



**NATIONAL RETAIL
PROPERTIES.**
NYSE:NNN



**DELIVERING
STABILITY
CREDIBILITY
REPEATABILITY**

2015

26 Years of Consecutive Annual Dividend Increases

99.1% occupancy as
of December 31, 2015

TOTAL RETURN COMPARISON

(NNN = \$40.05 at December 31, 2015)

	1 YEAR	3 YEARS	5 YEARS	10 YEARS	15 YEARS	20 YEARS	25 YEARS
NATIONAL RETAIL PROPERTIES (NNN)	6.4%	13.8%	14.2%	13.4%	16.9%	13.8%	14.8%
Indices							
* NAREIT Equity REIT Index (FNERTR)	2.8%	10.6%	11.9%	7.4%	11.1%	10.9%	12.1%
* Morgan Stanley REIT Index (RMS G)	2.5%	11.1%	11.9%	7.3%	11.0%	10.8%	n/a
S&P 500 Index (SPX)	1.4%	15.1%	12.5%	7.3%	5.0%	8.2%	9.8%
Nasdaq (CCMP)	7.1%	19.9%	15.0%	9.8%	5.9%	9.0%	10.9%
* S&P 400 Index (MID)	-2.2%	12.7%	10.6%	8.1%	8.3%	11.2%	11.1%
* Russell 1000 Index (RIY)	1.0%	15.0%	12.4%	7.4%	5.2%	8.3%	7.8%
* Russell 1000 Value Index (RLV)	-3.8%	13.1%	11.3%	6.1%	5.8%	8.5%	n/a

* NNN is a member of this index (removed from S&P 600 and added to S&P 400 in December 2011; removed from Russell 2000 and added to Russell 1000 in June 2012)

Source: Bloomberg



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INSIDE BACK COVER | SHAREHOLDER INFORMATION

VALUE OF \$1,000 INVESTMENT

(as of December 31, 2015)

	1 YEAR	3 YEARS	5 YEARS	10 YEARS	15 YEARS	20 YEARS	25 YEARS
NATIONAL RETAIL PROPERTIES (NNN)	\$ 1,064	\$ 1,474	\$ 1,940	\$ 3,517	\$ 10,338	\$ 13,176	\$ 31,724
	6.4%	13.8%	14.2%	13.4%	16.9%	13.8%	14.8%
Indices							
* NAREIT Equity REIT Index (FNERTR)	\$ 1,028	\$ 1,354	\$ 1,754	\$ 2,036	\$ 4,869	\$ 7,876	\$ 17,422
* Morgan Stanley REIT Index (RMS G)	\$ 1,025	\$ 1,370	\$ 1,753	\$ 2,031	\$ 4,785	\$ 7,749	\$ n/a
S&P 500 Index (SPX)	\$ 1,014	\$ 1,525	\$ 1,804	\$ 2,021	\$ 2,076	\$ 4,801	\$ 10,306
Nasdaq (CCMP)	\$ 1,071	\$ 1,723	\$ 2,011	\$ 2,542	\$ 2,350	\$ 5,594	\$ 13,373
* S&P 400 Index (MID)	\$ 978	\$ 1,432	\$ 1,657	\$ 2,187	\$ 3,302	\$ 8,328	\$ 13,957
* Russell 1000 Index (RIY)	\$ 1,010	\$ 1,520	\$ 1,796	\$ 2,038	\$ 2,148	\$ 4,936	\$ 6,599
* Russell 1000 Value Index (RLV)	\$ 962	\$ 1,446	\$ 1,704	\$ 1,811	\$ 2,340	\$ 5,103	n/a

* NNN is a member of this index (removed from S&P 600 and added to S&P 400 in December 2011; removed from Russell 2000 and added to Russell 1000 in June 2012)



9% recurring FFO growth
per share since 2012



DEAR FELLOW NNN SHAREHOLDERS

National Retail Properties (NYSE: NNN) delivered another excellent year in 2015. Recurring Funds From Operations (FFO) per share increased 6.7%. Our portfolio occupancy stayed above 98.6% for the entire year. Also, we increased our annual dividend paid per share for the 26th consecutive year.

While our one-year results were strong, we continue to focus on the medium- to long-term outlook. We are most proud that we've been able to sustain terrific multi-year performance: **we have produced an average annual total return to NNN shareholders of 14.8% over the past 25 years, outperforming virtually all of the major equity indices.**

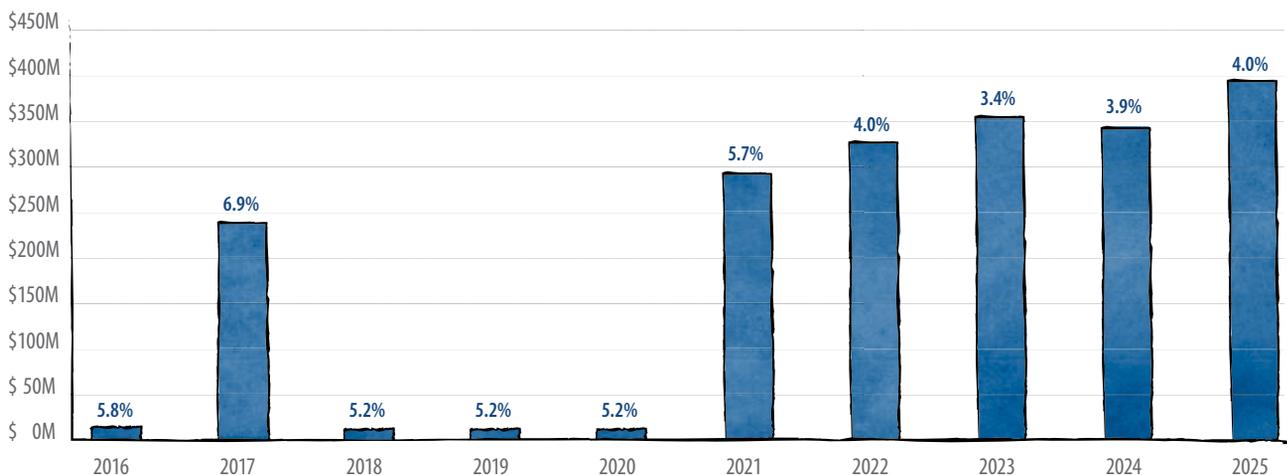
Our strategy **to build long-term shareholder value** remains unchanged. Our team continues to focus on the following three primary goals:

- generate consistent recurring annual FFO per share growth;
- annually increase our dividend per share;
- achieve these dual objectives while assuming below average balance sheet and portfolio risk.

We accomplished all of this while maintaining a very strong balance sheet, meaning our per-share results were not artificially supported by increased leverage or the use of short-term debt.

Well-Laddered Debt Maturities (as of December 31, 2015; percentages shown are weighted average interest rates)

NNN's low leverage balance sheet strategy is enhanced by its well-laddered debt maturity.



Top 25 tenants on average operate over 1,160 stores each



OUR LONG-TERM FOCUS AND STRATEGY

It has been said, “the man who gets the most satisfactory results is not always the man with the most brilliant single mind, but rather the man who can best coordinate the brains and talents of his associates.” At NNN, we are proud to find, develop and retain a best-in-class lineup of talented people. Our team is comprised of professionals who have extensive retail real estate expertise, deep understanding of financial management, comprehensive familiarity with legal procedures and an innate ability to create, maintain and expand important industry relationships. This team focuses relentlessly on playing to win through intense performance.

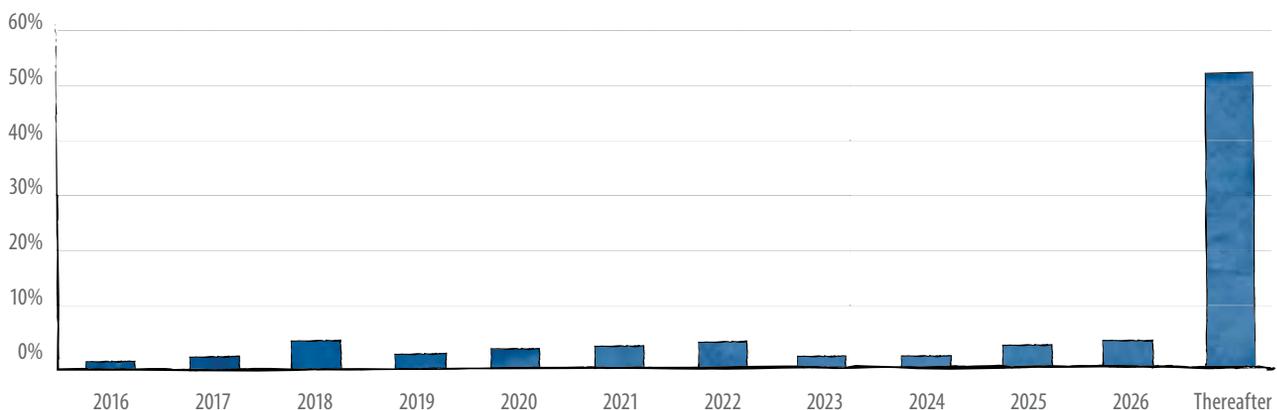
Having a great team has enabled us to become more efficient. For example, we have 15 fewer associates than we did a decade ago, yet our portfolio has tripled in size during that time. One of the reasons we’ve become so effective is the endurance of our team: 52% of our associates have worked together at NNN for more than 10 years. They work together to maximize shareholder value while nurturing our strong tenant relationships.

We’ve been able to accomplish this successful multi-decade track record by executing these primary tactics:

- Focus on multi-year results. We never worry about the short-term impact of our business decisions recognizing that we own long duration real assets.
- Grow a diversified and well-occupied net-leased **retail** property portfolio. We are confident that well-located retail locations generate better risk-adjusted shareholder returns than other property types.
- Continue to focus our acquisition efforts on well managed non-investment grade tenants. Our initial yields on these properties are attractive and the rental stream from these acquisitions grows over time. By contrast, properties leased to investment grade tenants command the highest prices and the rental stream generally has zero growth over time!
- Sell select locations and reinvest the proceeds into newer, higher yielding properties to improve the quality and growth prospects of our core portfolio.
- Maintain a strong balance sheet with conservative leverage and a staggered debt maturity schedule. This approach has enabled us to attain an enviable cost of capital.

Lease Expirations (as a percentage of annualized base rent as of December 31, 2015)

Weighted average remaining lease term is 11.4 years.



14.8% per year average
annual total return
over 25 years



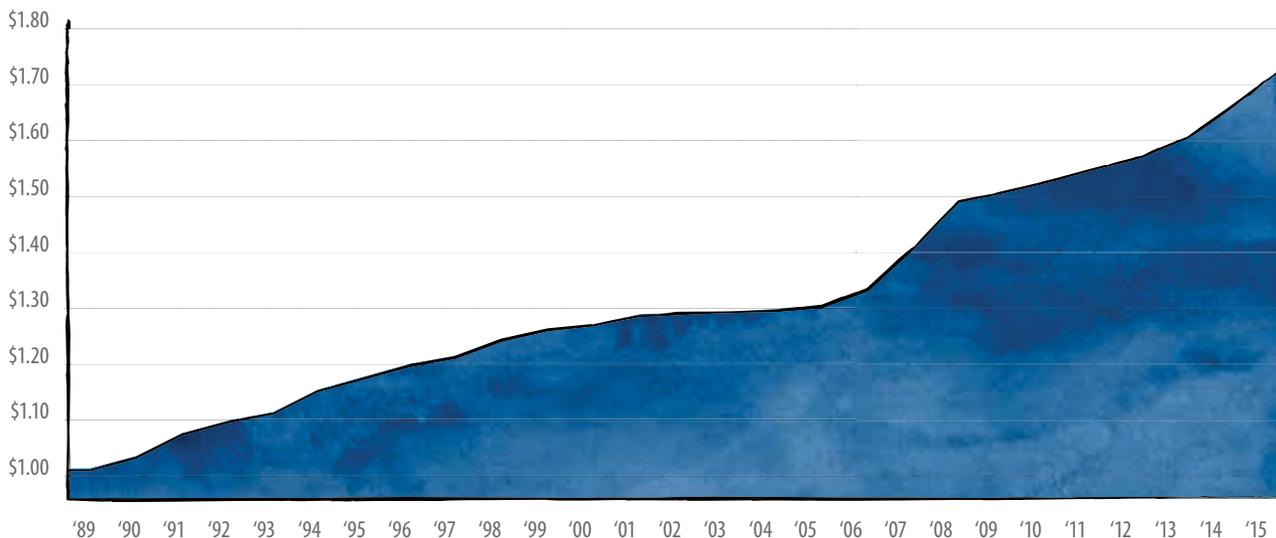
OUR 2015 PERFORMANCE

Highlights for NNN in 2015 include the following, as we

- Acquired 221 new properties investing \$726.3 million. Internally we continue to emphasize repeat acquisitions from existing relationship tenants. 37% of our new acquisitions came from these relationship tenants this past year.
- Sold 19 properties for \$39.1 million generating gains of \$10.4 million.
- Leased or renewed 61 properties and ended the year with 99.1% portfolio occupancy, which is well above the REIT industry average.
- Completed a 10-year unsecured note offering raising \$400 million at an all-in interest rate of 4.03%. We also took advantage of the attractive equity markets and raised a total of \$328 million of common equity during the year.
- Increased our annual dividend to \$1.71 per share, which represents the 26th consecutive annual dividend increase.

26 Consecutive Annual Dividend Increases

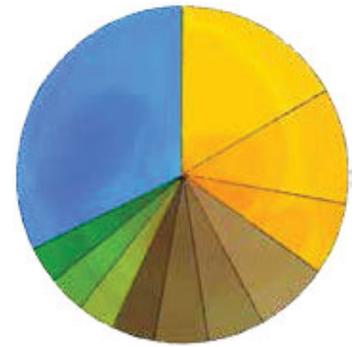
Fourth longest run of all public REITs and longer than 99% of all public companies



26 consecutive annual
dividend increases
paid per share



OUR DIVERSIFIED PORTFOLIO



Lines of Trade

(Based on the annualized base rent for all leases in place as of December 31, 2015)

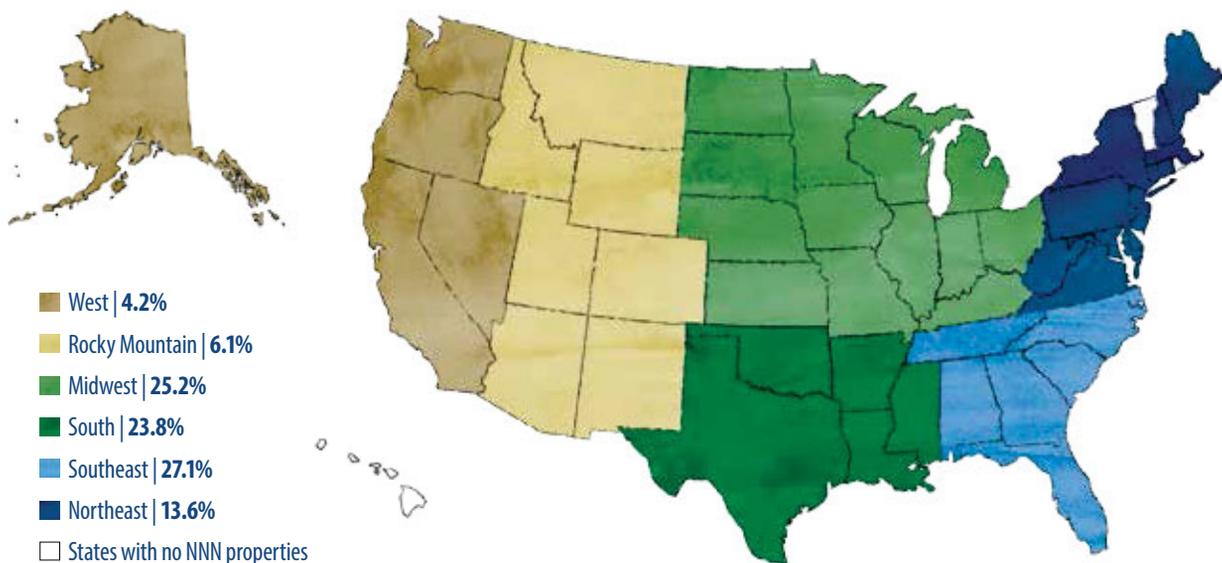
- Convenience Stores | **16.7%**
- Restaurants - Full Service | **11.0%**
- Restaurants - Quick Service | **7.2%**
- Automotive Service | **7.0%**
- Family Entertainment Centers | **5.6%**
- Theaters | **5.2%**
- Automotive Parts | **4.2%**
- Health and Fitness | **3.8%**
- RV Sales and Service | **3.6%**
- Banks | **3.4%**
- Other | **32.3%**

National Retail Properties owns a fully diversified portfolio of 2,257 retail properties that on average cost \$2.7 million each. Our properties are located in 47 states and are leased to over 400 national and regional tenants operating in 38 different retail industry classifications.

We concentrate on small box retail, typically around a 5,000-square-foot building on an acre site – such as convenience stores and restaurants – that are located on busy streets, at or near an intersection with easy access into and out of the property.

We seek to partner with retailers that operate in lines of trade that are less susceptible to an e-commerce threat. Roughly four percent of our portfolio (books, office supply, and consumer electronics) has direct exposure to significant online shopping competition.

A Diverse National Portfolio



\$726.3 million
invested in 221 new
properties in 2015



OUR HISTORICAL FINANCIAL HIGHLIGHTS

(dollars in thousands, except per share data)

	2015	2014	2013	2012	2011
GROSS REVENUES⁽¹⁾	\$ 483,023	\$ 435,248	\$ 397,006	\$ 342,059	\$ 271,696
EARNINGS FROM CONTINUING OPERATIONS	187,511	179,777	154,006	132,338	84,463
EARNINGS INCLUDING NONCONTROLLING INTERESTS	197,961	191,170	160,085	141,937	92,416
NET EARNINGS ATTRIBUTABLE TO NNN	197,836	190,601	160,145	142,015	92,325
TOTAL ASSETS	5,460,044	4,915,551	4,445,308	3,980,210	3,429,067
TOTAL DEBT	1,975,944	1,729,891	1,560,844	1,579,148	1,333,133
TOTAL STOCKHOLDERS' EQUITY OF NNN	3,342,134	3,082,515	2,777,045	2,296,285	2,002,498
CASH DIVIDENDS DECLARED TO:					
Common stockholders	228,699	204,157	189,107	167,495	133,720
Series C preferred stockholders	—	—	—	1,979	6,785
Series D preferred stockholders	19,047	19,047	19,047	15,449	—
Series E preferred stockholders	16,387	16,387	8,876	—	—
WEIGHTED AVERAGE COMMON SHARES:					
Basic	133,998,674	124,257,558	118,204,148	106,965,156	88,100,076
Diluted	134,489,416	124,710,226	119,864,824	109,117,515	88,837,057
PER SHARE INFORMATION:					
Earnings from continuing operations:					
Basic	\$ 1.21	\$ 1.24	\$ 1.06	\$ 1.04	\$ 0.88
Diluted	1.20	1.24	1.05	1.02	0.87
Net earnings:					
Basic	1.21	1.24	1.11	1.13	0.96
Diluted	1.20	1.24	1.10	1.11	0.96
Cash dividends declared to:					
Common stockholders	1.71	1.65	1.60	1.56	1.53
Series C preferred depositary stockholders	—	—	—	0.537760	1.843750
Series D preferred depositary stockholders	1.656250	1.656250	1.656250	1.343403	—
Series E preferred depositary stockholders	1.425000	1.425000	0.771875	—	—
OTHER DATA:					
Cash flows provided by (used in):					
Operating activities	\$ 341,095	\$ 296,733	\$ 274,421	\$ 228,130	\$ 177,728
Investing activities	(644,544)	(541,558)	(568,040)	(601,759)	(752,068)
Financing activities	307,105	253,944	293,028	373,623	574,374
FUNDS FROM OPERATIONS – AVAILABLE TO COMMON STOCKHOLDERS⁽²⁾	289,193	260,902	228,622	193,563	139,834

⁽¹⁾ Gross revenues include revenues from NNN's continuing and discontinued operations. Prior to January 1, 2014, in accordance with FASB guidance on Accounting for the Impairment or Disposal of Long-Lived Assets, NNN classified the revenues related to (i) all Properties which generated revenue that were sold and a leasehold interest which expired and (ii) all Properties which generated revenue and were held for sale at December 31, 2013, as discontinued operations. Effective January 1, 2014, NNN early adopted ASU 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposal of Components of an Entity." Therefore, only disposals representing a strategic shift in operations are to be presented as discontinued operations. This requires the Company to continue to classify any Property disposal or Property classified as held for sale as of December 31, 2013, as discontinued operations prospectively. Therefore, the revenues and expenses related to these properties are presented as discontinued operations as of December 31, 2014. The Company has not classified any additional properties as discontinued operations subsequent to December 31, 2013.

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

85% of dollars
invested in 2015 with
relationship tenants



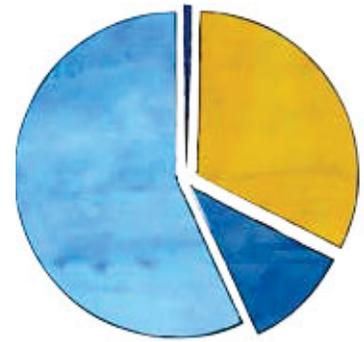
OUR STRONG BALANCE SHEET

We continue to adhere to our strategy of maintaining an investment grade balance sheet. At the end of the year our total debt-to-total gross book assets remained approximately 33%. The average maturity of our debt is seven years and we have employed very little bank debt in the recent past. It may be that balance sheet strength is more important in 2016 than it has been in the past several years.

