

NATIONAL RETAIL PROPERTIES, INC.  
Form 10-K  
February 22, 2008  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

**FORM 10-K**

*(Mark One)*

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

**For the fiscal year ended December 31, 2007**

OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 001-11290

**NATIONAL RETAIL PROPERTIES, INC.**

*(Exact name of registrant as specified in its charter)*

Maryland  
*(State or other jurisdiction of  
incorporation or organization)*

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

450 South Orange Avenue, Suite 900

Orlando, Florida 32801

*(Address of principal executive offices, including zip code)*

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

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

*Title of each class:*

*Name of exchange on which registered:*

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Common Stock, \$0.01 par value

New York Stock Exchange

7.375% Non-Voting Series C Preferred Stock, \$0.01 par value

New York Stock Exchange

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

None

*(Title of class)*

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

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

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

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

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

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

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

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

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

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***DOCUMENTS INCORPORATED BY REFERENCE:***

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

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**PART I**

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

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

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

**Item 1. Business**

**The Company**

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

*Real Estate Assets*

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

*Mortgages and Notes Receivable*

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

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

### *Investment in Unconsolidated Affiliate*

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

### *Competition*

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

### *Employees*

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

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

## **Business Strategies and Policies**

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

### *Operating Strategies*

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

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

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

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

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

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

### *Investment in Real Estate or Interests in Real Estate*

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

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

the location, visibility and accessibility of the property,

the geographic area and demographic characteristics of the community, as well as the local real estate market, including potential for growth and existing or potential competing properties or retailers,

the size of the property,

the purchase price,

the non-financial terms of the proposed acquisition,

the availability of funds or other consideration for the proposed acquisition and the cost thereof,

the compatibility of the property with NNN's existing portfolio,

the potential for, and current extent of, any environmental problems,

the quality of construction and design and the current physical condition of the property,



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the financial and other characteristics of the existing tenant,

the tenant's business plan, operating history and management team,

the tenant's industry,

the terms of any existing leases, and

the rent to be paid by the tenant.

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

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

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

*Financing Strategy*

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

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

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

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

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

*Strategies and Policy Changes*

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

**Investment Properties**

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

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

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

<sup>(1)</sup> Approximate square feet.

<sup>(2)</sup> Costs vary depending upon size and local demographic factors.

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

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

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

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

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

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

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

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

<sup>(2)</sup> Approximate square feet.

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

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

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

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

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

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

*Mortgages and Notes Receivable*

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

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

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

*Commercial Mortgage Residual Interests*

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

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

*Inventory Assets*

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

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

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

<sup>(1)</sup> Approximate square feet.

<sup>(2)</sup> Costs vary depending upon size and local demographic factors.

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

**Governmental Regulations Affecting Properties**

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

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

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

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

**Item 1A. Risk Factors.**

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

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

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

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

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

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

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

changes in national, regional and local economic conditions and outlook,

decreases in consumer spending and retail sales,

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economic downturns in the areas where NNN's properties are located,

adverse changes in local real estate market conditions, such as an oversupply, reduction in demand or intense competition for tenants,

changes in tenant preferences that reduce the attractiveness of NNN's properties to tenants,

zoning, regulatory restrictions, or change in taxes, and

changes in interest rates or availability of financing.

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

*NNN's real estate investments are illiquid.*

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

*NNN may be subject to known or unknown environmental liabilities.*

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

*Vacant properties or bankrupt tenants could adversely affect NNN.*

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

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

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

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

require NNN to dedicate a substantial portion of its cash flow from operations to payments on its debt, thereby reducing funds available for operations, real estate investments and other appropriate business opportunities that may arise in the future,

increase NNN's vulnerability to general adverse economic and industry conditions,

limit NNN's ability to obtain any additional financing it may need in the future for working capital, debt refinancing, capital expenditures, real estate investments, development or other general corporate purposes,

make it difficult to satisfy NNN's debt service requirements,

limit NNN's ability to pay dividends on its outstanding common and preferred stock,

limit NNN's flexibility in planning for, or reacting to, changes in its business and the factors that affect the profitability of its business, and

limit NNN's flexibility in conducting its business, which may place NNN at a disadvantage compared to competitors with less debt or debt with less restrictive terms.

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

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

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

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

incur or guarantee additional debt,

make certain distributions, investments and other restricted payments, including dividend payments on its outstanding common and preferred stock,

limit the ability of restricted subsidiaries to make payments to NNN,

enter into transactions with certain affiliates,

create certain liens, and

consolidate, merge or sell NNN's assets.

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

relating to the maintenance of the property securing the debt,

restricting its ability to sell, assign or further encumber the properties securing the debt,

restricting its ability to incur additional debt,

restricting its ability to amend or modify existing leases, and

relating to certain prepayment restrictions.

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

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

maintain certain maximum leverage ratios,

maintain certain minimum interest and debt service coverage ratios,

limit dividends declared and paid to NNN's common and preferred stockholders, and

limit investments in certain types of assets.

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

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

general economic and financial market conditions,

level and trend of interest rates,

NNN's financial condition and performance,

market perception of NNN compared to other REITs, and

market perception of REITs compared to other investment sectors.

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

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

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

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

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

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

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

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

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

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

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

**Item 1B. Unresolved Staff Comments.**

None.

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**Item 2. Properties**

Please refer to Item 1. Business.

**Item 3. Legal Proceedings**

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

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

None.

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**PART II**

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

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



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

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

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

	2007		2006	
Ordinary dividends	\$ 1.397402	99.8144%	\$ 1.150780	87.1803%
Qualified dividends	0.000414	0.0296%	-	-
Capital gain	0.002184	0.1560%	0.150261	11.3834%
Unrecaptured Section 1250 Gain	-	-	0.018959	1.4363%
	\$ 1.400000	100.0000%	\$ 1.320000	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 Internal Revenue Code of 1986, as amended, and such other factors as the board of directors deems relevant.

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

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

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## Historical Financial Highlights

(dollars in thousands, except per share data)

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

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

(2) The National Association of Real Estate Investment Trusts (NAREIT) developed FFO as a relative non-GAAP financial measure of performance of a REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined

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under GAAP. FFO is defined by NAREIT and is used by NNN as follows: net earnings (computed in accordance with GAAP) plus depreciation and amortization of assets unique to the real estate industry, excluding gains (or including losses) on the disposition of real estate held for investment, and NNN's share of these items from NNN's unconsolidated partnerships and joint ventures.

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

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

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

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

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

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

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

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

**Overview**

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

As of December 31, 2007, NNN owned 908 Investment Properties, with an aggregate leasable area of 10,610,000 square feet, located in 44 states. Approximately 98 percent of NNN's Investment Portfolio was leased at December 31, 2007. In addition to the Investment Properties, as of December 31, 2007, NNN had \$65,964,000 and \$24,340,000 in mortgages and notes receivable (including accrued interest receivable) and commercial mortgage residual interests, respectively. As of December 31, 2007, the TRS owned 23 Development Properties (eight completed inventory, nine under construction and six land parcels) and 33 Exchange Properties.

NNN's management team focuses on certain key indicators to evaluate the financial condition and operating performance of NNN. The key indicators for NNN include items such as: the composition of NNN's Investment Portfolio and structured finance investments (such as tenant, geographic and industry classification diversification), the occupancy rate of NNN's Investment Portfolio, certain financial performance ratios and profitability measures, industry trends and performance compared to that of NNN, and returns NNN receives on its invested capital.

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

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

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

**Critical Accounting Policies and Estimates**

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

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

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

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

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

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

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

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

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

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

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

**Table of Contents**Results of OperationsProperty Analysis Investment Portfolio

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

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

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

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

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

(2) Approximate square feet.

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

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



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

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

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

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

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

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

<sup>(1)</sup> Includes dollars invested on projects under construction for each respective year.

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

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

**Property Analysis — Inventory Portfolio**

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

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

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

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

<sup>(1)</sup> Includes dollars invested on projects under construction for each respective year.

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

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

<sup>(1)</sup> Net of any intercompany eliminations or minority interest.

**Business Combinations**

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

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

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



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

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

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

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

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

Revenue from Continuing Operations Analysis

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

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

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

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



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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

**Analysis of Expenses from Continuing Operations**

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

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

	Percentage of Total Operating Expenses			Percentage of Revenues from Continuing Operations			2007 Versus 2006 Percent Increase (Decrease)	2006 Versus 2005 Percent Increase (Decrease)
	2007	2006	2005	2007	2006	2005	(Decrease)	(Decrease)
General and administrative	35.8%	37.8%	46.4%	12.6%	17.0%	20.5%	(1.9)%	7.2%
Real estate	12.5%	10.6%	11.6%	4.5%	4.8%	5.1%	23.4%	19.4%
Depreciation and amortization	49.5%	35.3%	33.6%	17.5%	15.9%	14.9%	45.2%	38.1%
Impairment real estate	1.2%	-	3.5%	0.4%	-	1.5%	100.0%	(100.0)%
Impairment commercial mortgage residual interests valuation	1.0%	13.8%	4.9%	0.3%	6.2%	2.2%	(92.7)%	268.6%

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Restructuring costs	-	2.5%	-	-	1.1%	-	(100.0)%	100.0%
Total operating expenses	100.0%	100.0%	100.0%	35.3%	45.0%	44.2%	3.7%	31.4%
Interest and other income	(10.7)%	(9.1)%	(6.5)%	(2.5)%	(2.7)%	(1.9)%	24.6%	87.2%
Interest expense	110.7%	109.1%	106.5%	26.4%	32.5%	30.5%	7.4%	37.7%
Total other expenses (revenues)	100.0%	100.0%	100.0%	23.9%	29.8%	28.6%	5.9%	34.5%

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Table of Contents**Investment in Unconsolidated Affiliates

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

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

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

Earnings from Discontinued Operations

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

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

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

**Table of Contents****Extraordinary Gain**

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

**Impact of Inflation**

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

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

**Liquidity**

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

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

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

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



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

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

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

\$247,498,000 in net proceeds from issuance of notes due in October 2017,

\$135,750,000 in net proceeds from the issuance of 5,750,000 shares of common stock,

\$99,150,000 in net proceeds from the issuance of 4,000,000 shares of common stock,

\$92,989,000 in dividends paid to common stockholders,

\$6,785,000 in dividends paid to holders of the depository shares of NNN's Series C Preferred stock,

\$44,540,000 paid to redeem all outstanding shares of Series A Preferred stock,

\$101,800,000 in net proceeds from NNN's credit facility,

\$62,980,000 in net proceeds from the issuance of 2,645,257 common shares in connection with the Dividend Reinvestment and Stock Purchase Plan ( DRIP ),

\$10,500,000 repayment of secured note payable,

\$20,800,000 repayment of term note, and

\$26,007,000 repurchase of the properties under the financing lease obligation.

*Financing Strategy*

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

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

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

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

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

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

<sup>(2)</sup> Excludes \$11,243 of accrued interest payable.

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

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

<sup>(1)</sup> Including land costs.

