

NATIONAL RETAIL PROPERTIES, INC.

Form 10-K

February 13, 2017

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, 2016

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:

| Title of each class: | Name of exchange on which registered: |
|---|---------------------------------------|
| 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 |
| 5.200% Series F 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.

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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, 2016 was \$7,472,258,000.

The number of shares of common stock outstanding as of January 31, 2017 was 147,235,328.

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 2017 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 are primarily real estate assets. 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 2,535 Properties with an aggregate gross leasable area of approximately 27,204,000 square feet, located in 48 states, with a weighted average remaining lease term of 11.6 years as of December 31, 2016. Approximately 99 percent of the Properties were leased as of December 31, 2016.

Competition

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

Employees

As of January 31, 2017, NNN employed 65 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.” National Retail Properties, Inc. has three series of preferred shares outstanding which are traded on the NYSE: 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”), 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”), and the depositary shares, each representing a 1/100th of a share of 5.200% Series F Cumulative Redeemable Preferred Stock, par value \$0.01 per share (“Series F Preferred Stock”).

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 10 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, and industry trends and performance compared to NNN.

The operating strategies employed by NNN have allowed NNN to increase the annual dividend (paid quarterly) per common share for 27 consecutive years. NNN is one of only four publicly traded REITs to increase its annual dividend per common share for 27 or more consecutive years.

Investment in Real Estate or Interests in Real Estate

NNN's management believes that single tenant, freestanding net lease retail properties will continue to 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 conditions, including potential for growth, market rents, and existing or potential competing properties or retailers,
- the size, age and title status of the property,
- the quality of construction and design and the current physical condition of the Property Portfolio,
- the potential for, and current extent of, any environmental problems,
- 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 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 lease,
- the rent to be paid by the tenant, and
- any existing indebtedness encumbering the property which may be assumed 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 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 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 advances from its \$650,000,000 unsecured revolving credit facility ("Credit Facility"). As of December 31, 2016, there was no outstanding balance and \$650,000,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$230,000.

As of December 31, 2016, NNN's ratio of total debt to total gross assets (before accumulated depreciation and amortization) was approximately 30 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 22 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, 2016, NNN owned 2,535 Properties with an aggregate gross leasable area of approximately 27,204,000 square feet, located in 48 states, with a weighted average remaining lease term of 11.6 years.

Approximately 99 percent of total Properties were leased as of December 31, 2016.

The following table summarizes the Property Portfolio at December 31, 2016 (in thousands):

| | Size ⁽¹⁾ | | | Total Dollars Invested ⁽²⁾ | | |
|----------|---------------------|-----|---------|---------------------------------------|------|---------|
| | High | Low | Average | High | Low | Average |
| Land | 3,733 | 2 | 102 | \$8,882 | \$ 5 | \$ 855 |
| Building | 142 | 1 | 11 | 45,286 | 19 | 1,826 |

(1) Approximate square feet.

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

As of December 31, 2016, NNN has committed to fund construction commitments on 21 Properties. The improvements are estimated to be completed within 12 months. These construction commitments, at December 31, 2016, are outlined in the table below (dollars in thousands):

| | |
|---------------------------------|------------|
| Total commitment ⁽¹⁾ | \$ 114,206 |
| Amount funded | \$ 54,782 |
| Remaining commitment | \$ 59,424 |

(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 10 to 20 years. As of December 31, 2016, the weighted average remaining lease term of the Property Portfolio was approximately 11.6 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 \$3,714,000 (average of \$218,000), and generally provide for increases in rent as a result of (i) increases in the Consumer Price Index ("CPI"), (ii) fixed increases, 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, 2016:

| % of Annual Base Rent ⁽¹⁾ | # of Properties | Gross Leasable Area ⁽²⁾ | | % of Annual Base Rent ⁽¹⁾ | # of Properties | Gross Leasable Area ⁽²⁾ |
|--------------------------------------|-----------------|------------------------------------|------------|--------------------------------------|-----------------|------------------------------------|
| 2017 1.2% | 27 | 502,000 | 2023 | 2.5% | 85 | 1,014,000 |
| 2018 3.2% | 90 | 1,153,000 | 2024 | 2.6% | 50 | 883,000 |
| 2019 3.0% | 76 | 1,122,000 | 2025 | 5.0% | 132 | 1,116,000 |
| 2020 3.8% | 132 | 1,571,000 | 2026 | 6.0% | 181 | 1,830,000 |
| 2021 4.4% | 122 | 1,320,000 | Thereafter | 62.2% | 1,495 | 14,733,000 |
| 2022 6.1% | 111 | 1,456,000 | | | | |

(1) Based on annualized base rent for all leases in place as of December 31, 2016.

(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⁾ | | |
|--|--------------------------------------|--------|--------|
| | 2016 | 2015 | 2014 |
| 1. Convenience stores | 16.9% | 16.7% | 18.0% |
| 2. Restaurants - full service | 11.8% | 11.0% | 9.1% |
| 3. Restaurants - limited service | 7.5% | 7.2% | 6.5% |
| 4. Automotive service | 6.6% | 7.0% | 7.2% |
| 5. Family entertainment centers | 5.8% | 5.6% | 5.1% |
| 6. Health and fitness | 5.7% | 3.8% | 3.9% |
| 7. Theaters | 4.9% | 5.2% | 5.2% |
| 8. Automotive parts | 3.9% | 4.2% | 4.7% |
| 9. Recreational vehicle dealers, parts and accessories | 3.4% | 3.6% | 3.1% |
| 10. Banks | 3.1% | 3.4% | 3.7% |
| Other | 30.4% | 32.3% | 33.5% |
| | 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, 2016:

| State | # of Properties | % of Annual Base Rent ⁽¹⁾ |
|-------------------|-----------------|--------------------------------------|
| 1. Texas | 448 | 18.4% |
| 2. Florida | 197 | 9.1% |
| 3. Illinois | 132 | 5.7% |
| 4. Ohio | 165 | 5.7% |
| 5. North Carolina | 134 | 4.7% |
| 6. Georgia | 118 | 4.3% |
| 7. Indiana | 118 | 4.2% |
| 8. Virginia | 88 | 3.5% |
| 9. Alabama | 101 | 3.0% |
| 10. Tennessee | 77 | 2.8% |
| Other | 957 | 38.6% |
| | 2,535 | 100.0% |

⁽¹⁾ Based on annualized base rent for all leases in place as of December 31, 2016.

As of December 31, 2016, NNN did not have any tenant that accounted for ten percent or more of its rental income.

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. Such policy 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 a property where some level of contamination may exist, NNN generally requires the seller or tenant to (i) remediate the problem, (ii) indemnify NNN for environmental liabilities, and/or (iii) agree to other arrangements deemed appropriate by NNN, including, under certain circumstances, the purchase of environmental insurance to address environmental conditions at the property.

As of February 6, 2017, NNN has 76 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"). The tenants will typically have primary responsibility for complying with the ADA, but NNN may incur costs if the tenant does not comply. As of February 6, 2017, 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 stockholders and increase NNN's future interest expense,
- the recognition of impairment charges on or reduced values of the Properties, 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 (i) 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, (ii) the dislocation of the markets for NNN's short-term investments, (iii) increased volatility in market rates for such investments or (iv) 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 2017 and 2026. 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 and results of operations.

Loss of rent 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 tenants' 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 NNN may not be able to re-lease the vacant Property at a comparable lease rate. Furthermore, NNN may incur 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 geographic locations.

As of December 31, 2016, approximately,

48.6% of the Property Portfolio annual base rent is generated from tenants in five retail lines of trade, including convenience stores (16.9%) and full-service and limited-service restaurants (19.3%),

20.1% of the Property Portfolio annual base rent is generated from five tenants, including Sunoco (5.4%), Mister Car Wash (4.0%), LA Fitness (3.8%), AMC Theatres (3.5%), and Camping World (3.4%), and

43.6% of the Property Portfolio annual base rent is generated from properties located in five states, including Texas (18.4%) and Florida (9.1%).

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 stockholders 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, loss of a large employer, 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 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 evidence of some level of known 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.

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As of February 6, 2017, NNN has 76 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 stockholders, 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. That policy expires in August 2018. However, the policy is subject to exclusions and limitations and does not cover all of the Properties owned by NNN. 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.

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

As of December 31, 2016, mortgages and notes receivables had an outstanding principal balance of \$1,252,000. 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 securities.

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 securities.

On September 29, 2016, NNN announced that, as the culmination of its long-term executive succession planning process, Craig Macnab, Chief Executive Officer ("CEO") and Chairman of NNN's Board of Directors, will retire as CEO and step down as Chairman and a member of NNN's Board of Directors effective April 28, 2017. Julian E. ("Jay") Whitehurst, currently President and Chief Operating Officer, will assume the role of President and CEO as of April 28, 2017.

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

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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 or borrowers could adversely affect NNN's business or financial condition. As of December 31, 2016, NNN owned 27 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, 2017, 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, 2016, NNN had outstanding debt including mortgages payable of \$13,878,000, total unsecured notes payable of \$2,297,811,000 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, 2016, NNN had approximately \$2,311,689,000 of outstanding indebtedness, of which approximately \$13,878,000 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 modifications to property improvements,
- 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,
- changes in government taxation or regulatory authorities,
- 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 and cash flow and the market value of NNN's securities.

At any time, the federal and state income tax laws or the administrative interpretations of those laws may change. Any such changes may have current and retroactive effects, 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 securities.

Compliance with REIT requirements, including distribution requirements, may limit NNN's flexibility and may 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, 2016, 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 the market value of NNN's securities.

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, the company's access to capital could be impaired, 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, 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, 2011 and ending December 31, 2016. The graph assumes an investment of \$100 on December 31, 2011.

Comparison to Five-Year Cumulative Total Return

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, 2006 and ending December 31, 2016. The graph assumes an investment of \$100 on December 31, 2006.

Comparison to Ten-Year Cumulative Total Return

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.

| 2016 | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Year |
|--------------------------|------------------|-------------------|------------------|-------------------|---------|
| High | \$46.86 | \$51.72 | \$53.60 | \$51.26 | \$53.60 |
| Low | 38.29 | 43.52 | 47.76 | 39.86 | 38.29 |
| Close | 46.20 | 51.72 | 50.85 | 44.20 | 44.20 |
| Dividends paid per share | 0.435 | 0.435 | 0.455 | 0.455 | 1.780 |

| | | | | | |
|--------------------------|---------|---------|---------|---------|---------|
| 2015 | | | | | |
| 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 |

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

| | 2016 | | 2015 | |
|--------------------------------|------------|------------|------------|------------|
| Ordinary dividends | \$1.513705 | 85.0396 % | \$1.363294 | 79.7248 % |
| Qualified dividends | — | — | 0.019005 | 1.1114 % |
| Capital gain | — | — | 0.007806 | 0.4565 % |
| Unrecaptured Section 1250 Gain | — | — | 0.011055 | 0.6465 % |
| Nontaxable distributions | 0.266295 | 14.9604 % | 0.308840 | 18.0608 % |
| | \$1.780000 | 100.0000 % | \$1.710000 | 100.0000 % |

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

In January 2017, NNN declared dividends payable to its stockholders of \$66,780,000, or \$0.455 per share, of common stock.

On January 31, 2017, there were 1,800 stockholders of record of NNN's common stock.