Our Capital Structure

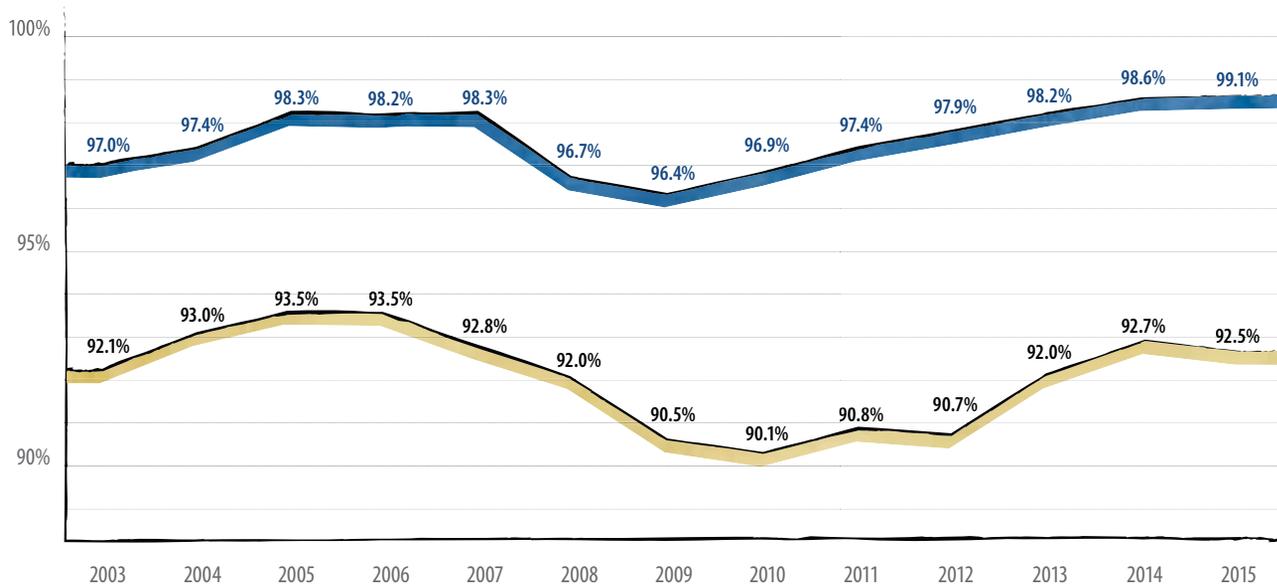
(as of December 31, 2015 – based on Total Gross Book Assets)

- Secured Debt
0.4% | \$24.0 Million
- Unsecured Debt
32.8% | \$1,952.0 Million
- Preferred Equity
9.7% | \$575.0 Million
- Common Equity
57.1% | \$3,401.4 Million



NNN Occupancy vs. REIT Industry Average

- NNN
- REIT Industry (Excluding Hotels & Healthcare)



Only 4% of leases expire through year-end 2017



Key Elements for SHAREHOLDER VALUE CREATION AT NNN

Our management team and Board of Directors are convinced that we will continue to build value over the medium- to long-term for our shareholders by:

- Carefully allocating capital into well underwritten **retail** properties.
- Focusing our energy on **increasing per share value** as opposed to simply growing our asset base.
- Continuing to seek out **relationship tenants** with whom we can do repeat business while maintaining a high level of service with our existing, expanding retail partners.
- Evaluating all corporate or large portfolio acquisition opportunities, but only pursuing those which are consistent with our goal of building long-term shareholder value.
- Maintaining a conservative and flexible balance sheet which allows for future growth.



Finally, I would like to say a special thank you to Ted Lanier and former Florida Governor Bob Martinez, two long-serving Board members who are retiring as part of our director succession plan. Ted first joined our Board in 1988 when we only had total assets of \$15 million and served as Lead Director since 2008. His far-reaching background in banking and accounting combined with his deep understanding of our company made him a valuable shareholder advocate. Governor Martinez served on our Board since 2002 and brought his diverse government and legal background to work in the best interests of the company and shareholders. Lastly, it is with a heavy heart that I report that Rich Jennings, a devoted Board member since 2000, recently passed away. Rich had a distinguished real estate investment banking career spanning more than five decades and employed his sharp expertise in finance and real estate on behalf of NNN's shareholders. It was a pleasure working with all three of them for many years and they will all be greatly missed.

On behalf of the associates and directors of NNN, we thank you, our loyal shareholders, for your continued support. We appreciate your investment in NNN and are committed to delivering hard work and solid results to maintain your respect and confidence in the years ahead.

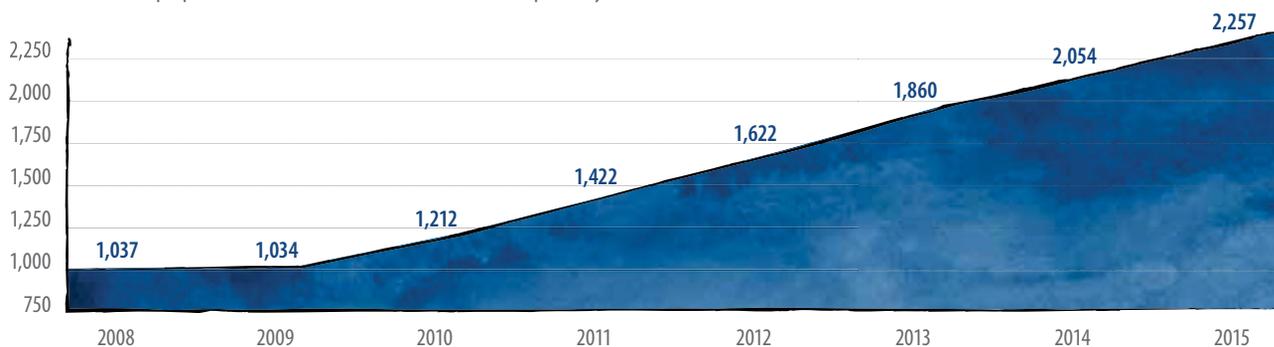
Sincerely,



Craig Macnab
Chairman and Chief Executive Officer

Portfolio Growth

Number of properties owned as of December 31 for each respective year



OUR OFFICERS AND DIRECTORS

Executive Officers

CRAIG MACNAB
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
& Chief Investment Officer

**CHRISTOPHER P.
TESSITORE**
Executive Vice President
& General Counsel

STEPHEN A. HORN, JR.
Executive Vice President
& Chief Acquisition Officer

Directors

CRAIG MACNAB
Chairman

TED B. LANIER*
Lead Director

DON DEFOSET
Retired Chairman, President
& Chief Executive Officer
Walter Industries, Inc.

DAVID M. FICK*
Professional Faculty Member,
Johns Hopkins University Carey
Business School and President
of Nandua Oyster Company

EDWARD J. FRITSCH*
President & Chief Executive
Officer Highwoods Properties

KEVIN B. HABICHT

ROBERT C. LEGLER
Retired Chairman
First Marketing Corporation

ROBERT MARTINEZ*
Fortieth Governor of Florida
and Senior Policy Advisor
Holland & Knight

SAM L. SUSSE*
President
Susser Holdings II, L.P.

*Member audit committee
(Committees as of February 28, 2016)

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015

OR

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

For the transition period from _____ to _____

Commission file number 001-11290

NATIONAL RETAIL PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

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

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

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

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
6.625% Series D Preferred Stock, \$0.01 par value	New York Stock Exchange
5.700% Series E Preferred Stock, \$0.01 par value	New York Stock Exchange

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

None
(Title of class)

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

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

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

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

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

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

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

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

The aggregate market value of voting common stock held by non-affiliates of the registrant as of June 30, 2015 was \$4,650,752,000.

The number of shares of common stock outstanding as of January 28, 2016 was 141,046,162.

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 2016 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission (the "Commission") pursuant to Regulation 14A. The definitive Proxy Statement will be filed with the Commission not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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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 all of its consolidated subsidiaries. NNN may elect to treat certain subsidiaries as taxable real estate investment trust subsidiaries. These subsidiaries and their majority owned and controlled subsidiaries are collectively referred to as the “TRS.”

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

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

Item 1. Business

The Company

NNN, a Maryland corporation, is a fully integrated real estate investment trust (“REIT”) formed in 1984. NNN's assets include: real estate assets, mortgages and notes receivable, and commercial mortgage residual interests. NNN's consolidated financial statements are included in Item 8 of this Annual Report on Form 10-K.

Real Estate Assets

NNN acquires, owns, invests in and develops properties that are leased primarily to retail tenants under long-term net leases and are primarily held for investment (“Properties” or “Property Portfolio,” or individually a “Property”). NNN owned 2,257 Properties with an aggregate gross leasable area of approximately 24,964,000 square feet, located in 47 states, with a weighted average remaining lease term of 11.4 years as of December 31, 2015. Approximately 99 percent of the Properties were leased as of December 31, 2015.

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 28, 2016, NNN employed 62 associates.

Other Information

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

The common shares of National Retail Properties, Inc. are traded on the New York Stock Exchange (the “NYSE”) under the ticker symbol “NNN.” The depositary shares, each representing a 1/100th of a share of 6.625% Series D Cumulative Redeemable Preferred Stock, par value \$0.01 per share (“Series D Preferred Stock”), of NNN are traded on the NYSE under the ticker symbol “NNNPRD.” The depositary shares, each representing a 1/100th of a share of 5.700% Series E Cumulative Redeemable Preferred Stock, par value \$0.01 per share (“Series E Preferred Stock”), of NNN are traded on the NYSE under the ticker symbol “NNNPRE.”

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 the Board of Directors and, in general, may be amended or revised from time to time by management and 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 well located within each local market for its tenants' retail lines of trade. Management believes that these types of properties, generally leased pursuant to triple-net leases, provide attractive opportunities for stable current returns and the potential for increased returns and capital appreciation. Triple-net leases typically require the tenant to pay property operating expenses such as insurance, utilities, repairs, maintenance, capital expenditures and real estate taxes and assessments. Initial lease terms are generally 15 to 20 years.

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

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

The operating strategies employed by NNN have allowed NNN to increase the annual dividend (paid quarterly) per common share for 26 consecutive years, one of only four publicly traded REITs to do so.

Investment in Real Estate or Interests in Real Estate

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

In evaluating a particular acquisition, management may consider a variety of factors, including but not limited to:

- the location, visibility and accessibility of the property,
- the geographic area and demographic characteristics of the community, as well as the local real estate market, including potential for growth, market rents, and existing or potential competing properties or retailers,
- the size, age and title status 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 quality of construction and design and the current physical condition of the property,
- the property-level operating history,
- 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 leases,
- the rent to be paid by the tenant,
- the potential for, and current extent of, any environmental problems, and
- any existing indebtedness encumbering the property which may be assumed or incurred in connection with acquiring or refinancing these investments.

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. Additionally, NNN does not intend to engage in activities that will make NNN an investment company under the Investment Company Act of 1940, as amended.

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 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 personal property, (iv) loans secured by partnership or membership interests in partnerships or limited liability companies, respectively, or (v) securities of other REITs, or other issuers, including for the purpose of exercising control over such entities.

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 properties with cash from its \$650,000,000 unsecured revolving credit facility ("Credit Facility"). As of December 31, 2015, there was no outstanding balance and \$650,000,000 was available for future borrowings under the Credit Facility.

As of December 31, 2015, NNN's ratio of total debt to total gross assets (before accumulated depreciation and amortization) was approximately 33 percent and the ratio of secured indebtedness to total gross assets was less than one percent. The ratio of total debt to total market capitalization was approximately 25 percent. Certain financial agreements contain covenants that limit NNN's ability to incur additional debt under certain circumstances.

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

The organizational documents of NNN do not limit the absolute amount or percentage of indebtedness that NNN may incur. Additionally, NNN may change its financing strategy at any time.

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.

Property Portfolio

As of December 31, 2015, NNN owned 2,257 Properties with an aggregate gross leasable area of approximately 24,964,000 square feet, located in 47 states, with a weighted average remaining lease term of 11.4 years. Approximately 99 percent of total Properties were leased as of December 31, 2015.

The following table summarizes the Property Portfolio at December 31, 2015 (in thousands):

	Size ⁽¹⁾			Acquisition Cost ⁽²⁾		
	High	Low	Average	High	Low	Average
Land	3,733	2	103	\$ 8,882	\$ 5	\$ 878
Building	142	1	11	29,373	19	1,782

(1) Approximate square feet.

(2) Costs vary depending upon size, local market conditions and other factors.

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

Number of properties		27
Total commitment ⁽¹⁾	\$	116,394
Amount funded	\$	87,406
Remaining commitment	\$	28,988

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

Leases

The following is a summary of the general structure of the leases in the Property Portfolio, although the specific terms of each lease can vary. Generally, the Property leases provide for initial terms of 15 to 20 years. As of December 31, 2015, the weighted average remaining lease term of the Property Portfolio was approximately 11.4 years. The Properties are generally leased under net leases, pursuant to which the tenant typically bears responsibility for substantially all property costs and expenses associated with ongoing maintenance and operation, including utilities, property taxes and insurance. NNN's leases provide for annual base rental payments (payable in monthly installments) ranging from \$6,000 to \$2,668,000 (average of \$220,000), and generally provide for increases in rent as a result of (i) fixed increases, (ii) increases in the Consumer Price Index ("CPI"), or, to a lesser extent, (iii) increases in the tenant's sales volume.

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

The following table summarizes the lease expirations, assuming none of the tenants exercise renewal options, of the Property Portfolio for each of the next 10 years and then thereafter in the aggregate as of December 31, 2015:

	% of Annual Base Rent ⁽¹⁾	# of Properties	Gross Leasable Area ⁽²⁾		% of Annual Base Rent ⁽¹⁾	# of Properties	Gross Leasable Area ⁽²⁾
2016	1.0%	27	363,000	2022	5.6%	96	1,143,000
2017	3.0%	52	1,084,000	2023	2.5%	55	903,000
2018	6.3%	183	1,645,000	2024	2.6%	49	767,000
2019	3.4%	80	1,109,000	2025	5.3%	132	996,000
2020	4.3%	137	1,550,000	Thereafter	61.3%	1,302	13,713,000
2021	4.7%	116	1,271,000				

⁽¹⁾ Based on annualized base rent for all leases in place as of December 31, 2015.

⁽²⁾ Approximate square feet.

The following table summarizes the diversification of the Property Portfolio based on the top 10 lines of trade:

Top 10 Lines of Trade	% of Annual Base Rent ⁽¹⁾		
	2015	2014	2013
1. Convenience stores	16.7%	18.0%	19.7%
2. Restaurants - full service	11.0%	9.1%	9.7%
3. Restaurants - limited service	7.2%	6.5%	5.5%
4. Automotive service	7.0%	7.2%	7.6%
5. Family entertainment centers	5.6%	5.1%	2.3%
6. Theaters	5.2%	5.2%	4.5%
7. Automotive parts	4.2%	4.7%	5.1%
8. Health and fitness	3.8%	3.9%	4.3%
9. Recreational vehicle dealers, parts and accessories	3.6%	3.1%	3.2%
10. Banks	3.4%	3.7%	4.1%
Other	32.3%	33.5%	34.0%
	100.0%	100.0%	100.0%

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

The following table summarizes the diversification of the Property Portfolio by state as of December 31, 2015:

State	# of Properties	% of Annual Base Rent ⁽¹⁾
1. Texas	438	19.7%
2. Florida	181	9.3%
3. Ohio	122	5.2%
4. North Carolina	136	5.2%
5. Illinois	79	4.9%
6. Georgia	111	4.5%
7. Virginia	88	3.8%
8. Indiana	91	3.8%
9. Alabama	97	3.2%
10. Tennessee	74	3.0%
Other	840	37.4%
	2,257	100.0%

⁽¹⁾ Based on annualized base rent for all leases in place as of December 31, 2015.

As of December 31, 2015, NNN did not have any tenant that accounted for ten percent or more of its rental income.

Commercial Mortgage Residual Interests

NNN holds the commercial mortgage residual interests ("Residuals") from seven securitizations. Each of the Residuals is reported at fair value; 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 \$11,115,000 and \$11,626,000 at December 31, 2015 and 2014, respectively.

Governmental Regulations Affecting Properties

Property Environmental Considerations. Subject to a determination of the level of risk and potential cost of remediation, NNN may acquire a property where some level of environmental contamination may exist. Investments in real property create a potential for substantial environmental liability for the owner of such property from the presence or discharge of hazardous materials on the property or the improper disposal of hazardous materials emanating from the property, regardless of fault. In order to mitigate exposure to environmental liability, NNN maintains an environmental insurance policy which provides some coverage for substantially all of the properties which expires in August 2018. As a part of its acquisition due diligence process, NNN obtains an environmental site assessment for each property. In such cases where NNN intends to acquire real estate where some level of contamination may exist, NNN generally requires the seller or tenant to (i) remediate the problem, (ii) indemnify NNN for environmental liabilities, and/or (iii) agree to other arrangements deemed appropriate by NNN, including, under certain circumstances, the purchase of environmental insurance to address environmental conditions at the property.

As of January 28, 2016, NNN has 67 Properties currently under some level of environmental remediation and/or monitoring. In general, the seller, a previous owner, the tenant or an adjacent land owner is responsible for the cost of the environmental remediation for each of these Properties.

Americans with Disabilities Act of 1990. The Properties, as commercial facilities, are required to comply with Title III of the Americans with Disabilities Act of 1990 and similar state and local laws and regulations (collectively, 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 January 28, 2016, NNN has not been notified by any governmental authority of, nor is NNN's management aware of, any non-compliance with the ADA that NNN's management believes would have a material adverse effect on its business, financial position or results of operations.

Other Regulations. State and local fire, life-safety and similar entities regulate the use of the Properties. NNN's leases generally require each tenant to undertake 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.

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

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

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

Potential consequences of challenging and volatile financial and economic conditions include:

- the financial condition of NNN's tenants may be adversely affected, which may result in tenant defaults under the leases due to bankruptcy, lack of liquidity, operational failures or for other reasons;
- the ability to borrow on terms and conditions that NNN finds acceptable may be limited or unavailable, which could reduce NNN's ability to pursue acquisition and development opportunities and refinance existing debt, reduce NNN's returns from acquisition and development activities, reduce NNN's ability to make cash distributions to its shareholders and increase NNN's future interest expense;
- the recognition of impairment charges on or reduced values of the Properties, which may adversely affect NNN's results of operations;
- reduced values of the Properties may limit NNN's ability to dispose of assets at attractive prices and reduce the availability of buyer financing; and
- the value and liquidity of NNN's short-term investments and cash deposits could be reduced as a result of a deterioration of the financial condition of the institutions that hold NNN's cash deposits or the institutions or assets in which NNN has made short-term investments, the dislocation of the markets for NNN's short-term investments, increased volatility in market rates for such investments or other factors.

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

NNN may be unable to obtain capital on favorable terms, if at all, to further its business objectives or meet its existing obligations. Nearly all of NNN's debt, including the Credit Facility, is subject to balloon principal payments due at maturity. These maturities range between 2016 and 2025. NNN's ability to make these scheduled principal payments may be adversely impacted by NNN's inability to extend or refinance the Credit Facility, the inability to dispose of assets at an attractive price or the inability to obtain additional debt or equity capital. Capital that may be available may be materially more expensive or available under terms that are materially more restrictive which would have an adverse impact on NNN's business, financial condition or results of operations.

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

NNN's tenants encounter significant macroeconomic, governmental and competitive forces. Adverse changes in consumer spending or consumer preferences for particular goods, services or store based retailing could severely impact their ability to pay rent. Shifts from in-store to online shopping could increase due to changing consumer shopping patterns as well as the increase in consumer adoption and use of mobile electronic devices. This expansion of e-commerce could have an adverse impact on NNN's tenant's ongoing viability. The default, financial distress, bankruptcy or liquidation of one or more of NNN's tenants could cause substantial vacancies in the Property Portfolio. Vacancies reduce NNN's revenues, increase property expenses and could decrease the value of each such vacant Property. Upon the expiration of a lease, the tenant may choose not to renew the lease and/or NNN may not be able to re-lease the vacant Property at a comparable lease rate or without incurring additional expenditures in connection with such renewal or re-leasing.

A significant portion of the Property Portfolio annual base rent is concentrated in specific industry classifications, tenants and in specific geographic locations.

As of December 31, 2015, approximately,

- 47.5% of the Property Portfolio annual base rent is generated from tenants in five retail lines of trade, including convenience stores (16.7%) and full-service and limited-service restaurants (18.2%),
- 21.2% of the Property Portfolio annual base rent is generated from five tenants, including Sunoco (5.9%), Mister Car Wash (4.4%), LA Fitness (3.7%), Couche-Tard Inc. (Pantry) (3.6%), and Camping World (3.6%), and
- 44.3% of the Property Portfolio annual base rent is generated from properties located in five states, including Texas (19.7%) and Florida (9.3%).

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

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

NNN's economic performance and the value of its real estate assets are subject to the risk that if the 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 or adverse changes in consumer preferences for particular goods, services or store based retailing,
- economic downturns in the areas where the Properties are located,
- adverse changes in local real estate market conditions, such as an oversupply of space, reduction in demand for space, intense competition for tenants, or a demographic change,
- changes in tenant or consumer preferences that reduce the attractiveness of the Properties to tenants,
- changes in zoning, regulatory restrictions, or tax laws, and
- changes in interest rates or availability of financing.

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

NNN's real estate investments are illiquid.

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

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

NNN cannot predict what other laws or regulations will be enacted in the future, how future laws or regulations will be administered or interpreted, or how future laws or regulations will affect NNN or its Properties, including, but not limited to environmental laws and regulations. Compliance with new laws or regulations, or stricter interpretation of existing laws, may require NNN, its retail tenants, or consumers to incur significant expenditures, impose significant liability, restrict or prohibit business activities and could cause a material adverse effect on NNN's results of operation.

NNN may be subject to known or unknown environmental liabilities and hazardous materials on Properties owned by NNN.

There may be known or unknown environmental liabilities associated with properties owned or acquired in the future by NNN. Certain particular uses of some properties may also have a heightened risk of environmental liability because of the hazardous materials used in performing services on those properties, such as convenience stores with underground petroleum storage tanks or auto parts and auto service businesses using petroleum products, paint and machine solvents. Some of the Properties may contain asbestos or asbestos-containing materials, or may contain or may develop mold or other bio-contaminants. Asbestos-containing materials must be handled, managed and removed in accordance with applicable governmental laws, rules and regulations. Mold and other bio-contaminants can produce airborne toxins, may cause a variety of health issues in individuals and must be remediated in accordance with applicable governmental laws, rules and regulations.

As part of its due diligence process, NNN generally obtains an environmental site assessment for each property it acquires. In cases where NNN intends to acquire real estate where some level of contamination may exist, NNN generally requires the seller or tenant to (i) remediate the contamination in accordance with applicable laws, rules and regulations, (ii) indemnify NNN for environmental liabilities, and/or (iii) agree to other arrangements deemed appropriate by NNN, including, under certain circumstances, the purchase of environmental insurance. Although sellers or tenants may be contractually responsible for remediating hazardous materials on a property and may be responsible for indemnifying NNN for any liability resulting from the use of a property and for any failure to comply with any applicable environmental laws, rules or regulations, NNN has no assurance that sellers or tenants shall be able to meet their remediation and indemnity obligations to NNN. A tenant or seller may not have the financial ability to meet its remediation and indemnity obligations to NNN when required. Furthermore, NNN may have strict liability to governmental agencies or third parties as a result of the existence of hazardous materials on Properties, whether or not NNN knew about or caused such hazardous materials to exist.

As of January 28, 2016, NNN has 67 Properties currently under some level of environmental remediation and/or monitoring. In general, the seller, a previous owner, the tenant or an adjacent land owner is responsible for the cost of the environmental remediation for each of these Properties.

If NNN is responsible for hazardous materials located on its Properties, NNN's liability may include investigation and remediation costs, property damage to third parties, personal injury to third parties, and governmental fines and penalties. Furthermore, the presence of hazardous materials on a Property may adversely impact the Property value or NNN's ability to sell the Property. Significant environmental liability could impact NNN's results of operations, ability to make distributions to shareholders, and its ability to meet its debt obligations.