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

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

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

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

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

*Dividends.* NNN has made an election to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, and related regulations. NNN generally will not be subject to federal income tax on income that it distributes to its stockholders, provided that it distributes 100 percent of its REIT taxable income and meets certain other requirements for qualifying as a REIT. If NNN fails to qualify as a REIT in any taxable year, it will be subject to federal income tax on its taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year during which qualification is lost. Such an event could materially affect NNN's income and its ability to pay dividends. NNN believes it has been organized as, and its past and present operations qualify NNN as, a REIT. Additionally, NNN intends to continue to operate so as to remain qualified as a REIT for federal income tax purposes.

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

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

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

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

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

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

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

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

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

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

**Capital Resources**

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

**Debt**

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

**Debt and Equity Securities.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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**Item 8. Financial Statements and Supplementary Data**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

National Retail Properties, Inc.

We have audited National Retail Properties, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). National Retail Properties, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying 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 operative effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

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

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

Certified Public Accountants

February 22, 2008

Miami, Florida

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

National Retail Properties, Inc.

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

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

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

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

February 22, 2008

Miami, Florida

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

National Retail Properties, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheet of National Retail Properties, Inc. and subsidiaries as of December 31, 2005, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2005. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedules III and IV for the years ended December 31, 2005 and 2004. These consolidated financial statements and financial statement schedules are the responsibility of NNN's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules for 2005 and 2004 information 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Retail Properties, Inc. and subsidiaries as of December 31, 2005, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the 2005 and 2004 information included in the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

Orlando, Florida

February 17, 2006, except as to notes 2, 3, 20, 26 and 27 which are as of February 16, 2007

Certified Public Accountants



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## NATIONAL RETAIL PROPERTIES, INC.

## and SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share data)

ASSETS	December 31, 2007	December 31, 2006
Real estate, Investment Portfolio:		
Accounted for using the operating method, net of accumulated depreciation and amortization	\$ 2,055,846	\$ 1,440,996
Accounted for using the direct financing method	37,497	71,334
Real estate, Inventory Portfolio, held for sale	248,611	228,159
Investment in unconsolidated affiliates	4,139	-
Mortgages, notes and accrued interest receivable, net of allowance	65,964	30,945
Commercial mortgage residual interests	24,340	31,512
Cash and cash equivalents	27,499	1,675
Restricted cash	-	36,587
Receivables, net of allowance of \$1,582 and \$722, respectively	3,818	7,915
Accrued rental income, net of allowance	24,652	26,510
Debt costs, net of accumulated amortization of \$13,424 and \$11,339, respectively	8,548	8,180
Other assets	38,691	33,684
<b>Total assets</b>	<b>\$ 2,539,605</b>	<b>\$ 1,917,497</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Line of credit payable	\$ 129,800	\$ 28,000
Mortgages payable	27,480	35,892
Notes payable - secured	12,000	24,500
Notes payable - convertible	172,500	172,500
Notes payable, net of unamortized discount of \$1,710 and \$996, respectively	718,290	489,804
Financing lease obligation	-	26,041
Accrued interest payable	11,243	5,989
Other liabilities	57,002	30,828
Income tax liability	1,671	6,340
<b>Total liabilities</b>	<b>1,129,986</b>	<b>819,894</b>
Commitments and contingencies (Note 28)		
Minority interest	2,334	1,098
Stockholders' equity:		
Preferred stock, \$0.01 par value. Authorized 15,000,000 shares		
Series A, 1,781,589 shares issued and outstanding, stated liquidation value of \$25 per share	-	44,540
Series C, 3,680,000 depositary shares issued and outstanding, at stated liquidation value of \$25 per share	92,000	92,000
Common stock, \$0.01 par value. Authorized 190,000,000 shares; 72,527,729 and 59,823,031 shares issued and outstanding at December 31, 2007 and 2006, respectively	725	598
Excess stock, \$0.01 par value. Authorized 205,000,000 shares; none issued or outstanding	-	-
Capital in excess of par value	1,175,364	873,885
Retained earnings (accumulated dividends in excess of net earnings)	137,599	80,263
Accumulated other comprehensive income	1,597	5,219

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Total stockholders' equity	1,407,285	1,096,505
	\$ 2,539,605	\$ 1,917,497

See accompanying notes to consolidated financial statements.

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## NATIONAL RETAIL PROPERTIES, INC.

## and SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF EARNINGS

Years Ended December 31, 2007, 2006 and 2005

(dollars in thousands, except per share data)

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

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Earnings from continuing operations	85,150	64,695	35,610
Earnings from discontinued operations:			
Real estate, Investment Portfolio	63,338	109,664	29,453
Real estate, Inventory Portfolio, net of income tax expense and minority interest	8,622	8,146	9,551
	71,960	117,810	39,004
Earnings before extraordinary gain	157,110	182,505	74,614
Extraordinary gain	-	-	14,786
Net earnings	157,110	182,505	89,400
Other comprehensive income	(3,622)	5,219	-
Total comprehensive income	\$ 153,488	\$ 187,724	\$ 89,400

See accompanying notes to consolidated financial statements.

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## NATIONAL RETAIL PROPERTIES, INC.

## and SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF EARNINGS CONTINUED

Years Ended December 31, 2007, 2006 and 2005

(dollars in thousands, except per share data)

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

See accompanying notes to consolidated financial statements.

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## NATIONAL RETAIL PROPERTIES, INC.

## and SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Years Ended December 31, 2007, 2006 and 2005

(dollars in thousands, except per share data)

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

See accompanying notes to consolidated financial statements.

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## NATIONAL RETAIL PROPERTIES, INC.

## and SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY CONTINUED

Years Ended December 31, 2007, 2006 and 2005

(dollars in thousands, except per share data)

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

<sup>(1)</sup>Includes \$367 dividends paid in January 2007.<sup>(2)</sup>Fair value of interest rate hedge net of prior year amortization reclassified from NNN's unsecured notes payable from the unamortized interest rate hedge gain resulting from the termination of the \$94,000 swap in June 2004.

See accompanying notes to consolidated financial statements.

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## NATIONAL RETAIL PROPERTIES, INC.

## and SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY CONTINUED

Years Ended December 31, 2007, 2006 and 2005

(dollars in thousands, except per share data)

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

See accompanying notes to consolidated financial statements.



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## NATIONAL RETAIL PROPERTIES, INC.

## and SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

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

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Restricted cash	36,587	(6,396)	(12,764)
Acquisition of 1.3 percent interest in Services	-	-	(829)
Payment of lease costs	(2,912)	(2,790)	(1,253)
Other	(6,612)	1,030	(117)
Net cash used in investing activities	(536,717)	(90,099)	(230,783)

See accompanying notes to consolidated financial statements.

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## NATIONAL RETAIL PROPERTIES, INC.

## and SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS CONTINUED

(dollars in thousands)

	Year Ended December 31,		
	2007	2006	2005
<b>Cash flows from financing activities:</b>			
Proceeds from line of credit payable	\$ 662,300	\$ 379,000	\$ 373,500
Repayment of line of credit payable	(560,500)	(513,300)	(229,100)
Repayment of mortgages payable	(8,412)	(20,241)	(6,644)
Proceeds from notes payable convertible	-	172,500	-
Repayment of notes payable secured	(33,300)	-	-
Proceeds from notes payable	249,122	-	149,610
Repayment of notes payable	-	(3,750)	(11,150)
Payment of interest rate hedge	(3,228)	-	-
Payment of debt costs	(2,453)	(3,864)	(3,073)
Repayment of financing lease obligation	(26,007)	-	-
Proceeds from issuance of common stock	310,721	70,392	23,268
Proceeds from issuance of preferred stock	-	88,902	-
Redemption of 1,781,589 shares of Series A Preferred Stock	(44,540)	-	-
Payment of Series A Preferred Stock dividends	-	(4,376)	(4,008)
Payment of Series B Convertible Preferred Stock dividends	-	(419)	(1,675)
Payment of Series C Preferred Stock dividends	(6,785)	(923)	-
Payment of common stock dividends	(92,989)	(76,039)	(69,018)
Minority interest distributions	(62)	(5,817)	(3,858)
Minority interest contributions	155	2	-
Stock issuance costs	(11,115)	(203)	(8)
<b>Net cash provided by financing activities</b>	<b>432,907</b>	<b>81,864</b>	<b>217,844</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>25,824</b>	<b>(6,559)</b>	<b>6,287</b>
Cash and cash equivalents at beginning of year	1,675	8,234	1,947
<b>Cash and cash equivalents at end of year</b>	<b>\$ 27,499</b>	<b>\$ 1,675</b>	<b>\$ 8,234</b>
<b>Supplemental disclosure of cash flow information:</b>			
Interest paid, net of amount capitalized	\$ 51,824	\$ 50,774	\$ 38,684
Taxes paid	\$ 1,375	\$ 1,137	\$ 4,494
<b>Supplemental disclosure of non-cash investing and financing activities:</b>			
Issued 206,718, 79,500 and 223,468 shares of restricted and unrestricted common stock in 2007, 2006 and 2005, respectively, pursuant to NNN's performance incentive plan	\$ 4,214	\$ 1,763	\$ 4,003
Converted 10,000 shares of Series B Convertible Preferred Stock to 1,293,996 shares of common stock in 2006	\$ -	\$ 25,000	\$ -
Issued 7,750 and 14,062 shares of common stock in 2007 and 2006, respectively to directors pursuant to NNN's performance incentive plan	\$ 182	\$ 307	\$ -
Issued 16,346 and 33,379 shares of common stock in 2007 and 2006, respectively pursuant to NNN's Deferred Director Fee Plan	\$ 331	\$ 655	\$ -

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Surrender of 8,600 and 30,135 shares of restricted common stock in 2007 and 2005, respectively	\$	182	\$	-	\$	461
Dividends on unvested restricted stock shares		-	\$	4	\$	-
Change in other comprehensive income	\$	(3,622)	\$	5,219	\$	1,254
Change in lease classification	\$	-	\$	885	\$	2,158
Transfer of real estate from Inventory Portfolio to Investment Portfolio	\$	14,845	\$	12,933	\$	4,752
Note and mortgage notes receivable accepted in connection with real estate transactions	\$	9,747	\$	1,582	\$	2,415
Assignment of mortgage payable in connection with the disposition of real estate	\$	-	\$	95,000	\$	406
Issued 1,636,532 shares of common stock in connection with the acquisition of National Properties Corporation ( NAPE ) in 2005	\$	-	\$	-	\$	31,160
Interest rate hedge	\$	109	\$	-	\$	-

See accompanying notes to consolidated financial statements.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2007, 2006 and 2005

**Note 1 Organization and Summary of Significant Accounting Policies:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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Cash accounts maintained on behalf of NNN in demand deposits at commercial banks and money market funds may exceed federally insured levels; however, NNN has not experienced any losses in such accounts. NNN limits investment of temporary cash investments to financial institutions with high credit standing; therefore, management believes it is not exposed to any significant credit risk on cash and cash equivalents.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In February 2007, FASB issued SFAS Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159), which expands the scope of what companies may carry at fair value. This statement also includes an amendment to SFAS Statement No. 115,

Accounting for Certain Investments in Debt and Equity Securities (SFAS 115). SFAS 159 offers an irrevocable option to carry the vast majority of recognized financial assets and liabilities at fair value with changes in fair value recorded in earnings. This statement can be applied instrument by instrument but must be applied to the entire financial instrument and not portions thereof. This statement does not apply to: (a) financial assets and financial liabilities recognized under leases as defined in SFAS Statement No. 13 Accounting for Leases with the exception of a guarantee of a third party lease obligation or a contingent obligation arising from a cancelled lease; (b) financial instruments that are in whole or part,

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

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

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

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

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

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

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

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

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

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

**Note 2 Real Estate Investment Portfolio:**

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

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

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

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

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

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

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

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

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

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

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

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





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

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

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

<sup>(1)</sup> Included in Other Assets on the Consolidated Balance Sheets.