Item 6. Selected Financial Data

Historical Financial Highlights

(dollars in thousands, except per share data)

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|-------------|-------------|-------------|-------------|-------------|
| Gross revenues ⁽¹⁾ | \$ 533,817 | \$ 483,025 | \$ 435,278 | \$ 397,008 | \$ 342,057 |
| Earnings from continuing operations | 212,324 | 187,511 | 179,777 | 154,006 | 132,388 |
| Earnings including noncontrolling interests | 239,506 | 197,961 | 191,170 | 160,085 | 141,937 |
| Net earnings attributable to NNN | 239,500 | 197,836 | 190,601 | 160,145 | 142,015 |
| Total assets | 6,334,151 | 5,460,044 | 4,915,551 | 4,445,308 | 3,980,210 |
| Total debt | 2,311,689 | 1,975,944 | 1,729,891 | 1,560,844 | 1,579,148 |
| Total stockholders' equity of NNN | 3,916,799 | 3,342,134 | 3,082,515 | 2,777,045 | 2,296,285 |
| Cash dividends declared to: | | | | | |
| Common stockholders | 257,007 | 228,699 | 204,157 | 189,107 | 167,495 |
| Series C preferred stockholders | — | — | — | — | 1,979 |
| Series D preferred stockholders | 19,047 | 19,047 | 19,047 | 19,047 | 15,449 |
| Series E preferred stockholders | 16,387 | 16,387 | 16,387 | 8,876 | — |
| Series F preferred stockholders | 3,189 | — | — | — | — |
| Weighted average common shares: | | | | | |
| Basic | 144,176,224 | 133,998,674 | 124,257,558 | 118,204,148 | 106,965,156 |
| Diluted | 144,660,633 | 134,489,416 | 124,710,226 | 119,864,824 | 109,117,515 |
| Per share information: | | | | | |
| Earnings from continuing operations: | | | | | |
| Basic | \$ 1.39 | \$ 1.21 | \$ 1.24 | \$ 1.06 | \$ 1.04 |
| Diluted | 1.38 | 1.20 | 1.24 | 1.05 | 1.02 |
| Net earnings: | | | | | |
| Basic | 1.39 | 1.21 | 1.24 | 1.11 | 1.13 |
| Diluted | 1.38 | 1.20 | 1.24 | 1.10 | 1.11 |
| Cash dividends declared to: | | | | | |
| Common stockholders | 1.78 | 1.71 | 1.65 | 1.60 | 1.56 |
| Series C preferred depositary stockholders | — | — | — | — | 0.537760 |
| Series D preferred depositary stockholders | 1.656250 | 1.656250 | 1.656250 | 1.656250 | 1.343403 |
| Series E preferred depositary stockholders | 1.425000 | 1.425000 | 1.425000 | 0.771875 | — |
| Series F preferred depositary stockholders | 0.231111 | — | — | — | — |
| Other data: | | | | | |
| Cash flows provided by (used in): | | | | | |
| Operating activities | \$ 415,337 | \$ 341,095 | \$ 296,733 | \$ 274,421 | \$ 228,130 |
| Investing activities | (779,943) | (644,544) | (541,558) | (568,040) | (601,759) |
| Financing activities | 644,886 | 307,105 | 253,944 | 293,028 | 373,623 |
| Funds from operations – available to common stockholders ⁽²⁾ | 330,544 | 289,193 | 260,902 | 228,622 | 193,563 |

⁽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

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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.

The National Association of Real Estate Investment Trusts (“NAREIT”) developed Funds from Operations (“FFO”) as a relative non-U.S. generally accepted accounting principles (“GAAP”) financial measure of performance of a REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. FFO is defined by NAREIT and is used by NNN as follows: net earnings (computed in accordance with GAAP) plus depreciation and amortization of 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:

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|-----------|-----------|-----------|-----------|-----------|
| Net earnings available to common stockholders | \$200,877 | \$162,402 | \$155,167 | \$132,222 | \$121,489 |
| Real estate depreciation and amortization: | | | | | |
| Continuing operations | 148,779 | 134,380 | 115,888 | 99,048 | 73,685 |
| Discontinued operations | — | — | 3 | 343 | 1,381 |
| Joint venture real estate depreciation | — | — | — | — | 112 |
| Joint venture gain on disposition of real estate | — | — | — | — | (2,341) |
| Gain on disposition of real estate, net of income tax and noncontrolling interests | (27,137) | (10,397) | (10,904) | (5,442) | (10,956) |
| Impairment losses – depreciable real estate, net of recoveries and income tax | 8,025 | 2,808 | 748 | 2,451 | 10,193 |
| FFO available to common stockholders | \$330,544 | \$289,193 | \$260,902 | \$228,622 | \$193,563 |

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").

Overview

NNN, a Maryland corporation, is a fully integrated real estate investment trust ("REIT") formed in 1984. NNN's assets include: real estate assets and mortgages and notes receivable. 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 2,535 Properties, with an aggregate gross leasable area of approximately 27,204,000 square feet, located in 48 states, with a weighted average remaining lease term of 11.6 years as of December 31, 2016. Approximately 99 percent of the Properties were leased as of December 31, 2016.

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, store level financial performance, press releases, public credit ratings from major credit rating agencies, industry news publications and financial market data (debt and equity pricing). NNN also evaluates 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 largest 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, 2016, 2015 and 2014, the Property Portfolio has remained at least 99 percent leased. As of December 31, 2016, the average remaining lease term of the Property Portfolio was 11.6 years, which is consistent with the past three years, coupled with a 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 and 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.

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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, 2016, 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, 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:

| | 2016 | 2015 | 2014 |
|--|------------|------------|------------|
| Properties Owned: | | | |
| Number | 2,535 | 2,257 | 2,054 |
| Total gross leasable area (square feet) | 27,204,000 | 24,964,000 | 22,479,000 |
| Properties: | | | |
| Leased and unimproved land | 2,508 | 2,236 | 2,025 |
| Percent of Properties – leased and unimproved land | 99 | % 99 | % 99 |
| Weighted average remaining lease term (years) | 11.6 | 11.4 | 11.6 |
| Total gross leasable area (square feet) – leased | 26,700,000 | 24,544,000 | 21,938,000 |

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, 2016:

| | % of Annual Base Rent ⁽¹⁾ | # of Properties | Gross Leasable Area ⁽²⁾ | | % of Annual Base Rent ⁽¹⁾ | # of Properties | Gross Leasable Area ⁽²⁾ |
|------|--------------------------------------|-----------------|------------------------------------|------------|--------------------------------------|-----------------|------------------------------------|
| 2017 | 1.2% | 27 | 502,000 | 2023 | 2.5% | 85 | 1,014,000 |
| 2018 | 3.2% | 90 | 1,153,000 | 2024 | 2.6% | 50 | 883,000 |
| 2019 | 3.0% | 76 | 1,122,000 | 2025 | 5.0% | 132 | 1,116,000 |
| 2020 | 3.8% | 132 | 1,571,000 | 2026 | 6.0% | 181 | 1,830,000 |
| 2021 | 4.4% | 122 | 1,320,000 | Thereafter | 62.2% | 1,495 | 14,733,000 |
| 2022 | 6.1% | 111 | 1,456,000 | | | | |

⁽¹⁾ Based on the annualized base rent for all leases in place as of December 31, 2016.

⁽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⁾ | | |
|--|--------------------------------------|--------|--------|
| | 2016 | 2015 | 2014 |
| 1. Convenience stores | 16.9% | 16.7% | 18.0% |
| 2. Restaurants - full service | 11.8% | 11.0% | 9.1% |
| 3. Restaurants - limited service | 7.5% | 7.2% | 6.5% |
| 4. Automotive service | 6.6% | 7.0% | 7.2% |
| 5. Family entertainment centers | 5.8% | 5.6% | 5.1% |
| 6. Health and fitness | 5.7% | 3.8% | 3.9% |
| 7. Theaters | 4.9% | 5.2% | 5.2% |
| 8. Automotive parts | 3.9% | 4.2% | 4.7% |
| 9. Recreational vehicle dealers, parts and accessories | 3.4% | 3.6% | 3.1% |
| 10. Banks | 3.1% | 3.4% | 3.7% |
| Other | 30.4% | 32.3% | 33.5% |
| | 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, 2016:

| | State | # of Properties | % of Annual Base Rent ⁽¹⁾ |
|-----|----------------|-----------------|--------------------------------------|
| 1. | Texas | 448 | 18.4% |
| 2. | Florida | 197 | 9.1% |
| 3. | Illinois | 132 | 5.7% |
| 4. | Ohio | 165 | 5.7% |
| 5. | North Carolina | 134 | 4.7% |
| 6. | Georgia | 118 | 4.3% |
| 7. | Indiana | 118 | 4.2% |
| 8. | Virginia | 88 | 3.5% |
| 9. | Alabama | 101 | 3.0% |
| 10. | Tennessee | 77 | 2.8% |
| | Other | 957 | 38.6% |
| | | 2,535 | 100.0% |

⁽¹⁾ Based on annualized base rent for all leases in place as of December 31, 2016.

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

| | 2016 | 2015 | 2014 |
|---------------------------------------|-----------|-----------|-----------|
| Acquisitions: | | | |
| Number of Properties | 313 | 221 | 221 |
| Gross leasable area (square feet) | 2,734,000 | 2,706,000 | 2,417,000 |
| Initial cash yield | 6.9 % | 7.2 % | 7.5 % |
| Total dollars invested ⁽¹⁾ | \$846,906 | \$726,303 | \$618,145 |

⁽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):

| | 2016 | 2015 | 2014 |
|--|-----------|----------|----------|
| Number of properties | 38 | 19 | 27 |
| Gross leasable area (square feet) | 490,000 | 232,000 | 317,000 |
| Net sales proceeds | \$103,215 | \$39,116 | \$55,378 |
| Gain, net of income tax expense ⁽¹⁾ | \$27,182 | \$10,450 | \$11,424 |
| Cap rate | 6.8 % | 5.9 % | 7.2 % |

⁽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, 2016, 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):

| | 2016 | 2015 | 2014 | Percent of Total | | | 2016 Versus 2015 Percent | 2015 Versus 2014 Percent |
|---|-----------|-----------|-----------|------------------|--------|--------|-----------------------------------|-----------------------------------|
| | | | | 2016 | 2015 | 2014 | | |
| | | | | % | % | % | | |
| Rental Income ⁽¹⁾ | \$515,954 | \$465,282 | \$416,842 | 96.7 % | 96.3 % | 95.9 % | 10.9 % | 11.6 % |
| Real estate expense reimbursement from tenants | 14,984 | 14,868 | 13,875 | 2.8 % | 3.1 % | 3.2 % | 0.8 % | 7.2 % |
| Interest and other income from real estate transactions | 1,032 | 988 | 2,326 | 0.2 % | 0.2 % | 0.5 % | 4.5 % | (57.5)% |
| Interest income on commercial mortgage residual interests | 1,677 | 1,778 | 1,834 | 0.3 % | 0.4 % | 0.4 % | (5.7)% | (3.1)% |
| Total revenues from continuing operations | \$533,647 | \$482,916 | \$434,877 | 100.0% | 100.0% | 100.0% | 10.5 % | 11.0 % |

(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 – 2016 versus 2015

Rental Income. Rental Income increased in amount and as a percent of the total revenues from continuing operations for the year ended December 31, 2016 as compared to the same period in 2015. The increase for the year ended December 31, 2016, is primarily due to a partial year of Rental Income received as a result of the acquisition of 313 properties with aggregate gross leasable area of approximately 2,734,000 during 2016 and a full year of Rental Income received as a result of the acquisition of 221 properties with a gross leasable area of approximately 2,706,000 square feet in 2015.

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.