In order to mitigate exposure to environmental liability, NNN maintains an environmental insurance policy which provides some coverage for substantially all of its Properties which expires in August 2018. However, the policy is subject to exclusions and limitations and does not cover all of the Properties owned by NNN, and for those Properties covered under the policy, insurance may not fully compensate NNN for any environmental liability. NNN has no assurance that the insurer on its environmental insurance policy will be able to meet its obligations under the policy. NNN may not desire to renew the environmental insurance policy in place upon expiration or a replacement policy may not be available at a reasonable cost, if at all.

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

NNN may not 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 reduce rent or 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 due to adverse market conditions. This may adversely affect, among other things, NNN's ability to sell under favorable terms, execute its operating strategy, achieve target earnings or returns, retire or repay debt or pay dividends.

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

As of December 31, 2015, the Residuals had a carrying value of \$11,115,000. The value of these Residuals is based on assumptions to determine their fair value. These assumptions include, but are not limited to, discount rate, loan loss, prepayment speed and interest rate assumptions to determine their fair 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 or a tenant.

As of December 31, 2015, mortgages and notes receivables had an outstanding principal balance of \$8,661,000. If a borrower defaults on a mortgage or other loan made by NNN, and does not have sufficient assets to satisfy the loan, NNN may suffer a loss of principal and interest. In the event of the bankruptcy of a borrower, NNN may not be able to recover against all or any of the assets of the borrower, or the collateral 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 and are typically subordinated to senior loans encumbering the underlying real estate or assets. Subordinated positions are generally subject to a higher risk of nonpayment of principal and interest than the more senior loans. If a borrower defaults on the debt senior to

NNN's loan, or in the event of the bankruptcy of a borrower, NNN's loan will be satisfied only after the borrower's senior creditors' claims are satisfied. Where debt senior to NNN's loans exists, the presence of intercreditor arrangements may limit NNN's ability to amend loan documents, assign the loans, accept prepayments, exercise remedies and control decisions made in bankruptcy proceedings relating to borrowers. Bankruptcy proceedings and litigation can significantly increase the time needed for NNN to acquire underlying collateral, if any, in the event of a default, during which time the collateral may decline in value. In addition, there are significant costs and delays associated with the foreclosure process.

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

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

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

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

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

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

NNN's loss of key management personnel could adversely affect performance and the value of its common stock.

NNN is dependent on the efforts of its key management. Competition for senior management personnel can be intense and NNN may not be able to retain its key management. Although NNN believes qualified replacements could be found for any departures of key management, the loss of their services could adversely affect NNN's performance and the value of its common stock.

Uninsured losses may adversely affect NNN's operating results and asset values.

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

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

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

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

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

As of December 31, 2015, NNN owned 21 vacant, un-leased Properties, which accounted for approximately one percent of total Properties held in the Property Portfolio. 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 Properties at comparable rental rates and in a timely manner. As of January 31, 2016, less than one percent of the total gross leasable area of the Property Portfolio was leased to tenants that have filed a voluntary petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code and have the right to reject or affirm their leases 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, 2015, NNN had outstanding debt including mortgages payable of \$23,964,000, total unsecured notes payable of \$1,951,980,000 and zero outstanding on the Credit Facility. NNN's organizational documents do not limit the level or amount of debt that it may incur. If NNN incurs additional indebtedness and permits a higher degree of leverage, debt service requirements would increase and could adversely affect NNN's financial condition and results of operations, as well as NNN's ability to pay principal and interest on the outstanding indebtedness or cash dividends to its stockholders. In addition, increased leverage could increase the risk that NNN may default on its debt obligations.

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

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

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

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

As of December 31, 2015, NNN had approximately \$1,975,944,000 of outstanding indebtedness, of which approximately \$23,964,000 was secured indebtedness. NNN's unsecured debt instruments contain 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,
- enter into transactions with certain affiliates,
- create certain liens,
- consolidate, merge or sell NNN's assets, and
- pre-pay debt.

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

- requiring 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 on the property securing the debt,
- restricting its ability to amend or modify existing leases on the property securing the debt, and
- establishing certain prepayment restrictions.

In addition, NNN's debt instruments may contain cross-default provisions, in which case a default of NNN under one debt instrument will be a default of NNN under multiple or all debt instruments of NNN.

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

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

- limit certain leverage ratios,
- maintain certain minimum interest and debt service coverage ratios, and
- limit investments in certain types of assets.

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

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

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

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

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

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

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

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

Even if NNN remains qualified for taxation as a REIT, NNN is 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. 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 has owned some of its assets in the TRS.

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

At any time, the federal and state income tax laws governing REITs or the administrative interpretations of those laws may change. Any such changes may have retroactive effect, and could adversely affect NNN or its stockholders. Legislation could cause shares in non-REIT corporations to be a more attractive investment to individual investors than shares in REITs, and could have an adverse effect on the value of NNN's common stock.

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

To maintain its status as a REIT for U.S. federal income tax purposes, NNN must meet certain requirements on an on-going basis, including requirements regarding its sources of income, the nature and diversification of its assets, the amounts NNN distributes to its stockholders and the ownership of its shares. NNN may also be required to make distributions to its stockholders when it does not have funds readily available for distribution or at times when NNN's funds are otherwise needed to fund expenditures or debt service requirements. NNN generally will not be subject to federal income taxes on amounts distributed to stockholders, so long as 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, 2015, NNN believes it has qualified as a REIT. Notwithstanding NNN's qualification for taxation as a REIT, NNN is subject to certain state taxes on its income and real estate.

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

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

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

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

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

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

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

Cyber incidents can result from deliberate attacks or unintentional events. These incidents can include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. The result of these incidents could include, but are not limited to, disrupted operations, misstated financial data, liability for stolen assets or information, increased cybersecurity protection costs, litigation and reputational damage adversely affecting customer or investor confidence. These cyber incidents could negatively impact NNN, NNN's tenants and/or the capital markets.

Future investment in international markets could subject NNN to additional risks.

If NNN expands its operating strategy to include investment in international markets, NNN could face additional risks, including foreign currency exchange rate fluctuations, operational risks due to local economic and political conditions and laws and policies of the U.S. affecting foreign investment.

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 are routine in nature and incidental to the operation of the business of NNN. Management does not believe that any of these proceedings are material.

Item 4. Mine Safety Disclosures

None.

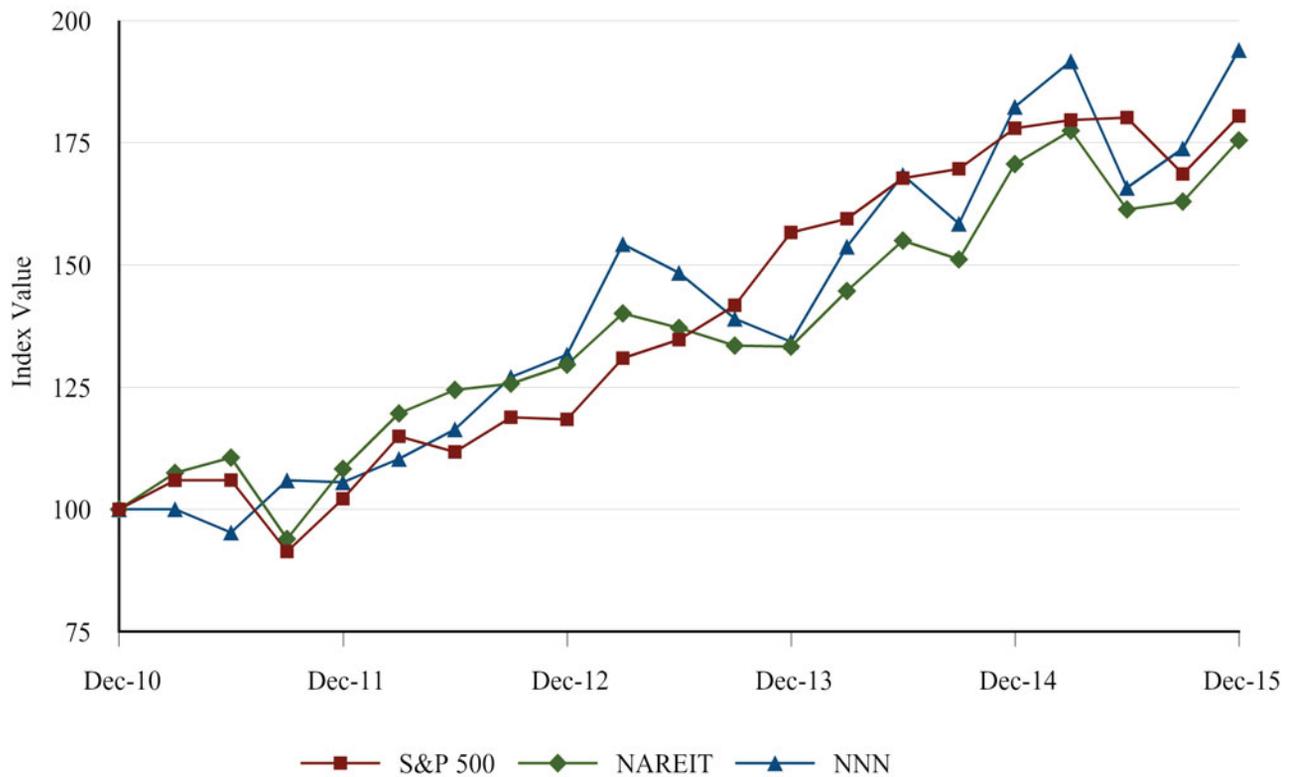
PART II

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”) for the five-year period commencing December 31, 2010 and ending December 31, 2015. The graph assumes an investment of \$100 on December 31, 2010.

Comparison to Five-Year Cumulative Total Return

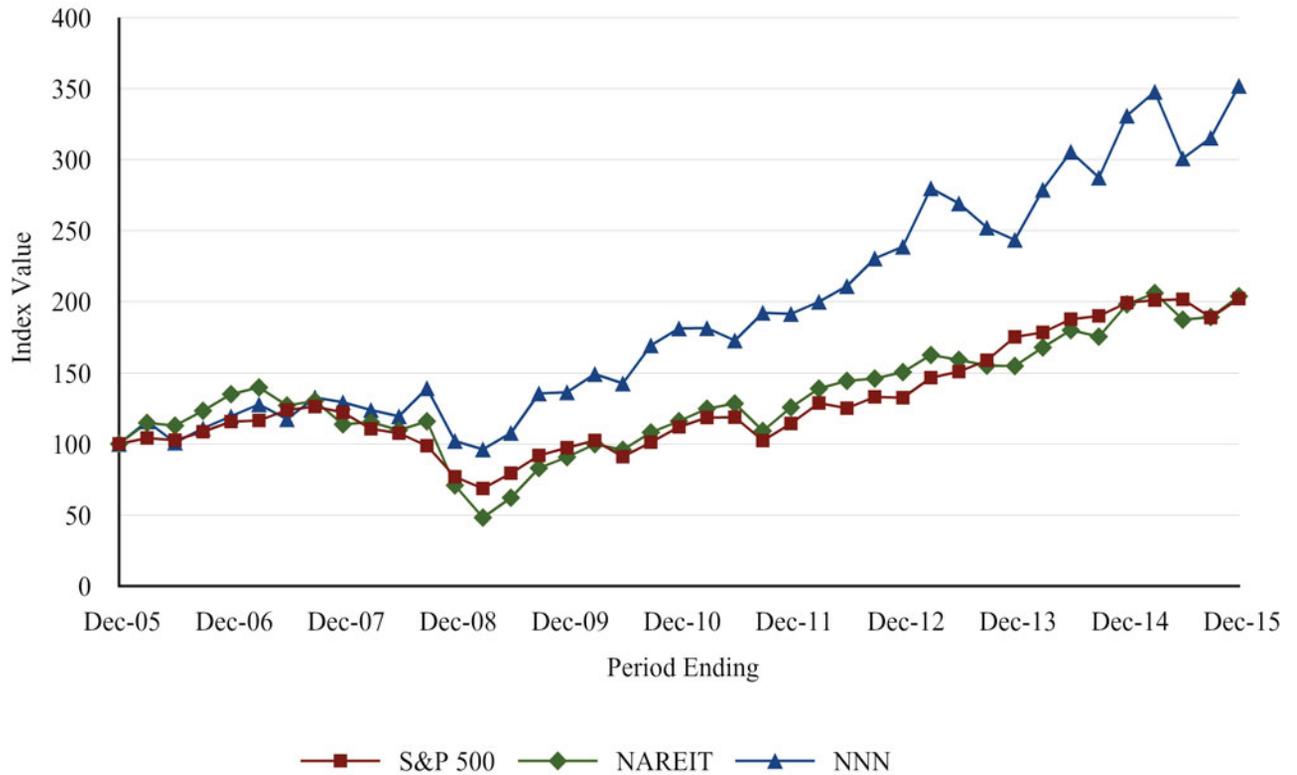
**Indexed Total Return
(As of December 31, 2015)**



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”) for the ten-year period commencing December 31, 2005 and ending December 31, 2015. The graph assumes an investment of \$100 on December 31, 2005.

Comparison to Ten-Year Cumulative Total Return

**Indexed Total Return
(As of December 31, 2015)**



For each calendar quarter and year 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.

2015	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
High	\$ 44.43	\$ 42.11	\$ 38.91	\$ 40.37	\$ 44.43
Low	38.60	34.86	33.62	35.51	33.62
Close	40.97	35.01	36.27	40.05	40.05
Dividends paid per share	0.420	0.420	0.435	0.435	1.710
2014					
High	\$ 36.35	\$ 37.65	\$ 38.04	\$ 40.49	\$ 40.49
Low	30.08	32.94	34.34	34.42	30.08
Close	34.32	37.19	34.57	39.37	39.37
Dividends paid per share	0.405	0.405	0.420	0.420	1.650

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

	2015		2014	
Ordinary dividends	\$ 1.363294	79.7248%	\$ 1.306992	79.2116%
Qualified dividends	0.019005	1.1114%	0.006212	0.3765%
Capital gain	0.007806	0.4565%	0.008603	0.5214%
Unrecaptured Section 1250 Gain	0.011055	0.6465%	0.015362	0.9310%
Nontaxable distributions	0.308840	18.0608%	0.312831	18.9595%
	<u>\$ 1.710000</u>	<u>100.0000%</u>	<u>\$ 1.650000</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 Code and such other factors as the Board of Directors deems relevant.

In January 2016, NNN declared dividends payable to its stockholders of \$61,150,000, or \$0.435 per share, of common stock.

On January 28, 2016, there were 1,829 stockholders of record of NNN's common stock.

Item 6. Selected Financial Data

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

	2015	2014	2013	2012	2011
Gross revenues ⁽¹⁾	\$ 483,023	\$ 435,248	\$ 397,006	\$ 342,059	\$ 271,696
Earnings from continuing operations	187,511	179,777	154,006	132,388	84,463
Earnings including noncontrolling interests	197,961	191,170	160,085	141,937	92,416
Net earnings attributable to NNN	197,836	190,601	160,145	142,015	92,325
Total assets	5,460,044	4,915,551	4,445,308	3,980,210	3,429,067
Total debt	1,975,944	1,729,891	1,560,844	1,579,148	1,333,133
Total stockholders' equity of NNN	3,342,134	3,082,515	2,777,045	2,296,285	2,002,498
Cash dividends declared to:					
Common stockholders	228,699	204,157	189,107	167,495	133,720
Series C preferred stockholders	—	—	—	1,979	6,785
Series D preferred stockholders	19,047	19,047	19,047	15,449	—
Series E preferred stockholders	16,387	16,387	8,876	—	—
Weighted average common shares:					
Basic	133,998,674	124,257,558	118,204,148	106,965,156	88,100,076
Diluted	134,489,416	124,710,226	119,864,824	109,117,515	88,837,057
Per share information:					
Earnings from continuing operations:					
Basic	\$ 1.21	\$ 1.24	\$ 1.06	\$ 1.04	\$ 0.88
Diluted	1.20	1.24	1.05	1.02	0.87
Net earnings:					
Basic	1.21	1.24	1.11	1.13	0.96
Diluted	1.20	1.24	1.10	1.11	0.96
Cash dividends declared to:					
Common stockholders	1.71	1.65	1.60	1.56	1.53
Series C preferred depositary stockholders	—	—	—	0.537760	1.843750
Series D preferred depositary stockholders	1.656250	1.656250	1.656250	1.343403	—
Series E preferred depositary stockholders	1.425000	1.425000	0.771875	—	—
Other data:					
Cash flows provided by (used in):					
Operating activities	\$ 341,095	\$ 296,733	\$ 274,421	\$ 228,130	\$ 177,728
Investing activities	(644,544)	(541,558)	(568,040)	(601,759)	(752,068)
Financing activities	307,105	253,944	293,028	373,623	574,374
Funds from operations – available to common stockholders ⁽²⁾	289,193	260,902	228,622	193,563	139,834

⁽¹⁾ Gross revenues include revenues from NNN's continuing and discontinued operations. Prior to January 1, 2014, in accordance with FASB guidance on Accounting for the Impairment or Disposal of Long-Lived Assets, NNN classified the revenues related to (i) all Properties which generated revenue that were sold and a leasehold interest which expired and (ii) all Properties which generated revenue and were held for sale at December 31, 2013, as discontinued operations. Effective January 1, 2014, NNN early adopted ASU 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposal of Components of an Entity." Therefore, only disposals representing a strategic shift in operations are to be presented as discontinued operations. This requires the Company to continue to classify any Property disposal or Property classified as held for sale as of December 31, 2013, as discontinued operations prospectively. Therefore, the revenues and expenses related to these properties are presented as discontinued operations as of December 31, 2014. The Company has not classified any additional properties as discontinued operations subsequent to December 31, 2013.

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

Funds From Operations (FFO) Reconciliation

FFO is generally considered by industry analysts to be an 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.

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

	2015	2014	2013	2012	2011
Reconciliation of funds from operations:					
Net earnings attributable to NNN’s stockholders	\$ 197,836	\$ 190,601	\$ 160,145	\$ 142,015	\$ 92,325
Series C preferred stock dividends	—	—	—	(1,979)	(6,785)
Series D preferred stock dividends	(19,047)	(19,047)	(19,047)	(15,449)	—
Series E preferred stock dividends	(16,387)	(16,387)	(8,876)	—	—
Excess of redemption value over carrying value of Series C preferred shares redeemed	—	—	—	(3,098)	—
Net earnings available to common stockholders	162,402	155,167	132,222	121,489	85,540
Real estate depreciation and amortization:					
Continuing operations	134,380	115,888	99,048	73,685	52,270
Discontinued operations	—	3	343	1,381	1,866
Joint venture real estate depreciation	—	—	—	112	176
Joint venture gain on disposition of real estate	—	—	—	(2,341)	—
Gain on disposition of real estate, net of income tax and noncontrolling interest	(10,397)	(10,904)	(5,442)	(10,956)	(449)
Impairment losses – depreciable real estate, net of recoveries and income tax	2,808	748	2,451	10,193	431
FFO available to common stockholders	\$ 289,193	\$ 260,902	\$ 228,622	\$ 193,563	\$ 139,834

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

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

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

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

At the close of business on December 31, 2015, NNN elected to revoke its election to classify the TRS as taxable REIT subsidiaries ("TRS Revocation Election"). This TRS Revocation Election resulted in an additional tax expense of approximately \$9,607,000 for 2015.

Overview

NNN, a Maryland corporation, is a fully integrated real estate investment trust ("REIT") formed in 1984. NNN's assets include: real estate assets, mortgages and notes receivable, and commercial mortgage residual interests. NNN acquires, owns, invests in and develops properties that are leased primarily to retail tenants under long-term net leases and primarily held for investment ("Properties," "Property Portfolio," or individually a "Property").

NNN owned 2,257 Properties, with an aggregate gross leasable area of approximately 24,964,000 square feet, located in 47 states, with a weighted average remaining lease term of 11.4 years as of December 31, 2015. Approximately 99 percent of the Properties were leased as of December 31, 2015.

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

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

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

As of the years ended December 31, 2015, 2014 and 2013, the Property Portfolio has remained at least 98 percent leased. As of December 31, 2015, the average remaining lease term of the Property Portfolio was 11.4 years, and has remained fairly constant over the past three years which, coupled with its net lease structure, provides enhanced probability of maintaining occupancy and operating earnings.

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 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 assumptions; 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 estimates and assumptions used in the preparation of NNN's consolidated financial statements.

Real Estate Portfolio. NNN records the acquisition of real estate at cost, including acquisition and closing costs. The cost of properties developed or funded by NNN includes direct and indirect costs of construction, property taxes, interest and other

miscellaneous costs incurred during the development period until the project is substantially complete and available for occupancy.

Purchase Accounting for Acquisition of Real Estate Subject to a Lease. In accordance with the Financial Accounting Standards Board ("FASB") guidance on business combinations, the fair value of the real estate acquired with in-place leases is allocated to the acquired tangible assets, consisting of land, building and tenant improvements, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, value of in-place leases, and based in each case on their fair values. Acquisition and closing costs incurred on the acquisition of real estate with an in-place lease is expensed as incurred and recorded as real estate acquisition costs.

Impairment – Real Estate. Based upon certain events or changes in circumstances, management periodically assesses its Properties for possible impairment whenever the carrying value of the asset, including accrued rental income, may not be recoverable through operations. Events or circumstances that may occur include significant changes in real estate market conditions or the ability of NNN to re-lease or sell properties that are vacant or become vacant in a reasonable period of time. Management evaluates whether an impairment in carrying 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 value 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 estimated fair value.

Real Estate – Held For Sale. Real estate held for sale is not depreciated and is recorded at the lower of cost or fair value, less costs to sell.

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. NNN recognizes the excess of all cash flows attributable to the commercial mortgage residual interests estimated at the acquisition/transaction date over the initial investment (the accretable yield) as interest income over the life of the beneficial interest using the effective yield method. Losses are considered other than temporary valuation impairments if and when there has been a change in the timing or amount of estimated cash flows, exclusive of changes in interest rates, that leads to a loss in value.

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

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

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

Direct financing method – Properties with 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.

New Accounting Pronouncements. Refer to Note 1 of the December 31, 2015, Consolidated Financial Statements.

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

Results of Operations

Property Analysis

General. The following table summarizes the Property Portfolio as of December 31:

	2015	2014	2013
Properties Owned:			
Number	2,257	2,054	1,860
Total gross leasable area (square feet)	24,964,000	22,479,000	20,402,000
Properties:			
Leased and unimproved land	2,236	2,025	1,827
Percent of Properties – leased and unimproved land	99%	99%	98%
Weighted average remaining lease term (years)	11.4	11.6	11.8
Total gross leasable area (square feet) – leased	24,544,000	21,938,000	19,872,000

The following table summarizes the lease expirations, assuming none of the tenants exercise renewal options, of the Property Portfolio for each of the next 10 years and then thereafter in the aggregate as of December 31, 2015:

	% of Annual Base Rent ⁽¹⁾	# of Properties	Gross Leasable Area ⁽²⁾		% of Annual Base Rent ⁽¹⁾	# of Properties	Gross Leasable Area ⁽²⁾
2016	1.0%	27	363,000	2022	5.6%	96	1,143,000
2017	3.0%	52	1,084,000	2023	2.5%	55	903,000
2018	6.3%	183	1,645,000	2024	2.6%	49	767,000
2019	3.4%	80	1,109,000	2025	5.3%	132	996,000
2020	4.3%	137	1,550,000	Thereafter	61.3%	1,302	13,713,000
2021	4.7%	116	1,271,000				

⁽¹⁾ Based on the annualized base rent for all leases in place as of December 31, 2015.

