitrator, the other party shall appoint its designated arbitrator and so notify the demanding party. Within 15 days thereafter, the two arbitrators so appointed shall appoint the third arbitrator. If the two appointed arbitrators cannot agree on the third arbitrator, then the AAA shall appoint an independent arbitrator as the third arbitrator. The dispute shall be heard by the arbitrators within 90 days after appointment of the third arbitrator. The decision of any two or all three of the arbitrators shall be binding upon the parties without any right of appeal. The decision of the arbitrators shall be final and binding upon the Company, its successors and assigns, and upon Executive, his heirs, personal representatives, and legal representatives.
- (ii) The arbitration proceedings shall take place in Orlando, Florida, and the judgment and determination of such proceedings shall be binding on all parties. Judgment upon any award rendered by the arbitrators may be entered into any court having competent jurisdiction without any right of appeal.
- (iii) Each party shall pay its or his own expenses of arbitration, and the expenses of the arbitrators and the arbitration proceeding shall be shared equally. However, if in the opinion of a majority of the arbitrators, any claim or defense was unreasonable, the arbitrators may assess, as part of their award, all or any part of the arbitration expenses of the other party (including reasonable attorneys' fees) and of the arbitrators and the arbitration proceeding.

6.8 Change of Control. For the purposes of this Agreement, "Change of Control" shall be a change of control under the applicable definition contained in Section 2.4 of the Company's 2000 Performance Incentive Plan, or successor thereto of comparable import; provided, however, that in no event shall a Change of Control for purposes of this Agreement be deemed to have arisen merely by virtue of a "person" or "group" (which terms shall have the meaning they have when used in Section 13(d) of the Securities Exchange Act of 1934, as amended) having become a direct or indirect owner of Company securities (such that a Change of Control would, without regard to this proviso, otherwise have been deemed to have occurred), if Executive is or is a member of such person or group.

7. Severability. As the provisions of this Agreement are independent of and severable from each other, the Company and Executive agree that if, in any action before any court or agency legally empowered to enforce this Agreement, any term, restriction, covenant, or promise hereof is found to be unreasonable or otherwise unenforceable, then such decision shall not effect the validity of the other provisions of this Agreement, and such invalid term, restriction, covenant, or promise shall also be deemed modified to the extent necessary to make it enforceable.

8. Notice. For purposes of this Agreement, notices, demands and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when received if delivered in person, the next business day if delivered by overnight commercial courier (e.g., Federal Express), or the third business day if mailed by United States certified mail, return receipt requested, postage prepaid, to the following addresses:

(a) If to the Company, to:

National Retail Properties, Inc.
450 South Orange Avenue, 9th Floor
Orlando, Florida 32801
Attn: Chairman of the Compensation Committee of the Board of Directors

with a copy to:

National Retail Properties, Inc.
450 South Orange Avenue, 9th Floor
Orlando, Florida 32801
Attention: President

and

Pillsbury Winthrop Shaw Pittman LLP
2300 N Street, N.W.
Washington, DC 20037
Attn: Jeffrey B. Grill, Esq.

(b) If to Executive, to:

Christopher P. Tessitore
at the address set forth on the signature page hereof

Either party may change its address for notices in accordance with this Section 8 by providing written notice of such change to the other party.

9. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Florida.

10. Benefits; Binding Effect; Assignment. This Agreement shall be binding upon and inure to the benefit of the parties and their respective heirs, personal representatives, legal representatives, successors and permitted assigns. Executive shall not assign this Agreement. However, the Company is expressly authorized to assign this Agreement to a Company Affiliate upon written notice to

Executive, provided that (i) the assignee assumes all of the obligations of the Company under this Agreement, (ii) Executive's role when viewed from the perspective of Company Affiliates in the aggregate is comparable to such role immediately before the assignment, and (iii) the Company, for so long as an affiliate of the assignee, remains secondarily liable for the financial obligations hereunder.

11. Attorney's Fees. The Company agrees to reimburse Executive for his reasonable legal fees incurred in reviewing this Agreement. In the event of any legal proceeding relating to this Agreement or any term or provision thereof, the losing party shall be responsible to pay or reimburse the prevailing party for all reasonable attorneys' fees incurred by the prevailing party in connection with such proceeding, except that, in the event of an arbitration, the provisions of Section 6.7(b)(iii) shall apply.

12. Entire Agreement Amendment. This Agreement, including its incorporated Attachment "A," constitutes the entire agreement between the parties, and all prior understandings, agreements or undertakings between the parties concerning Executive's employment or the other subject matters of this Agreement (including without limitation the Existing Employment Agreement) are superseded in their entirety by this Agreement.

13. Waivers and Amendments. This Agreement may be amended, superseded, canceled, renewed or extended, and the terms hereof may be waived, only by a written instrument signed by the parties or, in the case of a waiver, by the party waiving compliance. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any such right, power or privilege nor any single or partial exercise of any such right, power or privilege, preclude any other or further exercise thereof or the exercise of any other such right, power or privilege.