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, 2016, as compared to the same period in 2015. The following summarizes NNN's expenses from continuing operations (dollars in thousands):

| | | | |
|--|-----------|-----------|-----------|
| | 2016 | 2015 | 2014 |
| General and administrative | \$36,508 | \$34,736 | \$32,518 |
| Real estate | 20,852 | 19,776 | 18,935 |
| Depreciation and amortization | 149,101 | 134,798 | 116,162 |
| Impairment – commercial mortgage residual interests valuation | 6,830 | 531 | 256 |
| Impairment losses – real estate and other charges, net of recoveries | 11,287 | 4,420 | 760 |
| Total operating expenses | \$224,578 | \$194,261 | \$168,631 |
| Interest and other income | \$(170) | \$(109) | \$(357) |
| Interest expense | 96,352 | 90,008 | 85,510 |
| Real estate acquisition costs | 563 | 927 | 1,391 |
| Total other expenses (revenues) | \$96,745 | \$90,826 | \$86,544 |

| | Percentage of Total Expenses | | | Percentage of Revenues from Continuing Operations | | | 2016 Versus 2015 | 2015 Versus 2014 |
|--|------------------------------|---------|---------|---|--------|---------|------------------|------------------|
| | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 | Percent | Percent |
| General and administrative | 16.3 % | 17.9 % | 19.3 % | 6.9 % | 7.2 % | 7.5 % | 5.1 % | 6.8 % |
| Real estate | 9.3 % | 10.2 % | 11.2 % | 3.9 % | 4.1 % | 4.3 % | 5.4 % | 4.4 % |
| Depreciation and amortization | 66.4 % | 69.4 % | 68.9 % | 27.9 % | 27.9 % | 26.7 % | 10.6 % | 16.0 % |
| Impairment – commercial mortgage residual interests valuation | 3.0 % | 0.3 % | 0.2 % | 1.3 % | 0.1 % | 0.1 % | 1,186.3 % | 107.4 % |
| Impairment losses – real estate and other charges, net of recoveries | 5.0 % | 2.2 % | 0.4 % | 2.1 % | 0.9 % | 0.2 % | 155.4 % | 481.6 % |
| Total operating expenses | 100.0 % | 100.0 % | 100.0 % | 42.1 % | 40.2 % | 38.8 % | 15.6 % | 15.2 % |
| Interest and other income | (0.2)% | (0.1)% | (0.4)% | — | — | (0.1)% | 56.0 % | (69.5)% |
| Interest expense | 99.6 % | 99.1 % | 98.8 % | 18.1 % | 18.6 % | 19.7 % | 7.0 % | 5.3 % |
| Real estate acquisition costs | 0.6 % | 1.0 % | 1.6 % | 0.1 % | 0.2 % | 0.3 % | (39.3)% | (33.4)% |
| Total other expenses (revenues) | 100.0 % | 100.0 % | 100.0 % | 18.2 % | 18.8 % | 19.9 % | 6.5 % | 4.9 % |

Comparison of Expenses from Continuing Operations – 2016 versus 2015

General and Administrative Expenses. General and administrative expenses increased for the year ended December 31, 2016, as compared to the same period in 2015, 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, 2016, is primarily attributable to an increase in personnel costs.

Real Estate. Real estate expenses increased for the year ended December 31, 2016, as compared to the same period in 2015, 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 and non-reimbursable expenses related to a partial year of reimbursable and non-reimbursable expenses from certain properties acquired in 2016 and a full year of reimbursable and non-reimbursable expenses from certain properties acquired in 2015.

Depreciation and Amortization. Depreciation and amortization expenses increased in amount, decreased as a percentage of total operating expenses and remained flat as a percentage of revenues from continuing operations for the year ended December 31, 2016, as compared to the year ended December 31, 2015. The increase in expenses is primarily due to the

acquisition of 313 properties with an aggregate gross leasable area of approximately 2,734,000 square feet in 2016 and 221 properties with an aggregate gross leasable area of approximately 2,706,000 square feet during 2015.

Impairment – Commercial Mortgage Residual Interests Valuation. As of December 31, 2015, NNN held the commercial mortgage residual interests (“Residuals”) from seven loan securitizations. In 2016, the loan servicer of five of the securitizations exercised its clean-up call option. The clean-up call allowed the servicer to purchase all of the trusts’ assets, thereby terminating future cash distributions payable to NNN as the holder of these residual interests. Unrealized gains and losses are reported as other comprehensive income in stockholders' equity and other than temporary valuation impairment. As of December 31, 2016, the remaining two Residuals are recorded at fair value. During the years ended December 31, 2016, 2015 and 2014, NNN recorded other than temporary valuation impairments as a reduction of earnings from operations of \$6,830,000, \$531,000 and \$256,000. The other than temporary valuation impairment recorded during the year ended December 31, 2016 related primarily to the execution of the clean-up call option on the five securitizations.

Impairment Losses – Real Estate 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 a price that exceeds NNN's carrying value. Management evaluates whether an impairment in value has occurred by comparing the estimated undiscounted future cash flows, 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, 2016 and 2015, NNN recorded \$8,025,000 and \$3,970,000, respectively, of real estate impairments. NNN also recorded a \$3,269,000 loss on mortgages receivable for the year ended December 31, 2016, and a \$450,000 loss on the sale of mortgages 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, 2016, as compared to the same period in 2015, 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 October 2015 of \$400,000,000 principal amount of notes payable with a maturity of November 2025, and stated interest rate of 4.000%,
- (ii) the repayment in December 2015 of \$150,000,000 principal amount of notes payable with a stated interest rate of 6.150%,
- (iii) the repayment in January 2016 of \$5,876,000 principal amount of mortgages payable with an interest rate of 5.750%,
- (iv) the repayment in March 2016 of \$722,000 principal amount of mortgages payable with an interest rate of 6.900%,
- (v) the repayment in October 2016 of \$2,709,000 principal amount of mortgages payable with an interest rate of 6.400%,
- (vi) the issuance in December 2016 of \$350,000,000 principal amount of notes payable with a maturity of December 2026, and stated interest rate of 3.600%, and
- (vii) the decrease of \$8,543,000 in the weighted average outstanding balance on the Credit Facility and a slightly higher weighted average interest rate for the year ended December 31, 2016, as compared to the same period in 2015.

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.

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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 – Real Estate 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 a price that exceeds NNN's carrying value. Management evaluates whether an impairment in value has occurred by comparing the estimated undiscounted future cash flows, 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.

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) capital expenditures; (iv) payment of principal and interest on its outstanding indebtedness; and (v) other investments.

NNN expects to meet short-term liquidity requirements through cash provided from operations and NNN's Credit Facility. As of December 31, 2016, there was no outstanding balance and \$650,000,000 was available for future

borrowings under the

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Credit Facility, excluding undrawn letters of credit totaling \$230,000. 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. NNN's cash and cash equivalents includes the aggregate of Cash and cash equivalents and Restricted cash and cash held in escrow from the Consolidated Balance Sheets. The table below summarizes NNN's cash flows for each of the years ended December 31 (dollars in thousands):

| | 2016 | 2015 | 2014 |
|----------------------------------|------------|------------|------------|
| Cash and cash equivalents: | | | |
| Provided by operating activities | \$415,337 | \$341,095 | \$296,733 |
| Used in investing activities | (779,943) | (644,544) | (541,558) |
| Provided by financing activities | 644,886 | 307,105 | 253,944 |
| Increase | 280,280 | 3,656 | 9,119 |
| Net cash at beginning of year | 14,260 | 10,604 | 1,485 |
| Net cash at end of year | \$294,540 | \$14,260 | \$10,604 |

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, 2016, 2015 and 2014, is primarily the result of changes in revenues and expenses as discussed in "Results of Operations." Cash generated from operations is expected to fluctuate in the future.

Changes in cash for investing activities are primarily attributable to 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, 2016, included the following significant transactions:

- \$334,103,000 in net proceeds from the issuance of 13,800,000 depositary shares representing interests in NNN's 5.200% Cumulative Redeemable Preferred Stock (the "Series F Preferred Stock") in October,
- \$342,765,000 in net proceeds from the issuance of the 3.600% notes payable in December,
- \$8,340,000 in net proceeds from the issuance of 187,626 shares of common stock in connection with the Dividend Reinvestment and Stock Purchase Plan ("DRIP"),
- \$265,696,000 in net proceeds from the issuance of 5,716,222 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,
- \$3,189,000 in dividends paid to holders of the depositary shares of NNN's Series F Preferred Stock, and
- \$257,007,000 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, 2016, there was no outstanding balance and \$650,000,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$230,000.

As of December 31, 2016, NNN's ratio of total debt to total gross assets (before accumulated depreciation and amortization) was approximately 30 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 22 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, 2016. The table presents principal cash flows by year-end of the expected maturity for debt obligations and commercial commitments outstanding as of December 31, 2016.

| | Expected Maturity Date (dollars in thousands) | | | | | | |
|--|---|-----------|----------|----------|----------|-----------|-------------|
| | Total | 2017 | 2018 | 2019 | 2020 | 2021 | Thereafter |
| Long-term debt ⁽¹⁾ | \$2,338,452 | \$250,510 | \$538 | \$567 | \$596 | \$300,630 | \$1,785,611 |
| Long-term debt – interest ⁽²⁾ | 606,083 | 96,958 | 83,323 | 83,294 | 83,265 | 75,668 | 183,575 |
| Operating lease | 6,462 | 728 | 743 | 758 | 773 | 788 | 2,672 |
| Total contractual cash obligations | \$2,950,997 | \$348,196 | \$84,604 | \$84,619 | \$84,634 | \$377,086 | \$1,971,858 |

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

(2) Interest calculation based on stated rate of the principal amount.

In addition to the contractual obligations outlined above, NNN has committed to fund construction commitments on 21 Properties. The improvements are estimated to be completed within 12 months. These construction commitments, at December 31, 2016, are outlined in the table below (dollars in thousands):

| | |
|---------------------------------|-----------|
| Total commitment ⁽¹⁾ | \$114,206 |
| Amount funded | \$54,782 |
| Remaining commitment | \$59,424 |

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

As of December 31, 2016, 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, which require the tenant to pay all property taxes and assessments, to maintain the interior and exterior of the property, and to carry property and liability insurance coverage. Therefore, management anticipates that capital demands to meet obligations with respect to these Properties will be modest for the foreseeable future and can be met with funds from operations and working capital. Certain of the Properties are subject to leases under which NNN retains responsibility for specific costs and expenses associated with the Property. Management anticipates the costs associated with the vacant Properties or those Properties that become vacant will also be met with funds from operations and working capital. NNN may be required to borrow under its Credit Facility or use other sources of capital in the event of significant capital expenditures.

The lost revenues and increased property expenses resulting from vacant Properties or uncollectibility of lease revenues could have a material adverse effect on the liquidity and results of operations if NNN is unable to re-lease the Properties at comparable rental rates and in a timely manner. As of December 31, 2016, NNN owned 27 vacant, un-leased Properties which accounted for approximately one percent of total Properties. Additionally, as of January 31, 2017, 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):

| | 2016 | 2015 | 2014 |
|-----------|-----------|-----------|-----------|
| Dividends | \$257,007 | \$228,699 | \$204,157 |
| Per share | 1.780 | 1.710 | 1.650 |

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

| | 2016 | | 2015 | | 2014 | |
|--------------------------------|------------|------------|------------|------------|------------|------------|
| Ordinary dividends | \$1.513705 | 85.0396 % | \$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 | 0.266295 | 14.9604 % | 0.308840 | 18.0608 % | 0.312831 | 18.9595 % |
| | \$1.780000 | 100.0000 % | \$1.710000 | 100.0000 % | \$1.650000 | 100.0000 % |

On January 17, 2017, NNN declared a dividend of \$0.455 per share, payable February 15, 2017 to its common stockholders of record as of January 31, 2017.

Holder 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):

| | 2016 | 2015 | 2014 |
|---|----------|----------|----------|
| Series D Preferred Stock ⁽¹⁾ : | | | |
| Dividends | \$19,047 | \$19,047 | \$19,047 |
| Per share | 1.656250 | 1.656250 | 1.656250 |

| | 2016 | 2015 | 2014 |
|---|----------|----------|----------|
| Series E Preferred Stock ⁽²⁾ : | | | |
| Dividends | 16,387 | 16,387 | 16,387 |
| Per share | 1.425000 | 1.425000 | 1.425000 |

| | 2016 | 2015 | 2014 |
|---|----------|------|------|
| Series F Preferred Stock ⁽³⁾ : | | | |
| Dividends | 3,189 | — | — |
| Per share | 0.231111 | — | — |

⁽¹⁾ In January 2017, NNN called for redemption of all outstanding shares of its Series D Preferred Stock represented by depositary shares, each representing a 1/100th interest in a Series D Preferred Stock share. The depositary shares will be redeemed on February 23, 2017.

⁽²⁾ The Series E Preferred Stock has no maturity date and will remain outstanding unless redeemed by NNN. The earliest redemption date for the Series E Preferred Stock is May 2018.

⁽³⁾ The Series F Preferred Stock was issued October 11, 2016 and has no maturity date and will remain outstanding unless redeemed by NNN. The earliest redemption date for the Series F preferred stock is October 2021.