⁽²⁾ Approximate square feet.

The following table summarizes the diversification of the Property Portfolio based on the top 10 lines of trade:

Top 10 Lines of Trade	% of Annual Base Rent ⁽¹⁾		
	2015	2014	2013
1. Convenience stores	16.7%	18.0%	19.7%
2. Restaurants - full service	11.0%	9.1%	9.7%
3. Restaurants - limited service	7.2%	6.5%	5.5%
4. Automotive service	7.0%	7.2%	7.6%
5. Family entertainment centers	5.6%	5.1%	2.3%
6. Theaters	5.2%	5.2%	4.5%
7. Automotive parts	4.2%	4.7%	5.1%
8. Health and fitness	3.8%	3.9%	4.3%
9. Recreational vehicle dealers, parts and accessories	3.6%	3.1%	3.2%
10. Banks	3.4%	3.7%	4.1%
Other	32.3%	33.5%	34.0%
	<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 of the Property Portfolio by state as of December 31, 2015:

	State	# of Properties	% of Annual Base Rent ⁽¹⁾
1.	Texas	438	19.7%
2.	Florida	181	9.3%
3.	Ohio	122	5.2%
4.	North Carolina	136	5.2%
5.	Illinois	79	4.9%
6.	Georgia	111	4.5%
7.	Virginia	88	3.8%
8.	Indiana	91	3.8%
9.	Alabama	97	3.2%
10.	Tennessee	74	3.0%
	Other	840	37.4%
		<u>2,257</u>	<u>100.0%</u>

⁽¹⁾ Based on annualized base rent for all leases in place as of December 31, 2015.

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

	2015	2014	2013
Acquisitions:			
Number of Properties	221	221	275
Gross leasable area (square feet)	2,706,000	2,417,000	1,652,000
Initial cash yield	7.2%	7.5%	7.8%
Total dollars invested ⁽¹⁾	\$ 726,303	\$ 618,145	\$ 629,896

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

NNN typically funds Property acquisitions either through borrowings under NNN's unsecured revolving credit facility (the "Credit Facility") or by issuing its debt or equity securities in the capital markets.

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

	2015	2014	2013
Number of properties	19	27	35
Gross leasable area (square feet)	232,000	317,000	360,000
Net sales proceeds	\$ 39,116	\$ 55,378	\$ 61,000
Gain, net of income tax expense and noncontrolling interests ⁽¹⁾	\$ 10,450	\$ 11,424	\$ 5,595
Cap rate	5.9%	7.2%	7.5%

⁽¹⁾ Amounts include deferred gains on previously sold properties.

NNN typically uses the proceeds from a Property disposition to either pay down the Credit Facility or reinvest in real estate.

Analysis of Revenue from Continuing Operations

General. During the year ended December 31, 2015, NNN's rental income increased primarily due to the increase in rental income from Property acquisitions (See "Results of Operations – Property Analysis – Property Acquisitions"). NNN anticipates increases in rental income will continue to come from additional Property acquisitions and increases in rents pursuant to existing lease terms.

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

	2015	2014	2013	Percent of Total			2015 Versus 2014 Percent	2014 Versus 2013 Percent
				2015	2014	2013		
Rental Income ⁽¹⁾	\$ 465,282	\$ 416,842	\$ 376,424	96.3%	95.9%	95.6%	11.6 %	10.7 %
Real estate expense reimbursement from tenants	14,868	13,875	13,340	3.1%	3.2%	3.4%	7.2 %	4.0 %
Interest and other income from real estate transactions	986	2,296	1,471	0.2%	0.5%	0.4%	(57.1)%	56.1 %
Interest income on commercial mortgage residual interests	1,778	1,834	2,290	0.4%	0.4%	0.6%	(3.1)%	(19.9)%
Total revenues from continuing operations	\$ 482,914	\$ 434,847	\$ 393,525	100.0%	100.0%	100.0%	11.1 %	10.5 %

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

Comparison of Revenues from Continuing Operations – 2015 versus 2014

Rental Income. Rental Income increased in amount and as a percent of the total revenues from continuing operations for the year ended December 31, 2015 as compared to the same period in 2014. The increase for the year ended December 31, 2015, is primarily due to a partial year of Rental Income received as a result of the acquisition of 221 properties with aggregate gross leasable area of approximately 2,706,000 during 2015 and a full year of Rental Income received as a result of the acquisition of 221 properties with a gross leasable area of approximately 2,417,000 square feet in 2014. During the year ended December 31, 2015, NNN recorded \$1,950,000 of rental revenue from a settlement with a prior tenant.

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

Comparison of Revenues from Continuing Operations – 2014 versus 2013

Rental Income. Rental Income increased in amount and as a percent of the total revenues from continuing operations for the year ended December 31, 2014 as compared to the same period in 2013. The increase for the year ended December 31, 2014, is primarily due to a partial year of Rental Income received as a result of the acquisition of 221 properties with aggregate gross leasable area of approximately 2,417,000 during 2014 and a full year of Rental Income received as a result of the acquisition of 275 properties with a gross leasable area of approximately 1,652,000 square feet in 2013. In addition, the increase was partially offset by a \$613,000 decrease in lease termination fees for the year ended December 31, 2014, as compared to December 31, 2013.

Real Estate Expense Reimbursement from Tenants. Real estate expense reimbursements from tenants increased for the year ended December 31, 2014, as compared to the same period in 2013, but decreased as a percentage of total revenues from continuing operations for the same period. The increase is primarily attributable to a full year of reimbursements from properties acquired in 2013 and a partial year of reimbursements from certain newly acquired properties in 2014.

Analysis of Expenses from Continuing Operations

General. Operating expenses from continuing operations increased primarily due to an increase in depreciation expense and an increase in impairments during the year ended December 31, 2015, as compared to the same period in 2014. The following summarizes NNN's expenses from continuing operations (dollars in thousands):

	2015	2014	2013
General and administrative	\$ 34,736	\$ 32,518	\$ 31,095
Real estate	19,774	18,905	18,497
Depreciation and amortization	134,798	116,162	99,274
Impairment – commercial mortgage residual interests valuation	531	256	1,185
Impairment losses and other charges, net of recoveries	4,420	760	3,580
Total operating expenses	<u>\$ 194,259</u>	<u>\$ 168,601</u>	<u>\$ 153,631</u>
Interest and other income	\$ (109)	\$ (357)	\$ (1,493)
Interest expense	90,008	85,510	85,822
Real estate acquisition costs	927	1,391	1,485
Total other expenses (revenues)	<u>\$ 90,826</u>	<u>\$ 86,544</u>	<u>\$ 85,814</u>

	Percentage of Total Expenses			Percentage of Revenues from Continuing Operations			2015 Versus 2014 Percent	2014 Versus 2013 Percent
	2015	2014	2013	2015	2014	2013		
General and administrative	17.9 %	19.3 %	20.3 %	7.2%	7.5 %	7.9 %	6.8 %	4.6 %
Real estate	10.2 %	11.2 %	12.0 %	4.1%	4.3 %	4.7 %	4.6 %	2.2 %
Depreciation and amortization	69.4 %	68.9 %	64.6 %	27.9%	26.7 %	25.2 %	16.0 %	17.0 %
Impairment – commercial mortgage residual interests valuation	0.3 %	0.2 %	0.8 %	0.1%	0.1 %	0.3 %	107.4 %	(78.4)%
Impairment losses and other charges, net of recoveries	2.2 %	0.4 %	2.3 %	0.9%	0.2 %	0.9 %	481.6 %	(78.8)%
Total operating expenses	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>40.2%</u>	<u>38.8 %</u>	<u>39.0 %</u>	15.2 %	9.7 %
Interest and other income	(0.1)%	(0.4)%	(1.7)%	—	(0.1)%	(0.4)%	(69.5)%	(76.1)%
Interest expense	99.1 %	98.8 %	100.0 %	18.6%	19.7 %	21.8 %	5.3 %	(0.4)%
Real estate acquisition costs	1.0 %	1.6 %	1.7 %	0.2%	0.3 %	0.4 %	(33.4)%	(6.3)%
Total other expenses (revenues)	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>18.8%</u>	<u>19.9 %</u>	<u>21.8 %</u>	4.9 %	0.9 %

Comparison of Expenses from Continuing Operations – 2015 versus 2014

General and Administrative Expenses. General and administrative expenses increased for the year ended December 31, 2015, as compared to the same period in 2014, but decreased both as a percentage of total operating expenses and as a percentage of revenues from continuing operations. The increase in general and administrative expenses for the year ended December 31, 2015, is primarily attributable to an increase in incentive compensation.

Real Estate. Real estate expenses increased for the year ended December 31, 2015, as compared to the same period in 2014, but decreased both as a percentage of total operating expenses and as a percentage of revenues from continuing operations. The increase is primarily due to the increase in tenant reimbursable expenses related to a partial year of reimbursable expenses from certain properties acquired in 2015 and a full year of reimbursable expenses from certain properties acquired in 2014.

Depreciation and Amortization. Depreciation and amortization expenses increased in amount and as a percentage of total operating expenses and as a percentage of revenues from continuing operations for the year ended December 31, 2015, as compared to the year ended December 31, 2014. The increase in expenses is primarily due to the acquisition of 221 properties with an aggregate gross leasable area of approximately 2,706,000 square feet in 2015 and 221 properties with an aggregate gross leasable area of approximately 2,417,000 square feet during 2014.

Impairment Losses and Other Charges, Net of Recoveries. NNN reviews long-lived assets for impairment whenever certain events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Events or circumstances that may occur include changes in real estate market conditions, the ability of NNN to re-lease properties that are currently vacant or become vacant, and the ability to sell properties at an attractive price. Management evaluates 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. During the years ended December 31, 2015 and 2014, NNN recorded \$3,970,000 and \$760,000, respectively, of real estate impairments. NNN also recorded a \$450,000 loss on the sale of a mortgage receivable during the year ended December 31, 2015.

Interest Expense. Interest expense increased in total and as a percentage of total other expenses (revenues) for the year ended December 31, 2015, as compared to the same period in 2014, and decreased as a percentage of revenues from continuing operations.

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

- (i) the issuance in May 2014 of \$350,000,000 principal amount of notes payable with a maturity of June 2024, and stated interest rate of 3.900%;
- (ii) the repayment in June 2014 of \$150,000,000 principal amount of notes payable with a stated interest rate of 6.250%;
- (iii) the assumption of a mortgage in September 2014 of \$2,824,000 in connection with a Property acquisition with an interest rate of 6.400%;
- (iv) the assumption of a mortgage in November 2014 of \$14,430,000 in connection with the acquisition of Properties with an interest rate of 5.230%;
- (v) the issuance in October 2015 of \$400,000,000 principal amount of notes payable with a maturity of November 2025, and stated interest rate of 4.000%
- (vi) the repayment in December 2015 of \$150,000,000 principal amount of notes payable with a stated interest rate of 6.150%; and
- (vii) the increase of \$22,092,000 in the weighted average debt outstanding on the Credit Facility for the year ended December 31, 2015, as compared to the same period in 2014, and a slightly lower weighted average interest rate for the year ended December 31, 2015, as compared to the same period in 2014.

Comparison of Expenses from Continuing Operations – 2014 versus 2013

General and Administrative Expenses. General and administrative expenses increased for the year ended December 31, 2014, as compared to the same period in 2013, but decreased both as a percentage of total operating expenses and as a percentage of revenues from continuing operations. The increase in general and administrative expenses for the year ended December 31, 2014, is primarily attributable to an increase in incentive compensation.

Real Estate. Real estate expenses increased for the year ended December 31, 2014, as compared to the same period in 2013, but decreased both as a percentage of total operating expenses and as a percentage of revenues from continuing operations. The increase is primarily due to the increase in tenant reimbursable expenses related to a partial year of reimbursable expenses from certain properties acquired in 2014 and a full year of reimbursable expenses from certain properties acquired in 2013. Additionally, real estate expenses incurred on vacant properties increased for the year ended December 31, 2014. The increase was partially offset by a decrease in real estate expenses that are not reimbursable by the tenant for the year ended December 31, 2014, as compared to the same period in 2013.

Depreciation and Amortization. Depreciation and amortization expenses increased in amount and as a percentage of total operating expenses and as a percentage of revenues from continuing operations for the year ended December 31, 2014, as compared to the year ended December 31, 2013. The increase in expenses is primarily due to the acquisition of 221

properties with an aggregate gross leasable area of approximately 2,417,000 square feet in 2014 and 275 properties with an aggregate gross leasable area of approximately 1,652,000 square feet during 2013.

Interest Expense. Interest expense decreased for the year ended December 31, 2014, as compared to the same period in 2013, and decreased as a percentage of revenues from continuing operations and as a percentage of total other expenses (revenues).

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

- (i) the issuance in April 2013 of \$350,000,000 principal amount of notes payable with a maturity of April 2023, and stated interest rate of 3.300%;
- (ii) the settlement of \$223,035,000 principal amount of 5.125% convertible notes payable in 2013;
- (iii) the issuance in May 2014 of \$350,000,000 principal amount of notes payable with a maturity of June 2024, and stated interest rate of 3.900%;
- (iv) the repayment in June 2014 of \$150,000,000 principal amount of notes payable with a stated interest rate of 6.250%;
- (v) the assumption of a mortgage in September 2014 of \$2,824,000 in connection with a Property acquisition with an interest rate of 6.400%;
- (vi) the assumption of a mortgage in November 2014 of \$14,430,000 in connection with the acquisition of Properties with an interest rate of 5.230%; and
- (vii) the increase of \$15,188,000 in the weighted average debt outstanding on the Credit Facility for the year ended December 31, 2014, as compared to the same period in 2013.

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, to a lesser extent, increases in the tenant's sales volume. During times when inflation is greater than increases in rent, rent increases will not keep up with the rate of inflation.

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

Liquidity

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

NNN expects to meet short-term liquidity requirements through cash provided from operations and NNN's Credit Facility. As of December 31, 2015, there was no outstanding balance and \$650,000,000 was available for future borrowings under the Credit Facility. NNN anticipates its long-term capital needs will be funded by the Credit Facility, cash provided from operations, the issuance of long-term debt or the issuance of common or preferred equity or other instruments convertible into or exchangeable for common or preferred equity. However, there can be no assurance that additional financing or capital will be available, or that the terms will be acceptable or advantageous to NNN.

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

	2015	2014	2013
Cash and cash equivalents:			
Provided by operating activities	\$ 341,095	\$ 296,733	\$ 274,421
Used in investing activities	(644,544)	(541,558)	(568,040)
Provided by financing activities	307,105	253,944	293,028
Increase (decrease)	3,656	9,119	(591)
Net cash at beginning of period	10,604	1,485	2,076
Net cash at end of period	\$ 14,260	\$ 10,604	\$ 1,485

Cash provided by operating activities represents cash received primarily from Rental Income and interest income less cash used for general and administrative expenses. NNN’s cash flow from operating activities has been sufficient to pay the distributions for each period presented. The change in cash provided by operations for the years ended December 31, 2015, 2014 and 2013, 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 acquisitions and dispositions of Properties. NNN typically uses proceeds from its Credit Facility to fund the acquisition of its Properties.

NNN’s financing activities for the year ended December 31, 2015, included the following significant transactions:

- \$395,436,000 in net proceeds from the issuance of the 4.00% notes payable in October,
- \$150,000,000 in repayment of the 6.15% notes payable in December,
- \$7,182,000 in net proceeds from the issuance of 196,584 shares of common stock in connection with the Dividend Reinvestment and Stock Purchase Plan (“DRIP”),
- \$321,067,000 in net proceeds from the issuance of 8,573,533 shares of common stock in connection with the at-the-market (“ATM”) equity program,
- \$19,047,000 in dividends paid to holders of the depositary shares of NNN’s Series D Preferred Stock,
- \$16,387,000 in dividends paid to holders of the depositary shares of NNN’s Series E Preferred Stock, and
- \$228,699,000 in dividends paid to common stockholders.

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, maintaining its investment grade credit rating, staggering debt maturities and providing value to NNN’s stockholders. NNN generally utilizes debt and equity security offerings, bank borrowings, proceeds from the disposition of certain 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 Properties, with cash from its Credit Facility. As of December 31, 2015, there was no outstanding balance and \$650,000,000 was available for future borrowings under the Credit Facility.

As of December 31, 2015, NNN’s ratio of total debt to total gross assets (before accumulated depreciation and amortization) was approximately 33 percent and the ratio of secured indebtedness to total gross assets was less than one percent. The ratio of total debt to total market capitalization was approximately 25 percent. Certain financial agreements to which NNN is a party contain covenants that limit NNN’s ability to incur additional 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, 2015. The table presents principal cash flows by year-end of the expected maturity for debt obligations and commercial commitments outstanding as of December 31, 2015.

	Expected Maturity Date (dollars in thousands)						
	Total	2016	2017	2018	2019	2020	Thereafter
Long-term debt ⁽¹⁾	\$ 1,998,414	\$ 7,196	\$ 253,276	\$ 538	\$ 567	\$ 596	\$ 1,736,241
Operating lease	7,176	714	728	743	758	773	3,460
Total contractual cash obligations⁽²⁾	\$ 2,005,590	\$ 7,910	\$ 254,004	\$ 1,281	\$ 1,325	\$ 1,369	\$ 1,739,701

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

⁽²⁾ Excludes \$20,113 of accrued interest payable.

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

Number of properties	27
Total commitment ⁽¹⁾	\$ 116,394
Amount funded	\$ 87,406
Remaining commitment	\$ 28,988

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

As of December 31, 2015, NNN did not have any other material contractual cash obligations, such as purchase obligations, financing lease obligations or other long-term liabilities other than those reflected in the table. In addition to items reflected in the table, NNN has issued preferred stock with cumulative preferential cash distributions, as described below under "Dividends."

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

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

The lost revenues and increased property expenses resulting from vacant Properties or uncollectibility of lease revenues could have a material adverse effect on the liquidity and results of operations if NNN is unable to release the Properties at comparable rental rates and in a timely manner. As of December 31, 2015, NNN owned 21 vacant, un-leased Properties which accounted for approximately one percent of total Properties. Additionally, as of January 31, 2016, less than one percent of the total gross leasable area of the Property Portfolio was leased to 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 Code, as amended, and related regulations and intends to continue to operate so as to remain qualified as a REIT for federal income tax purposes. NNN generally will not be subject to federal income tax on income that it distributes to its stockholders, provided that it distributes 100 percent of its REIT taxable income and meets certain other requirements for qualifying as a REIT. If NNN fails to qualify as a REIT in any taxable year, it will be subject to federal income tax on its taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four years following the year during which qualification is lost. Such an event could materially adversely affect NNN's income and ability to pay dividends.

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

The following table outlines the dividends declared and paid for NNN's common stock for the years ended December 31 (dollars in thousands, except per share data):

	2015	2014	2013
Dividends	\$ 228,699	\$ 204,157	\$ 189,107
Per share	1.710	1.650	1.600

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

	2015		2014		2013	
Ordinary dividends	\$ 1.363294	79.7248%	\$ 1.306992	79.2116%	\$ 1.224568	76.5355%
Qualified dividends	0.019005	1.1114%	0.006212	0.3765%	0.056784	3.5490%
Capital gain	0.007806	0.4565%	0.008603	0.5214%	—	—
Unrecaptured Section 1250 Gain	0.011055	0.6465%	0.015362	0.9310%	0.000650	0.0406%
Nontaxable distributions	0.308840	18.0608%	0.312831	18.9595%	0.317998	19.8749%
	<u>\$ 1.710000</u>	<u>100.0000%</u>	<u>\$ 1.650000</u>	<u>100.0000%</u>	<u>\$ 1.600000</u>	<u>100.0000%</u>

On January 15, 2016, NNN declared a dividend of \$0.435 per share, payable February 16, 2016 to its common stockholders of record as of January 29, 2016.

Holders 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 the dividends declared and paid for NNN's preferred stock for the years ended December 31 (dollars in thousands, except per share data):

	2015	2014	2013
Series D Preferred Stock ⁽¹⁾ :			
Dividends	19,047	19,047	19,047
Per share	1.656250	1.656250	1.656250
Series E Preferred Stock ⁽²⁾ :			
Dividends	16,387	16,387	8,876
Per share	1.425000	1.425000	0.771875

⁽¹⁾ The Series D Preferred Stock has no maturity date and will remain outstanding unless redeemed.

⁽²⁾ The Series E Preferred Stock dividends paid during the quarter ended September 30, 2013 include accumulated and unpaid dividends from the issuance date through the declaration date. The Series E Preferred Stock has no maturity date and will remain outstanding unless redeemed.

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

	2015			2014			2013		
	Series E	Series D	Percentage of Total	Series E	Series D	Percentage of Total	Series E ⁽¹⁾	Series D	Percentage of Total
Ordinary dividends	\$ 1.385670	\$ 1.610538	97.2400%	\$ 1.393700	\$ 1.619870	97.8035%	\$ 0.741150	\$ 1.590323	96.0195%
Qualified dividends	0.020141	0.023409	1.4134%	0.005738	0.006670	0.4027%	0.030332	0.065084	3.9296%
Capital gain	0.007937	0.009225	0.5570%	0.009177	0.010666	0.6440%	—	—	—
Unrecaptured Section 1250 Gain	0.011252	0.013078	0.7896%	0.016385	0.019044	1.1498%	0.000393	0.000843	0.0509%
	<u>\$ 1.425000</u>	<u>\$ 1.656250</u>	<u>100.0000%</u>	<u>\$ 1.425000</u>	<u>\$ 1.656250</u>	<u>100.0000%</u>	<u>\$ 0.771875</u>	<u>\$ 1.656250</u>	<u>100.0000%</u>

⁽¹⁾ The Series E preferred stock was issued in May 2013.

Capital Resources

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

Debt

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

	2015	Percentage of Total	2014	Percentage of Total
Mortgages payable	23,964	1.2%	26,182	1.5%
Notes payable	1,951,980	98.8%	1,703,709	98.5%
Total outstanding debt	<u>\$ 1,975,944</u>	<u>100.0%</u>	<u>\$ 1,729,891</u>	<u>100.0%</u>

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

Line of Credit Payable. In October 2014, NNN amended and restated its credit agreement increasing the borrowing capacity under its unsecured revolving credit facility from \$500,000,000 to \$650,000,000 and amended certain other terms under the former revolving credit facility (as the context requires, the previous and new revolving credit facility, the "Credit Facility"). The Credit Facility had a weighted average outstanding balance of \$78,682,000 and a weighted average interest rate of 1.1% for the year ended December 31, 2015. The Credit Facility matures January 2019, with an option to extend maturity to January 2020. As of December 31, 2015, the Credit Facility bears interest at LIBOR plus 92.5 basis points; however, such interest rate may change pursuant to a tiered interest rate structure based on NNN's debt rating. The Credit Facility also includes an accordion feature to increase the facility size up to \$1,000,000,000. As of December 31, 2015, there was no outstanding balance and \$650,000,000 was available for future borrowings under the Credit Facility.