**Note 3 Real Estate Inventory Portfolio:**

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

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

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

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

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

**Note 4 Investments in Unconsolidated Affiliates:**

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

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

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

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

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

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

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

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

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

**Note 5 Mortgages, Notes and Accrued Interest Receivable:**

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

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

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

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

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

\$ 65,964 \$ 30,945

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

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

<sup>(1)</sup> NNN owned these investment interests prior to its acquisition of the equity interest in OAMI.

<sup>(2)</sup> NNN owns 78.9 percent of OAMI's investment interest

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

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

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

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

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

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

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

**Note 7 Line of Credit Payable:**

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

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

**Note 8 Mortgages Payable:**

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

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

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

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

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

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

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

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

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

**Note 9 Notes Payable Secured:**

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





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

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

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

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

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

**Note 10 Notes Payable:**

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

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

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

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

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

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

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

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

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

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



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

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

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

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

## **Note 11 Notes Payable Convertible:**

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

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

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

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

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

**Note 12 Financing Lease Obligation:**

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

**Note 13 Preferred Stock:**

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

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

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

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

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

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

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

### **Note 14 Common Stock:**

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

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

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

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

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

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

**Note 15 Employee Benefit Plan:**

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

**Note 16 Dividends:**

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

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

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

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

<sup>(1)</sup> Shares of Series A and Series B convertible are no longer outstanding.

<sup>(2)</sup> Issued in October 2006.

**Table of Contents****Note 17 Restructuring Costs:**

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

**Note 18 Income Taxes:**

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

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

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

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

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

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

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

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

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

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



**Table of Contents****Note 19 Earnings from Discontinued Operations:**

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

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

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

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

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

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**Note 20 Derivatives:**

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

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

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

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

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

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

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

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

As of December 31, 2007, \$229,000 remains in other comprehensive income related to the fair value of the interest rate hedges. During the year ended December 31, 2007 and 2006, NNN reclassified \$309,000 and \$345,000, respectively, out of other comprehensive income as a reduction to interest expense. During 2008, NNN estimates that an additional \$162,000 will be reclassified to interest expense. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on NNN's long-term debt.

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

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

**Note 21 Performance Incentive Plan:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Note 22 Business Combinations:**

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

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

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

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

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

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

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

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

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

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

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

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

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

**Note 23 Fair Value of Financial Instruments:**

NNN believes the carrying value of its Credit Facility approximates fair value based upon its nature, terms and variable interest rate. NNN believes that the carrying value of its cash and cash equivalents, restricted cash, mortgages, notes and accrued interest receivable, receivables, mortgages payable, note payable secured, accrued interest payable, financing lease obligation and other liabilities at December 31, 2007 and 2006, approximate fair value based upon current market prices of similar issues. At December 31, 2007 and 2006, the fair value of NNN's notes and convertible notes, collectively, was \$921,507,000 and \$690,198,000, respectively, based upon the quoted market price.

**Note 24 Related Party Transactions:**

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

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

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

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

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



**Table of Contents****Note 25 Quarterly Financial Data (unaudited):**

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

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

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

**Table of Contents****Note 26 Segment Information:**

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

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

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

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**Note 27 Major Tenants:**

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

**Note 28 Commitments and Contingencies:**

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

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

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

None.

**Item 9A. Controls and Procedures**

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

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

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

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

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

pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of NNN's assets;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that NNN's receipts and expenditures are being made in accordance with authorizations of management or the Board of Directors; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of NNN's assets that could have a material adverse effect on NNN's financial statements.

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

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

### Assessment of Effectiveness of Disclosure Controls and Procedures.

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

### Management's Report on Internal Control over Financial Reporting.

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

### Changes in Internal Control over Financial Reporting.

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

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**Limitations on the Effectiveness of Controls.**

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

**Item 9B. Other Information.**

None.

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**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

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

**Item 11. Executive Compensation**

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

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

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

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

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

**Item 14. Principal Accountant Fees and Services**

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



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**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

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

(1) Financial Statements

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2007 and 2006

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

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

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

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules

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

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

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

(3) Exhibits

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

3. Articles of Incorporation and By-laws

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

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

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

10. Material Contracts

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

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

- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

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

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 22<sup>nd</sup> day of February, 2008.

NATIONAL RETAIL PROPERTIES, INC.

By: /s/ Craig Macnab  
Craig Macnab  
Chairman of the Board and

Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated. Each person whose signature appears below hereby constitutes and appoints each of Craig Macnab and Kevin B. Habicht as his attorney-in-fact and agent, with full power of substitution and resubstitution for him in any and all capacities, to sign any or all amendments to this report and to file same, with exhibits thereto and other documents in connection therewith, granting unto such attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary in connection with such matters and hereby ratifying and confirming all that such attorney-in-fact and agent or his substitutes may do or cause to be done by virtue hereof.

Signature	Title	Date
<u>/s/ Craig Macnab</u>	Chairman of the Board and	February 22, 2008
Craig Macnab	Chief Executive Officer	
<u>/s/ Clifford R. Hinkle</u>	Lead Director	February 22, 2008
Clifford R. Hinkle		
Dennis Gershenson	Director	February 22, 2008
<u>/s/ Richard B. Jennings</u>	Director	February 22, 2008
Richard B. Jennings		
<u>/s/ Ted B. Lanier</u>	Director	February 22, 2008
Ted B. Lanier		
<u>/s/ Robert C. Legler</u>	Director	February 22, 2008
Robert C. Legler		
<u>/s/ Robert Martinez</u>	Director	February 22, 2008
Robert Martinez		
<u>/s/ Kevin B. Habicht</u>	Director, Chief Financial	February 22, 2008
Kevin B. Habicht	Officer (Principal Financial	

and Accounting Officer),

Executive Vice President,

Assistant Secretary and

Treasurer



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**Exhibit Index**

3. Articles of Incorporation and By-laws
  - 3.1 First Amended and Restated Articles of Incorporation of the Registrant, as amended (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated May 1, 2006, and incorporated herein by reference).
  - 3.2 Articles Supplementary Establishing and Fixing the Rights and Preferences of 7.375% Series C Cumulative Preferred Stock, par value \$0.01 per share, dated October 11, 2006 (filed as Exhibit 3.2 to the Registrant's Form 8-A dated October 11, 2006 and filed with the Securities and Exchange Commission on October 12, 2006, and incorporated herein by reference).
  - 3.3 Third Amended and Restated Bylaws of the Registrant, as amended (filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K dated May 1, 2006, and incorporated herein by reference).
4. Instruments Defining the Rights of Security Holders, Including Indentures
  - 4.1 Specimen Certificate of Common Stock, par value \$0.01 per share, of the Registrant (filed as Exhibit 3.4 to the Registrant's Registration Statement No. 1-11290 on Form 8-B and incorporated herein by reference).
  - 4.2 Indenture, dated as of March 25, 1998, between the Registrant and First Union National Bank, as trustee (filed as Exhibit 4.4 to the Registrant's Form S-3 (Registration No. 333-132095) filed with the Securities and Exchange Commission on February 28, 2006, and incorporated herein by reference).
  - 4.3 Form of Supplemental Indenture No. 1 dated March 25, 1998, by and among Registrant and First Union National Bank, Trustee, relating to \$100,000,000 of 7.125% Notes due 2008 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated March 20, 1998, and incorporated herein by reference).
  - 4.4 Form of 7.125% Note due 2008 (filed as Exhibit 4.3 to the Registrant's Current Report on Form 8-K dated March 20, 1998, and incorporated herein by reference).
  - 4.5 Form of Supplemental Indenture No. 3 dated September 20, 2000, by and among Registrant and First Union National Bank, Trustee, relating to \$20,000,000 of 8.5% Notes due 2010 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated September 20, 2000, and incorporated herein by reference).
  - 4.6 Form of 8.5% Notes due 2010 (filed as Exhibit 4.3 to the Registrant's Current Report on Form 8-K dated September 20, 2000, and incorporated herein by reference).
  - 4.7 Form of Supplemental Indenture No. 4 dated as of May 30, 2002, by and among Registrant and Wachovia Bank, National Association, Trustee, relating to



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- \$50,000,000 of 7.75% Notes due 2012 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated June 4, 2002, and incorporated herein by reference).
- 4.8 Form of 7.75% Notes due 2012 (filed as Exhibit 4.3 to the Registrant's Current Report on Form 8-K dated June 4, 2002, and incorporated herein by reference).
- 4.9 Form of Supplemental Indenture No. 5 dated as of June 18, 2004, by and among Registrant and Wachovia Bank, National Association, Trustee, relating to \$150,000,000 of 6.25% Notes due 2014 (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated June 15, 2004, and incorporated herein by reference).
- 4.10 Form of 6.25% Notes due 2014 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated June 15, 2004, and incorporated herein by reference).
- 4.11 Form of Supplemental Indenture No. 6 dated as of November 17, 2005, by and among Registrant and Wachovia Bank, National Association, Trustee, relating to \$150,000,000 of 6.15% Notes due 2015 (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated November 14, 2005, and incorporated herein by reference).
- 4.12 Seventh Supplemental Indenture, dated as of September 13, 2006, between National Retail Properties, Inc. and U.S. Bank National Association (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated September 7, 2006, and incorporated herein by reference).
- 4.13 Form of 6.15% Notes due 2015 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated November 14, 2005, and incorporated herein by reference).
- 4.14 Form of 3.95% Convertible Senior Notes due 2026 (filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated September 7, 2006, and incorporated herein by reference).
- 4.15 Specimen certificate representing the 7.375% Series C Cumulative Redeemable Preferred Stock, par value \$.01 per share, of the Registrant (filed as Exhibit 4.4 to the Registrant's Form 8-A dated October 11, 2006 and filed with the Securities and Exchange Commission on October 12, 2006, and incorporated herein by reference).
- 4.16 Deposit Agreement, among the Registrant, American Stock Transfer & Trust Company, as Depositary, and the holders of depositary receipts (filed as Exhibit 4.18 to the Registrant's Form 10-Q filed with the Securities and Exchange Commission on November 6, 2006, and incorporated herein by reference).
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4.18 Form of Eighth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association (filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K dated September 4, 2007, and incorporated hereby by reference).