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

| | Ordinary dividends | Qualified dividends | Capital gain | Unrecaptured Section 1250 Gain | Totals |
|-------------------------|-----------------------|------------------------|--------------|--------------------------------------|------------|
| 2016 | | | | | |
| Percentage of Total | 100.0000% | — | — | — | 100.0000 % |
| Series D | \$1.656250 | — | — | — | \$1.656250 |
| Series E | \$1.425000 | — | — | — | \$1.425000 |
| Series F ⁽¹⁾ | \$0.231111 | — | — | — | \$0.231111 |
| 2015 | | | | | |
| Percentage of Total | 97.2400 % | 1.4134 % | 0.5570 % | 0.7896 % | 100.0000 % |
| Series D | \$1.610538 | \$0.023409 | \$0.009225 | \$0.013078 | \$1.656250 |
| Series E | \$1.385670 | \$0.020141 | \$0.007937 | \$0.011252 | \$1.425000 |
| 2014 | | | | | |
| Percentage of Total | 97.8035 % | 0.4027 % | 0.6440 % | 1.1498 % | 100.0000 % |
| Series D | \$1.619870 | \$0.006670 | \$0.010666 | \$0.019044 | \$1.656250 |
| Series E | \$1.393700 | \$0.005738 | \$0.009177 | \$0.016385 | \$1.425000 |

⁽¹⁾ The Series F Preferred Stock was issued in October 2016.

In January 2017, NNN called for redemption of all outstanding shares of its Series D Preferred Stock represented by depositary shares, each representing a 1/100th interest in a Series D Preferred Stock share. The depositary shares will be redeemed on February 23, 2017 at \$25.00 per depositary share, plus all accrued and unpaid dividends through the redemption date, for an aggregate redemption price of \$25.3128472 per depositary share. After the redemption date, dividends on the depositary shares representing interests in the Series D Preferred Stock shares will cease to accrue.

Capital Resources

Generally, cash needs for Property acquisitions, 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):

| | 2016 | Percentage of Total | 2015 | Percentage of Total |
|------------------------|-------------|------------------------|-------------|------------------------|
| Mortgages payable | \$13,878 | 0.6 % | \$23,964 | 1.2 % |
| Notes payable | 2,297,811 | 99.4 % | 1,951,980 | 98.8 % |
| Total outstanding debt | \$2,311,689 | 100.0 % | \$1,975,944 | 100.0 % |

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

Line of Credit Payable. NNN's \$650,000,000 unsecured revolving credit facility (the "Credit Facility") had a weighted average outstanding balance of \$70,139,000 and a weighted average interest rate of 1.4% for the year ended December 31, 2016. The Credit Facility matures January 2019, with an option to extend maturity to January 2020. As of December 31, 2016, 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, 2016, there was no outstanding balance and \$650,000,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$230,000.

In accordance with the terms of the Credit Facility, NNN is required to meet certain restrictive financial covenants, which, among other things, require NNN to maintain certain (i) leverage ratios, (ii) debt service coverage, (iii) cash flow coverage, and (iv) investment limitations. At December 31, 2016, 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, | |
|--|-----------------|---------------|-------------------------|--|---|----------|
| | | | | | 2016 | 2015 |
| February 2004 ⁽⁶⁾ | \$ 6,952 | 6.90% | January 2017 | \$ — | \$— | \$848 |
| June 2012 ⁽⁴⁾⁽⁵⁾ | 6,850 | 5.75% | April 2016 | — | — | 5,890 |
| September 2014 ⁽⁴⁾⁽⁷⁾ | 2,957 | 6.40% | February 2017 | — | — | 2,804 |
| November 2014 ⁽⁴⁾ | 15,151 | 5.23% | July 2023 | 21,403 | 13,987 | 14,555 |
| | | | | \$ 21,403 | 13,987 | 24,097 |
| Debt costs | | | | | (147) | (226) |
| Accumulated amortization | | | | | 38 | 93 |
| Debt costs, net of accumulated amortization | | | | | (109) | (133) |
| Mortgages payable, including unamortized premium and net of unamortized debt costs | | | | | \$13,878 | \$23,964 |

(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, 2016.

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

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

(6) NNN repaid the outstanding principal balance in March 2016.

(7) NNN repaid the outstanding principal balance in October 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 |
| 2026 ⁽⁹⁾ | December 2016 | 350,000 | 3,860 | 346,140 | 3.600% | 3.733% | December 2026 |

(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 at issuance.

(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 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 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 notes 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 notes 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 notes using the effective interest method.

(9) NNN entered into two forward starting swaps with an aggregate notional amount of \$180,000. Upon issuance of the 2026 Notes, NNN terminated the forward starting swaps resulting in a gain of \$13,345, which was deferred in other comprehensive income. The deferred asset is being amortized over the term of the notes 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 \$21,157,000 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 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 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, 2016, 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.

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 |
| Series F ⁽⁷⁾ | 5.200 % | October 2016 | 13,800,000 | 345,000 | 10,897 | 1.300000 | October 2021 |

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

Representing 1/100th of a preferred share. Series D and E issuances each included 1,500,000 depository shares in

(2) connection with the underwriters' over-allotment. Series F issuance included 1,800,000 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.

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.

(7) NNN used the net proceeds from the offering to repay outstanding indebtedness under its Credit Facility, fund property acquisitions and for general corporate purposes.

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 13, 2017, the Series E and Series F Preferred Stock Shares were not redeemable or convertible.

In January 2017, NNN announced the redemption of all outstanding depository shares representing interests in its Series D Preferred Stock. The depository shares will be redeemed on February 23, 2017 at \$25.00 per depository share, plus all accrued and unpaid dividends through the redemption date, for an aggregate redemption price of \$25.3128472 per depository share. After the redemption date, dividends on the depository shares representing interests in the Series D Preferred Stock will cease to accrue.

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):

| | 2016 | 2015 | 2014 |
|------------------------|----------|----------|-----------|
| Shares of common stock | 187,626 | 196,584 | 422,406 |
| Net proceeds | \$ 8,340 | \$ 7,182 | \$ 14,817 |

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:

| | 2016 ATM | 2015 ATM | 2013 ATM |
|---|------------|---------------|---------------|
| Established date | March 2016 | February 2015 | March 2013 |
| Termination date | March 2019 | March 2016 | February 2015 |
| Total allowable shares | 12,000,000 | 10,000,000 | 9,000,000 |
| Total shares issued as of December 31, 2016 | 4,223,290 | 9,852,465 | 6,252,812 |

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, | | |
|-------------------------------------|-------------------------|-----------|-----------|
| | 2016 | 2015 | 2014 |
| Shares of common stock | 5,716,222 | 8,573,533 | 3,758,362 |
| Average price per share (net) | \$46.48 | \$37.45 | \$35.90 |
| Net proceeds | \$265,696 | \$321,067 | \$134,919 |
| Stock issuance costs ⁽¹⁾ | \$4,266 | \$4,016 | \$2,195 |

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

Commercial Mortgage Residual Interests

As of December 31, 2015, NNN held the commercial mortgage residual interests (“Residuals”) from seven loan securitizations. In 2016, the loan servicer of five of the securitizations exercised its clean-up call option. The clean-up call allowed the servicer to purchase all of the trusts’ assets, thereby terminating future cash distributions payable to NNN as the holder of these residual interests. During the years ended December 31, 2016, 2015 and 2014, NNN recorded an other than temporary valuation impairment as a reduction of earnings from operations. The other than temporary valuation impairment recorded during the year ended December 31, 2016, includes impairment related to the execution of the clean-up call option on the five securitizations, as well as the fair value adjustment on the remaining two securitizations.

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 (dollars in thousands):

| | 2016 | 2015 | 2014 |
|---|---------|---------|-------|
| Unrealized gains (losses), net | \$(182) | \$(585) | \$875 |
| Other than temporary valuation impairment | 6,830 | 531 | 256 |

As of December 31, 2016, the remaining two Residuals are recorded at fair value. Certain valuation assumptions are made based on the expected timing of future cash flows relating to the Residuals. The following table summarizes the key assumptions used in determining the value of the Residuals as of December 31 (dollars in thousands):

| | 2016 | | 2015 | |
|---|------------------------|---|------------------------|---|
| Discount rate | 20 | % | 20 | % |
| Average life equivalent CPR ⁽¹⁾ speeds range | 0.87% to 21.56% CPR | | 0.87% to 21.73% CPR | |
| Foreclosures: | | | | |
| Frequency curve default model | 0% - 1.33% range | | 0.72% - 1.57% range | |
| Loss severity of loans in foreclosure | 20 | % | 20 | % |
| Yield: | | | | |
| LIBOR | Forward 3-month curve | | Forward 3-month curve | |
| Prime | Forward curve | | Forward curve | |
| Fair value at December 31 | \$ 36 | | \$ 11,115 | |

⁽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, 2016, 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, 2016 and 2015. The table presents principal payments and related interest rates by year for debt obligations outstanding as of December 31, 2016. NNN has a variable interest rate risk on its Credit Facility which had no outstanding balance as of December 31, 2016. The weighted average rate for the Credit Facility for the year ended December 31, 2016, was 1.4%. The outstanding balance of the Credit Facility as of December 31, 2016 and 2015 was \$0. The table incorporates only those debt obligations that existed as of December 31, 2016, and it does not consider those debt obligations or positions which could arise after this date and therefore 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, 2016.

Debt Obligations (dollars in thousands)

| | Fixed Rate Debt | | Unsecured Debt ⁽²⁾ | |
|-------------------|-----------------|--------------------------------|-------------------------------|-------------------------|
| | Debt Obligation | Weighted Average Interest Rate | Debt Obligation | Effective Interest Rate |
| 2017 | \$596 | 5.23% | \$249,907 | 6.92% |
| 2018 | 623 | 5.23% | — | — |
| 2019 | 652 | 5.23% | — | — |
| 2020 | 682 | 5.23% | — | — |
| 2021 | 716 | 5.23% | 297,764 | 5.69% |
| Thereafter | 10,718 | 5.23% | 1,764,921 | 3.73% ⁽³⁾ |
| Total | \$13,987 | 5.23% | \$2,312,592 | 4.39% |
| Fair Value: | | | | |
| December 31, 2016 | \$13,987 | | \$2,367,102 | |
| December 31, 2015 | \$24,097 | | \$2,007,242 | |

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

(2) Includes NNN's notes payable, each exclude debt costs and are net of unamortized discounts. 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 2021.

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 \$36,000 and \$11,115,000 as of December 31, 2016 and 2015, 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, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). National Retail Properties, Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, National Retail Properties, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, 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, 2016 and 2015, 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, 2016 and our report dated February 13, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Certified Public Accountants

Orlando, Florida
February 13, 2017

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, 2016 and 2015, 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, 2016. 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, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, 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, 2016, 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 13, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Certified Public Accountants

Orlando, Florida
February 13, 2017

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except per share data)

| ASSETS | December 31, 2016 | December 31, 2015 |
|--|----------------------|----------------------|
| Real estate portfolio: | | |
| Accounted for using the operating method, net of accumulated depreciation and amortization | \$ 5,881,280 | \$ 5,231,413 |
| Accounted for using the direct financing method | 11,230 | 14,518 |
| Real estate held for sale | 23,850 | 57,527 |
| Cash and cash equivalents | 294,540 | 13,659 |
| Restricted cash and cash held in escrow | — | 601 |
| Receivables, net of allowance of \$1,006 and \$566, respectively | 3,418 | 3,344 |
| Mortgages, notes and accrued interest receivable, net of allowance of \$14 and \$5, respectively | 1,252 | 8,688 |
| Accrued rental income, net of allowance of \$3,078 | 25,101 | 25,529 |
| Debt costs, net of accumulated amortization of \$11,268 and \$9,877, respectively | 2,715 | 4,003 |
| Commercial mortgage residual interests | 36 | 11,115 |
| Other assets | 90,729 | 89,647 |
| Total assets | \$ 6,334,151 | \$ 5,460,044 |
| LIABILITIES AND EQUITY | | |
| Liabilities: | | |
| Mortgages payable, including unamortized premium and net of unamortized debt costs | \$ 13,878 | \$ 23,964 |
| Notes payable, net of unamortized discount and unamortized debt costs | 2,297,811 | 1,951,980 |
| Accrued interest payable | 19,665 | 20,113 |
| Other liabilities | 85,869 | 121,594 |
| Total liabilities | 2,417,223 | 2,117,651 |
| Commitments and contingencies (Note 19) | | |
| 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 |
| 5.200% Series F, 138,000 shares issued and outstanding, at stated liquidation value of \$2,500 per share | 345,000 | — |
| Common stock, \$0.01 par value. Authorized 375,000,000 shares; 147,149,945 and 141,007,725 shares issued and outstanding, respectively | 1,473 | 1,412 |
| Capital in excess of par value | 3,322,771 | 3,049,198 |
| Accumulated deficit | (319,254) | (263,124) |
| Accumulated other comprehensive income (loss) | (8,191) | (20,352) |
| Total stockholders' equity of NNN | 3,916,799 | 3,342,134 |
| Noncontrolling interests | 129 | 259 |
| Total equity | 3,916,928 | 3,342,393 |
| Total liabilities and equity | \$ 6,334,151 | \$ 5,460,044 |