In accordance with the terms of the Credit Facility, NNN is required to meet certain restrictive financial covenants, which, among other things, require NNN to maintain certain (i) leverage ratios, (ii) debt service coverage, (iii) cash flow coverage, and (iv) investment limitations. At December 31, 2015, NNN was in compliance with those covenants. In the event that NNN violates any of these restrictive financial covenants, it could cause the indebtedness under the Credit Facility to be accelerated and may impair NNN's access to the debt and equity markets and limit NNN's ability to pay dividends to its common and

preferred stockholders, each of which would likely have a material adverse impact on NNN's financial condition and results of operations.

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

Entered ⁽¹⁾	Initial Balance	Interest Rate	Maturity ⁽²⁾	Carrying Value of Encumbered Asset(s) ⁽³⁾	Outstanding Principal Balance at December 31,	
					2015	2014
December 2001	\$ 698	9.00%	April 2019	\$ —	\$ —	\$ 223
December 2001	485	9.00%	April 2019	—	—	116
February 2004	6,952	6.90%	January 2017	10,313	848	1,577
March 2005	1,015	8.14%	September 2016	—	—	222
June 2012 ⁽⁴⁾⁽⁵⁾	6,850	5.75%	April 2016	8,341	5,890	6,180
September 2014 ⁽⁴⁾	2,957	6.40%	February 2017	3,691	2,804	2,922
November 2014 ⁽⁴⁾	15,151	5.23%	July 2023	21,889	14,555	15,099
				<u>\$ 44,234</u>	<u>24,097</u>	<u>26,339</u>
Debt costs					(226)	(226)
Accumulated amortization					93	69
Debt costs, net of accumulated amortization					(133)	(157)
Mortgages payable, including unamortized premium and net of unamortized debt costs					<u>\$ 23,964</u>	<u>\$ 26,182</u>

(1) Date entered represents the date that NNN acquired real estate subject to a mortgage securing a loan.

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

(3) Each loan is secured by a first mortgage lien on certain of the Properties. The carrying values of the assets at December 31, 2015.

(4) Initial balance and outstanding principal balance includes unamortized premium.

(5) NNN repaid the outstanding principal balance in January 2016.

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

Notes ⁽¹⁾	Issue Date	Principal	Discount ⁽²⁾	Net Price	Stated Rate	Effective Rate ⁽³⁾	Maturity Date
2017 ⁽⁴⁾	September 2007	250,000	877	249,123	6.875%	6.924%	October 2017
2021 ⁽⁵⁾	July 2011	300,000	4,269	295,731	5.500%	5.689%	July 2021
2022	August 2012	325,000	4,989	320,011	3.800%	3.985%	October 2022
2023 ⁽⁶⁾	April 2013	350,000	2,594	347,406	3.300%	3.388%	April 2023
2024 ⁽⁷⁾	May 2014	350,000	707	349,293	3.900%	3.924%	June 2024
2025 ⁽⁸⁾	October 2015	400,000	964	399,036	4.000%	4.029%	November 2025

- (1) The proceeds from the note issuance were used to pay down outstanding indebtedness of NNN's Credit Facility, fund future property acquisitions and for general corporate purposes.
- (2) The note discounts are amortized to interest expense over the respective term of each debt obligation using the effective interest method.
- (3) Includes the effects of the discount.
- (4) 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.
- (5) NNN entered into two interest rate hedges with a total notional amount of \$150,000. Upon issuance of the 2021 Notes, NNN terminated the interest rate hedge agreements resulting in a liability of \$5,300, of which \$5,218 was deferred in other comprehensive income. The deferred liability is being amortized over the term of the 2021 Notes using the effective interest method.
- (6) NNN entered into four forward starting swaps with an aggregate notional amount of \$240,000. Upon issuance of the 2023 Notes, NNN terminated the forward starting swaps resulting in a liability of \$3,156, of which \$3,141 was deferred in other comprehensive income. The deferred liability is being amortized over the term of the note using the effective interest method.
- (7) NNN entered into three forward starting swaps with an aggregate notional amount of \$225,000. Upon issuance of the 2024 Notes, NNN terminated the forward starting swaps resulting in a liability of \$6,312, which was deferred in other comprehensive income. The deferred liability is being amortized over the term of the note using the effective interest method.
- (8) NNN entered into four forward starting swaps with an aggregate notional amount of \$300,000. Upon issuance of the 2025 Notes, NNN terminated the forward starting swaps resulting in a liability of \$13,369, which was deferred in other comprehensive income. The deferred liability is being amortized over the term of the note using the effective interest method.

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

In connection with the outstanding note offerings, NNN incurred debt issuance costs totaling \$17,782,000 consisting primarily of underwriting discounts and commissions, legal and accounting fees, rating agency fees and printing expenses. Debt issuance costs for all note issuances have been deferred and are being amortized over the term of the respective notes using the effective interest method.

In accordance with the terms of the indentures, pursuant to which NNN's notes 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, 2015, NNN was in compliance with those covenants. NNN's failure to comply with certain of its debt covenants could result in defaults that accelerate the payment under such debt and limit the dividends paid to NNN's common and preferred stockholders which would likely have a material adverse impact on NNN's financial condition and results of operations. In addition, these defaults could impair its access to the debt and equity markets.

In June 2014, NNN repaid the \$150,000,000 6.250% notes payable that were due in June 2014.

In December 2015, NNN repaid the \$150,000,000 6.150% notes payable that were due in December 2015.

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

A description of NNN’s outstanding series of publicly held notes is found under “Debt – Notes Payable” above.

NNN completed the following underwritten public offerings of cumulative redeemable preferred stock that are still outstanding ("Preferred Stock Shares") (dollars in thousands, except per share data):

Series	Dividend Rate ⁽¹⁾	Issued	Depository Shares Outstanding ⁽²⁾	Gross Proceeds	Stock Issuance Costs ⁽³⁾	Dividend Per Depository Share	Earliest Redemption Date ⁽⁴⁾
Series D ⁽⁵⁾	6.625%	February 2012	11,500,000	\$287,500	\$ 9,855	\$ 1.656250	February 2017
Series E ⁽⁶⁾	5.700%	May 2013	11,500,000	287,500	9,856	1.425000	May 2018

⁽¹⁾ Holders are entitled to receive, when and as authorized by the Board of Directors, cumulative preferential cash dividends.

⁽²⁾ Representing 1/100th of a preferred share. Each issuance included 1,500,000 depository shares in connection with the underwriters' over-allotment.

⁽³⁾ Consisting primarily of underwriting commissions and fees, rating agency fees, legal and accounting fees and printing expenses.

⁽⁴⁾ NNN may redeem the preferred stock underlying the depository shares at a redemption price of \$2,500.00 per share (or \$25.00 per depository share), plus all accumulated and unpaid dividends.

⁽⁵⁾ NNN used the net proceeds to redeem the 7.375% Series C Cumulative Redeemable Preferred Stock for an aggregate redemption price of \$92,000, excluding accumulated dividends of \$283. NNN used the remainder of the net proceeds for general corporate purposes, including repaying outstanding indebtedness under its Credit Facility.

⁽⁶⁾ NNN used the net proceeds from the offering for general corporate purposes and funding property acquisitions.

The Preferred Stock Shares underlying the depository shares rank senior to NNN’s common stock with respect to dividend rights and rights upon liquidation, dissolution or winding up of NNN. The Preferred Stock Shares have no maturity date and will remain outstanding unless redeemed. In addition, upon a change of control, as defined in the articles supplementary fixing the rights and preferences of the Preferred Stock Shares, NNN may redeem the Preferred Stock Shares underlying the depository shares at a redemption price of \$2,500.00 per share (or \$25.00 per depository share), plus all accumulated and unpaid dividends, and in limited circumstances the holders of depository shares may convert some or all of their Preferred Stock Shares into shares of NNN's common stock at conversion rates provided in the related articles supplementary. As of February 12, 2016, the Preferred Stock Shares were not redeemable or convertible.

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

Dividend Reinvestment and Stock Purchase Plan. In February 2015, NNN filed a shelf registration statement with the Commission for its Dividend Reinvestment and Stock Purchase Plan (“DRIP”) which permits the issuance by NNN of 16,000,000 shares of common stock. The following outlines the common stock issuances pursuant to the DRIP for the year ended December 31 (dollars in thousands):

	2015	2014	2013
Shares of common stock	196,584	422,406	764,891
Net proceeds	\$ 7,182	\$ 14,817	\$ 25,407

The proceeds from the issuances were used to pay down outstanding indebtedness of NNN’s Credit Facility, fund future property acquisitions and for general corporate purposes.

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

	2015 ATM	2013 ATM	2012 ATM
Established date	February 2015	March 2013	May 2012
Termination date	February 2018	February 2015	February 2015
Total allowable shares	10,000,000	9,000,000	9,000,000
Total shares issued as of December 31, 2015	8,359,533	6,252,812	8,958,840

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

	Year Ended December 31,				
	2015		2014	2013	
	2015 ATM	2013 ATM	2013 ATM	2013 ATM	2012 ATM
Shares of common stock	8,359,533	214,000	3,758,362	2,280,450	4,676,542
Average price per share (net)	\$ 37.39	\$ 39.84	\$ 35.90	\$ 37.80	\$ 32.60
Net proceeds	\$ 312,542	\$ 8,525	\$ 134,919	\$ 86,208	\$ 152,435
Stock issuance costs ⁽¹⁾	\$ 3,886	\$ 130	\$ 2,195	\$ 1,613	\$ 2,161

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

There were no common stock issuances pursuant to the 2012 ATM for the years ended December 31, 2015 and 2014.

Commercial Mortgage Residual Interests

NNN holds the commercial mortgage residual interests ("Residuals") from seven securitizations. Each of the Residuals is recorded at fair value. Unrealized gains and losses are reported as other comprehensive income in stockholders' equity and other than temporary losses as a result of a change in the timing or amount of estimated cash flows are recorded as an other than temporary valuation impairment.

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

	2015	2014	2013
Unrealized gains (losses)	\$ (585)	\$ 875	\$ 511
Other than temporary valuation impairment	531	256	1,185

Based on the expected timing of future cash flows relating to the Residuals certain valuation assumptions are made. During the years ended December 31, 2015, 2014 and 2013, NNN recorded an other than temporary valuation adjustment as a reduction of earnings from operations. The following table summarizes the key assumptions used in determining the value of the Residuals as of December 31:

	2015	2014
Discount rate	20%	20%
Average life equivalent CPR ⁽¹⁾ speeds range	0.87% to 21.73% CPR	0.87% to 26.30% CPR
Foreclosures:		
Frequency curve default model	0.72% - 1.57% range	0.70% - 2.45% range
Loss severity of loans in foreclosure	20%	20%
Yield:		
LIBOR	Forward 3-month curve	Forward 3-month curve
Prime	Forward curve	Forward curve

⁽¹⁾ Conditional prepayment rate

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

The information in the table below summarizes NNN's market risks associated with its debt obligations outstanding as of December 31, 2015 and 2014. The table presents principal payments and related interest rates by year for debt obligations outstanding as of December 31, 2015. NNN has a variable interest rate risk on its Credit Facility which had no outstanding balance as of December 31, 2015. The weighted average rate for the Credit Facility for the year ended December 31, 2015, was 1.1%. The outstanding balance of the Credit Facility as of December 31, 2015 and 2014 was \$0. The table incorporates only those debt obligations that existed as of December 31, 2015, and it does not consider those debt obligations or positions which could arise after this date. Moreover, because firm commitments are not presented in the table below, the information presented therein has limited predictive value. As a result, NNN's ultimate realized gain or loss with respect to interest rate fluctuations will depend on the exposures that arise during the period, NNN's hedging strategies at that time and interest rates. If interest rates on NNN's variable rate debt increased by one percent, NNN's interest expense would have increased by less than one percent for the year ended December 31, 2015.

Debt Obligations (dollars in thousands)				
	Fixed Rate Debt			
	Mortgages ⁽¹⁾		Unsecured Debt ⁽²⁾	
	Debt Obligation	Weighted Average Interest Rate	Debt Obligation	Effective Interest Rate
2016	\$ 7,344	5.84%	\$ —	—
2017	3,362	6.20%	249,796	6.92%
2018	623	5.23%	—	—
2019	653	5.23%	—	—
2020	681	5.23%	—	—
Thereafter	11,434	5.23%	1,715,262	4.16% ⁽³⁾
Total	\$ 24,097	5.40%	\$ 1,965,058	4.51%
Fair Value:				
December 31, 2015	\$ 24,097		\$ 2,007,242	
December 31, 2014	\$ 26,339		\$ 1,813,439	

⁽¹⁾ NNN's mortgages payable include unamortized premiums and exclude debt costs.

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

⁽³⁾ Weighted average effective interest rate for periods after 2020.

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 \$11,115,000 and \$11,626,000 as of December 31, 2015 and 2014, respectively. Unrealized gains and losses are reported as other comprehensive income in stockholders' equity. Losses are considered other than temporary and reported as a valuation impairment in earnings from operations if and when there has been a change in the timing or amount of estimated cash flows that leads to a loss in value.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

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

We have audited National Retail Properties, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). National Retail Properties, Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, National Retail Properties, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of National Retail Properties, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income and comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2015 and our report dated February 12, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Certified Public Accountants

Orlando, Florida
February 12, 2016

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of National Retail Properties, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income and comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedules listed in the Index at Item 15(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of National Retail Properties, Inc. and Subsidiaries at December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), National Retail Properties, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 12, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Certified Public Accountants

Orlando, Florida
February 12, 2016

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES

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

<u>ASSETS</u>	December 31, 2015	December 31, 2014
Real estate portfolio:		
Accounted for using the operating method, net of accumulated depreciation and amortization	\$ 5,256,274	\$ 4,685,001
Accounted for using the direct financing method	14,518	16,974
Real estate held for sale	32,666	38,074
Mortgages, notes and accrued interest receivable, net of allowance of \$5 at December 31, 2015	8,688	11,075
Commercial mortgage residual interests	11,115	11,626
Cash and cash equivalents	14,260	10,604
Receivables, net of allowance of \$566 and \$1,784, respectively	3,344	3,013
Accrued rental income, net of allowance of \$3,078 and \$3,086, respectively	25,529	25,659
Debt costs, net of accumulated amortization of \$9,877 and \$8,514, respectively	4,003	5,290
Other assets	89,647	108,235
Total assets	<u>\$ 5,460,044</u>	<u>\$ 4,915,551</u>
<u>LIABILITIES AND EQUITY</u>		
Liabilities:		
Mortgages payable, including unamortized premium and net of unamortized debt costs	\$ 23,964	\$ 26,182
Notes payable, net of unamortized discount and unamortized debt costs	1,951,980	1,703,709
Accrued interest payable	20,113	17,396
Other liabilities	121,594	85,172
Total liabilities	<u>2,117,651</u>	<u>1,832,459</u>
Commitments and contingencies (Note 20)		
Equity:		
Stockholders' equity:		
Preferred stock, \$0.01 par value. Authorized 15,000,000 shares		
6.625% Series D, 115,000 shares issued and outstanding, at stated liquidation value of \$2,500 per share	287,500	287,500
5.700% Series E, 115,000 shares issued and outstanding, at stated liquidation value of \$2,500 per share	287,500	287,500
Common stock, \$0.01 par value. Authorized 375,000,000 shares; 141,007,725 and 132,010,104 shares issued and outstanding, respectively	1,412	1,322
Capital in excess of par value	3,049,198	2,711,678
Retained earnings (loss)	(263,124)	(196,827)
Accumulated other comprehensive income (loss)	(20,352)	(8,658)
Total stockholders' equity of NNN	<u>3,342,134</u>	<u>3,082,515</u>
Noncontrolling interests	259	577
Total equity	<u>3,342,393</u>	<u>3,083,092</u>
Total liabilities and equity	<u>\$ 5,460,044</u>	<u>\$ 4,915,551</u>

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(dollars in thousands, except per share data)

	Year Ended December 31,		
	2015	2014	2013
Revenues:			
Rental income from operating leases	\$ 462,346	\$ 414,043	\$ 372,913
Earned income from direct financing leases	1,506	1,725	1,955
Percentage rent	1,430	1,074	1,556
Real estate expense reimbursement from tenants	14,868	13,875	13,340
Interest and other income from real estate transactions	986	2,296	1,471
Interest income on commercial mortgage residual interests	1,778	1,834	2,290
	<u>482,914</u>	<u>434,847</u>	<u>393,525</u>
Operating expenses:			
General and administrative	34,736	32,518	31,095
Real estate	19,774	18,905	18,497
Depreciation and amortization	134,798	116,162	99,274
Impairment – commercial mortgage residual interests valuation	531	256	1,185
Impairment losses and other charges, net of recoveries	4,420	760	3,580
	<u>194,259</u>	<u>168,601</u>	<u>153,631</u>
Earnings from operations	<u>288,655</u>	<u>266,246</u>	<u>239,894</u>
Other expenses (revenues):			
Interest and other income	(109)	(357)	(1,493)
Interest expense	90,008	85,510	85,822
Real estate acquisition costs	927	1,391	1,485
	<u>90,826</u>	<u>86,544</u>	<u>85,814</u>
Earnings from continuing operations before income tax benefit (expense)	197,829	179,702	154,080
Income tax benefit (expense)	(10,318)	75	(74)
Earnings from continuing operations	187,511	179,777	154,006
Earnings from discontinued operations, net of income tax expense	—	124	5,972
Earnings before gain on disposition of real estate, net of income tax expense	187,511	179,901	159,978
Gain on disposition of real estate, net of income tax expense	10,450	11,269	107
Earnings including noncontrolling interests	197,961	191,170	160,085
Loss (earnings) attributable to noncontrolling interests:			
Continuing operations	(125)	(569)	223
Discontinued operations	—	—	(163)
	<u>(125)</u>	<u>(569)</u>	<u>60</u>
Net earnings attributable to NNN	<u>\$ 197,836</u>	<u>\$ 190,601</u>	<u>\$ 160,145</u>

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(dollars in thousands, except per share data)

	Year Ended December 31,		
	2015	2014	2013
Net earnings attributable to NNN	\$ 197,836	\$ 190,601	\$ 160,145
Series D preferred stock dividends	(19,047)	(19,047)	(19,047)
Series E preferred stock dividends	(16,387)	(16,387)	(8,876)
Net earnings attributable to common stockholders	<u>\$ 162,402</u>	<u>\$ 155,167</u>	<u>\$ 132,222</u>
Net earnings per share of common stock:			
Basic:			
Continuing operations	\$ 1.21	\$ 1.24	\$ 1.06
Discontinued operations	—	—	0.05
Net earnings	<u>\$ 1.21</u>	<u>\$ 1.24</u>	<u>\$ 1.11</u>
Diluted:			
Continuing operations	\$ 1.20	\$ 1.24	\$ 1.05
Discontinued operations	—	—	0.05
Net earnings	<u>\$ 1.20</u>	<u>\$ 1.24</u>	<u>\$ 1.10</u>
Weighted average number of common shares outstanding:			
Basic	<u>133,998,674</u>	<u>124,257,558</u>	<u>118,204,148</u>
Diluted	<u>134,489,416</u>	<u>124,710,226</u>	<u>119,864,824</u>
Other comprehensive income:			
Net earnings attributable to NNN	\$ 197,836	\$ 190,601	\$ 160,145
Amortization of interest rate hedges	1,902	1,129	438
Fair value forward starting swaps	(13,369)	(6,312)	(3,141)
Net gain (loss) – commercial mortgage residual interests	(339)	1,038	(438)
Net gain (loss) – available-for-sale securities	112	(8)	69
Reclassification of noncontrolling interests	—	—	949
Comprehensive income attributable to NNN	<u>\$ 186,142</u>	<u>\$ 186,448</u>	<u>\$ 158,022</u>

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
Years Ended December 31, 2015, 2014 and 2013
(dollars in thousands, except per share data)

	Series D Preferred Stock	Series E Preferred Stock	Common Stock	Capital in Excess of Par Value	Retained Earnings (Loss)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balances at December 31, 2012	\$ 287,500	\$ —	\$ 1,117	\$ 2,101,002	\$ (90,952)	\$ (2,382)	\$ 2,296,285	\$ 1,300	\$ 2,297,585
Net earnings	—	—	—	—	160,145	—	160,145	(60)	160,085
Dividends declared and paid:									
\$1.65625 per depositary share of Series D preferred stock	—	—	—	—	(19,047)	—	(19,047)	—	(19,047)
\$0.77188 per depositary share of Series E preferred stock	—	—	—	—	(8,876)	—	(8,876)	—	(8,876)
\$1.60 per share of common stock	—	—	4	14,941	(189,107)	—	(174,162)	—	(174,162)
Issuance of 11,500,000 depositary shares of Series E Preferred Stock	—	287,500	—	(9,856)	—	—	277,644	—	277,644
Issuance of common stock:									
29,013 shares	—	—	—	744	—	—	744	—	744
322,084 shares – stock purchase program	—	—	3	10,458	—	—	10,461	—	10,461
6,956,992 shares – ATM equity program	—	—	70	242,348	—	—	242,418	—	242,418
2,407,911 shares – conversion of 2028 Notes	—	—	24	85,200	—	—	85,224	—	85,224
Issuance of 290,181 shares of restricted common stock	—	—	3	(213)	—	—	(210)	—	(210)
Equity component of convertible debt	—	—	—	(93,450)	—	—	(93,450)	—	(93,450)
Stock issuance costs	—	—	—	(3,774)	—	—	(3,774)	—	(3,774)
Amortization of deferred compensation	—	—	—	6,715	—	—	6,715	—	6,715
Amortization of interest rate hedges	—	—	—	—	—	438	438	—	438
Fair value forward starting swaps	—	—	—	—	—	(3,141)	(3,141)	—	(3,141)
Unrealized loss – commercial mortgage residual interests	—	—	—	—	—	(438)	(438)	—	(438)
Valuation adjustments – available-for-sale securities	—	—	—	—	—	69	69	—	69
Noncontrolling interests	—	—	—	(949)	—	949	—	—	—
Balances at December 31, 2013	<u>\$ 287,500</u>	<u>\$ 287,500</u>	<u>\$ 1,221</u>	<u>\$ 2,353,166</u>	<u>\$ (147,837)</u>	<u>\$ (4,505)</u>	<u>\$ 2,777,045</u>	<u>\$ 1,240</u>	<u>\$ 2,778,285</u>

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY
Years Ended December 31, 2015, 2014 and 2013
(dollars in thousands, except per share data)