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- 12. Statement of Computation of Ratios of Earnings to Fixed Charges (filed herewith).
  
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**Table of Contents****NATIONAL RETAIL PROPERTIES, INC. AND SUBSIDIARIES****SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION AND AMORTIZATION****December 31, 2007**

	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed
	Encumbrances (k)	Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests				
Real Estate Held for Investment the Company has Invested in Under Operating Leases:											
Academy:											
Beaumont, TX	\$ 1,423,701	\$ 2,449,261		\$	\$ 1,423,701	\$ 2,449,261	\$ 3,872,962	\$ 538,327	1992	03/99	40 years
Houston, TX	2,310,845	1,627,872			2,310,845	1,627,872	3,938,717	357,793	1976	03/99	40 years
Pasadena, TX	899,768	2,180,574			899,768	2,180,574	3,080,342	479,272	1994	03/99	40 years
College Station, TX	1,407,855	2,230,756			1,407,855	2,230,756	3,638,611	141,746	2002	06/05	40 years
Franklin, TN	1,807,096	2,108,278			1,807,096	2,108,278	3,915,374	178,618	1999	06/05	30 years
Ace Hardware and Lighting:											
Bourbonnais, IL	298,192	1,329,492			298,192	1,329,492	1,627,684	228,506	1997	11/98	37 years
A.C. Moore Arts & Crafts Inc.:											
Dover, NJ	1,138,296	3,238,083			1,138,296	3,238,083	4,376,379	738,687	1995	11/98	40 years
Advanced Auto Parts:											
Miami, FL	867,177		1,035,275		867,177	1,035,275	1,902,452	65,783	2005	12/04(g)	40 years
AJ Petroleum:											
Lake Placid, FL	2,531,533	1,157,265			2,531,533	1,157,265	3,688,798	64,942	1990	12/05	40 years
All Star Sports:											
Wichita, KS	3,275,372	1,630,685			3,275,372	1,630,685	4,906,057	25,479	1988	05/07	40 years
Wichita, KS	1,550,654	965,402			1,550,654	965,402	2,516,056	15,084	1987	05/07	40 years
Amazing Jakes:											
Aurora, CO	5,075,945	13,873,887			5,075,945	13,873,887	18,949,832	245,683	1986	04/07	40 years
American Payday Loans:											
Des Moines, IA	108,421	379,067			108,421	379,067	487,488	24,087	1979	06/05	40 years
AmerUs Group Warehouse:											
Des Moines, IA	28,465	85,396			28,465	85,396	113,861	21,705	1949	06/05	10 years
Amoco:											
Miami, FL	969,156				969,156		969,156		(i)	05/03	(i)
Sunrise, FL	949,185				949,185		949,185		(i)	06/03	(i)

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Amscot:

Tampa, FL	1,159,733	352,305		1,159,733	352,305	1,512,038	19,450	1981	10/05	40 years
Orlando, FL	764,473		865,674	764,473	865,674	1,630,147	35,168	2006	12/05	40 years
Orlando, FL	664,213	1,010,821		664,213	1,010,821	1,675,034	30,535	2006	12/05	40 years
Orlando, FL	358,354		922,218	358,354	922,218	1,280,572	33,623	2006	02/06(g)	40 years
Orlando, FL	546,475		937,758	546,475	937,758	1,484,233	32,235	2006	02/06(g)	40 years
Clearwater, FL	455,524	331,614		455,524	331,614	787,138	10,708	1967	09/06(g)	40 years

Applebee s:

Ballwin, MO	1,496,173	1,403,581		1,496,173	1,403,581	2,899,754	211,999	1995	12/01	40 years
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Arby s:

Colorado Springs, CO	205,957	533,540		205,957	533,540	739,497	80,587	1998	12/01	40 years
Thomson, GA	267,842	503,550		267,842	503,550	771,392	76,057	1997	12/01	40 years
Washington Courthouse, OH	156,875	545,841		156,875	545,841	702,716	82,445	1998	12/01	40 years
Whitmore Lake, MI	170,515	468,916		170,515	468,916	639,431	70,826	1993	12/01	40 years

Ashley

Furniture:

Altamonte Springs, FL	2,906,409	4,877,225	315,000	2,906,409	5,192,225	8,098,634	1,302,103	1997	09/97	40 years
Louisville, KY	1,666,700	4,989,452		1,666,700	4,989,452	6,656,152	348,222	2005	03/05	40 years

Babies R Us:

Arlington, TX	830,689	2,611,867		830,689	2,611,867	3,442,556	751,456	1996	06/96	40 years
Independence, MO	1,678,794	2,301,909	114,769	1,678,794	2,416,678	4,095,472	349,896	1996	12/01	40 years

See accompanying report of independent registered public accounting firm.

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	Encumbrances (k)	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed
		Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests	Total				
Barnes & Noble:												
Brandon, FL		1,476,407	1,527,150			1,476,407	1,527,150	3,003,557	495,486	1995	08/94(f)	40 years
Denver, CO		3,244,785	2,722,087			3,244,785	2,722,087	5,966,872	901,803	1994	09/94	40 years
Houston, TX		3,307,562	2,396,024			3,307,562	2,396,024	5,703,586	733,790	1995	10/94(f)	40 years
Plantation, FL	4,820,120(p)	3,616,357				3,616,457	(c)	3,616,457	(c)	1996	05/95(f)	(c)
Freehold, NJ												
(r)		2,917,219	2,260,663			2,917,219	2,260,663	5,177,882	673,803	1995	01/96	40 years
Dayton, OH		1,412,614	3,324,525			1,412,614	3,324,525	4,737,139	857,649	1996	05/97	40 years
Redding, CA		497,179	1,625,702			497,179	1,625,702	2,122,881	428,440	1997	06/97	40 years
Memphis, TN												
		1,573,875	2,241,639			1,573,875	2,241,639	3,815,514	219,494	1997	09/97	40 years
Marlton, NJ		2,831,370	4,318,554			2,831,370	4,318,554	7,149,924	985,170	1995	11/98	40 years
Bassett Furniture:												
Fairview Heights, IL												
		1,257,729	2,622,952			1,257,729	2,622,952	3,880,681	144,809	1980	10/05	40 years
Beall s:												
Sarasota, FL		1,077,802	1,795,174			1,077,802	1,795,174	2,872,976	184,009	1996	09/97	40 years
Beautiful America Dry Cleaners:												
Orlando, FL	65,839(o)	40,200	110,531			40,200	110,531	150,731	10,708	2001	02/04	40 years
Bed, Bath & Beyond:												
Richmond, VA												
	2,762,751(p)	1,184,144	2,842,759			1,184,144	2,842,759	4,026,903	396,802	1997	06/98	40 years
Glendale, AZ												
		1,082,092		2,758,452		1,082,092	2,758,452	3,840,544	583,297	1999	12/98(g)	40 years
Midland, MI												
		231,356		2,702,271		231,356	2,702,271	2,933,627	76,430	2006	07/03	40 years
Beneficial:												
Eden Prairie, MN												
		75,736	210,628	94,277		75,736	304,905	380,641	42,574	1997	12/01	40 years
Bennigan s:												
Milford, CT												
(r)		921,200	697,298			921,200	697,298	1,618,498	105,321	1985	12/01	40 years
Altamonte Springs, FL												
		1,088,282	924,425			1,088,282	924,425	2,012,707	139,627	1979	12/01	40 years
Schaumburg, IL												
		2,064,964	1,311,190			2,064,964	1,311,190	3,376,154	198,044	1998	12/01	40 years
Wichita Falls, TX												
		818,611	1,107,418			818,611	1,107,418	1,926,029	167,266	1982	12/01	40 years
Best Buy:												
Brandon, FL												
		2,985,156	2,772,137			2,985,156	2,772,137	5,757,293	753,675	1996	02/97	40 years
Cuyahoga Falls, OH												
		3,708,980	2,359,377			3,708,980	2,359,377	6,068,357	621,794	1970	06/97	40 years
Rockville, MD												
		6,233,342	3,418,783			6,233,342	3,418,783	9,652,125	893,869	1995	07/97	40 years
Fairfax, VA												
		3,052,477	3,218,018			3,052,477	3,218,018	6,270,495	834,673	1995	08/97	40 years
St. Petersburg, FL												
	4,408,646(p)	4,031,744	2,610,980			4,031,744	2,610,980	6,642,724	416,513	1997	09/97	35 years



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Pittsburgh, PA	2,330,847	2,292,932		2,330,847	2,292,932	4,623,779	546,960	1997	06/98	40 years	
Denver, CO	8,881,890	4,372,684		8,881,890	4,372,684	13,254,574	715,116	1991	06/01	40 years	
Billy Bob's: Gresham, OR	817,311	108,294		817,311	108,294	925,605	16,357	1993	12/01	40 years	
BJ's Wholesale Club: Orlando, FL	5,097,052(o)	3,270,851	8,626,657	366,650	3,270,851	8,993,307	12,264,158	844,379	2001	02/04	40 years
Blockbuster Video: Conyers, GA	320,029	556,282		320,029	556,282	876,311	146,604	1997	06/97	40 years	
Alice, TX	318,285	578,268		318,285	578,268	896,553	87,342	1995	12/01	40 years	
Gainesville, GA	294,882	611,570		294,882	611,570	906,452	92,372	1997	12/01	40 years	
Glasgow, KY	302,859	560,904		302,859	560,904	863,763	84,719	1997	12/01	40 years	
Kingsville, TX	498,849	457,695	29,555	498,849	487,250	986,099	69,382	1995	12/01	40 years	
Mobile, AL	491,453	498,488		491,453	498,488	989,941	75,292	1997	12/01	40 years	
Mobile, AL	843,121	562,498		843,121	562,498	1,405,619	84,961	1997	12/01	40 years	
BMW: Duluth, GA	4,433,613	4,080,186	4,225,787		4,504,324	8,305,973	12,810,297	660,297	1984	12/01	40 years
Borders Books & Music: Wilmington, DE	3,030,764	6,061,538		2,994,395	6,061,538	9,055,933	1,974,073	1994	12/94	40 years	
Richmond, VA	2,177,310	2,599,587		2,177,310	2,599,587	4,776,897	816,343	1995	06/95	40 years	
Ft. Lauderdale, FL	4,643,774(p)	3,164,984	3,319,234		3,164,984	3,319,234	6,484,218	561,588	1995	02/96	33 years
Bangor, ME	1,546,915	2,486,761		1,546,915	2,486,761	4,033,676	716,671	1996	06/96	40 years	
Altamonte Springs, FL	1,947,198			1,947,198	(c)	1,947,198	(c)	1997	09/97	(c)	
Boston Market: Burton, MI	619,778	707,242		619,778	707,242	1,327,020	106,823	1997	12/01	40 years	

See accompanying report of independent registered public accounting firm.