See accompanying notes to consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(dollars in thousands, except per share data)

| | Year Ended December 31, | | |
|---|-------------------------|-----------|-----------|
| | 2016 | 2015 | 2014 |
| Revenues: | | | |
| Rental income from operating leases | \$512,883 | \$462,346 | \$414,043 |
| Earned income from direct financing leases | 1,336 | 1,506 | 1,725 |
| Percentage rent | 1,735 | 1,430 | 1,074 |
| Real estate expense reimbursement from tenants | 14,984 | 14,868 | 13,875 |
| Interest and other income from real estate transactions | 1,032 | 988 | 2,326 |
| Interest income on commercial mortgage residual interests | 1,677 | 1,778 | 1,834 |
| | 533,647 | 482,916 | 434,877 |
| Operating expenses: | | | |
| General and administrative | 36,508 | 34,736 | 32,518 |
| Real estate | 20,852 | 19,776 | 18,935 |
| Depreciation and amortization | 149,101 | 134,798 | 116,162 |
| Impairment – commercial mortgage residual interests valuation | 6,830 | 531 | 256 |
| Impairment losses – real estate and other charges, net of recoveries | 11,287 | 4,420 | 760 |
| | 224,578 | 194,261 | 168,631 |
| Earnings from operations | 309,069 | 288,655 | 266,246 |
| Other expenses (revenues): | | | |
| Interest and other income | (170) | (109) | (357) |
| Interest expense | 96,352 | 90,008 | 85,510 |
| Real estate acquisition costs | 563 | 927 | 1,391 |
| | 96,745 | 90,826 | 86,544 |
| Earnings from continuing operations before income tax benefit (expense) | 212,324 | 197,829 | 179,702 |
| Income tax benefit (expense) | — | (10,318) | 75 |
| Earnings from continuing operations | 212,324 | 187,511 | 179,777 |
| Earnings from discontinued operations, net of income tax expense | — | — | 124 |
| Earnings before gain on disposition of real estate, net of income tax expense | 212,324 | 187,511 | 179,901 |
| Gain on disposition of real estate, net of income tax expense | 27,182 | 10,450 | 11,269 |
| Earnings including noncontrolling interests | 239,506 | 197,961 | 191,170 |
| Earnings attributable to noncontrolling interests – continuing operations | (6) | (125) | (569) |
| Net earnings attributable to NNN | \$239,500 | \$197,836 | \$190,601 |

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME – CONTINUED

(dollars in thousands, except per share data)

| | Year Ended December 31, | | |
|--|-------------------------|-------------|-------------|
| | 2016 | 2015 | 2014 |
| Net earnings attributable to NNN | \$239,500 | \$ 197,836 | \$ 190,601 |
| Series D preferred stock dividends | (19,047) | (19,047) | (19,047) |
| Series E preferred stock dividends | (16,387) | (16,387) | (16,387) |
| Series F preferred stock dividends | (3,189) | — | — |
| Net earnings attributable to common stockholders | \$200,877 | \$ 162,402 | \$ 155,167 |
| Net earnings per share of common stock: | | | |
| Basic | \$ 1.39 | \$ 1.21 | \$ 1.24 |
| Diluted | \$ 1.38 | \$ 1.20 | \$ 1.24 |
| Weighted average number of common shares outstanding: | | | |
| Basic | 144,176,224 | 133,998,674 | 124,257,558 |
| Diluted | 144,660,633 | 134,489,416 | 124,710,226 |
| Other comprehensive income: | | | |
| Net earnings attributable to NNN | \$239,500 | \$ 197,836 | \$ 190,601 |
| Amortization of deferred interest rate hedges | 2,802 | 1,902 | 1,129 |
| Fair value forward starting swaps | 13,345 | (13,369) | (6,312) |
| Net gain (loss) – commercial mortgage residual interests | (4,454) | (339) | 1,038 |
| Net gain (loss) – available-for-sale securities | 468 | 112 | (8) |
| Comprehensive income attributable to NNN | \$251,661 | \$ 186,142 | \$ 186,448 |

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
Years Ended December 31, 2016, 2015 and 2014
(dollars in thousands, except per share data)

| | Series D Preferred Stock | Series E Preferred Stock | Series F 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 depository share of Series D preferred stock | — | — | — | — | — | (19,047) | — | (19,047) | — | (19,047) |
| \$1.42500 per depository 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 plan | — | — | — | 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 |
| | — | — | — | — | — | — | (6,312) | (6,312) | — | (6,312) |

| | | | | | | | | | |
|--|-----------|-----------|----------|-------------|-------------|-----------|-------------|---------|-------------|
| Fair value forward starting swaps | | | | | | | | | |
| 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 – CONTINUED
Years Ended December 31, 2016, 2015 and 2014
(dollars in thousands, except per share data)

| | Series D Preferred Stock | Series E Preferred Stock | Series F Common Preferred Stock | Capital in Excess of Par Value | Retained Earnings (Loss) | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity | Noncontrolling Interest | Totaling 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 depository share of Series D preferred stock | — | — | — | — | (19,047) | — | (19,047) | — | (19,047) |
| \$1.42500 per depository 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 plan | — | — | — | 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) |

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| | | | | | | | | | |
|--|-----------|-----------|----------|-------------|-------------|------------|-------------|-------|-------------|
| 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 |
| Contributions from noncontrolling interests | — | — | — | — | — | — | — | 334 | 334 |
| Distributions to noncontrolling interests | — | — | — | — | — | — | — | (362) | (362) |
| Sale of noncontrolling interests | — | — | — | — | — | — | — | (415) | (415) |
| Balances at December 31, 2015 | \$287,500 | \$287,500 | \$-1,412 | \$3,049,198 | \$(263,124) | \$(20,352) | \$3,342,134 | \$259 | \$3,342,393 |

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY – CONTINUED
Years Ended December 31, 2016, 2015 and 2014
(dollars in thousands, except per share data)

| | Series D Preferred Stock | Series E Preferred Stock | Series F Preferred Stock | Common Stock | Capital in Excess of Par Value | Retained Earnings (Loss) | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity | Noncontrolling Interest | Totaling Equity |
|--|--------------------------------|--------------------------------|--------------------------------|-----------------|--------------------------------------|--------------------------------|---|----------------------------------|----------------------------|--------------------|
| Balances at December 31, 2015 | \$287,500 | \$287,500 | \$— | \$1,412 | \$3,049,198 | \$(263,124) | \$(20,352) | \$3,342,134 | \$259 | \$3,342,393 |
| Net earnings | — | — | — | — | — | 239,500 | — | 239,500 | 6 | 239,506 |
| Dividends declared and paid: \$1.65625 per depository share of Series D preferred stock | — | — | — | — | — | (19,047) | — | (19,047) | — | (19,047) |
| \$1.42500 per depository share of Series E preferred stock | — | — | — | — | — | (16,387) | — | (16,387) | — | (16,387) |
| \$0.231111 per depository share of Series F preferred stock | — | — | — | — | — | (3,189) | — | (3,189) | — | (3,189) |
| \$1.78 per share of common stock | — | — | — | 2 | 7,949 | (257,007) | — | (249,056) | — | (249,056) |
| Issuance of 13,800,000 depository shares of Series F preferred stock | — | — | 345,000 | — | (10,897) | — | — | 334,103 | — | 334,103 |
| Issuance of common stock: 31,807 shares | — | — | — | — | 1,148 | — | — | 1,148 | — | 1,148 |
| 8,444 shares – stock purchase plan | — | — | — | — | 389 | — | — | 389 | — | 389 |
| 5,716,222 shares – ATM equity program | — | — | — | 57 | 269,905 | — | — | 269,962 | — | 269,962 |
| Issuance of 222,157 shares of restricted common stock | — | — | — | 2 | (264) | — | — | (262) | — | (262) |
| Stock issuance costs | — | — | — | — | (4,266) | — | — | (4,266) | — | (4,266) |

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| | | | | | | | | | | |
|--|-----------|-----------|-----------|---------|-------------|-------------|----------|---------------|-------|------------|
| Amortization of deferred compensation | — | — | — | — | 9,609 | — | — | 9,609 | — | 9,609 |
| Amortization of interest rate hedges | — | — | — | — | — | — | 2,802 | 2,802 | — | 2,802 |
| Fair value forward starting swaps | — | — | — | — | — | — | 13,345 | 13,345 | — | 13,345 |
| Unrealized loss – commercial mortgage residual interests | — | — | — | — | — | — | (182 |) (182 |) — | (182 |
| Realized gain – commercial mortgage residual interests | — | — | — | — | — | — | (4,272 |) (4,272 |) — | (4,272 |
| Valuation adjustments – available-for-sale securities | — | — | — | — | — | — | 468 | 468 | — | 468 |
| Distributions to noncontrolling interests | — | — | — | — | — | — | — | — | (136 |) (136 |
| Balances at December 31, 2016 | \$287,500 | \$287,500 | \$345,000 | \$1,473 | \$3,322,771 | \$(319,254) | \$(8,191 |) \$3,916,799 | \$129 | \$3,916,92 |

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, | | |
|--|-------------------------|-----------|-----------|
| | 2016 | 2015 | 2014 |
| Cash flows from operating activities: | | | |
| Earnings including noncontrolling interests | \$239,506 | \$197,961 | \$191,170 |
| Adjustments to reconcile earnings including noncontrolling interests to net cash provided by operating activities: | | | |
| Depreciation and amortization | 149,101 | 134,798 | 116,165 |
| Impairment losses – real estate and other charges, net of recoveries | 11,294 | 4,420 | 823 |
| Impairment – commercial mortgage residual interests valuation | 6,830 | 531 | 256 |
| Amortization of notes payable discount | 1,394 | 1,306 | 1,238 |
| Amortization of debt costs | 3,086 | 2,915 | 2,782 |
| Amortization of mortgages payable premium | (147) | (207) | (93) |
| Amortization of deferred interest rate hedges | 2,802 | 1,902 | 1,129 |
| Settlement of forward starting swaps | 13,345 | (13,369) | (6,312) |
| Gain on disposition of real estate | (27,182) | (10,807) | (11,742) |
| Deferred income taxes | — | 10,488 | 58 |
| Performance incentive plan expense | 11,401 | 10,474 | 9,841 |
| Performance incentive plan payment | (581) | (676) | (2,808) |
| Change in operating assets and liabilities, net of assets acquired and liabilities assumed in business combinations: | | | |
| Decrease in real estate leased to others using the direct financing method | 1,364 | 1,277 | 1,368 |
| Decrease in mortgages, notes and accrued interest receivable | 26 | 74 | 76 |
| Decrease (increase) in receivables | (74) | (335) | 16 |
| Increase in accrued rental income | (252) | (368) | (1,731) |
| Decrease (increase) in other assets | 1,663 | 4,996 | (2,256) |
| Increase (decrease) in accrued interest payable | (448) | 2,717 | 254 |
| Increase (decrease) in other liabilities | 2,636 | (6,610) | (4,746) |
| Other | (427) | (392) | 1,245 |
| Net cash provided by operating activities | 415,337 | 341,095 | 296,733 |
| Cash flows from investing activities: | | | |
| Proceeds from the disposition of real estate | 104,117 | 38,502 | 58,853 |
| Additions to real estate: | | | |
| Accounted for using the operating method | (885,966) | (683,243) | (602,780) |
| Increase in mortgages and notes receivable | — | — | (7,246) |
| Principal payments on mortgages and notes receivable | 4,141 | 2,363 | 13,346 |
| Other | (2,235) | (2,166) | (3,731) |
| Net cash used in investing activities | (779,943) | (644,544) | (541,558) |