	Series D Preferred Stock	Series E Preferred Stock	Common Stock	Capital in Excess of Par Value	Retained Earnings (Loss)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balances at December 31, 2013	\$ 287,500	\$ 287,500	\$ 1,221	\$ 2,353,166	\$ (147,837)	\$ (4,505)	\$ 2,777,045	\$ 1,240	\$ 2,778,285
Net earnings	—	—	—	—	190,601	—	190,601	569	191,170
Dividends declared and paid:									
\$1.65625 per depositary share of Series D preferred stock	—	—	—	—	(19,047)	—	(19,047)	—	(19,047)
\$1.42500 per depositary share of Series E preferred stock	—	—	—	—	(16,387)	—	(16,387)	—	(16,387)
\$1.65 per share of common stock	—	—	3	11,443	(204,157)	—	(192,711)	—	(192,711)
Issuance of common stock:									
5,493,595 shares	—	—	55	209,185	—	—	209,240	—	209,240
100,161 shares – stock purchase program	—	—	1	3,370	—	—	3,371	—	3,371
3,758,362 shares – ATM equity program	—	—	38	137,077	—	—	137,115	—	137,115
Issuance of 360,080 shares of restricted common stock	—	—	4	(313)	—	—	(309)	—	(309)
Stock issuance costs	—	—	—	(10,683)	—	—	(10,683)	—	(10,683)
Amortization of deferred compensation	—	—	—	8,433	—	—	8,433	—	8,433
Amortization of interest rate hedges	—	—	—	—	—	1,129	1,129	—	1,129
Fair value forward starting swaps	—	—	—	—	—	(6,312)	(6,312)	—	(6,312)
Unrealized gain – commercial mortgage residual interests	—	—	—	—	—	875	875	—	875
Realized gain – commercial mortgage residual interests	—	—	—	—	—	163	163	—	163
Valuation adjustments – available-for-sale securities	—	—	—	—	—	111	111	—	111
Realized gain – available-for-sale securities	—	—	—	—	—	(119)	(119)	—	(119)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(1,232)	(1,232)
Balances at December 31, 2014	\$ 287,500	\$ 287,500	\$ 1,322	\$ 2,711,678	\$ (196,827)	\$ (8,658)	\$ 3,082,515	\$ 577	\$ 3,083,092

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
Years Ended December 31, 2015, 2014 and 2013
(dollars in thousands, except per share data)

	Series D Preferred Stock	Series E Preferred Stock	Common Stock	Capital in Excess of Par Value	Retained Earnings (Loss)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balances at December 31, 2014	\$287,500	\$287,500	\$ 1,322	\$2,711,678	\$(196,827)	\$ (8,658)	\$ 3,082,515	\$ 577	\$ 3,083,092
Net earnings	—	—	—	—	197,836	—	197,836	125	197,961
Dividends declared and paid:									
\$1.65625 per depositary share of Series D preferred stock	—	—	—	—	(19,047)	—	(19,047)	—	(19,047)
\$1.42500 per depositary share of Series E preferred stock	—	—	—	—	(16,387)	—	(16,387)	—	(16,387)
\$1.71 per share of common stock	—	—	2	6,886	(228,699)	—	(221,811)	—	(221,811)
Issuance of common stock:									
34,230 shares	—	—	—	991	—	—	991	—	991
12,065 shares – stock purchase program	—	—	—	455	—	—	455	—	455
8,573,533 shares – ATM equity program	—	—	86	324,998	—	—	325,084	—	325,084
Issuance of 209,284 shares of restricted common stock	—	—	2	(311)	—	—	(309)	—	(309)
Stock issuance costs	—	—	—	(4,178)	—	—	(4,178)	—	(4,178)
Amortization of deferred compensation	—	—	—	8,679	—	—	8,679	—	8,679
Amortization of interest rate hedges	—	—	—	—	—	1,902	1,902	—	1,902
Fair value forward starting swaps	—	—	—	—	—	(13,369)	(13,369)	—	(13,369)
Unrealized loss – commercial mortgage residual interests	—	—	—	—	—	(585)	(585)	—	(585)
Realized gain – commercial mortgage residual interests	—	—	—	—	—	246	246	—	246
Valuation adjustments – available-for-sale securities	—	—	—	—	—	112	112	—	112
Realized gain – available-for-sale securities	—	—	—	—	—	—	—	—	—
Contributions from noncontrolling interest	—	—	—	—	—	—	—	334	334
Distributions to noncontrolling interest	—	—	—	—	—	—	—	(362)	(362)
Sale of noncontrolling interest	—	—	—	—	—	—	—	(415)	(415)
Balances at December 31, 2015	<u>\$287,500</u>	<u>\$287,500</u>	<u>\$ 1,412</u>	<u>\$3,049,198</u>	<u>\$(263,124)</u>	<u>\$ (20,352)</u>	<u>\$ 3,342,134</u>	<u>\$ 259</u>	<u>\$ 3,342,393</u>

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,		
	2015	2014	2013
Cash flows from operating activities:			
Earnings including noncontrolling interests	\$ 197,961	\$ 191,170	\$ 160,085
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	134,798	116,165	99,617
Impairment losses and other charges	4,420	823	4,106
Impairment – commercial mortgage residual interests valuation	531	256	1,185
Amortization of notes payable discount	1,306	1,238	3,188
Amortization of debt costs	2,915	2,782	3,118
Amortization of mortgages payable premium	(207)	(93)	(57)
Amortization of deferred interest rate hedges	1,902	1,129	438
Interest rate hedge payment	(13,369)	(6,312)	(3,141)
Gain on disposition of real estate	(10,807)	(11,742)	(6,445)
Deferred income taxes	10,488	58	800
Performance incentive plan expense	10,474	9,841	8,518
Performance incentive plan payment	(676)	(2,808)	(2,138)
Change in operating assets and liabilities, net of assets acquired and liabilities assumed in business combinations:			
Additions to held for sale real estate	—	—	(1,029)
Decrease in real estate leased to others using the direct financing method	1,277	1,368	1,573
Decrease in mortgages, notes and accrued interest receivable	74	76	641
Decrease (increase) in receivables	(335)	16	62
Decrease (increase) in accrued rental income	(368)	(1,731)	165
Decrease (increase) in other assets	4,996	(2,256)	400
Increase (decrease) in accrued interest payable	2,717	254	(385)
Increase (decrease) in other liabilities	(6,610)	(4,746)	3,841
Other	(392)	1,245	(121)
Net cash provided by operating activities	<u>341,095</u>	<u>296,733</u>	<u>274,421</u>
Cash flows from investing activities:			
Proceeds from the disposition of real estate	38,502	58,853	60,626
Additions to real estate:			
Accounted for using the operating method	(683,243)	(602,780)	(637,417)
Increase in mortgages and notes receivable	—	(7,246)	(3,857)
Principal payments on mortgages and notes receivable	2,363	13,346	14,617
Other	(2,166)	(3,731)	(2,009)
Net cash used in investing activities	<u>(644,544)</u>	<u>(541,558)</u>	<u>(568,040)</u>

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,		
	2015	2014	2013
Cash flows from financing activities:			
Proceeds from line of credit payable	\$ 1,262,400	\$ 678,500	\$ 601,800
Repayment of line of credit payable	(1,262,400)	(724,900)	(729,600)
Repayment of mortgages payable	(2,035)	(1,151)	(1,070)
Proceeds from notes payable	399,036	349,293	347,406
Repayment of notes payable	(150,000)	(150,000)	—
Repayment of notes payable – convertible	—	—	(246,797)
Payment of debt costs	(3,654)	(6,321)	(3,265)
Proceeds from issuance of common stock	332,117	360,072	267,613
Proceeds from issuance of Series E preferred stock	—	—	287,500
Payment of Series D Preferred Stock dividends	(19,047)	(19,047)	(19,047)
Payment of Series E Preferred Stock dividends	(16,387)	(16,387)	(8,876)
Stock issuance costs	(4,198)	(10,726)	(13,529)
Payment of common stock dividends	(228,699)	(204,157)	(189,107)
Noncontrolling interest contributions	334	—	—
Noncontrolling interest distributions	(362)	(1,232)	—
Net cash provided by financing activities	<u>307,105</u>	<u>253,944</u>	<u>293,028</u>
Net increase (decrease) in cash and cash equivalents	3,656	9,119	(591)
Cash and cash equivalents at beginning of year	10,604	1,485	2,076
Cash and cash equivalents at end of year	<u>\$ 14,260</u>	<u>\$ 10,604</u>	<u>\$ 1,485</u>
Supplemental disclosure of cash flow information:			
Interest paid, net of amount capitalized	<u>\$ 83,758</u>	<u>\$ 81,829</u>	<u>\$ 80,930</u>
Taxes paid	<u>\$ 234</u>	<u>\$ 59</u>	<u>\$ 360</u>
Supplemental disclosure of noncash investing and financing activities:			
Issued 2,407,911 shares of common stock for conversion premium on 2028 Notes	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 85,224</u>
Issued 285,263, 386,433 and 315,501 shares of restricted and unrestricted common stock in 2015, 2014 and 2013, respectively, pursuant to NNN's performance incentive plan	<u>\$ 8,990</u>	<u>\$ 10,884</u>	<u>\$ 8,800</u>
Issued 16,010, 16,016 and 12,308 shares of common stock in 2015, 2014 and 2013, respectively, pursuant to NNN's Deferred Director Fee Plan	<u>\$ 287</u>	<u>\$ 263</u>	<u>\$ 162</u>
Surrender of 241 shares of restricted common stock in 2013	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7</u>
Change in other comprehensive income	<u>\$ 11,694</u>	<u>\$ 4,153</u>	<u>\$ 2,123</u>
Change in lease classification (direct financing lease to operating lease)	<u>\$ 1,179</u>	<u>\$ —</u>	<u>\$ 1,156</u>
Mortgages payable assumed in connection with real estate transactions	<u>\$ —</u>	<u>\$ 17,254</u>	<u>\$ —</u>
Mortgage receivable accepted in connection with real estate transactions	<u>\$ 500</u>	<u>\$ 62</u>	<u>\$ 750</u>
Note receivable accepted in connection with real estate transactions	<u>\$ —</u>	<u>\$ 70</u>	<u>\$ —</u>

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2015, 2014 and 2013

Note 1 – Organization and Summary of Significant Accounting Policies:

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

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

	December 31, 2015
Property Portfolio:	
Total properties	2,257
Gross leasable area (square feet)	24,964,000
States	47
Weighted average remaining lease term (years)	11.4

NNN's operations are reported within one business segment in the financial statements and all properties are considered part of the Properties or Property Portfolio. As such, property counts and calculations involving property counts reflect all NNN properties.

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

NNN consolidates certain joint venture development entities based upon either NNN being the primary beneficiary of the respective variable interest entity or NNN having a controlling interest over the respective entity. NNN eliminates significant intercompany balances and transactions and records a noncontrolling interest for its other partners' ownership percentage.

Real Estate 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. For the years ended December 31, 2015, 2014 and 2013, NNN recorded \$2,383,000, \$1,629,000 and \$1,369,000, respectively, in capitalized interest during development.

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

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

In allocating the fair value of the identified intangible assets and liabilities of an acquired property, above-market and below-market in-place lease values are recorded as other assets or liabilities based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid

pursuant to the in-place leases, and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining term of the lease, including estimated probable renewal periods. The capitalized above-market lease values are amortized as a reduction of rental income over the remaining terms of the respective leases. The capitalized below-market lease values are amortized as an increase to rental income over the initial term unless the Company believes that it is likely that the tenant will renew the lease for an option term whereby the Company amortizes the value attributable to the renewal over the renewal period.

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

Intangible assets and liabilities consisted of the following as of December 31 (dollars in thousands):

	2015	2014
Intangible lease assets (included in Other assets):		
Value of above market in-place leases, net	\$ 10,883	\$ 11,751
Value of in-place leases, net	61,359	65,770
Intangible lease liabilities (included in Other liabilities):		
Value of below market in-place leases, net	25,767	29,162

NNN's 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, repairs and capital expenditures. The leases are accounted for using either the operating or the direct financing method. Such methods are described below:

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

Real Estate – Held For Sale – Real estate held for sale is not depreciated and is recorded at the lower of cost or fair value, less cost to sell.

Impairment – Real Estate – Based upon certain events or changes in circumstances, management periodically assesses its Properties for possible impairment whenever the carrying value of the asset, including accrued rental income, may not be recoverable through operations. Events or circumstances that may occur include significant changes in real estate market conditions and the ability of NNN to re-lease or sell properties that are currently vacant or become vacant in a reasonable period of time. Management evaluates whether an impairment in carrying 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 value 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 estimated fair value.

Real Estate Dispositions – When real estate is disposed of, the related cost, accumulated depreciation or amortization and any accrued rental income for operating leases and the net investment for direct financing leases are removed from the accounts, and gains and losses from the dispositions are reflected in income. Gains from the disposition of real estate are generally recognized using the full accrual method in accordance with the FASB guidance included in *Real Estate Sales*, provided that various criteria relating to the terms of the sale and any subsequent involvement by NNN with the real estate sold are met.

Valuation of Mortgages, Notes and Accrued Interest – The reserve allowance related to the mortgages, notes and accrued interest is NNN’s best estimate of the amount of probable credit losses. The reserve 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 reserve allowance when all possible means of collection have been exhausted.

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

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

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

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

Debt Costs – In April 2015, the FASB issued Accounting Standards Update ("ASU") 2015-03, "Interest – Imputation of Interest (Subtopic 835-30)." To simplify presentation of debt issuance costs, the amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. NNN has elected early adoption of ASU 2015-03.

As a result of the implementation of ASU 2015-03, on a retrospective basis, NNN reclassified debt costs on the Consolidated Balance Sheet for the year ended December 31, 2014, as follows (dollars in thousands):

<u>Assets</u>	
Debt costs, net of accumulated amortization	\$ (11,162)
<u>Liabilities</u>	
Mortgages payable	156
Notes payable	11,006

Debt Costs – Line of Credit Payable – Debt costs incurred in connection with NNN’s \$650,000,000 line of credit have been deferred and are being amortized over the term of the loan commitment using the straight-line method, which approximates the effective interest method. In accordance with ASU 2015-15, “Presentation and Subsequent Measurement of Debt Issuance Costs Associated With Line-of-Credit Arrangements,” NNN has recorded debt costs associated with the line of credit as an asset, in Debt Costs on the Consolidated Balance Sheets.

Debt Costs – Mortgages Payable – Debt costs incurred in connection with NNN’s 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 and are recorded in Mortgages Payable on the Consolidated Balance Sheets. At December 31, 2015 and 2014, NNN had \$226,000 and \$226,000 of debt costs, net of accumulated amortization of \$93,000 and \$69,000, respectively.

Debt Costs – Notes Payable – Debt costs incurred in connection with the issuance of NNN’s notes payable have been deferred and are being amortized to interest expense over the term of the respective debt obligation using the effective interest method and are recorded in Notes Payable on the Consolidated Balance Sheets. At December 31, 2015 and 2014, NNN had \$17,782,000 and \$16,775,000 of debt costs, net of accumulated amortization of \$4,704,000 and \$5,769,000, respectively.

Revenue Recognition – Rental revenues for properties under construction commence upon completion of construction of the leased asset and delivery of the leased asset to the tenant. Rental revenues for non-development real estate assets are recognized when earned in accordance with the FASB guidance included in *Leases*, based on the terms of the lease of the leased asset. Lease termination fees are recognized when the related leases are cancelled and NNN no longer has a continuing involvement with the former tenant with respect to that property.

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

	2015	2014	2013
Basic and Diluted Earnings:			
Net earnings attributable to NNN	\$ 197,836	\$ 190,601	\$ 160,145
Less: Series D preferred stock dividends	(19,047)	(19,047)	(19,047)
Less: Series E preferred stock dividends	(16,387)	(16,387)	(8,876)
Net earnings attributable to common stockholders	162,402	155,167	132,222
Less: Earnings attributable to unvested restricted shares	(706)	(773)	(718)
Net earnings used in basic and diluted earnings per share	<u>\$ 161,696</u>	<u>\$ 154,394</u>	<u>\$ 131,504</u>
Basic and Diluted Weighted Average Shares Outstanding:			
Weighted average number of shares outstanding	134,868,640	125,221,358	118,969,771
Less: Unvested restricted shares	(412,505)	(467,968)	(448,590)
Less: Unvested contingent shares	(457,461)	(495,832)	(317,033)
Weighted average number of shares outstanding used in basic earnings per share	133,998,674	124,257,558	118,204,148
Effects of dilutive securities:			
Convertible debt	—	—	1,468,559
Other	490,742	452,668	192,117
Weighted average number of shares outstanding used in diluted earnings per share	<u>134,489,416</u>	<u>124,710,226</u>	<u>119,864,824</u>

Income Taxes – NNN has made an election to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"), and related regulations. NNN generally will not be subject to federal income taxes on amounts distributed to stockholders, providing it distributes 100 percent of its REIT taxable income and meets certain other requirements for qualifying as a REIT. For each of the years in the three-year period ended December 31, 2015, NNN believes it has qualified as a REIT. Notwithstanding NNN's qualification for taxation as a REIT, NNN is subject to certain state taxes on its income and real estate.

NNN and its taxable REIT subsidiaries have made timely TRS elections pursuant to the provisions of the REIT Modernization Act. A taxable REIT subsidiary is able to engage in activities resulting in income that previously would have been disqualified from being eligible REIT income under the federal income tax regulations. As a result, certain activities of NNN which occur within its TRS entities are subject to federal and state income taxes (See Note 13). All provisions for federal income taxes in the accompanying consolidated financial statements are attributable to NNN's taxable REIT subsidiaries and to the Orange Avenue Mortgage Investments, Inc. ("OAMI"), a majority owned and controlled subsidiary, built-in-gain tax liability.

At the close of business on December 31, 2015, NNN elected to revoke its election to classify the TRS as taxable REIT subsidiaries ("TRS Revocation Election"). This TRS Revocation Election resulted in an additional tax expense of approximately \$9,607,000 for 2015.

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

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

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

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

	Gain or Loss on Cash Flow Hedges ⁽¹⁾	Gains and Losses on Commercial Mortgage Residual Interests ⁽²⁾	Gains and Losses on Available-for- Sale Securities	Total
Beginning balance, December 31, 2013	\$ (8,396)	\$ 3,755	\$ 136	\$ (4,505)
Other comprehensive income (loss)	(6,312)	875	111	(5,326)
Reclassifications from accumulated other comprehensive income to net earnings	1,129 ⁽³⁾	163 ⁽⁴⁾	(119) ⁽⁵⁾	1,173
Net current period other comprehensive income (loss)	(5,183)	1,038	(8)	(4,153)
Ending balance, December 31, 2014	(13,579)	4,793	128	(8,658)
Other comprehensive income (loss)	(13,369)	(585)	112	(13,842)
Reclassifications from accumulated other comprehensive income to net earnings	1,902 ⁽³⁾	246 ⁽⁴⁾	—	2,148
Net current period other comprehensive income (loss)	(11,467)	(339)	112	(11,694)
Ending balance, December 31, 2015	\$ (25,046)	\$ 4,454	\$ 240	\$ (20,352)

⁽¹⁾ Additional disclosure is included in Note 13 – Derivatives.

⁽²⁾ Additional disclosure is included in Note 18 – Fair Value Measurements.

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

⁽⁴⁾ Reclassifications out of other comprehensive income are recorded in Impairment on the Consolidated Statements of Income and Comprehensive Income. There is no income tax expense (benefit) resulting from this reclassification.

⁽⁵⁾ Reclassifications out of other comprehensive income are recorded in Other Income on the Consolidated Statements of Comprehensive Income. There is no income tax expense (benefit) resulting from this reclassification.

New Accounting Pronouncements – In April 2014, the FASB issued ASU 2014-08, “Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposal of Components of an Entity.” NNN elected to adopt ASU 2014-08 effective January 1, 2014. Under ASU 2014-08, only disposals representing a strategic shift in operations are to be presented as discontinued operations. This requires the Company to continue to classify any Property disposal or Property classified as held for sale as of December 31, 2013 as discontinued operations prospectively. Therefore, the revenues and expenses related to these properties are presented as discontinued operations as of December 31, 2014. The Company has not classified any additional properties as discontinued operations subsequent to December 31, 2013.

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

In June 2014, the FASB issued ASU 2014-12, "Compensation – Stock Compensation (Topic 718)," effective for annual periods and interim periods within those periods beginning after December 15, 2015. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period should be treated as a performance condition. The adoption of ASU 2014-12 will not have a significant impact on NNN’s financial position or results of operations.

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

In November 2014, the FASB issued ASU 2014-16, "Derivatives and Hedging (Topic 815)." Entities commonly raise capital by issuing different classes of shares, including preferred stock, that entitle the holders to certain preferences and rights over the other shareholders. The specific terms of those shares may include conversion rights, redemption rights, voting rights, and liquidation and dividend payment preferences, among other features. One or more of those features may meet the definition of a derivative under GAAP. Shares that include such embedded derivative features are referred to as hybrid financial instruments. The objective of this update is to eliminate the use of different methods in practice and thereby reduce existing diversity under GAAP in the accounting for hybrid financial instruments issued in the form of a share. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of ASU 2014-16 will not have a significant impact on NNN’s financial position or results of operations.

In January 2015, the FASB issued ASU 2015-01, "Income Statement – Extraordinary and Unusual Items (Subtopic 225-20)," effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. This update eliminates from GAAP the concept of extraordinary items. The adoption of ASU 2014-16 will not have a significant impact on NNN’s financial position or results of operations.

In February 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810)," effective for fiscal years, and for interim periods within those years, beginning after December 15, 2015. The amendments in this update affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. The adoption of ASU 2015-02 will not have an impact on NNN's financial position and results of operations.

In September 2015, the FASB issued ASU 2015-16, “Business Combinations (Topic 805) - Simplifying the Accounting for Measurement-Period Adjustments,” effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments in this update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this update require that the acquirer record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the

provisional amounts had been recognized as of the acquisition date. The adoption of ASU 2014-16 will not have a significant impact on NNN's financial position or results of operations.

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, purchase price allocation, the recoverability of the carrying value of long-lived assets, including the commercial mortgage residual interests, the recoverability of the deferred income taxes, and the collectibility of receivables from tenants, including accrued rental income. Actual results could differ from those estimates.

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

Note 2 – Real Estate:

Real Estate – Portfolio

Leases – The following outlines key information for NNN's leases at December 31, 2015:

Lease classification:	
Operating	2,294
Direct financing	10
Building portion – direct financing/land portion – operating	2
Weighted average remaining lease term (years)	11.4

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

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

	2015	2014
Land and improvements	\$ 1,922,579	\$ 1,776,222
Buildings and improvements	3,891,239	3,386,810
Leasehold interests	1,290	1,290
	5,815,108	5,164,322
Less accumulated depreciation and amortization	(620,188)	(508,229)
	5,194,920	4,656,093
Work in progress	61,354	28,908
	<u>\$ 5,256,274</u>	<u>\$ 4,685,001</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, 2015, 2014 and 2013, NNN recognized collectively in continuing and discontinued operations, \$153,000, \$1,521,000 and (\$338,000), respectively, of such income, net of reserves. At December 31, 2015 and 2014, the balance of accrued rental income, net of allowances of \$3,078,000 and \$3,086,000, respectively, was \$25,529,000 and \$25,659,000, respectively.