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	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed
	Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests	Total				
Geneva, IL	1,125,347	1,036,952			1,125,347	893,485	2,018,833	137,129	1996	12/01	40 years
North											
Olmsted, OH	601,800	460,521			601,800	389,065	990,865	59,849	1996	12/01	40 years
Novi, MI	835,669	651,108			835,669	297,567	1,133,236	50,304	1995	12/01	40 years
Orland Park, IL	562,384	556,201			562,384	377,244	939,628	59,692	1995	12/01	40 years
Warren, OH	562,446	467,592			562,446	467,592	1,030,038	70,625	1997	12/01	40 years
Wheaton, IL	1,115,457	1,014,184			1,115,457	872,736	1,988,193	133,964	1995	12/01	40 years
Buck s:											
St. Louis, MO	775,246				775,246		775,246		(e)	12/07(q)	(e)
Buffalo Wild Wings:											
Michigan City, IN	162,538	492,007			162,538	492,007	654,545	74,313	1996	12/01	40 years
Bugaboo Creek:											
Lithonia, GA	922,578	1,276,222			922,578	1,276,222	2,198,800	17,282	2002	06/07	40 years
Rochester, NY	792,275	1,535,158			792,275	1,535,158	2,327,433	20,789	1995	06/07	40 years
Burger King:											
Colonial Heights, VA	662,345	609,787			662,345	609,787	1,272,132	92,103	1997	12/01	40 years
Carino s:											
Beaumont, TX	439,076	1,363,447			439,076	1,363,447	1,802,523	205,937	2000	12/01	40 years
Lewisville, TX	1,369,836	1,018,659			1,369,836	1,018,659	2,388,495	153,860	1994	12/01	40 years
Lubbock, TX	1,007,432	1,205,512			1,007,432	1,205,512	2,212,944	182,082	1995	12/01	40 years
Carl s Jr:											
Chandler, AZ	729,291	644,148			729,291	644,148	1,373,439	81,860	1984	06/05	20 years
Tucson, AZ	681,386	536,023	103,000		681,386	639,023	1,320,409	144,734	1988	06/05	10 years
CarMax:											
Albuquerque, NM	10,197,135		8,128,062		10,197,135	8,128,062	18,325,197	635,005	2004	04/04(f)	40 years
Cash Advance:											
Mesa, AZ	43,043	112,764	250,696		43,043	363,460	406,503	4,543	1997	12/01	40 years
Certified Auto Sales:											
Albuquerque, NM	1,112,876		1,418,552		1,112,876	1,418,552	2,531,428	87,182	2005	04/04(f)	40 years
Champps:											
Alpharetta, GA	3,032,965	1,641,820			3,032,965	1,641,820	4,674,785	247,983	1999	12/01	40 years
Irving, TX	1,760,020	1,724,220			1,760,020	1,724,220	3,484,240	260,429	2000	12/01	40 years
Charhut:											
Sunrise, FL	286,834	423,837			286,834	423,837	710,671	38,277	1979	05/04	40 years
Checkers:											
Orlando, FL	256,568				256,568	(c)	256,568	(c)	1988	07/92	(c)
Chili s:											

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Camden, SC	626,897	1,887,732		626,897	1,887,732	2,514,629	108,151	2005	09/05	40 years
Milledgeville, GA	516,118	1,996,627		516,118	1,996,627	2,512,745	114,390	2005	09/05	40 years
Sumter, SC	800,329	1,717,221		800,329	1,717,221	2,517,550	87,650	2004	12/05	40 years
Hinesville, GA	920,971	1,898,416		920,971	1,898,416	2,819,387	41,528	2006	02/07	40 years
Albany, GA	610,385			610,385		610,385	(e)	(e)	06/07(q)	(e)
Statesboro, GA	687,947			687,947		687,947	(e)	(e)	06/07(q)	(e)
Florence, SC	888,837	1,715,454		888,837	1,715,454	2,604,291	23,230	2007	06/07	40 years
Valdosta, GA	716,196			716,196		716,196	(e)	(e)	07/07(q)	(e)
Chili Verde Restaurant:										
Indianapolis, IN	639,584	1,015,173	91,738	639,584	1,106,911	1,746,495	154,884	1996	12/01	40 years
Circuit City:										
Gastonia, NC	2,548,040	3,879,911		2,548,040	3,879,911	6,427,951	295,035	2004	12/04	40 years
St. Peters, MO	1,740,807	5,406,298		1,740,807	5,406,298	7,147,105	332,262	2005	06/05(g)	40 years
East Palo Alto, CA	2,271,634	3,404,843		2,271,634	3,404,843	5,676,477	748,356	1998	12/98(f)	40 years
Foothill Ranch, CA	1,456,113	2,505,022		1,456,113	2,505,022	3,961,135	689,218	1995	12/96	40 years
Claim Jumper:										
Roseville, CA	1,556,732	2,013,650		1,556,732	2,013,650	3,570,382	304,145	2000	12/01	40 years
Tempe, AZ	2,530,892	2,920,575		2,530,892	2,920,575	5,451,467	441,128	2000	12/01	40 years
CompUSA:										
Baton Rouge, LA (r)	609,069	913,603		609,069	913,603	1,522,672	274,142	1995	12/95	40 years
Roseville, MN (r)	1,599,311	1,419,396		1,599,311	1,419,396	3,018,707	72,448	1994	12/05	40 years

See accompanying report of independent registered public accounting firm.

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	Encumbrances (k)	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed
		Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests	Total				
Cool Crest: Independence, MO		1,837,672	1,533,729			1,837,672	1,533,729	3,371,401	23,965	1988	05/07	40 years
CORA Rehabilitation Clinics:												
Orlando, FL	131,678(o)	80,400	221,063			80,400	221,063	301,463	21,415	2001	02/04	40 years
Corpus Christi Flea Market: Corpus Christi, TX		223,998	2,158,955			223,998	2,158,955	2,382,953	474,520	1983	03/99	40 years
CVS:												
San Antonio, TX		440,985				440,985	(c)	440,985	(c)	1993	12/93	(c)
Lafayette, LA		967,528				967,528	(c)	967,528	(c)	1995	01/96	(c)
Midwest City, OK		673,369	1,103,351			673,369	1,103,351	1,776,720	326,185	1996	03/96	40 years
Irving, TX (r)		1,000,222				1,000,222	(c)	1,000,222	(c)	1996	12/96	(c)
Pantego, TX		1,016,062	1,448,911			1,016,062	1,448,911	2,464,973	381,848	1997	06/97	40 years
Ellenwood, GA		616,289	921,173			616,289	921,173	1,537,462	90,198	1996	09/97	40 years
Flower Mound, TX		932,233	881,448			932,233	881,448	1,813,681	86,308	1996	09/97	40 years
Ft. Worth, TX		558,657				558,657	(c)	558,657	(c)	1996	09/97	(c)
Arlington, TX		2,078,542		1,396,508		2,078,542	1,396,508	3,475,050	327,306	1998	11/97(g)	40 years
Leavenworth, KS		726,438		1,330,830		726,438	1,330,830	2,057,268	317,458	1998	11/97(g)	40 years
Lewisville, TX		789,237		1,335,426		789,237	1,335,426	2,124,663	310,208	1998	04/98(g)	40 years
Forest Hill, TX		692,165		1,174,549		692,165	1,174,549	1,866,714	275,285	1998	04/98(g)	40 years
Garland, TX		1,476,838		1,400,278		1,476,838	1,400,278	2,877,116	319,439	1998	06/98(g)	40 years
Garland, TX		522,461		1,418,531		522,461	1,418,531	1,940,992	320,647	1998	06/98(g)	40 years
Oklahoma City, OK		1,581,480		1,471,105		1,581,480	1,471,105	3,052,585	329,466	1999	08/98(g)	40 years
Dallas, TX		2,617,656		2,570,569		2,617,656	2,570,569	5,188,225	270,445	2003	06/99	40 years
Gladstone, MO	94,795	1,851,374		1,739,568		1,851,374	1,739,568	3,590,942	320,733	2000	12/99(g)	40 years
Dave & Buster s:												
Hilliard, OH		934,210	4,689,004			934,210	4,689,004	5,623,214	131,878	1998	11/06	40 years
Denny s:												
Columbus, TX		428,429	816,644			428,429	816,644	1,245,073	123,347	1997	12/01	40 years
Alexandria, VA		603,730	195,658			603,730	195,658	799,388	12,636	1981	09/06	20 years
Amarillo, TX		589,996	632,121			589,996	632,121	1,222,117	40,824	1982	09/06	20 years
Arlington Heights, IL		469,593	227,673			469,593	227,673	697,266	14,703	1977	09/06	20 years
Austintown, OH		466,124	397,387			466,124	397,387	863,511	25,665	1980	09/06	20 years
Boardman Township, OH		497,083	257,518			497,083	257,518	754,601	16,631	1977	09/06	20 years
Campbell, CA		459,751	238,205			459,751	238,205	697,956	15,384	1976	09/06	20 years
Carson, CA		1,245,768	157,375			1,245,768	157,375	1,403,143	10,164	1975	09/06	20 years

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Chelais, WA	414,994	287,174	414,994	287,174	702,168	18,546	1977	09/06	20 years
Chubbock, ID	350,461	394,243	350,461	394,243	744,704	25,461	1983	09/06	20 years
Clackamas, OR	468,281	407,268	468,281	407,268	875,549	26,303	1993	09/06	20 years
Collinsville, IL	675,704	282,912	675,704	282,912	958,616	18,271	1979	09/06	20 years
Colorado Springs, CO	321,006	376,744	321,006	376,744	697,750	24,331	1984	09/06	20 years
Colorado Springs, CO	585,425	390,275	585,425	390,275	975,700	25,202	1978	09/06	20 years
Corpus Christi, TX	344,821	775,618	344,821	775,618	1,120,439	50,092	1980	09/06	20 years
Dallas, TX	497,170	149,862	497,170	149,862	647,032	9,679	1979	09/06	20 years
Enfield, CT	684,235	228,981	684,235	228,981	913,216	14,788	1976	09/06	20 years
Fairfax, VA	768,438	682,921	768,438	682,921	1,451,359	44,105	1979	09/06	20 years
Federal Way, WA	542,951	192,650	542,951	192,650	735,601	12,441	1977	09/06	20 years
Florissant, MO	442,700	237,959	442,700	237,959	680,659	15,368	1977	09/06	20 years
Ft. Worth, TX	392,306	314,262	392,306	314,262	706,568	20,296	1974	09/06	20 years
Hermitage, PA	320,918	419,980	320,918	419,980	740,898	27,123	1980	09/06	20 years
Hialeah, FL	432,479	175,245	432,479	175,245	607,724	11,318	1978	09/06	20 years
Houston, TX	503,797	347,749	503,797	347,749	851,546	22,459	1976	09/06	20 years
Indianapolis, IN	325,937	511,345	325,937	511,345	837,282	33,024	1978	09/06	20 years
Indianapolis, IN	310,383	589,689	310,383	589,689	900,072	38,084	1981	09/06	20 years
Indianapolis, IN	358,295	766,627	358,295	766,627	1,124,922	49,511	1978	09/06	20 years
Indianapolis, IN	222,629	482,909	222,629	482,909	705,538	31,188	1979	09/06	20 years
Indianapolis, IN	231,236	511,175	231,236	511,175	742,411	33,013	1974	09/06	20 years
Kernersville, NC	406,544	557,465	406,544	557,465	964,009	36,002	2000	09/06	20 years
Lafayette, IN	423,516	773,096	423,516	773,096	1,196,612	49,929	1978	09/06	20 years
Laurel, MD	527,596	379,327	527,596	379,327	906,923	24,498	1976	09/06	20 years
Little Rock, AR	671,665	76,507	671,665	76,507	748,172	4,941	1979	09/06	20 years