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS – CONTINUED

(dollars in thousands)

| | Year Ended December 31, | | |
|---|-------------------------|--------------|------------|
| | 2016 | 2015 | 2014 |
| Cash flows from financing activities: | | | |
| Proceeds from line of credit payable | \$1,330,200 | \$1,262,400 | \$678,500 |
| Repayment of line of credit payable | (1,330,200) | (1,262,400) | (724,900) |
| Repayment of mortgages payable | (9,962) | (2,035) | (1,151) |
| Proceeds from notes payable | 346,140 | 399,036 | 349,293 |
| Repayment of notes payable | — | (150,000) | (150,000) |
| Payment of debt costs | (3,362) | (3,654) | (6,321) |
| Proceeds from issuance of common stock | 278,040 | 332,117 | 360,072 |
| Proceeds from issuance of Series F preferred stock | 345,000 | — | — |
| Stock issuance costs | (15,204) | (4,198) | (10,726) |
| Payment of Series D Preferred Stock dividends | (19,047) | (19,047) | (19,047) |
| Payment of Series E Preferred Stock dividends | (16,387) | (16,387) | (16,387) |
| Payment of Series F Preferred Stock dividends | (3,189) | — | — |
| Payment of common stock dividends | (257,007) | (228,699) | (204,157) |
| Noncontrolling interest contributions | — | 334 | — |
| Noncontrolling interest distributions | (136) | (362) | (1,232) |
| Net cash provided by financing activities | 644,886 | 307,105 | 253,944 |
| Net increase in cash, cash equivalents and restricted cash | 280,280 | 3,656 | 9,119 |
| Cash, cash equivalents and restricted cash at beginning of year ⁽¹⁾ | 14,260 | 10,604 | 1,485 |
| Cash, cash equivalents and restricted cash at end of year ⁽¹⁾ | \$294,540 | \$14,260 | \$10,604 |
| Supplemental disclosure of cash flow information: | | | |
| Interest paid, net of amount capitalized | \$91,403 | \$83,758 | \$81,829 |
| Taxes paid (received) | \$(155) | \$234 | \$59 |
| Supplemental disclosure of noncash investing and financing activities: | | | |
| Issued 285,573, 285,263 and 386,433 shares of restricted and unrestricted common stock in 2016, 2015 and 2014, respectively, pursuant to NNN's performance incentive plan | \$11,337 | \$8,990 | \$10,884 |
| Surrender of 1,520 shares of restricted common stock in 2016 | \$59 | \$— | \$— |
| Change in other comprehensive income | \$12,161 | \$11,694 | \$4,153 |
| Change in lease classification (direct financing lease to operating lease) | \$1,924 | \$1,179 | \$— |
| Mortgages payable assumed in connection with real estate transactions | \$— | \$— | \$17,254 |
| Mortgage receivable accepted in connection with real estate transactions | \$— | \$500 | \$62 |
| Note receivable accepted in connection with real estate transactions | \$— | \$— | \$70 |

Cash, cash equivalents and restricted cash at the end of the year is the aggregate of Cash and cash equivalents and

⁽¹⁾ Restricted cash and cash held in escrow from the Consolidated Balance Sheets. NNN had restricted cash and cash held in escrow of \$601 at December 31, 2015. NNN did not have restricted cash or cash held in escrow at December 31, 2016 and 2014.

See accompanying notes to consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.
and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2016, 2015 and 2014

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." 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").

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

| | December 31, 2016 |
|---|----------------------|
| Property Portfolio: | |
| Total properties | 2,535 |
| Gross leasable area (square feet) | 27,204,000 |
| States | 48 |
| Weighted average remaining lease term (years) | 11.6 |

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 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, 2016, 2015 and 2014, NNN recorded \$1,738,000, \$2,383,000 and \$1,629,000, 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, as applicable, based on their respective fair values. Acquisition costs

incurred in connection with a business combination are expensed when incurred.

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

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

amounts to be paid pursuant to the in-place leases, and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining term of the lease and the applicable option terms if it is probable that the tenant will

exercise options. 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 in that period. 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):

| | 2016 | 2015 |
|---|---------|----------|
| Intangible lease assets (included in Other assets): | | |
| Value of above market in-place leases, net | \$9,591 | \$10,883 |
| Value of in-place leases, net | 55,290 | 61,359 |
| Intangible lease liabilities (included in Other liabilities): | | |
| Value of below market in-place leases, net | 22,100 | 25,767 |

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 and undiscounted cash flows, 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 Receivable – The reserve allowance related to the mortgages, notes and accrued interest receivable is NNN’s best estimate of the amount of probable credit losses. The reserve allowance is determined

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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.

Restricted Cash and Cash Held in Escrow – Restricted cash and cash held in escrow include (i) cash proceeds from the sale of assets held by qualified intermediaries in anticipation of the acquisition of replacement properties in tax-free exchanges under Section 1031 of the Internal Revenue Code, (ii) cash that has been placed in escrow for the future funding of construction commitments, or (iii) cash that is not immediately available to NNN.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. NNN has elected early adoption of ASU 2016-18. The adoption of ASU 2016-18 did not impact NNN's financial position or results of operations.

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 – 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 to interest expense over the term of the loan commitment using the straight-line method, which approximates the effective interest method. 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. These costs of \$147,000 and \$226,000 at December 31, 2016 and 2015, respectively, are included in Mortgages Payable on the Consolidated Balance Sheets net of accumulated amortization of \$38,000 and \$93,000, 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. These costs of \$21,157,000 and \$17,782,000 at December 31, 2016 and 2015, respectively, are included in Notes Payable on the Consolidated Balance Sheets net of accumulated amortization of \$6,376,000 and \$4,704,000, 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.

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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):

| | 2016 | 2015 | 2014 |
|---|------------|------------|------------|
| Basic and Diluted Earnings: | | | |
| Net earnings attributable to NNN | \$ 239,500 | \$ 197,836 | \$ 190,601 |
| Less: Series D preferred stock dividends | (19,047) | (19,047) | (19,047) |
| Less: Series E preferred stock dividends | (16,387) | (16,387) | (16,387) |
| Less: Series F preferred stock dividends | (3,189) | — | — |
| Net earnings attributable to common stockholders | 200,877 | 162,402 | 155,167 |
| Less: Earnings attributable to unvested restricted shares | (695) | (706) | (773) |
| Net earnings used in basic and diluted earnings per share | \$ 200,182 | \$ 161,696 | \$ 154,394 |

Basic and Diluted Weighted Average Shares Outstanding:

| | | | |
|--|-------------|-------------|-------------|
| Weighted average number of shares outstanding | 145,014,422 | 134,868,640 | 125,221,358 |
| Less: Unvested restricted shares | (390,522) | (412,505) | (467,968) |
| Less: Unvested contingent restricted shares | (447,676) | (457,461) | (495,832) |
| Weighted average number of shares outstanding used in basic earnings per share | 144,176,224 | 133,998,674 | 124,257,558 |
| Effects of dilutive securities: | | | |
| Other | 484,409 | 490,742 | 452,668 |
| Weighted average number of shares outstanding used in diluted earnings per share | 144,660,633 | 134,489,416 | 124,710,226 |

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, 2016, 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 11). 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 wholly owned qualified REIT 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

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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 (loss) (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, 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) |
| Other comprehensive income (loss) | 13,345 | (182) | 468 | 13,631 |
| Reclassifications from accumulated other comprehensive income to net earnings | 2,802 | ⁽³⁾ (4,272) | ⁽⁴⁾ — | (1,470) |
| Net current period other comprehensive income (loss) | 16,147 | (4,454) | 468 | 12,161 |
| Ending balance, December 31, 2016 | \$(8,899) | \$ — | \$ 708 | \$(8,191) |

⁽¹⁾ Additional disclosure is included in Note 12 – Derivatives.

⁽²⁾ Additional disclosure is included in Note 17 – Fair Value Measurements.

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

New Accounting Pronouncements – In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606). 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. In March 2016, the FASB issued updated guidance. ASU 2016-08, "Revenue from Contracts with customers (Topic 606) - Principal versus Agent Considerations (Reporting Gross Versus Net)," clarifies the implementation guidance on principal versus agent considerations included within the scope of ASU 2014-09. The guidance permits two methods of adoption: full retrospectively to each prior reporting period presented, or modified retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up

transition method). The guidance was initially effective January 1, 2017 and early adoption was not permitted. The amended guidance provides for a one-year deferral of the effective date to January 1, 2018, with an option of applying the standard on the original effective date. NNN will adopt the guidance on January 1, 2018 and apply the cumulative catch-up transition method. NNN is currently evaluating to determine the potential impact the adoption of ASU 2014-09 and ASU 2016-08 will have on its financial position and results of operations.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities," effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The amendments in this update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The adoption of ASU 2016-01 will not have an impact on NNN's financial position or results of operations.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The FASB issued final guidance that requires lessees to put most leases on their balance sheets but recognize expenses in the income statement in a manner similar to today's accounting. The guidance also eliminates today's real estate-specific provisions and changes the guidance on sale-leaseback transactions, initial direct costs and lease executory costs for all entities. For lessors, the standard modifies the classification criteria and the accounting for sales-type and direct financing leases. NNN is currently evaluating to determine the potential impact the adoption of ASU 2016-02 will have on NNN's financial position or results of operations.

In March 2016, the FASB issued ASU 2016-06, "Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments." The update is effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The update clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. The adoption of ASU 2016-06 will not have an impact on NNN's financial position or results of operations.

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718)," effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The areas for simplification in this update involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The adoption of ASU 2016-09 will not have an impact on NNN's financial position or results of operations.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The adoption of ASU 2016-13 will not have an impact on NNN's financial position or results of operations.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The amendments in this update provide guidance on certain cash flow classification issues. The objective of the amendment is to reduce existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230. NNN is currently evaluating to determine the potential impact, if any, the adoption of ASU 2016-15 will have on the presentation of NNN's condensed consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business," effective for fiscal years beginning after December 15, 2017, including interim periods within those periods. The amendments in this update provide a screen to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. NNN is currently evaluating to determine the potential impact the adoption of ASU 2017-01 will have 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 2016 presentation.

Note 2 – Real Estate:

Real Estate – Portfolio

Leases – The following outlines key information for NNN's leases at December 31, 2016:

Lease classification:

| | |
|--|-------|
| Operating | 2,566 |
| Direct financing | 9 |
| Building portion – direct financing/land portion – operating | 2 |
| Weighted average remaining lease term (years) | 11.6 |

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):

| | 2016 | 2015 |
|--|-------------|-------------|
| Land and improvements | \$2,102,915 | \$1,909,569 |
| Buildings and improvements | 4,489,248 | 3,876,986 |
| Leasehold interests | 4,565 | 1,290 |
| | 6,596,728 | 5,787,845 |
| Less accumulated depreciation and amortization | (739,505) | (617,786) |
| | 5,857,223 | 5,170,059 |
| Work in progress | 24,057 | 61,354 |
| | \$5,881,280 | \$5,231,413 |

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, 2016, 2015 and 2014, NNN recognized (\$12,000), \$153,000 and \$1,521,000, respectively, of such income, net of reserves. At December 31, 2016 and 2015, the balance of accrued rental income was \$25,101,000 and \$25,529,000, respectively, net of \$3,078,000 allowance.