The following is a schedule of future minimum lease payments to be received on noncancellable operating leases at December 31, 2015 (dollars in thousands):

2016	\$ 478,512
2017	469,698
2018	445,099
2019	426,224
2020	408,372
Thereafter	3,267,955
	<u>\$ 5,495,860</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 current lease terms. In addition, this table does not include amounts for potential variable rent increases that are based on the CPI or future contingent rents which may be received on the leases based on a percentage of the tenant's gross sales.

Real Estate 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):

	2015	2014
Minimum lease payments to be received	\$ 13,900	\$ 17,376
Estimated unguaranteed residual values	7,589	8,274
Less unearned income	(6,971)	(8,676)
Net investment in direct financing leases	<u>\$ 14,518</u>	<u>\$ 16,974</u>

The following is a schedule of future minimum lease payments to be received on direct financing leases held for investment at December 31, 2015 (dollars in thousands):

2016	\$ 2,700
2017	1,862
2018	1,834
2019	1,512
2020	1,043
Thereafter	4,949
	<u>\$ 13,900</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 Portfolio – Accounted for Using the Operating Method).

Real Estate – Held For Sale

On a quarterly basis, the Company evaluates its Properties for held for sale classification based on specific criteria as outlined in ASC 360, *Property, Plant & Equipment*, including management’s intent to commit to a plan to sell the asset. NNN anticipates the disposition of Properties classified as held for sale to occur within 12 months. As of December 31, 2015, NNN had six of its Properties categorized as held for sale. NNN’s real estate held for sale at December 31, 2014, included 11 properties, five of which were sold in 2015. Real estate held for sale consisted of the following as of December 31 (dollars in thousands):

	2015	2014
Land and improvements	\$ 9,419	\$ 11,518
Building and improvements	27,881	32,525
	<u>37,300</u>	<u>44,043</u>
Less accumulated depreciation and amortization	(4,419)	(4,947)
Less impairment	(215)	(1,022)
	<u>\$ 32,666</u>	<u>\$ 38,074</u>

Real Estate – Dispositions

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

	2015		2014		2013	
	# of Sold Properties	Gain	# of Sold Properties	Gain	# of Sold Properties	Gain
Gain on disposition of real estate	19	\$ 10,807 ⁽¹⁾	25	\$ 11,587	—	\$ 173
Income tax expense		(357)		(318)		(66)
		<u>10,450</u>		<u>11,269</u>		<u>107</u>
Gain on disposition of real estate included in discontinued operations	—	—	2	155 ⁽¹⁾	35	6,272 ⁽¹⁾
Income tax expense		—		—		(784)
		<u>\$ 10,450</u>		<u>\$ 11,424</u>		<u>\$ 5,595</u>

⁽¹⁾ Amount includes the recognition of deferred gains on previously sold properties.

Real Estate – Commitments

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

Number of properties	27
Total commitment ⁽¹⁾	\$ 116,394
Amount funded	\$ 87,406
Remaining commitment	\$ 28,988

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

Real Estate – Impairments

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

	2015	2014	2013
Continuing operations	\$ 3,970	\$ 760	\$ 3,565
Discontinued operations	—	63	541
	<u>\$ 3,970</u>	<u>\$ 823</u>	<u>\$ 4,106</u>

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

Note 3 – Commercial Mortgage Residual Interests:

NNN holds the commercial mortgage residual interests (“Residuals”) from seven securitizations. Each of the Residuals is recorded at fair value. Unrealized gains and losses are reported as other comprehensive income in stockholders’ equity and other than temporary losses as a result of a change in the timing or amount of estimated cash flows are recorded as an other than temporary valuation impairment.

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

	2015	2014	2013
Unrealized gains (losses)	\$ (585)	\$ 875	\$ 511
Other than temporary valuation impairment	531	256	1,185

Based on the expected timing of future cash flows relating to the Residuals certain valuation assumptions are made. During the years ended December 31, 2015, 2014 and 2013, NNN recorded an other than temporary valuation adjustment as a reduction of earnings from operations. The following table summarizes the key assumptions used in determining the value of the Residuals as of December 31:

	2015	2014
Discount rate	20%	20%
Average life equivalent CPR ⁽¹⁾ speeds range	0.87% to 21.73% CPR	0.87% to 26.30% CPR
Foreclosures:		
Frequency curve default model	0.72% - 1.57% range	0.70% - 2.45% range
Loss severity of loans in foreclosure	20%	20%
Yield:		
LIBOR	Forward 3-month curve	Forward 3-month curve
Prime	Forward curve	Forward curve

⁽¹⁾ Conditional prepayment rate

The following table shows the effects on the key assumptions affecting the fair value of the Residuals at December 31, 2015 (dollars in thousands):

	Residuals
Carrying amount of retained interests	\$ 11,115
Discount rate assumption:	
Fair value at 25% discount rate	\$ 9,383
Fair value at 27% discount rate	\$ 8,777
Prepayment speed assumption:	
Fair value of 1% increases above the CPR Index	\$ 11,114
Fair value of 2% increases above the CPR Index	\$ 11,113
Expected credit losses:	
Fair value 2% adverse change	\$ 11,017
Fair value 3% adverse change	\$ 10,969
Yield Assumptions:	
Fair value of Prime/LIBOR spread contracting 25 basis points	\$ 11,331
Fair value of Prime/LIBOR spread contracting 50 basis points	\$ 11,553

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

Note 4 – Line of Credit Payable:

In October 2014, NNN amended and restated its credit agreement increasing the borrowing capacity under its unsecured revolving credit facility from \$500,000,000 to \$650,000,000 and amended certain other terms under the former revolving credit facility (as the context requires, the previous and new revolving credit facility, the “Credit Facility”). The Credit Facility had a weighted average outstanding balance of \$78,682,000 and a weighted average interest rate of 1.1% for the year ended December 31, 2015. The Credit Facility matures January 2019, with an option to extend maturity to January 2020. As of December 31, 2015, the Credit Facility bears interest at LIBOR plus 92.5 basis points; however, such interest rate may change pursuant to a tiered interest rate structure based on NNN's debt rating. The Credit Facility also includes an accordion feature to increase the facility size up to \$1,000,000,000. As of December 31, 2015, there was no outstanding balance and \$650,000,000 was available for future borrowings under the Credit Facility.

In accordance with the terms of the Credit Facility, NNN is required to meet certain restrictive financial covenants which, among other things, require NNN to maintain certain (i) leverage ratios, (ii) debt service coverage, (iii) cash flow coverage and (iv) investment and dividend limitations. At December 31, 2015, NNN was in compliance with those covenants.

Note 5 – Mortgages Payable:

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

Entered ⁽¹⁾	Initial Balance	Interest Rate	Maturity ⁽²⁾	Carrying Value of Encumbered Asset(s) ⁽³⁾	Outstanding Principal Balance at December 31,	
					2015	2014
December 2001	\$ 698	9.00%	April 2019	\$ —	\$ —	\$ 223
December 2001	485	9.00%	April 2019	—	—	116
February 2004	6,952	6.90%	January 2017	10,313	848	1,577
March 2005	1,015	8.14%	September 2016	—	—	222
June 2012 ⁽⁴⁾	6,850	5.75%	April 2016	8,341	5,890	6,180
September 2014 ⁽⁴⁾	2,957	6.40%	February 2017	3,691	2,804	2,922
November 2014 ⁽⁴⁾	15,151	5.23%	July 2023	21,889	14,555	15,099
				<u>\$ 44,234</u>	<u>24,097</u>	<u>26,339</u>
Debt costs					(226)	(226)
Accumulated amortization					93	69
Debt costs, net of accumulated amortization					(133)	(157)
Mortgages payable, including unamortized premium and net of unamortized debt costs					<u>\$ 23,964</u>	<u>\$ 26,182</u>

(1) Date entered represents the date that NNN acquired real estate subject to a mortgage securing a loan.

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

(3) Each loan is secured by a first mortgage lien on certain of the Properties. The carrying values of the assets at December 31, 2015.

(4) Initial balance and outstanding principal balance includes unamortized premium.

The following is a schedule of the scheduled principal payments, including premium amortization of NNN's mortgages payable at December 31, 2015 (dollars in thousands):

2016	\$ 7,344
2017	3,362
2018	623
2019	653
2020	681
Thereafter	11,434
	<u>\$ 24,097</u>

Note 6 – Notes Payable – Convertible:

On September 28, 2012, NNN announced that the market price condition on its 3.950% convertible senior notes due 2026 (the "2026 Notes") has been satisfied, and that the 2026 Notes would be convertible during the calendar quarter beginning October 1, 2012.

All note holders elected to exercise the conversion feature of the 2026 Notes prior to their redemption. Pursuant to the terms of the 2026 Notes, the Company elected to pay the full settlement value in cash. The settlement value of a note was based on an average of the daily closing price of the Company's common stock over an averaging period that commenced after the Company received a conversion notice from a note holder. The Company paid approximately \$164,649,000 in aggregate settlement value for the \$123,163,000 of settled 2026 Notes at the end of the applicable averaging periods. The difference

between the amount paid and the principal amount of the settled 2026 Notes of \$41,486,000 was recognized as a decrease to additional paid-in capital.

As of December 31, 2012, \$15,537,000 of the principal amount of 2026 Notes were outstanding. In January 2013, the Company paid approximately \$20,702,000 in aggregate settlement value for the remaining \$15,537,000 of outstanding 2026 Notes. The difference between the amount paid and the principal amount of the settled 2026 Notes of \$5,028,000 was recognized as a decrease to additional paid-in capital and \$137,000 was recorded as interest expense.

As of December 31, 2012, \$223,035,000 of the principal amount of the 5.125% convertible senior notes due 2028 (the "2028 Notes") were outstanding. In June 2013, NNN called all of the outstanding 2028 Notes for redemption on July 11, 2013. On July 11, 2013, \$130,000 principal amount of the 2028 Notes was settled at par plus accrued interest. The holders of the remaining balance of \$222,905,000 principal amount of 2028 Notes elected to convert into cash and shares of the Company's common stock in accordance with the conversion formula which is based on the average daily closing price of NNN's common stock price over a period of 20 days commencing after receipt of a note holder's conversion notice. In 2013, the Company issued 2,407,911 shares of common stock and paid approximately \$226,427,000 in aggregate settlement value for the \$223,035,000 aggregate principal amount of 2028 Notes outstanding. The difference between the amount paid and the principal amount of the settled notes of \$3,197,000 was recognized as a decrease to additional paid-in capital and \$195,000 was recorded as interest expense.

NNN recorded the following in interest expense relating to the 2028 Notes and the 2026 Notes for the year ended December 31 (dollars in thousands):

	2013
Noncash interest charges	\$ 2,072
Contractual interest expense	5,400
Amortization of debt costs	566
	<u>\$ 8,038</u>

There was no interest expense related to the 2028 Notes and the 2026 Notes for the years ended December 31, 2015 and 2014.

Note 7 – Notes Payable:

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

Notes	Issue Date	Principal	Discount ⁽¹⁾	Net Price	Stated Rate	Effective Rate ⁽²⁾	Maturity Date
2017 ⁽³⁾	September 2007	250,000	877	249,123	6.875%	6.924%	October 2017
2021 ⁽⁴⁾	July 2011	300,000	4,269	295,731	5.500%	5.689%	July 2021
2022	August 2012	325,000	4,989	320,011	3.800%	3.985%	October 2022
2023 ⁽⁵⁾	April 2013	350,000	2,594	347,406	3.300%	3.388%	April 2023
2024 ⁽⁶⁾	May 2014	350,000	707	349,293	3.900%	3.924%	June 2024
2025 ⁽⁷⁾	October 2015	400,000	964	399,036	4.000%	4.029%	November 2025

⁽¹⁾ The note discounts are amortized to interest expense over the respective term of each debt obligation using the effective interest method.

⁽²⁾ Includes the effects of the discount.

⁽³⁾ 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.

⁽⁴⁾ NNN entered into two interest rate hedges with a total notional amount of \$150,000. Upon issuance of the 2021 Notes, NNN terminated the interest rate hedge agreements resulting in a liability of \$5,300, of which \$5,218 was deferred in other comprehensive income. The deferred liability is being amortized over the term of the note using the effective interest method.

- (5) NNN entered into four forward starting swaps with an aggregate notional amount of \$240,000. Upon issuance of the 2023 Notes, NNN terminated the forward starting swaps resulting in a liability of \$3,156, of which \$3,141 was deferred in other comprehensive income. The deferred liability is being amortized over the term of the note using the effective interest method.
- (6) NNN entered into three forward starting swaps with an aggregate notional amount of \$225,000. Upon issuance of the 2024 Notes, NNN terminated the forward starting swaps resulting in a liability of \$6,312, which was deferred in other comprehensive income. The deferred liability is being amortized over the term of the note using the effective interest method.
- (7) NNN entered into four forward starting swaps with an aggregate notional amount of \$300,000. Upon issuance of the 2025 Notes, NNN terminated the forward starting swaps resulting in a liability of \$13,369, which was deferred in other comprehensive income. The deferred liability is being amortized over the term of the note using the effective interest method.

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

In connection with the outstanding debt offerings, NNN incurred debt issuance costs totaling \$17,782,000 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 June 2014, NNN repaid the \$150,000,000 6.250% notes payable that were due in June 2014.

In December 2015, NNN repaid the \$150,000,000 6.150% notes payable that were due in December 2015.

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, 2015, NNN was in compliance with those covenants.

Note 8 – Preferred Stock:

NNN completed the following underwritten public offerings of cumulative redeemable preferred stock and are still outstanding ("Preferred Stock Shares") (dollars in thousands, except per share data):

Series	Dividend Rate ⁽¹⁾	Issued	Depository Shares Outstanding ⁽²⁾	Gross Proceeds	Stock Issuance Costs ⁽³⁾	Dividend Per Depository Share	Earliest Redemption Date
Series D	6.625%	February 2012	11,500,000	\$ 287,500	\$ 9,855	\$ 1.656250	February 2017
Series E	5.700%	May 2013	11,500,000	287,500	9,856	1.425000	May 2018

(1) Holders are entitled to receive, when and as authorized by the Board of Directors, cumulative preferential cash dividends.

(2) Representing 1/100th of a preferred share. Each issuance included 1,500,000 depository shares in connection with the underwriters' over-allotment.

(3) Consisting primarily of underwriting commissions and fees, rating agency fees, legal and accounting fees and printing expenses.

The Preferred Stock Shares underlying the depository shares rank senior to NNN's common stock with respect to dividend rights and rights upon liquidation, dissolution or winding up of NNN. The Preferred Stock Shares have no maturity date and will remain outstanding unless redeemed. In addition, upon a change of control, as defined in the articles supplementary fixing the rights and preferences of the Preferred Stock Shares, NNN may redeem the Preferred Stock Shares underlying the depository shares at a redemption price of \$2,500.00 per share (or \$25.00 per depository share), plus all accumulated and unpaid dividends, and in limited circumstances the holders of depository shares may convert some or all of their Preferred Stock Shares into shares of NNN's common stock at conversion rates provided in the related articles supplementary. As of February 12, 2016, the Preferred Stock Shares were not redeemable or convertible.

Note 9 – Common Stock:

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

Equity Offerings. In November 2014, NNN filed a prospectus supplement to the prospectus contained in its February 2012 shelf registration statement and issued 5,462,500 shares (including 712,500 shares in connection with the underwriters' over-allotment) of common stock at a price of \$38.16 per share and received net proceeds of \$199,961,000. In connection with

this offering, NNN incurred stock issuance costs totaling approximately \$8,488,000, consisting primarily of underwriters' fees and commissions, legal and accounting fees and printing expenses.

Dividend Reinvestment and Stock Purchase Plan. In February 2015, NNN filed a shelf registration statement with the Commission for its Dividend Reinvestment and Stock Purchase Plan ("DRIP") which permits the issuance by NNN of 16,000,000 shares of common stock. The following outlines the common stock issuances pursuant to the DRIP for the year ended December 31 (dollars in thousands):

	2015	2014	2013
Shares of common stock	196,584	422,406	764,891
Net proceeds	\$ 7,182	\$ 14,817	\$ 25,407

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

	2015 ATM	2013 ATM	2012 ATM
Established date	February 2015	March 2013	May 2012
Termination date	February 2018	February 2015	February 2015
Total allowable shares	10,000,000	9,000,000	9,000,000
Total shares issued as of December 31, 2015	8,359,533	6,252,812	8,958,840

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

	Year Ended December 31,				
	2015		2014	2013	
	2015 ATM	2013 ATM	2013 ATM	2013 ATM	2012 ATM
Shares of common stock	8,359,533	214,000	3,758,362	2,280,450	4,676,542
Average price per share (net)	\$ 37.39	\$ 39.84	\$ 35.90	\$ 37.80	\$ 32.60
Net proceeds	\$ 312,542	\$ 8,525	\$ 134,919	\$ 86,208	\$ 152,435
Stock issuance costs ⁽¹⁾	\$ 3,886	\$ 130	\$ 2,195	\$ 1,613	\$ 2,161

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

There were no common stock issuances pursuant to the 2012 ATM for the years ended December 31, 2015 and 2014.

Note 10 – 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 a portion of their compensation, as defined in the Retirement Plan, subject to limits established by the Code. NNN generally matches 60 percent of the first eight percent of a participant's contributions. Additionally, NNN may make discretionary contributions. NNN's contributions to the Retirement Plan for the years ended December 31, 2015, 2014 and 2013 totaled \$474,000, \$453,000 and \$342,000, respectively.

Note 11 – Dividends:

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

	2015	2014	2013
Ordinary dividends	\$ 1.363294	\$ 1.306992	\$ 1.224568
Qualified dividends	0.019005	0.006212	0.056784
Capital gain	0.007806	0.008603	—
Unrecaptured Section 1250 Gain	0.011055	0.015362	0.000650
Nontaxable distributions	0.308840	0.312831	0.317998
	<u>\$ 1.710000</u>	<u>\$ 1.650000</u>	<u>\$ 1.600000</u>

The following table outlines the dividends declared and paid for NNN's common stock for the years ended December 31 (in thousands, except per share data):

	2015	2014	2013
Dividends	\$ 228,699	\$ 204,157	\$ 189,107
Per share	1.710	1.650	1.600

On January 15, 2016, NNN declared a dividend of \$0.435 per share, payable February 16, 2016 to its common stockholders of record as of January 29, 2016.

The following presents the characterization for tax purposes of Series D and E Preferred Stock dividends per share paid to stockholders for the year ended December 31:

	Series E			Series D		
	2015	2014	2013	2015	2014	2013
Ordinary dividends	\$ 1.385670	\$ 1.393700	\$ 0.741150	\$ 1.610538	\$ 1.619870	\$ 1.590323
Qualified dividends	0.020141	0.005738	0.030332	0.023409	0.006670	0.065084
Capital gain	0.007937	0.009177	—	0.009225	0.010666	—
Unrecaptured Section 1250 Gain	0.011252	0.016385	0.000393	0.013078	0.019044	0.000843
	<u>\$ 1.425000</u>	<u>\$ 1.425000</u>	<u>\$ 0.771875</u>	<u>\$ 1.656250</u>	<u>\$ 1.656250</u>	<u>\$ 1.656250</u>

The following table outlines the dividends declared and paid for NNN's preferred stock for the years ended December 31 (in thousands, except per share data):

	2015	2014	2013
Series D Preferred Stock ⁽¹⁾ :			
Dividends	\$ 19,047	\$ 19,047	\$ 19,047
Per share	1.656250	1.656250	1.656250
Series E Preferred Stock ⁽²⁾ :			
Dividends	16,387	16,387	8,876
Per share	1.425000	1.425000	0.771875

⁽¹⁾ The Series D Preferred Stock has no maturity date and will remain outstanding unless redeemed.

⁽²⁾ The Series E Preferred Stock dividends paid during the quarter ended September 30, 2013 include accumulated and unpaid dividends from the issuance date through the declaration date. The Series E Preferred Stock has no maturity date and will remain outstanding unless redeemed.

Note 12 – Income Taxes:

For income tax purposes, NNN has taxable REIT subsidiaries in which certain real estate activities are conducted.

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, 2015, 2014 and 2013, and the statutory rates relate to state taxes and nondeductible expenses.

In 2010, NNN acquired the 21.1% non-controlling interest in its majority owned and controlled subsidiary, OAMI, pursuant to which OAMI became a wholly owned subsidiary of NNN. As of December 31, 2014, OAMI had no remaining tax liabilities relating to the built-in gain of its assets.

At the close of business on December 31, 2015, NNN elected to revoke its election to classify the TRS as taxable REIT subsidiaries. This TRS Revocation Election resulted in an additional tax expense of approximately \$9,607,000 for 2015.

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

	2015	2014
Deferred tax assets:		
Cost basis	\$ —	\$ 1,233
Deferred income	—	113
Reserves	—	2,756
Credits	—	434
Excess interest expense carryforward	—	1,689
Capital loss carryforward	880	914
Net operating loss carryforward	4,983	5,196
	<u>5,863</u>	<u>12,335</u>
Valuation allowance	(5,666)	(619)
Total deferred tax assets	<u>197</u>	<u>11,716</u>
Deferred tax liabilities:		
Built-in gain	(197)	—
Depreciation	—	(204)
Other	—	(1,024)
Total deferred tax liabilities	<u>(197)</u>	<u>(1,228)</u>
Net deferred tax asset	<u>\$ —</u>	<u>\$ 10,488</u>

In assessing the ability to realize a deferred tax asset, management considers whether it is more likely than not that some portion or the entire deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The net operating loss carryforwards were generated by NNN's taxable REIT subsidiaries. The net operating loss carryforwards begin to expire in 2028. Due to the revocation of the TRS election management believes it is unlikely that NNN will realize all of the benefits of these deductible differences that existed as of December 31, 2015 and 2014.

The increase in the valuation allowance for the years ended December 31, 2015 and 2014 was \$5,047,000 and \$619,000, respectively. There was no valuation allowance as of December 31, 2013.

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

	2015	2014	2013
Net earnings before income taxes	\$ 208,511	\$ 190,844	\$ 161,230
Provision for income tax benefit (expense):			
Current:			
Federal	(58)	(190)	(195)
State and local	(129)	5	(90)
Deferred:			
Federal	(8,935)	(166)	(790)
State and local	(1,553)	108	(10)
Total expense for income taxes	<u>(10,675)</u>	<u>(243)</u>	<u>(1,085)</u>
Net earnings attributable to NNN's stockholders	<u>\$ 197,836</u>	<u>\$ 190,601</u>	<u>\$ 160,145</u>

The total income tax benefit (expense) differs from the amount computed by applying the statutory federal tax rate to net earnings before taxes as follows for the years ended December 31 (dollars in thousands):

	2015	2014	2013
Federal expense at statutory tax rate	\$ (70,894)	\$ (64,887)	\$ (54,818)
Nontaxable income of NNN	69,651	63,353	53,178
State taxes, net of federal benefit	(141)	(196)	(200)
Amortization of built-in gain tax	—	372	761
Expiration of built-in gain tax	316	1,792	—
Other	—	(58)	(6)
Built-in gain tax liability ⁽¹⁾	(197)	—	—
TRS Revocation Election ⁽¹⁾	(4,363)	—	—
Valuation allowance increase ⁽¹⁾	(5,047)	(619)	—
Total tax expense	<u>\$ (10,675)</u>	<u>\$ (243)</u>	<u>\$ (1,085)</u>

⁽¹⁾ The change for the year ended December 31, 2015, is due to TRS Revocation Election.