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	Encumbrances (k)	Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests					Total
Little Rock, AR		702,789	179,699			702,789	179,699	882,488	11,606	1979	09/06	20 years
Maplewood, MN		630,007	271,268			630,007	271,268	901,275	17,519	1983	09/06	20 years
Merriville, IN		368,152	813,167			368,152	813,167	1,181,319	52,517	1976	09/06	20 years
Middleburg Heights, OH		496,963	259,581			496,963	259,581	756,544	16,764	1976	09/06	20 years
N. Miami, FL		855,381	151,216			855,381	151,216	1,006,597	9,766	1977	09/06	20 years
Nampa, ID		356,591	729,175			356,591	729,175	1,085,766	47,093	1979	09/06	20 years
North Palm Beach, FL		450,257	161,978			450,257	161,978	612,235	10,461	1977	09/06	20 years
North Richland Hills, TX		500,352	129,840			500,352	129,840	630,192	8,386	1970	09/06	20 years
Novi, MI		545,175	305,344			545,175	305,344	850,519	19,720	1979	09/06	20 years
Omaha, NE		496,452	314,303			496,452	314,303	810,755	20,298	1994	09/06	20 years
Parma, OH		370,120	238,145			370,120	238,145	608,265	15,380	1977	09/06	20 years
Pompano Beach, FL		436,153	393,590			436,153	393,590	829,743	25,419	1976	09/06	20 years
Portland, OR		764,431	161,462			764,431	161,462	925,893	10,428	1977	09/06	20 years
Provo, UT		519,038	216,015			519,038	216,015	735,053	13,951	1978	09/06	20 years
Pueblo, CO		475,420	301,725			475,420	301,725	777,145	19,486	1980	09/06	20 years
Raleigh, NC		1,094,361	482,297			1,094,361	482,297	1,576,658	31,148	1984	09/06	20 years
Santa Ana, CA		515,866	279,400			515,866	279,400	795,266	18,045	1977	09/06	20 years
Sherman, TX		232,670	126,149			232,670	126,149	358,819	8,147	1969	09/06	20 years
Southfield, MI		401,401	330,496			401,401	330,496	731,897	21,344	1980	09/06	20 years
St. Louis, MO		519,641	265,824			519,641	265,824	785,465	17,168	1973	09/06	20 years
Sugarland, TX		315,186	334,027			315,186	334,027	649,213	21,573	1997	09/06	20 years
Tacoma, WA		580,288	200,559			580,288	200,559	780,847	12,953	1984	09/06	20 years
Tulsa, OK		324,751	313,897			324,751	313,897	638,648	20,273	1978	09/06	20 years
Tuscon, AZ		922,401	290,221			922,401	290,221	1,212,622	18,743	1979	09/06	20 years
W. Palm Beach, FL		619,003	160,924			619,003	160,924	779,927	10,393	1984	09/06	20 years
Weathersfield, CT		883,538	176,136			883,538	176,136	1,059,674	11,375	1978	09/06	20 years
Worcester, MA		383,194	492,602			383,194	492,602	875,796	31,814	1978	09/06	20 years
Boise, ID		514,340	476,967			514,340	476,967	991,307	24,842	1983	12/06	20 years
St. Louis, MO		634,924	302,979			634,924	302,979	937,903	14,518	1980	01/07	20 years
Virginia Gardens, FL		793,432	132,605			793,432	132,605	926,037	6,354	1977	01/07	20 years
Dick's Sporting Goods:												
Taylor, MI		1,920,032	3,526,868			1,920,032	3,526,868	5,446,900	995,961	1996	08/96	40 years
White Marsh, MD		2,680,532	3,916,889			2,680,532	3,916,889	6,597,421	1,106,100	1996	08/96	40 years
Dollar Tree:												
Garland, TX		239,014	626,170			239,014	626,170	865,183	101,753	1994	02/94	40 years
Copperas Cove, TX		241,650	511,624	194,167		241,650	705,791	947,441	145,122	1972	11/98	40 years
Donato's:												

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Medina, OH	405,113	463,582		405,113	463,582	868,696	70,020	1996	12/01	40 years
Dr. Clean Dry Cleaners:										
Monticello, NY	19,625	71,570		19,625	71,570	91,195	4,995	1996	03/05	40 years
Easyhome:										
Cohoes, NY	58,969	317,885		58,969	317,885	376,854	26,815	1994	09/04	40 years
Eckerd:										
Douglasville, GA	413,438	995,209		413,438	995,209	1,408,647	296,627	1996	01/96	40 years
Conyers, GA	574,666	998,900		574,666	998,900	1,573,566	263,252	1997	06/97	40 years
Augusta, GA	568,606	1,326,748		568,606	1,326,748	1,895,354	333,069	1997	12/97	40 years
Riverdale, GA	1,088,896	1,707,448		1,088,896	1,707,448	2,796,344	428,640	1997	12/97	40 years
Warner										
Robins, GA	707,488		1,227,330	707,488	1,227,330	1,934,818	274,871	1999	03/98(g)	40 years
West Mifflin, PA										
	1,401,632	2,043,862		1,401,632	2,043,862	3,445,494	300,192	1999	02/02	40 years
Norfolk, VA										
	2,742,194	1,796,508		2,742,194	1,796,508	4,538,702	263,862	2001	02/02	40 years
Thorndale, PA										
	2,260,618	2,472,039		2,260,618	2,472,039	4,732,657	363,081	2001	02/02	40 years
El Mariachi Grill:										
Montgomery, AL	1,418,158	1,140,080		1,418,158	1,044,075	2,462,233	166,034	1999	12/01	40 years
El Meskal:										
Hammond, LA	247,600	813,514	62,287	247,600	627,601	875,201	109,955	1997	12/01	40 years
El Paso Barbeque:										
Tuscon, AZ	996,435		2,741,660	996,435	2,741,660	3,738,095	19,991	2007	12/06(q)	40 years
Farmington, NM										
	2,756,524			2,756,524		2,756,524	(e)	(e)	12/07(q)	(e)
Enterprise Rent-A-Car:										
Wilmington, NC	218,126	327,329		218,126	327,329	545,455	49,440	1981	12/01	40 years

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	Encumbrances (k)	Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests					Total
Fallas Paredes: Arlington, TX		317,838	1,680,428	242,483		317,838	1,922,911	2,240,749	465,560	1996	06/96	38 years
Family Dollar: Cohoes, NY		95,644	515,502			95,644	515,502	611,146	41,712	1994	09/04	40 years
Hudson Falls, NY		51,055	379,789			51,055	379,789	430,844	31,253	1993	09/04	40 years
Monticello, NY		96,445	351,721			96,445	351,721	448,166	24,547	1996	03/05	40 years
Fantastic Sams: Eden Prairie, MN		64,916	180,538	80,809		64,916	261,347	326,263	36,492	1997	12/01	40 years
Fazoli's Restaurant: Bay City, MI		647,055	633,899			647,055	633,899	1,280,953	95,745	1997	12/01	40 years
Ferguson; Destin, FL		553,552	1,011,898			553,552	1,011,898	1,565,450	20,027	2006	03/07	40 years
Food Fast: Bossier City, LA		882,882	657,929			882,882	657,929	1,540,811	23,759	1975	06/07	15 years
Brownsboro, TX		327,611	385,088			327,611	385,088	712,699	6,952	1990	06/07	30 years
Flint, TX		272,007	410,803			272,007	410,803	682,810	8,900	1985	06/07	25 years
Forney, TX		545,133	707,160			545,133	707,160	1,252,293	12,768	1989	06/07	30 years
Forney, TX		473,290	653,516			473,290	653,516	1,126,806	11,800	1990	06/07	30 years
Gun Barrel City, TX		241,890	467,271			241,890	467,271	709,161	10,124	1988	06/07	25 years
Gun Barrel City, TX		269,871	386,429			269,871	386,429	656,300	8,372	1986	06/07	25 years
Jacksonville, TX		660,275	632,166			660,275	632,166	1,292,441	22,828	1976	06/07	15 years
Kemp, TX		580,596	505,102			580,596	505,102	1,085,698	10,944	1986	06/07	25 years
Longview, TX		252,373	303,925			252,373	303,925	556,298	6,585	1983	06/07	25 years
Longview, TX		271,236	430,518			271,236	430,518	701,754	7,773	1990	06/07	30 years
Longview, TX		425,860	381,585			425,860	381,585	807,445	8,268	1984	06/07	25 years
Longview, TX		359,539	535,304			359,539	535,304	894,843	11,598	1983	06/07	25 years
Longview, TX		403,420	571,962			403,420	571,962	975,382	12,393	1985	06/07	25 years
Longview, TX		178,176	235,972			178,176	235,972	414,148	6,391	1977	06/07	20 years
Mabank, TX		229,097	493,568			229,097	493,568	722,665	10,694	1986	06/07	25 years
Mt. Vernon, TX		292,251	666,046			292,251	666,046	958,297	14,430	1990	06/07	25 years
Shreveport, LA		360,801	249,918			360,801	249,918	610,719	9,025	1969	06/07	15 years
Tyler, TX		323,146	283,153			323,146	283,153	606,299	7,669	1978	06/07	20 years