The following is a schedule of future minimum lease payments to be received on noncancellable operating leases at December 31, 2016 (dollars in thousands):

| | |
|------------|-------------|
| 2017 | \$535,048 |
| 2018 | 522,708 |
| 2019 | 508,143 |
| 2020 | 490,805 |
| 2021 | 470,388 |
| Thereafter | 3,721,409 |
| | \$6,248,501 |

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):

| | 2016 | 2015 |
|---|----------|----------|
| Minimum lease payments to be received | \$11,200 | \$13,900 |
| Estimated unguaranteed residual values | 5,664 | 7,589 |
| Less unearned income | (5,634) | (6,971) |
| Net investment in direct financing leases | \$11,230 | \$14,518 |

The following is a schedule of future minimum lease payments to be received on direct financing leases held for investment at December 31, 2016 (dollars in thousands):

| | |
|------------|----------|
| 2017 | \$1,862 |
| 2018 | 1,834 |
| 2019 | 1,512 |
| 2020 | 1,043 |
| 2021 | 719 |
| Thereafter | 4,230 |
| | \$11,200 |

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, 2016, NNN had 16 of its Properties categorized as held for sale. NNN's real estate held for sale at December 31, 2015, included 21 properties, five of which were sold in 2016. Real estate held for sale consisted of the following as of December 31 (dollars in thousands):

| | 2016 | 2015 |
|--|----------|----------|
| Land and improvements | \$14,114 | \$23,024 |
| Building and improvements | 15,446 | 43,327 |
| | 29,560 | 66,351 |
| Less accumulated depreciation and amortization | (2,962) | (6,821) |
| Less impairment | (2,748) | (2,003) |
| | \$23,850 | \$57,527 |

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):

| | 2016 | | 2015 | | 2014 | |
|--|----------------------|----------|----------------------|----------|----------------------|----------|
| | # of Sold Properties | Gain | # of Sold Properties | Gain | # of Sold Properties | Gain |
| Gain on disposition of real estate | 38 | \$27,182 | 19 | \$10,807 | (1) 25 | \$11,587 |
| Income tax expense | | — | | (357) | | (318) |
| | | 27,182 | | 10,450 | | 11,269 |
| Gain on disposition of real estate included in discontinued operations | — | — | — | — | 2 | 155 (1) |
| Income tax expense | | — | | — | | — |
| | | \$27,182 | | \$10,450 | | \$11,424 |

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

Real Estate – Commitments

NNN has committed to fund construction commitments on 21 Properties. The improvements are estimated to be completed within 12 months. These construction commitments, at December 31, 2016, are outlined in the table below (dollars in thousands):

| | |
|---------------------------------|-----------|
| Total commitment ⁽¹⁾ | \$114,206 |
| Amount funded | \$54,782 |
| Remaining commitment | \$59,424 |

(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):

| | 2016 | 2015 | 2014 |
|-------------------------|---------|---------|-------|
| Continuing operations | \$8,025 | \$3,970 | \$760 |
| Discontinued operations | — | — | 63 |
| | \$8,025 | \$3,970 | \$823 |

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:

As of December 31, 2015, NNN held the commercial mortgage residual interests (“Residuals”) from seven loan securitizations. In 2016, the loan servicer of five of the securitizations exercised its clean-up call option. These clean-up calls allowed the servicers to purchase all of the trusts’ assets, thereby terminating future cash distributions payable to NNN as the holder of these residual interests. During the years ended December 31 2016, 2015 and 2014, NNN recorded an other than temporary valuation impairment as a reduction of earnings from operations. The other than temporary valuation impairment recorded during the year ended December 31, 2016 related to the execution of the clean-up call option on the five securitizations, as well as the fair value adjustment on the remaining two securitizations.

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 (dollars in thousands):

| | 2016 | 2015 | 2014 |
|---|---------|---------|-------|
| Unrealized gains (losses), net | \$(182) | \$(585) | \$875 |
| Other than temporary valuation impairment | 6,830 | 531 | 256 |

As of December 31, 2016, the remaining two Residuals are recorded at fair value. Certain valuation assumptions are made based on the expected timing of future cash flows relating to the Residuals. The following table summarizes the key assumptions used in determining the value of the Residuals as of December 31 (dollars in thousands):

| | 2016 | | 2015 | |
|---|------------------------|---|------------------------|---|
| Discount rate | 20 | % | 20 | % |
| Average life equivalent CPR ⁽¹⁾ speeds range | 0.87% to 21.56% CPR | | 0.87% to 21.73% CPR | |
| Foreclosures: | | | | |
| Frequency curve default model | 0% - 1.33% range | | 0.72% - 1.57% range | |
| Loss severity of loans in foreclosure | 20 | % | 20 | % |
| Yield: | | | | |
| LIBOR | Forward 3-month curve | | Forward 3-month curve | |
| Prime | Forward curve | | Forward curve | |
| Fair value at December 31 | \$ 36 | | \$ 11,115 | |

(1) Conditional prepayment rate

Note 4 – Line of Credit Payable:

NNN's \$650,000,000 unsecured revolving credit facility (the “Credit Facility”) had a weighted average outstanding balance of \$70,139,000 and a weighted average interest rate of 1.4% for the year ended December 31, 2016. The Credit Facility matures January 2019, with an option to extend maturity to January 2020. As of December 31, 2016, 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, 2016, there was no outstanding balance and \$650,000,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$230,000.

In accordance with the terms of the Credit Facility, NNN is required to meet certain restrictive financial covenants which, among other things, require NNN to maintain certain (i) leverage ratios, (ii) debt service coverage, (iii) cash flow coverage and (iv) investment and dividend limitations. At December 31, 2016, 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, | |
|--|-----------------|---------------|-------------------------|--|---|----------|
| | | | | | 2016 | 2015 |
| February 2004 ⁽⁶⁾ | \$ 6,952 | 6.90% | January 2017 | \$ — | \$— | \$848 |
| June 2012 ⁽⁴⁾⁽⁵⁾ | 6,850 | 5.75% | April 2016 | — | — | 5,890 |
| September 2014 ⁽⁴⁾⁽⁷⁾ | 2,957 | 6.40% | February 2017 | — | — | 2,804 |
| November 2014 ⁽⁴⁾ | 15,151 | 5.23% | July 2023 | 21,403 | 13,987 | 14,555 |
| | | | | \$ 21,403 | 13,987 | 24,097 |
| Debt costs | | | | | (147) | (226) |
| Accumulated amortization | | | | | 38 | 93 |
| Debt costs, net of accumulated amortization | | | | | (109) | (133) |
| Mortgages payable, including unamortized premium and net of unamortized debt costs | | | | | \$13,878 | \$23,964 |

(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, 2016.

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

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

(6) NNN repaid the outstanding principal balance in March 2016.

(7) NNN repaid the outstanding principal balance in October 2016.

The following is a schedule of the scheduled principal payments, including premium amortization of NNN's mortgages payable at December 31, 2016 (dollars in thousands):

| | |
|------------|----------|
| 2017 | \$596 |
| 2018 | 623 |
| 2019 | 652 |
| 2020 | 682 |
| 2021 | 716 |
| Thereafter | 10,718 |
| | \$13,987 |

Note 6 – 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 |
| 2026 ⁽⁸⁾ | December 2016 | 350,000 | 3,860 | 346,140 | 3.600% | 3.733% | December 2026 |

(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 at issuance.

(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 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 notes 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 notes 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 notes 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 notes using the effective interest method.

(8) NNN entered into two forward starting swaps with an aggregate notional amount of \$180,000. Upon issuance of the 2026 Notes, NNN terminated the forward starting swaps resulting in a gain of \$13,345, which was deferred in other comprehensive income. The deferred asset is being amortized over the term of the notes 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 \$21,157,000 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 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, 2016, NNN was in compliance with those covenants.

Note 7 – 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 |
| Series F | 5.200 % | October 2016 | 13,800,000 | 345,000 | 10,897 | 1.300000 | October 2021 |

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

Representing 1/100th of a preferred share. Series D and E issuances each included 1,500,000 depository shares in connection with the underwriters' over-allotment. Series F issuance included 1,800,000 depository shares in connection with the underwriters' over-allotment.

(2) 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 13, 2017, the Series E and Series F Preferred Stock Shares were not redeemable or convertible.

In January 2017, NNN announced the redemption of all outstanding depository shares representing interests in its 6.625% Series D Preferred Stock. The depository shares will be redeemed on February 23, 2017 at \$25.00 per depository share, plus all accrued and unpaid dividends through the redemption date, for an aggregate redemption price of \$25.3128472 per depository share. After the redemption date, dividends on the depository shares representing interests in the Series D Preferred Stock will cease to accrue.

Note 8 – 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):

| | 2016 | 2015 | 2014 |
|------------------------|----------|----------|-----------|
| Shares of common stock | 187,626 | 196,584 | 422,406 |
| Net proceeds | \$ 8,340 | \$ 7,182 | \$ 14,817 |

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:

| | 2016 ATM | 2015 ATM | 2013 ATM |
|---|------------|---------------|---------------|
| Established date | March 2016 | February 2015 | March 2013 |
| Termination date | March 2019 | March 2016 | February 2015 |
| Total allowable shares | 12,000,000 | 10,000,000 | 9,000,000 |
| Total shares issued as of December 31, 2016 | 4,223,290 | 9,852,465 | 6,252,812 |

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, | | |
|-------------------------------------|-------------------------|-----------|-----------|
| | 2016 | 2015 | 2014 |
| Shares of common stock | 5,716,222 | 8,573,533 | 3,758,362 |
| Average price per share (net) | \$46.48 | \$37.45 | \$35.90 |
| Net proceeds | \$265,696 | \$321,067 | \$134,919 |
| Stock issuance costs ⁽¹⁾ | \$4,266 | \$4,016 | \$2,195 |

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

Note 9 – 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, 2016, 2015 and 2014 totaled \$491,000, \$474,000 and \$453,000, respectively.

Note 10 – Dividends:

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

| | 2016 | 2015 | 2014 |
|--------------------------------|------------|------------|------------|
| Ordinary dividends | \$1.513705 | \$1.363294 | \$1.306992 |
| Qualified dividends | — | 0.019005 | 0.006212 |
| Capital gain | — | 0.007806 | 0.008603 |
| Unrecaptured Section 1250 Gain | — | 0.011055 | 0.015362 |
| Nontaxable distributions | 0.266295 | 0.308840 | 0.312831 |
| | \$1.780000 | \$1.710000 | \$1.650000 |

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):

| | 2016 | 2015 | 2014 |
|-----------|-----------|-----------|-----------|
| Dividends | \$257,007 | \$228,699 | \$204,157 |
| Per share | 1.780 | 1.710 | 1.650 |

On January 17, 2017, NNN declared a dividend of \$0.455 per share, payable February 15, 2017 to its common stockholders of record as of January 31, 2017.

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

| | Series F ⁽³⁾ | | Series E ⁽²⁾ | | Series D ⁽¹⁾ | | |
|--------------------------------|-------------------------|------------|-------------------------|------------|-------------------------|------------|------------|
| | 2016 | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 |
| Ordinary dividends | \$0.231111 | \$1.425000 | \$1.385670 | \$1.393700 | \$1.656250 | \$1.610538 | \$1.619870 |
| Qualified dividends | — | — | 0.020141 | 0.005738 | — | 0.023409 | 0.006670 |
| Capital gain | — | — | 0.007937 | 0.009177 | — | 0.009225 | 0.010666 |
| Unrecaptured Section 1250 Gain | — | — | 0.011252 | 0.016385 | — | 0.013078 | 0.019044 |
| Dividend paid per share | \$0.231111 | \$1.425000 | \$1.425000 | \$1.425000 | \$1.656250 | \$1.656250 | \$1.656250 |
| Dividends declared and paid | \$3,189 | \$16,387 | \$16,387 | \$16,387 | \$19,047 | \$19,047 | \$19,047 |

⁽¹⁾ In January 2017, NNN called for redemption of all outstanding shares of its Series D Preferred Stock represented by depositary shares, each representing a 1/100th interest in a Series D Preferred Stock share. The depositary shares will be redeemed on February 23, 2017.

⁽²⁾ The Series E Preferred Stock has no maturity date and will remain outstanding unless redeemed by NNN. The earliest redemption date for the Series E Preferred Stock is May 2018.

⁽³⁾ The Series F Preferred Stock was issued October 11, 2016 and has no maturity date and will remain outstanding unless redeemed by NNN. The earliest redemption date for the Series F preferred stock is October 2021.

Note 11 – Income Taxes:

For income tax purposes, NNN had taxable REIT subsidiaries in which certain real estate activities were 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, 2016, 2015 and 2014, and the statutory rates relate to state taxes and nondeductible expenses.