14. No Duty to Mitigate. Executive shall not be required to mitigate damages or the amount of any payment provided for under this Agreement by seeking other employment or otherwise, nor will any payments hereunder be subject to offset in the event Executive does mitigate (except as otherwise provided in clause (i)(G) of the second sentence of Section 4.3(b) or clause (i)(E) of Section 4.4).

15. Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original, but which together shall be one and the same instrument.

16. Tax Advice. Executive confirms and represents to the Company that he has had the opportunity to obtain the advice of legal counsel, financial and tax advisers, and such other professionals as he deems necessary for entering into this Agreement, and he has not relied upon the advice of the Company or the Company's officers, directors, or employees.

17. Interpretation. As both parties having had the opportunity to consult with legal counsel, no provision of this Agreement shall be construed against or interpreted to the disadvantage of any party by reason of such party having, or being deemed to have, drafted, devised, or imposed such provision.

IN WITNESS WHEREOF, the parties hereto have signed their names as of the day and year first above written.

NATIONAL RETAIL PROPERTIES, INC.

By: /s/ Craig Macnab

Name: Craig Macnab

Title: Chief Executive Officer

/s/ Christopher P. Tessitore

Christopher P. Tessitore

ATTACHMENT "A"

Additional Fringe Benefits

- \$500/month car allowance
- Long-term disability coverage providing benefits equal to two-thirds of Annual Salary
- Life insurance benefits with a face amount equal to Annual Salary (provided that, if at any time the Company cannot obtain such insurance at rates which are reasonable for the provision by the Company of such a benefit, the Company may then self-insure such benefits)

NATIONAL RETAIL PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED RATIOS OF EARNINGS TO FIXED CHARGES

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net Earnings, before Extraordinary Item	\$157,110	\$182,505	\$ 74,614	\$64,934	\$53,473
Fixed Charges:					
Interest on Indebtedness	53,359	48,947	37,035	33,454	28,356
Amortization of Discount Relating to Indebtedness	163	136	104	123	146
Amortization of Treasury Lock Gain	(309)	(345)	(326)	(457)	(596)
Amortization of Deferred Charges	2,085	1,613	1,508	1,260	1,334
	<u>55,298</u>	<u>50,351</u>	<u>38,321</u>	<u>34,380</u>	<u>29,240</u>
Net Earnings Before Fixed Charges	<u>\$212,408</u>	<u>\$232,856</u>	<u>\$112,935</u>	<u>\$99,314</u>	<u>\$82,713</u>
Divided by Fixed Charges					
Fixed Charges	\$ 55,298	\$ 50,351	\$ 38,321	\$34,380	\$29,240
Capitalized and Deferred Interest	3,718	2,278	2,563	271	102
	<u>\$ 59,016</u>	<u>\$ 52,629</u>	<u>\$ 40,884</u>	<u>\$34,651</u>	<u>\$29,342</u>
Ratio of Net Earnings to Fixed Charges	<u>3.60</u>	<u>4.42</u>	<u>2.76</u>	<u>2.87</u>	<u>2.82</u>
Net Earnings Before Fixed Charges	\$212,408	\$232,856	\$112,935	\$99,314	\$82,713
Gain of Disposition of DC Office Buildings (May 2006)	—	(59,496)	—	—	—
	<u>\$212,408</u>	<u>\$173,360</u>	<u>\$112,935</u>	<u>\$99,314</u>	<u>\$82,713</u>
Ratio of Net Earnings to Fixed Charges adjusted for DC Office Buildings	<u>3.60</u>	<u>3.29</u>	<u>2.76</u>	<u>2.87</u>	<u>2.82</u>
Preferred Stock Dividends					
Series A Preferred Stock	\$ —	\$ 4,376	\$ 4,008	\$ 4,008	\$ 4,008
Series B Convertible Preferred Stock	—	419	1,675	1,675	502
Series C Redeemable Preferred Stock	6,785	923	—	—	—
Total Preferred Stock Dividends	<u>\$ 6,785</u>	<u>\$ 5,718</u>	<u>\$ 5,683</u>	<u>\$ 5,683</u>	<u>\$ 4,510</u>
Combined Fixed Charges and Preferred Stock Dividends	<u>\$ 65,801</u>	<u>\$ 58,347</u>	<u>\$ 46,567</u>	<u>\$40,334</u>	<u>\$33,852</u>
Ratio of Net Earnings to Combined Fixed Charges and Preferred Stock Dividends	<u>3.23</u>	<u>3.99</u>	<u>2.43</u>	<u>2.46</u>	<u>2.44</u>
Ratio of Net Earnings to Combined Fixed Charges and Preferred Stock Dividends adjusted for DC Office Buildings	<u>3.23</u>	<u>2.97</u>	<u>2.43</u>	<u>2.46</u>	<u>2.44</u>

**NATIONAL RETAIL PROPERTIES INC.
SUBSIDIARIES OF THE REGISTRANT
December 31, 2007**

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

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Form S-3 No. 333-132103, 333-132095, and No. 333-126071 and Form S-8 No. 333-64794, No. 333-15625 and No. 333-144100) of National Retail Properties, Inc. and subsidiaries of our reports dated February 22, 2008, with respect to the consolidated financial statements and schedules of National Retail Properties, Inc. and subsidiaries, and the effectiveness of internal control over financial reporting of National Retail Properties, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2007.