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Tyler, TX	487,716	831,325		487,716	831,325	1,319,041	22,515	1980	06/07	20 years
Tyler, TX	742,070	545,967		742,070	545,967	1,288,037	11,829	1985	06/07	25 years
Tyler, TX	256,415	542,486		256,415	542,486	798,901	14,692	1980	06/07	20 years
Tyler, TX	188,162	328,622		188,162	328,622	516,784	7,120	1984	06/07	25 years
Tyler, TX	542,144	403,494		542,144	403,494	945,638	8,742	1984	06/07	25 years
Tyler, TX	257,981	418,816		257,981	418,816	676,797	11,343	1978	06/07	20 years
Tyler, TX	316,208	544,790		316,208	544,790	860,998	9,836	1989	06/07	30 years
Tyler, TX	301,853	455,181		301,853	455,181	757,034	12,328	1981	06/07	20 years
Food 4 Less:										
Chula Vista, CA	3,568,862			3,568,862	(e)	3,568,862	(e)	1995	11/98	(e)
Fresh Market:										
Gainesville, FL	317,386	1,248,404	655,827	317,386	1,904,231	2,221,617	144,321	1982	03/99	40 years
Furr's Family Dining:										
Las Cruces, NM	947,476		2,181,954	947,476	2,181,954	3,129,430	70,459	2006	01/06(q)	40 years
Tucson, AZ	1,170,722			1,170,722		1,170,722		(e)	07/06(q)	(e)
Moore, OK	938,701		2,429,401	938,701	2,429,401	3,368,102	12,653	2007	03/07(q)	40 years
Gander Mountain:										
Amarillo, TX	1,513,714	5,781,294		1,513,714	5,781,294	7,295,008	451,664	2004	11/04	40 years
Gate Petroleum:										
Concord, NC	852,225	1,200,862		852,225	1,200,862	2,053,087	76,305	2001	06/05	40 years
Rocky Mountain, NC	258,764	1,164,438		258,764	1,164,438	1,423,202	73,990	2000	06/05	40 years
Gen-X Clothing:										
Federal Way, WA	2,037,392	1,661,577	257,414	2,037,392	1,918,991	3,956,383	423,437	1998	06/98	40 years
Golden Corral:										
Abbeville, LA	98,577	362,416		98,577	362,416	460,993	240,748	1985	04/85	35 years
Lake Placid, FL	115,113	305,074	43,797	115,113	348,871	463,984	211,416	1985	05/85	35 years
Tampa, FL	1,329,793	1,390,502		1,329,793	1,390,502	2,720,296	210,024	1998	12/01	40 years
Dallas, TX	1,138,129	1,024,747		1,138,129	1,024,747	2,162,875	154,779	1994	12/01	40 years
Temple Terrace, FL	1,187,614	1,339,000		1,187,614	1,339,000	2,526,614	202,245	1997	12/01	40 years

See accompanying report of independent registered public accounting firm.

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	Encumbrances (k)	Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests					Total
Goodyear Truck & Tire:												
Wichita, KS		213,640	686,700			213,640	686,700	900,340	87,268	1989	06/05	20 years
Anthony, TX		(l)	1,241,517			(l)	1,241,517	1,241,517	14,226	2007	02/07	40 years
GymKix:												
Copperas Cove, TX		203,908	431,715	171,477		203,908	603,192	807,100	123,601	1972	11/98	40 years
H&R Block:												
Swansea, IL		45,842	132,440	69,029		45,842	201,469	247,311	29,307	1997	12/01	40 years
Hastings:												
Nacogdoches, TX		397,074	1,257,402			397,074	1,257,402	1,654,477	286,845	1997	11/98	40 years
Haverty s:												
Clearwater, FL		1,184,938	2,526,207	44,005		1,189,188	2,570,212	3,759,400	930,917	1992	05/93	40 years
Orlando, FL		820,397	2,184,721	176,425		820,397	2,361,146	3,181,543	811,364	1992	05/93	40 years
Pensacola, FL	263,188	633,125	1,595,405			603,111	1,595,405	2,198,516	459,122	1994	06/96	40 years
Bowie, MD		1,965,508	4,221,074			1,965,508	4,221,074	6,186,582	927,357	1997	12/97	38 years
Healthy Pet:												
Suwannee, GA		175,183	1,038,492			175,183	1,038,492	1,213,675	27,044	1997	12/06	40 years
Colonial Heights, VA												
		159,879	746,261			159,879	746,261	906,140	17,879	1996	01/07	40 years
Heilig-Meyers:												
Baltimore, MD		469,781	813,073			469,781	813,073	1,282,854	185,482	1968	11/98	40 years
Glen Burnie, MD		631,712	931,931			631,712	931,931	1,563,643	212,550	1968	11/98	40 years
Hollywood Video:												
Cincinnati, OH		282,200	520,623	279,308		543,438	538,693	1,082,132	78,787	1998	12/01	40 years
Clifton, CO		245,462	732,477			245,462	732,477	977,939	110,634	1998	12/01	40 years
Lafayette, LA		603,190	1,149,251			603,190	1,149,251	1,752,441	58,660	1999	12/05	40 years
Ridgeland, MS		778,874	933,314			778,874	933,314	1,712,188	47,638	1997	12/05	40 years
Home Décor:												
Memphis, TN		549,309	539,643	364,460		549,309	904,103	1,453,412	176,448	1998	11/98	40 years
Home Depot:												
Sunrise, FL		5,148,657				5,148,657		5,148,657		(i)	05/03	(i)
HomeGoods:												
Fairfax, VA		977,839	1,414,261	937,301		977,839	2,351,562	3,329,401	249,166	1995	12/95	40 years
Hooters:												
Tampa, FL		783,923	504,768			783,923	504,768	1,288,692	76,241	1993	12/01	40 years
Hope Rehab:												
Houston, TX		112,150	509,179			112,150	509,179	621,329	26,202	1995	12/05	40 years
Horizon Travel Plaza:												
Midland City, AL		728,990	2,538,232			728,990	2,538,232	3,267,222	66,100	2006	12/06	40 years
Dothan, AL		773,671	1,886,333			773,671	1,886,333	2,660,004	37,334	2007	03/07	40 years
Lebanon, TN		581,612				581,612		581,612	(e)	(e)	03/07(q)	(e)
Humana:												
Sunrise, FL		800,271	252,717			800,271	252,717	1,052,988	22,849	1984	05/04	40 years
Hy-Vee:												

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St. Joseph, MO	1,579,583	2,849,246	1,579,583	2,849,246	4,428,829	376,938	1991	09/02	40 years
International House of Pancakes:									
Sunset Hills, MO	271,853		271,853	(c)	271,853	(c)	1993	10/93	(c)
Matthews, NC	380,043		380,043	(c)	380,043	(c)	1993	12/93	(c)
Midwest City, OK	407,268		407,268		407,268	(i)	(i)	11/00	(i)
Ankeny, IA	692,956	515,035	692,956	515,035	1,207,991	43,635	2002	06/05	30 years
Jack-in-the-Box:									
Plano, TX	1,055,433	1,236,590	1,055,433	1,236,590	2,292,023	78,575	2001	06/05	40 years
Jacobson Industrial:									
Des Moines, IA	60,517	112,390	60,517	112,390	172,907	14,283	1973	06/05	20 years
Jared Jewelers:									
Richmond, VA	955,134	1,336,152	955,134	1,336,152	2,291,286	201,815	1998	12/01	40 years
Brandon, FL	1,196,900	1,182,150	1,196,900	1,182,150	2,379,050	166,409	2001	05/02	40 years
Lithonia, GA	1,270,517	1,215,818	1,270,517	1,215,818	2,486,335	171,149	2001	05/02	40 years
Houston, TX	1,675,739	1,439,597	1,675,739	1,439,597	3,115,336	181,449	1999	12/02	40 years

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		Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests	Total				
Jo-Ann Etc:												
Corpus Christi, TX		818,448	896,395	12,222		818,448	908,617	1,727,065	320,316	1967	11/93	40 years
Kangaroo Express:												
Belleview, FL		471,029	1,451,277			471,029	1,451,277	1,922,306	49,888	2006	08/06	40 years
Carthage, NC		485,461	353,643			485,461	353,643	839,104	12,156	1989	08/06	40 years
Jacksonville, FL		807,477	1,239,085			807,477	1,239,085	2,046,562	42,594	1975	08/06	40 years
Jacksonville, FL		684,639	1,361,897			682,510	1,361,897	2,044,407	46,815	1969	08/06	40 years
Sanford, NC		666,330	660,594			666,330	660,594	1,326,924	22,708	2000	08/06	40 years
Sanford, NC		1,638,444	1,370,558			1,638,444	1,370,558	3,009,002	47,112	2003	08/06	40 years
Siler City, NC		586,174	645,290			586,174	645,290	1,231,464	22,182	1998	08/06	40 years
West End, NC		426,114	516,010			426,114	516,010	942,124	17,738	1999	08/06	40 years
Destin, FL		1,365,569	1,192,192			1,365,569	1,192,192	2,557,761	38,498	2000	09/06	40 years
Niceville, FL		1,433,652	1,124,109			1,433,652	1,124,109	2,557,761	36,299	2000	09/06	40 years
Interlachen, FL		518,814				518,814		518,814	(e)	(e)	10/06	(e)
Kill Devil Hills, NC		679,169	552,393			679,169	552,393	1,231,562	16,691	1990	10/06	40 years
Kill Devil Hills, NC		490,309	741,222			490,309	741,222	1,231,531	22,397	1995	10/06	40 years
Clarksville, TN		521,023	709,784			521,023	709,784	1,230,807	18,484	1999	12/06	40 years
Clarksville, TN		275,897	954,910			275,897	954,910	1,230,807	24,867	1999	12/06	40 years
Gallatin, TN		474,297	756,510			474,297	756,510	1,230,807	19,406	1999	12/06	40 years
Naples, FL		3,194,938	1,403,297			3,194,938	1,403,297	4,598,235	36,544	2001	12/06	40 years
Oxford, MS		440,413	1,096,748			440,413	1,096,748	1,537,161	28,561	1998	12/06	40 years
Columbiana, AL		770,793	988,907			770,793	988,907	1,759,700	23,693	1982	01/07	40 years
Naples, FL		3,161,883	1,596,602			3,161,883	1,596,602	4,758,485	34,926	1995	02/07	40 years
Kentwood, LA		985,372	891,185			985,372	891,185	1,876,557	17,638	2001	03/07	40 years
Longs, SC		745,488	757,865			745,488	757,865	1,503,353	14,999	2001	03/07	40 years
Naples, FL		2,412,119	1,589,011			2,412,119	1,589,011	4,001,130	24,828	2000	05/07	40 years
Montgomery, AL		666,002	1,185,069			666,002	1,185,069	1,851,071	16,048	1998	06/07	40 years
Cary, NC		1,314,197	2,124,513			1,314,197	2,124,513	3,438,711	19,917	2007	08/07	40 years
Kash N Karry:												
Brandon, FL	3,124,261(p)	322,476	1,221,661			322,476	1,221,661	1,544,137	128,529	1983	03/99	40 years
Sarasota, FL		470,600	1,343,746			470,600	1,343,746	1,814,346	141,373	1983	03/99	40 years
Keg Steakhouse:												
Bellingham, WA (r)		397,443	455,605			397,443	455,605	853,048	68,815	1981	12/01	40 years
Lynnwood, WA		1,255,513	649,236			1,255,513	649,236	1,904,748	98,062	1992	12/01	40 years
Tacoma, WA		526,792	794,722			526,792	794,722	1,321,515	120,036	1981	12/01	40 years