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):

| | 2016 | 2015 |
|---------------------------------|---------|---------|
| Deferred tax assets: | | |
| Capital loss carryforward | \$ 830 | \$ 880 |
| Net operating loss carryforward | 5,088 | 4,983 |
| | 5,918 | 5,863 |
| Valuation allowance | (5,743) | (5,666) |
| Total deferred tax assets | 175 | 197 |
| Deferred tax liabilities: | | |
| Built-in gain | (175) | (197) |
| Total deferred tax liabilities | (175) | (197) |
| Net deferred tax asset | \$— | \$— |

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

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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, 2016 and 2015.

The increase in the valuation allowance for the years ended December 31, 2016, 2015 and 2014 was \$77,000, \$5,047,000 and \$619,000, respectively.

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

| | 2016 | 2015 | 2014 |
|---|-----------|-----------|-----------|
| Net earnings before income taxes | \$239,500 | \$208,511 | \$190,844 |
| Provision for income tax benefit (expense): | | | |
| Current: | | | |
| Federal | — | (58) | (190) |
| State and local | — | (129) | 5 |
| Deferred: | | | |
| Federal | — | (8,935) | (166) |
| State and local | — | (1,553) | 108 |
| Total expense for income taxes | — | (10,675) | (243) |
| Net earnings attributable to NNN's stockholders | \$239,500 | \$197,836 | \$190,601 |

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):

| | 2016 | 2015 | 2014 |
|---|------|------------|------------|
| Federal expense at statutory tax rate | \$ — | \$(70,894) | \$(64,887) |
| Nontaxable income of NNN | — | 69,651 | 63,353 |
| State taxes, net of federal benefit | — | (141) | (196) |
| Amortization of built-in gain tax | — | — | 372 |
| Expiration of built-in gain tax | — | 316 | 1,792 |
| Other | 55 | — | (58) |
| Built-in gain tax liability ⁽¹⁾ | 22 | (197) | — |
| TRS Revocation Election ⁽¹⁾ | — | (4,363) | — |
| Valuation allowance increase ⁽¹⁾ | (77) | (5,047) | (619) |
| Total tax expense | \$ — | \$(10,675) | \$(243) |

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

FASB 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. FASB 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 unrecognized tax benefits during any of the years presented. 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 2013 through 2016. NNN also files in many states with varying open years under statute.

Note 12 – 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 are used to hedge the variable cash flows associated with floating rate debt and involve the receipt or payment 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 recognizes any changes in its fair value in earnings and continues to carry the derivative on the balance sheet or may choose to settle the derivative at that time with a cash payment or receipt.

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 | Notional Amount | Liability | Fair Value |
|----------------|------------------------------|-----------------|-------------------------------|--|
| | | | (Asset) Value When Terminated | Fair Deferred In Other Comprehensive Income ⁽¹⁾ |
| September 2007 | Two treasury locks | \$ 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 |
| December 2016 | Two forward starting swaps | 180,000 | (13,352) | (13,345) |

⁽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, 2016, \$8,899,000 remains in other comprehensive income related to the effective portion of NNN's previous interest rate hedges. During the years ended December 31, 2016, 2015 and 2014, NNN reclassified \$2,802,000, \$1,902,000 and \$1,129,000 out of other comprehensive income as an increase to interest expense. Over the next 12 months, NNN estimates that an additional \$1,746,000 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, 2016.

Note 13 – 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, 2016.

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, 2016:

| | Number of Shares | Weighted Average Share Price |
|---|------------------------|------------------------------------|
| Non-vested restricted shares, January 1 | 896,667 | \$ 35.13 |
| Restricted shares granted | 269,448 | 44.70 |
| Restricted shares vested | (247,106) | 33.33 |
| Restricted shares forfeited | (38,138) | 33.93 |
| Restricted shares repurchased | (9,153) | 28.94 |
| Non-vested restricted shares, December 31 | 871,718 | \$ 38.88 |

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 annually. NNN recognizes compensation expense on a straight-line basis for awards with only service conditions.

During the years ended December 31, 2016 and 2015, NNN granted 142,199 and 145,916, respectively, performance based shares subject to its total stockholder 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 \$44.70 and \$41.00, respectively, per share. Once the performance criteria are met and the actual number of shares earned is determined, the shares vest immediately. For the 2016 and 2015 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 \$34.60 and \$22.72, 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, 2016, pursuant to the 2007 Plan.

| | Shares | Weighted Average Share Price |
|---|-----------|------------------------------------|
| Other share grants under the 2007 Plan: | | |
| Directors’ fees | 16,125 | \$ 45.27 |
| Deferred directors’ fees | 17,565 | 45.60 |
| | 33,690 | \$ 45.44 |
| Shares available under the 2007 Plan for grant, end of period | 3,088,970 | |

The total compensation expense for share-based payments for the years ended December 31, 2016, 2015 and 2014 totaled \$10,758,000, \$9,671,000 and \$9,224,000, respectively. At December 31, 2016, NNN had \$13,398,000 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 2.4 years. In addition, NNN recognized no performance based long-term incentive cash compensation expense for the years ended December 31, 2016, 2015 and 2014.

Note 14 – 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 mortgages and notes receivable and mortgages payable at December 31, 2016 and 2015, approximate fair value based upon current market prices of comparable instruments (Level 3). At December 31, 2016 and 2015, the carrying value and fair value of NNN's notes payable net of unamortized discount and excluding debt costs, was \$2,367,102,000 and \$2,007,242,000, respectively, based upon quoted market prices, which is a Level 1 valuation since NNN's debt is publicly traded.

Note 15 – Quarterly Financial Data (unaudited):

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

| 2016 | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|------------------|-------------------|------------------|-------------------|
| Revenues as originally reported | \$126,999 | \$130,998 | \$134,558 | \$141,261 |
| Net earnings attributable to NNN's stockholders | \$70,683 | \$51,942 | \$50,784 | \$66,092 |
| Net earnings per share ⁽¹⁾ : | | | | |
| Basic | \$0.44 | \$0.30 | \$0.29 | \$0.37 |
| Diluted | 0.44 | 0.30 | 0.28 | 0.37 |
| 2015 | | | | |
| 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 |

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

Note 16 – Segment Information:

For the years ended December 31, 2016, 2015 and 2014, 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 17 – Fair Value Measurements:

As of December 31, 2016, NNN holds the Residuals from two loan securitizations. Each of the Residuals is recorded at estimated fair value. Unrealized gains and losses are reported as other comprehensive income in stockholders' equity and other than temporary losses as a result of a change in the timing or amount of estimated cash flows are recorded as an other than temporary valuation impairment.

NNN values its Residuals using 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, 2016 (dollars in thousands):

| | |
|---|----------|
| Balance at beginning of year | \$11,115 |
| Total gains (losses) – realized/unrealized: | |
| Included in earnings | (6,983) |
| Included in other comprehensive income | (4,454) |
| Interest income on Residuals | 1,677 |
| Cash received from Residuals | (1,319) |
| Purchases, sales, issuances and settlements, net | — |
| Transfers in and/or out of Level 3 | — |
| Balance at end of year | \$36 |
| 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 | \$4,272 |

Note 18 – Major Tenants:

As of December 31, 2016, NNN had no tenants that accounted for ten percent or more of its rental and earned income.

Note 19 – 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 to NNN's consolidated financial statements.

Note 20 – Subsequent Events:

NNN reviewed all subsequent events and transactions that have occurred after December 31, 2016, the date of the consolidated balance sheet.

In January 2017, NNN announced the redemption of all outstanding depositary shares representing interests in its 6.625% Series D Preferred Stock. The depositary shares will be redeemed on February 23, 2017 at \$25.00 per depositary share, plus all accrued and unpaid dividends through the redemption date, for an aggregate redemption price of \$25.3128472 per depositary share. NNN will record a preferred stock redemption charge of \$9,855,000, which is the excess carrying amount of preferred stock to be redeemed over the cash to be paid to redeem the Series D Preferred Stock. After the redemption date, dividends on the depositary shares representing interests in the Series D Preferred Stock will cease to accrue.

In February 2017, the Company entered into one forward starting swap with a total notional amount of \$125,000,000 to hedge the risk of changes in the interest-related cash outflows associated with the potential issuance of long-term debt. The outstanding forward starting swap was designated as a cash flow hedge.

There were no other 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 Financial Reporting.

NNN carried out an assessment as of December 31, 2016, 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, Chief Financial Officer and Chief Accounting Officer. Rules adopted by the Securities and Exchange Commission (the "Commission") require NNN to present the conclusions of the Chief Executive Officer, Chief Financial Officer and Chief Accounting 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, Chief Financial Officer and Chief Accounting 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, Chief Financial Officer and Chief Accounting 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, Chief Financial Officer and Chief Accounting Officer of NNN's disclosure controls and procedures and the assessment by NNN's management, including NNN's Chief Executive Officer, Chief Financial Officer and Chief Accounting 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, Chief Financial Officer and Chief Accounting Officer have concluded that, as of December 31, 2016, NNN's disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting.

Management, including NNN's Chief Executive Officer, Chief Financial Officer and Chief Accounting 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, 2016, 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 as of December 31, 2016, which appears in this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting.

During the three months ended December 31, 2016, 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, Chief Financial Officer and Chief Accounting 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 – Director Compensation," "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 V: Ratification of Ernst & Young LLP as the 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
- Reports of Independent Registered Public Accounting Firm 38
- Consolidated Balance Sheets as of December 31, 2016 and 2015 40
- Consolidated Statements of Comprehensive Income for the years ended December 31, 2016, 2015 and 2014 41
- Consolidated Statements of Stockholders' Equity for the years ended December 31, 2016, 2015 and 2014 43
- Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014 46

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Accumulated
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and
Amortization
and Notes as of
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2016

Schedule IV –
Mortgage Loans
on Real Estate
and Notes as of
December 31,
2016

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

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

Articles Supplementary Establishing and Fixing the Rights and Preferences of 6.625% Series D Cumulative 3.2 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).

Articles Supplementary Establishing and Fixing the Rights and Preferences of 5.70% Series E Cumulative
3.3 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).

Articles Supplementary Establishing and Fixing the Rights and Preferences of 5.20% Series F Cumulative
3.4 Preferred Stock, par value \$0.01 per share, dated October 7, 2016 (filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-A dated October 11, 2016, incorporated herein by reference).

Third Amended and Restated Bylaws of the Registrant, dated May 1, 2006, as amended (filed as Exhibit 3.4 to
3.5 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).

Second Amendment to the Third Amended and Restated Bylaws of the Registrant, dated December 13, 2007
3.6 (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).

Third Amendment to the Third Amended and Restated Bylaws of the Registrant, dated February 13, 2014
3.7 (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 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).

4.4 Deposit Agreement, among the Registrant, American Stock Transfer & Trust Company, as Depository, 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).

4.5 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).

4.6 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).

4.7 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).

4.8 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).

4.9 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).

4.1 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).

4.11 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).

4.12 Form of 3.300% Notes due 2023 (filed as Exhibit 4.2 to Registrant's Current Report on Form 8-K dated April 15, 2013, filed with the Securities and Exchange Commission on April 15, 2013 and incorporated herein by reference).

4.13 Specimen certificate representing the 5.700% Series E Cumulative Redeemable Preferred Stock, par value \$0.01 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).

4.14 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).

4.15 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).

- 4.16 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).
- 4.17 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).
- 4.18 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).
- 4.19 Specimen certificate representing the 5.20% Series F 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 October 11, 2016 and incorporated herein by reference).
- 4.20 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 October 11, 2016 and incorporated herein by reference).
- 4.21 Form of Fifteenth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 3.60% Notes due 2026 (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K and filed with the Securities and Exchange Commission on December 12, 2016, and incorporated herein by reference).
- 4.22 Form of 3.60% Notes due 2026 (filed as Exhibit 4.2 to Registrant's Current Report on Form 8-K and filed with the Securities and Exchange Commission on December 12, 2016, 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).

Commission on December 3, 2008, and incorporated herein by reference).

Employment Agreement dated as of December 1, 2008, between the Registrant and Paul E. Bayer (filed as 10.6 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).

Employment Agreement dated as of December 1, 2008, between the Registrant and Christopher P. Tessitore 10.7 (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).

Form of Indemnification Agreement (as entered into between the Registrant and each of its directors and 10.8 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).

Amendment to Employment Agreement dated as of November 8, 2010, between the Registrant and Craig 10.9 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).

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).

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).

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).

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).

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).

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).

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).

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