Ernst + Young LLP

February 22, 2008
Miami, Florida
Certified Public Accountants

Consent of Independent Registered Public Accounting Firm

The Board of Directors
National Retail Properties, Inc.:

We consent to the incorporation by reference in the registration statement (no.333-144100) on Form S-8, registration statement (no.333-15625) on Form S-8, registration statement (no.333-64794) on Form S-8, registration statement (no.333-126071) on Form S-3, registration statement (no.333-132103) on Form S-3, and registration statement (no. 333-132095) on Form S-3 of National Retail Properties, Inc. of our report dated February 17, 2006 except as to notes 2, 19, and 26 which are as of February 22, 2008, with respect to National Retail Properties, Inc. and subsidiaries, consolidated statements of earnings, stockholders' equity, and cash flows for year ended December 31, 2005, which report appears in the December 31, 2007 annual report on Form 10-K of National Retail Properties, Inc.

KPMG LLP

Orlando, Florida
February 22, 2008
Certified Public Accountants

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

I, Kevin B. Habicht, certify that:

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

February 22, 2008
Date

/s/ Kevin B. Habicht

Name: Kevin B. Habicht
Title: Chief Financial Officer

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

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Craig Macnab, Chairman of the Board and Chief Executive Officer, certifies that (1) this Annual Report of National Retail Properties, Inc. (the "Company") on Form 10-K for the period ended December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (this "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (2) the information contained in this Report fairly presents, in all material respects, the financial condition of the Company as of December 31, 2007 and 2006 and its results of operations for the years ended December 31, 2007, 2006 and 2005.

February 22, 2008

Date

/s/ Craig Macnab

Name: Craig Macnab
Title: Chairman of the Board and
Chief Executive Officer

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

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

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Kevin B. Habicht, Chief Financial Officer, certifies that (1) this Annual Report of National Retail Properties, Inc. (the "Company") on Form 10-K for the period ended December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (this "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (2) the information contained in this Report fairly presents, in all material respects, the financial condition of the Company as of December 31, 2007 and 2006 and its results of operations for the years ended December 31, 2007, 2006 and 2005.

February 22, 2008

Date

/s/ Kevin B. Habicht

Name: Kevin B. Habicht

Title: Chief Financial Officer

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

NYSE Regulation

Domestic Company Section 303A Annual CEO Certification

As the Chief Executive Officer of National Retail Properties, Inc. (NNN), and as required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual, I hereby certify that as of the date hereof I am not aware of any violation by the Company of NYSE's corporate governance listing standards, other than has been notified to the Exchange pursuant to Section 303A.12(b) and disclosed on Exhibit H to the Company's Domestic Company Section 303A Annual Written Affirmation.

This certification is:

Without qualification

or

With qualification

By: /s/ Craig Macnab

Print Name: Craig Macnab

Title: Chief Executive Officer

Date: May 12, 2007

Date Submitted: May 18, 2007

SHAREHOLDER INFORMATION

For General Information:

American Stock Transfer & Trust Company
Operations Center
6201 15th Avenue
Brooklyn, NY 11219
www.amstock.com
Shareholder Toll-free Line: 1-866-627-2644
Worldwide: 718-921-8346
Fax: 718-236-2641

For Dividend Reinvestment:

American Stock Transfer & Trust Company
P.O. Box 922
Wall Street Station
New York, NY 10269-0560

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

Counsel:

Pillsbury Winthrop Shaw Pittman LLP
Washington, D.C.

Corporate Office:

National Retail Properties, Inc.
450 S. Orange Avenue, Suite 900
Orlando, FL 32801
(800) NNN-REIT
(407) 265-7348
www.nnnreit.com

FORM 10-K

(As amended)

A copy of the Company's Form 10-K, as amended and filed with the Securities and Exchange Commission (SEC) for fiscal 2007, which includes as Exhibits the Chief Executive Officer and Chief Financial Officer certifications required to be filed with the SEC pursuant to Section 302 of the Sarbanes-Oxley Act, has been filed with the SEC and is included in this annual report and may also be obtained by stockholders without charge upon written request to the Company's Secretary at the above address, or on our website. During fiscal 2007, the Company filed with the New York Stock Exchange (NYSE) the Certification of its Chief Executive Officer confirming that the Chief Executive Officer was not aware of any violations by the Company of the NYSE's corporate governance listing standards.



**NATIONAL RETAIL
PROPERTIES**
NYSE:NNN

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Orlando, FL 32801
(800) NNN-REIT
www.nnnreit.com



Mixed Sources
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