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

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

NNN has had no increases or decreases in unrecognized tax benefits for current or prior years since 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 2012 through 2015. NNN also files in many states with varying open years under statute.

Note 13 – Derivatives:

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

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

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

NNN discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, the derivative is re-designated as a hedging instrument or management determines that designation of the derivative as a hedging instrument is no longer appropriate. When hedge accounting is discontinued, NNN continues to carry the derivative at its fair value on the balance sheet, and recognizes any changes in its fair value in earnings or may choose to cash settle the derivative at that time.

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

Terminated	Description	Aggregate Notional Amount	Liability Fair Value When Terminated	Fair Value Deferred In Other Comprehensive Income ⁽¹⁾
September 2007	Two interest rate hedges	\$ 100,000	\$ 3,260	\$ 3,228
June 2011	Two treasury locks	150,000	5,300	5,218
April 2013	Four forward starting swaps	240,000	3,156	3,141
May 2014	Three forward starting swaps	225,000	6,312	6,312
October 2015	Four forward starting swaps	300,000	13,369	13,369

⁽¹⁾ The amount reported in accumulated other comprehensive income will be reclassified to interest expense as interest payments are made on the related notes payable.

As of December 31, 2015, \$25,046,000 remains in other comprehensive income related to the effective portion of NNN's previous interest rate hedges. During the years ended December 31, 2015, 2014 and 2013, NNN reclassified \$1,902,000, \$1,129,000 and \$438,000 out of other comprehensive income as an increase to interest expense. Over the next 12 months, NNN estimates that an additional \$2,851,000 will be reclassified as an increase in interest expense. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on NNN's long-term debt.

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

Note 14 – Performance Incentive Plan:

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

There were no stock options outstanding or exercisable at December 31, 2015.

Pursuant to the 2007 Plan, NNN has granted and issued shares of restricted stock to certain officers and key associates of NNN. The following summarizes the restricted stock activity for the year ended December 31, 2015:

	Number of Shares	Weighted Average Share Price
Non-vested restricted shares, January 1	1,005,644	\$ 30.93
Restricted shares granted	267,133	41.00
Restricted shares vested	(318,261)	27.83
Restricted shares forfeited	(46,478)	26.85
Restricted shares repurchased	(11,371)	27.20
Non-vested restricted shares, December 31	<u>896,667</u>	\$ 35.13

Compensation expense for the restricted stock which is not contingent upon NNN's performance goals is determined based upon the fair value at the date of grant 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 three to five years and generally vest yearly. NNN recognizes compensation expense on a straight-line basis for awards with only service conditions.

During the years ended December 31, 2015 and 2014, NNN granted 145,916 and 177,433, respectively, performance based shares subject to its total shareholder return growth after a three years period relative to its peers. The shares were granted to certain executive officers and had weighted average grant price of \$41.00 and \$33.42, respectively, per share. Once the performance criteria are met and the actual number of shares earned is determined, the shares vest immediately. For the 2015 and 2014 grants, the conditions are based on market conditions, and the fair value was determined at the grant date (for a fair value share price of \$22.72 and \$21.92, respectively). Compensation expense is recognized over the requisite service period for both grants.

The following summarizes other grants made during the year ended December 31, 2015, pursuant to the 2007 Plan.

	Shares	Weighted Average Share Price
Other share grants under the 2007 Plan:		
Directors' fees	18,130	\$ 38.96
Deferred directors' fees	16,010	39.04
	<u>34,140</u>	\$ 39.00
Shares available under the 2007 Plan for grant, end of period	<u>3,344,817</u>	

The total compensation cost for share-based payments for the years ended December 31, 2015, 2014 and 2013, totaled \$9,671,000, \$9,224,000 and \$7,459,000, respectively, of such compensation expense. At December 31, 2015, NNN had \$12,458,000 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 2.3 years. In addition, NNN recognized performance based long-term incentive cash compensation expense of \$729,000 for the year ended December 31, 2013. There was no long-term incentive cash compensation expense recognized in 2015 and 2014.

Note 15 – Fair Value of Financial Instruments:

NNN believes the carrying value of its Credit Facility approximates fair value based upon its nature, terms and variable interest rate. NNN believes that the carrying value of its cash and cash equivalents, mortgages, notes and other receivables, mortgages payable and other liabilities at December 31, 2015 and 2014, approximate fair value based upon current market prices of similar issues. At December 31, 2015 and 2014, the carrying value and fair value of NNN's notes payable, collectively, was \$2,007,242,000 and \$1,813,439,000, respectively, based upon quoted market prices, which are a Level 1 input.

Note 16 – Quarterly Financial Data (unaudited):

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

2015	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues as originally reported	\$ 116,187	\$ 117,208	\$ 123,143	\$ 126,377
Net earnings attributable to NNN's stockholders	\$ 53,978	\$ 46,188	\$ 55,198	\$ 42,471
Net earnings per share ⁽¹⁾ :				
Basic	\$ 0.34	\$ 0.28	\$ 0.34	\$ 0.24
Diluted	0.34	0.28	0.34	0.24
2014				
Revenues as originally reported	\$ 104,064	\$ 105,613	\$ 109,856	\$ 115,315
Net earnings attributable to NNN's stockholders	\$ 43,333	\$ 45,571	\$ 47,940	\$ 53,757
Net earnings per share ⁽¹⁾ :				
Basic	\$ 0.28	\$ 0.30	\$ 0.31	\$ 0.35
Diluted	0.28	0.30	0.31	0.35

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

Note 17 – Segment Information:

For the years ended December 31, 2015, 2014 and 2013, NNN's operations are reported within one business segment in the consolidated financial statements and all properties are part of the Properties or Property Portfolio.

Note 18 – Fair Value Measurements:

NNN currently values its Residuals based upon a valuation which provides a discounted cash flow analysis based upon estimated prepayment speeds, expected loan losses and yield curves. These valuation inputs are generally considered unobservable; therefore, the Residuals are considered Level 3 financial assets. The table below presents a rollforward of the Residuals during the year ended December 31, 2015 (dollars in thousands):

Balance at beginning of period	\$ 11,626
Total gains (losses) – realized/unrealized:	
Included in earnings	(531)
Included in other comprehensive income	(339)
Interest income on Residuals	1,778
Cash received from Residuals	(1,419)
Purchases, sales, issuances and settlements, net	—
Transfers in and/or out of Level 3	—
Balance at end of period	\$ 11,115
Changes in gains (losses) included in earnings attributable to a change in unrealized gains (losses) relating to assets still held at the end of period	\$ 246

Note 19 – Major Tenants:

As of December 31, 2015, NNN had no tenants that accounted for ten percent or more of its rental and earned income.

Note 20 – Commitments and Contingencies:

A summary of NNN's commitments are included in Note 2 – Real Estate.

In the ordinary course of its business, NNN is a party to various other legal actions which management believes are routine in nature and incidental to the operation of the business of NNN. Management does not believe that any of these proceedings are material.

Note 21 – Subsequent Events:

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

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

None.

Item 9A. Controls and Procedures

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

NNN carried out an assessment as of December 31, 2015, of the effectiveness of the design and operation of its disclosure controls and procedures and its internal control over financial reporting. This assessment was done under the supervision and with the participation of management, including NNN's Chief Executive Officer and Chief Financial Officer. Rules adopted by the Securities and Exchange Commission (the "Commission") require NNN to present the conclusions of the Chief Executive Officer and Chief Financial Officer about the effectiveness of NNN's disclosure controls and procedures and the conclusions of NNN's management about the effectiveness of NNN's internal control over financial reporting as of the end of the period covered by this annual report.

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

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

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

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

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

NNN's internal control over financial reporting is also assessed on an ongoing basis by personnel in NNN's Accounting department and by NNN's internal auditors in connection with their internal audit activities. The overall goals of these various assessment activities are to monitor NNN's disclosure controls and procedures and NNN's internal control over financial reporting and to make modifications as necessary. NNN's intent in this regard is that the disclosure controls and

procedures and the internal control over financial reporting will be maintained and updated (including with improvements and corrections) as conditions warrant. Management also sought to deal with other control matters in the assessment, and in each case if a problem was identified, management considered what revision, improvement and/or correction was necessary to be made in accordance with NNN's on-going procedures. The assessments of NNN's disclosure controls and procedures and NNN's internal control over financial reporting is done on a quarterly basis so that the conclusions concerning effectiveness of those controls can be reported in NNN's Quarterly Reports on Form 10-Q and Annual Report on Form 10-K.

Assessment of Effectiveness of Disclosure Controls and Procedures.

Based upon the assessments, NNN's Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2015, 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 – 2013 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, 2015, NNN's internal control over financial reporting was effective.

Attestation Report of the Registered Public Accounting Firm.

Ernst & Young LLP, NNN's independent registered public accounting firm, audited the financial statements included in this Annual Report on Form 10-K and in connection therewith has issued an attestation report on NNN's effectiveness of internal control over financial reporting, which appears in this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting.

During the three months ended December 31, 2015, there were no changes in NNN's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, NNN's internal control over 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 included in the Registrant's proxy statement including the information, without limitation, 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 Insider Trading Policy" and "Security Ownership", and such 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 included in the Registrant's proxy statement including the information, without limitation, contained in the sections thereof captioned "Proposal I: Election of Directors – Compensation of Directors," "Executive Compensation" and "Compensation Committee Report", and such information is 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 included in the Registrant's proxy statement including the information, without limitation, contained in the section thereof captioned "Executive Compensation – Equity Compensation Plan Information," and "Security Ownership", and such information is 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 included in the Registrant's proxy statement including the information, without limitation, contained in the section thereof captioned "Certain Relationships and Related Transactions" and such information 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 included in the Registrant's proxy statement including the information, without limitation, contained in the section thereof captioned "Audit Committee Report" and "Proposal II: Proposal to Ratify Independent Registered Public Accounting Firm", and such information 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

<u>Reports of Independent Registered Public Accounting Firm</u>	<u>37</u>
<u>Consolidated Balance Sheets as of December 31, 2015 and 2014</u>	<u>39</u>
<u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2015, 2014 and 2013</u>	<u>40</u>
<u>Consolidated Statements of Stockholders' Equity for the years ended December 31, 2015, 2014 and 2013</u>	<u>42</u>
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013</u>	<u>45</u>
<u>Notes to Consolidated Financial Statements</u>	<u>47</u>

(2) Financial Statement Schedules

Schedule III – Real Estate and Accumulated Depreciation and Amortization and Notes as of December 31, 2015

Schedule IV – Mortgage Loans on Real Estate and Notes as of December 31, 2015

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

(3) Exhibits

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

3. Articles of Incorporation and Bylaws

- 3.1 First Amended and Restated Articles of Incorporation of the Registrant, as amended (filed as Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 3, 2012, and incorporated herein by reference).
- 3.2 Articles Supplementary Establishing and Fixing the Rights and Preferences of 6.625% Series D Cumulative Preferred Stock, par value \$0.01 per share, dated February 21, 2012 (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated February 23, 2012, incorporated herein by reference).
- 3.3 Articles Supplementary Establishing and Fixing the Rights and Preferences of 5.700% Series E Cumulative Preferred Stock, par value \$0.01 per share, dated May 29, 2013 (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated May 30, 2013, incorporated herein by reference).
- 3.4 Third Amended and Restated Bylaws of the Registrant, dated May 1, 2006, as amended (filed as Exhibit 3.4 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 19, 2014, and incorporated herein by reference).
- 3.5 Second Amendment to the Third Amended and Restated Bylaws of the Registrant, dated December 13, 2007 (filed as Exhibit 3.5 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 19, 2014, and incorporated herein by reference).
- 3.6 Third Amendment to the Third Amended and Restated Bylaws of the Registrant, dated February 13, 2014 (filed as Exhibit 3.6 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 19, 2014, and incorporated herein by reference).

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

- 4.1 Specimen Certificate of Common Stock, par value \$0.01 per share, of the Registrant (filed as Exhibit 3.4 to the Registrant's Registration Statement No. 1-11290 on Form 8-B filed with the Securities and Exchange Commission and incorporated herein by reference).

- 4.2 Indenture, dated as of March 25, 1998, between the Registrant and First Union National Bank, as trustee (filed as Exhibit 4.4 to the Registrant's Registration Statement on Form S-3 (Registration No. 333-132095) filed with the Securities and Exchange Commission on February 28, 2006, and incorporated herein by reference).
- 4.3 Form of Supplemental Indenture No. 6 dated as of November 17, 2005, by and among Registrant and Wachovia Bank, National Association, Trustee, relating to \$150,000,000 of 6.15% Notes due 2015 (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated November 14, 2005 and filed with the Securities and Exchange Commission on November 17, 2005, and incorporated herein by reference).
- 4.4 Form of 6.15% Notes due 2015 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated November 14, 2005 and filed with the Securities and Exchange Commission on November 17, 2005, and incorporated herein by reference).
- 4.5 Specimen certificate representing the 6.625% Series D Cumulative Redeemable Preferred Stock, par value \$.01 per share, of the Registrant (filed as Exhibit 4.4 to the Registrant's Registration Statement on Form 8-A dated February 22, 2012 and filed with the Securities and Exchange Commission on February 22, 2012, and incorporated herein by reference).
- 4.6 Deposit Agreement, among the Registrant, American Stock Transfer & Trust Company, as Depositary, and the holders of depositary receipts (filed as Exhibit 4.20 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 4, 2012, and incorporated herein by reference).
- 4.7 Form of Supplemental Indenture No. 8 between National Retail Properties, Inc. and U.S. Bank National Association relating to 6.875% Notes due 2017 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on September 4, 2007, and incorporated herein by reference).
- 4.8 Form of 6.875% Notes due 2017 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on September 4, 2007, and incorporated herein by reference).
- 4.9 Form of Tenth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 5.500% Notes due 2021 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K dated July 6, 2011 and filed with the Securities and Exchange Commission on July 6, 2011, and incorporated herein by reference).
- 4.10 Form of 5.500% Notes due 2021 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated July 6, 2011 and filed with the Securities and Exchange Commission on July 6, 2011, and incorporated herein by reference).
- 4.11 Form of Eleventh Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 3.80% Notes due 2022 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K dated August 14, 2012, filed with the Securities and Exchange Commission on August 14, 2012 and incorporated herein by reference).
- 4.12 Form of 3.800% Notes due 2022 (filed as Exhibit 4.2 to Registrant's Current Report on Form 8-K dated August 14, 2012, filed with the Securities and Exchange Commission on August 14, 2012 and incorporated herein by reference).
- 4.13 Form of Twelfth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 3.300% Notes due 2023 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K dated April 9, 2013, filed with the Securities and Exchange Commission on April 15, 2013 and incorporated herein by reference).
- 4.14 Form of 3.300% Notes due 2023 (filed as Exhibit 4.2 to Registrant's Current Report on Form 8-K dated April 9, 2013, filed with the Securities and Exchange Commission on April 15, 2013 and incorporated herein by reference).
- 4.15 Specimen certificate representing the 5.700% Series E Cumulative Redeemable Preferred Stock, par value \$.01 per share, of the Registrant (filed as Exhibit 4.3 to the Registrant's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on May 30, 2013 and incorporated herein by reference).
- 4.16 Deposit Agreement, among the Registrant, American Stock Transfer & Trust Company, as Depositary, and the holders of depositary receipts (filed as Exhibit 4.1 to the Registrant's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on May 30, 2013 and incorporated herein by reference).

- 4.17 Form of Thirteenth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 3.900% Notes due 2024 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K and filed with the Securities and Exchange Commission on May 14, 2014, and incorporated herein by reference).
- 4.18 Form of 3.900% Notes due 2024 (filed as Exhibit 4.2 to Registrant's Current Report on Form 8-K and filed with the Securities and Exchange Commission on May 14, 2014, and incorporated herein by reference).
- 4.19 Form of Fourteenth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 4.000% Notes due 2025 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K and filed with the Securities and Exchange Commission on October 26, 2015, and incorporated herein by reference).
- 4.20 Form of 4.000% Notes due 2025 (filed as Exhibit 4.2 to Registrant's Current Report on Form 8-K and filed with the Securities and Exchange Commission on October 26, 2015, and incorporated herein by reference).

10. Material Contracts

- 10.1 2007 Performance Incentive Plan (filed as Annex A to the Registrant's 2007 Annual Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 3, 2007, and incorporated herein by reference).
- 10.2 Form of Restricted Stock Agreement between NNN and the Participant of NNN (filed as Exhibit 10.2 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2005, and incorporated herein by reference).
- 10.3 Employment Agreement dated as of December 1, 2008, between the Registrant and Craig Macnab (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).
- 10.4 Employment Agreement dated as of December 1, 2008, between the Registrant and Julian E. Whitehurst (filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).
- 10.5 Employment Agreement dated as of December 1, 2008, between the Registrant and Kevin B. Habicht (filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).
- 10.6 Employment Agreement dated as of December 1, 2008, between the Registrant and Paul E. Bayer (filed as Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).
- 10.7 Employment Agreement dated as of December 1, 2008, between the Registrant and Christopher P. Tessitore (filed as Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2008, and incorporated herein by reference).
- 10.8 Form of Indemnification Agreement (as entered into between the Registrant and each of its directors and executive officers) (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated and filed with the Securities and Exchange Commission on June 12, 2009, and incorporated herein by reference).
- 10.9 Amendment to Employment Agreement dated as of November 8, 2010, between the Registrant and Craig Macnab (filed as Exhibit 10.10 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2011, and incorporated herein by reference).
- 10.10 Amendment to Employment Agreement dated as of November 8, 2010, between the Registrant and Julian E. Whitehurst (filed as Exhibit 10.11 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2011, and incorporated herein by reference).
- 10.11 Amendment to Employment Agreement dated as of November 8, 2010, between the Registrant and Kevin B. Habicht (filed as Exhibit 10.12 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2011, and incorporated herein by reference).

- 10.12 Amendment to Employment Agreement dated as of November 8, 2010, between the Registrant and Paul E. Bayer (filed as Exhibit 10.13 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2011, and incorporated herein by reference).
 - 10.13 Amendment to Employment Agreement dated as of November 8, 2010, between the Registrant and Christopher P. Tessitore (filed as Exhibit 10.14 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2011, and incorporated herein by reference).
 - 10.14 Amended and Restated Credit Agreement, dated as of May 25, 2011, by and among the Registrant, certain lenders and Wells Fargo Bank, National Association, as the Administrative Agent (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 6, 2011, and incorporated herein by reference).
 - 10.15 Form of Restricted Award Agreement - Performance between NNN and the Participant of NNN (filed as Exhibit 10.15 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 4, 2012, and incorporated herein by reference).
 - 10.16 Form of Restricted Award Agreement - Service between NNN and the Participant of NNN (filed as Exhibit 10.16 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 4, 2012, and incorporated herein by reference).
 - 10.17 Form of Restricted Award Agreement - Special Grant between NNN and the Participant of NNN (filed as Exhibit 10.17 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 4, 2012, and incorporated herein by reference).
 - 10.18 First Amendment to Amended and Restated Credit Agreement, dated as of October 31, 2012, by and among the Registrant, certain lenders and Wells Fargo Bank, National Association, as the Administrative Agent (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 1, 2012, and incorporated herein by reference).
 - 10.19 Employment Agreement dated as of January 2, 2014, between the Registrant and Stephen A. Horn, Jr. (filed as Exhibit 10.19 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 19, 2014, and incorporated herein by reference).
 - 10.20 Second Amendment to Amended and Restated Credit Agreement, dated as of October 27, 2014, by and among the Registrant, certain lenders and Wells Fargo Bank, National Association, as the Administrative Agent (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 28, 2014, and incorporated herein by reference).
- 12. Statement of Computation of Ratios of Earnings to Fixed Charges (filed herewith).
 - 21. Subsidiaries of the Registrant (filed herewith).
 - 23. Consent of Independent Registered Public Accounting Firm
 - 23.1 Ernst & Young LLP dated February 12, 2016 (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).

101. Interactive Data File

101.1 The following materials from National Retail Properties, Inc. Annual Report on Form 10-K for the period ended December 31, 2015, are formatted in Extensible Business Reporting Language: (i) consolidated balance sheets, (ii) consolidated statements of comprehensive income, (iii) consolidated statements of stockholders' equity (iv) consolidated statements of cash flows, and (v) notes to consolidated financial statements.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 12th day of February, 2016.

NATIONAL RETAIL PROPERTIES, INC.

By: /s/ Craig Macnab

Craig Macnab

Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

POWER OF ATTORNEY

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Craig Macnab</u> Craig Macnab	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	February 12, 2016
<u>/s/ Ted B. Lanier</u> Ted B. Lanier	Lead Director	February 12, 2016
<u>/s/ Don DeFosset</u> Don DeFosset	Director	February 12, 2016
<u>/s/ David M. Fick</u> David M. Fick	Director	February 12, 2016
<u>/s/ Edward J. Fritsch</u> Edward J. Fritsch	Director	February 12, 2016
<u>/s/ Richard B. Jennings</u> Richard B. Jennings	Director	February 12, 2016
<u>/s/ Robert C. Legler</u> Robert C. Legler	Director	February 12, 2016
<u>/s/ Robert Martinez</u> Robert Martinez	Director	February 12, 2016
<u>/s/ Sam L. Susser</u> Sam L. Susser	Director	February 12, 2016
<u>/s/ Kevin B. Habicht</u> Kevin B. Habicht	Director, Chief Financial Officer (Principal Financial and Accounting Officer), Executive Vice President, Assistant Secretary and Treasurer	February 12, 2016

SHAREHOLDER INFORMATION

For General Information:

American Stock Transfer & Trust Company, LLC
Operations Center
6201 15th Avenue
Brooklyn, NY 11219
www.amstock.com
(800) 937-5449

Shareholder Toll-free Line:

(866) 627-2644
Worldwide: (718) 921-8346
Fax: (718) 236-2641

For Dividend Reinvestment:

American Stock Transfer & Trust Company
P.O. Box 922
Wall Street Station
New York, NY 10269

Independent Registered Public Accounting Firm:

Ernst & Young LLP

Corporate Office:

National Retail Properties, Inc.
450 S. Orange Avenue, Suite 900
Orlando, FL 32801
(800) NNN-REIT
(407) 265-7348
www.nnnreit.com

Form 10-K

A copy of the Company's Form 10-K, as filed with the Securities and Exchange Commission (SEC) for fiscal 2015, which includes as Exhibits the Chief Executive Officer and Chief Financial Officer certifications required to be filed with the SEC pursuant to Section 302 of the Sarbanes-Oxley Act, has been filed with the SEC and may also be obtained by stockholders without charge upon written request to the Company's Secretary at the above address, or by visiting www.nnnreit.com. During fiscal 2015, 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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