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Kerasotes:										
Bloomington, IN	2,337,910	4,000,182	2,337,910	4,000,182	6,338,092	46,669	1987	09/07	25 years	
Bolingbrook, IL	2,937,193	3,032,087	2,937,193	3,032,087	5,969,280	29,479	1994	09/07	30 years	
Brighton, CO	1,069,710	5,490,668	1,069,710	5,490,668	6,560,379	40,036	2005	09/07	40 years	
Castle Rock, CO	2,904,550	5,001,791	2,904,550	5,001,791	7,906,342	36,471	2005	09/07	40 years	
Evansville, IN	1,300,359	4,268,824	1,300,359	4,268,824	5,569,183	35,574	1999	09/07	35 years	
Galesburg, IL	1,204,699	2,441,058	1,204,699	2,441,058	3,645,758	17,799	2003	09/07	40 years	
Machesney Park, IL	3,017,551	8,769,548	3,017,551	8,769,548	11,787,099	63,945	2005	09/07	40 years	
Michigan City, IN	1,995,639	8,421,666	1,995,639	8,421,666	10,417,305	61,407	2005	09/07	40 years	
Muncie, IN	1,243,157	5,511,584	1,243,157	5,511,584	6,754,741	40,189	2005	09/07	40 years	
Naperville, IL	6,141,054	11,624,187	6,141,054	11,624,187	17,765,241	84,760	2006	09/07	40 years	
New Lenox, IL	6,777,804	10,979,958	6,777,804	10,979,958	17,757,762	80,062	2004	09/07	40 years	
KFC:										
Erie, PA	516,508	496,092	516,508	496,092	1,012,601	74,931	1996	12/01	40 years	
Marysville, WA	646,779	545,592	646,779	545,592	1,192,371	82,407	1996	12/01	40 years	
Evansville, IN	369,740	766,635	369,740	766,635	1,136,375	31,145	2004	05/06	40 years	
Fenton, MO	307,068	496,410	307,068	496,410	803,478	233,667	1985	07/92	33 years	
Kohl s:										
Florence, AL	817,661	1,046,515	817,661	1,046,515	1,864,176	32,704	(i)	06/04	40 years	
Kum & Go:										
Omaha, NE	392,847	214,280	392,847	214,280	607,127	27,231	1979	06/05	20 years	
Light Restaurant:										
Columbus, OH	1,032,008	1,107,250	1,032,008	1,107,250	2,139,258	167,240	1998	12/01	40 years	

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		Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests	Total				
<b>Lil Champ:</b>												
Gainesville, FL		900,141		1,800,281		900,141	1,800,281	2,700,422	35,631	2007	07/05(q)	40 years
Jacksonville, FL		2,225,177	315,315			2,225,177	315,315	2,540,492	18,722	2006	08/05	40 years
Ocala, FL		845,827		1,563,500		845,827	1,563,500	2,409,327	21,172	2007	02/06(q)	40 years
<b>Logan s Roadhouse:</b>												
Alexandria, LA		1,217,567	3,048,693			1,217,567	3,048,693	4,266,260	85,744	1998	11/06	40 years
Beckley, WV		1,396,024	2,404,817			1,396,024	2,404,817	3,800,841	67,635	2006	11/06	40 years
Cookeville, TN		1,262,430	2,270,596			1,262,430	2,270,596	3,533,026	63,860	1997	11/06	40 years
Fort Wayne, IN		1,274,315	2,109,860			1,274,315	2,109,860	3,384,175	59,340	2003	11/06	40 years
Greenwood, IN		1,341,188	2,105,213			1,341,188	2,105,213	3,446,401	59,209	2000	11/06	40 years
Hurst, TX		1,857,628	1,915,877			1,857,628	1,915,877	3,773,505	53,884	1999	11/06	40 years
Jackson, TN		1,199,765	2,246,330			1,199,765	2,246,330	3,446,095	63,178	1994	11/06	40 years
Lake Charles, LA		1,284,898	2,202,447			1,284,898	2,202,447	3,487,345	61,944	1998	11/06	40 years
McAllen, TX		1,607,806	2,177,715			1,607,806	2,177,715	3,785,521	61,248	2005	11/06	40 years
Opelika, AL		1,028,484	1,753,045			1,028,484	1,753,045	2,781,529	49,304	2005	11/06	40 years
Roanoke, VA		2,302,414	1,947,141			2,302,414	1,947,141	4,249,555	54,763	1998	11/06	40 years
San Marcos, TX		836,979	1,453,300			836,979	1,453,300	2,290,279	40,874	2000	11/06	40 years
Sanford, FL		1,677,782	1,730,390			1,677,782	1,730,390	3,408,172	48,667	1999	11/06	40 years
Smyrna, TN		1,334,998	2,047,465			1,334,998	2,047,465	3,382,463	57,585	2002	11/06	40 years
Warner Robins, GA		905,301	1,533,748			905,301	1,533,748	2,439,049	43,136	2004	11/06	40 years
Franklin, TN		2,519,485	1,704,790			2,519,485	1,704,790	4,224,275	44,396	1995	12/06	40 years
Southaven, MS		1,297,767	1,338,118			1,297,767	1,338,118	2,635,885	34,847	2005	12/06	40 years
<b>Lowe s:</b>												
Memphis, TN		3,214,835	9,169,885			3,214,835	9,169,885	12,384,720	1,271,710	2001	06/02	40 years
<b>Magic China Café:</b>												
Orlando, FL	65,839(o)	40,200	110,531			40,200	110,531	150,731	10,708	2001	02/04	40 years
<b>Magic Mountain:</b>												
Columbus, OH		2,075,527	1,906,370			2,075,527	1,906,370	3,981,897	25,815	1990	06/07	40 years
Columbus, OH		5,379,851	2,693,295			5,379,851	2,693,295	8,073,146	36,471	1990	06/07	40 years
<b>Majestic Liquors:</b>												
Arlington, TX		1,235,214	1,222,434			1,235,214	1,222,434	2,457,648	87,862	1990	02/05	40 years
		1,330,427	3,858,445			1,330,427	3,858,445	5,188,872	277,326	1996	02/05	40 years

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Coffee City, TX										
Ft. Worth, TX	1,461,333	1,673,229		1,461,333	1,673,229	3,134,562	120,263	1999	02/05	40 years
Ft. Worth, TX	1,651,570	2,017,770		1,651,570	2,017,770	3,669,340	145,027	2000	02/05	40 years
Ft. Worth, TX	2,505,249	2,138,400		2,505,249	2,138,400	4,643,649	153,698	1988	02/05	40 years
Ft. Worth, TX	977,290	2,368,447		977,290	2,368,447	3,345,737	170,232	1997	02/05	40 years
Ft. Worth, TX	611,366	1,608,555		611,366	1,608,555	2,219,921	115,615	1974	02/05	40 years
Hudson Oaks, TX	361,371	1,029,053		361,371	1,029,053	1,390,424	73,963	1993	02/05	40 years
Granbury, TX	786,159	1,233,984		786,159	1,233,984	2,020,143	55,272	2006	05/05(g)	40 years
Dallas, TX	1,554,411	1,228,778		1,554,411	1,228,778	2,783,189	78,079	1982	06/05	40 years
Dallas, TX	2,407,203	2,050,580	248,000	2,407,203	2,298,580	4,705,783	139,344	1971	06/05	40 years
Azle, TX	648,274	859,435		648,274	859,435	1,507,709	11,638	1970	06/07	40 years
Ft. Worth, TX	574,618	933,091		574,618	933,091	1,507,709	12,636	1982	06/07	40 years
Lubbock, TX	1,293,214	1,210,826		1,293,214	1,210,826	2,504,040	13,874	1983	07/07	40 years
Lubbock, TX	2,606,118	2,897,922		2,606,118	2,897,922	5,504,040	33,205	1983	07/07	40 years
Merchant s Tires:										
Hampton, VA	179,835	426,895		179,835	426,895	606,730	29,794	1986	03/05	40 years
Newport News, VA	233,812	259,046		233,812	259,046	492,858	18,079	1986	03/05	40 years
Norfolk, VA	398,132	507,743		398,132	507,743	905,875	35,436	1986	03/05	40 years
Rockville, MD	1,030,156	306,147		1,030,156	306,147	1,336,303	21,367	1974	03/05	40 years
Washington, DC	623,607	577,948		623,607	577,948	1,201,555	40,336	1983	03/05	40 years
Mi Pueblo Foods:										
Watsonville, CA	805,056	1,648,934		805,056	1,648,934	2,453,990	173,482	1984	03/99	40 years
Michaels:										
Fairfax, VA	986,131	1,426,254	706,501	986,131	2,132,755	3,118,886	476,206	1995	12/95	40 years
Grapevine, TX (r)	1,017,934	2,066,715		1,017,934	2,066,715	3,084,649	492,997	1998	06/98	40 years
Plymouth Meeting, PA	2,911,111		2,594,720	2,911,111	2,594,720	5,505,831	494,507	1999	10/98(g)	40 years

See accompanying report of independent registered public accounting firm.

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	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed	
	Encumbrances (k)	Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests					Total
Mister Car Wash:												
Anoka, MN		212,378	214,461			212,378	214,461	426,839	10,127	1968	04/07	15 years
Brooklyn Park, MN		438,259	778,217			438,259	778,217	1,216,476	22,050	1985	04/07	25 years
Cedar Rapids, IA		390,848	816,402			390,848	816,402	1,207,250	23,131	1989	04/07	25 years
Clive, IA		1,141,010	934,829			1,141,010	934,829	2,075,839	33,109	1983	04/07	20 years
Cottage Grove, MN		274,404	484,572			274,404	484,572	758,976	13,730	1992	04/07	25 years
Des Moines, IA		212,694	475,795			212,694	475,795	688,489	16,851	1964	04/07	20 years
Des Moines, IA		248,517	595,659			248,517	595,659	844,176	14,064	1990	04/07	30 years
Eden Prairie, MN		865,400	751,139			865,400	751,139	1,616,539	26,603	1984	04/07	20 years
Edina, MN		894,483	686,718			894,483	686,718	1,581,201	24,321	1985	04/07	20 years
Houston, TX		287,729	465,697			287,729	465,697	753,426	21,991	1970	04/07	15 years
Houston, TX		2,260,395	1,806,419			2,260,395	1,806,419	4,066,814	51,182	1975	04/07	25 years
Houston, TX		3,193,137	1,305,127			3,193,137	1,305,127	4,498,264	26,413	1995	04/07	35 years
Houston, TX		1,846,219	1,592,457			1,846,219	1,592,457	3,438,676	45,120	1983	04/07	25 years
Houston, TX		1,960,385	1,144,516			1,960,385	1,144,516	3,104,901	32,427	1983	04/07	25 years
Houston, TX		1,347,305	1,701,671			1,347,305	1,701,671	3,048,976	40,178	1984	04/07	30 years
Houston, TX		795,775	678,201			795,775	678,201	1,473,976	19,216	1986	04/07	25 years
Houston, TX		623,760	1,108,129			623,760	1,108,129	1,731,889	26,164	1988	04/07	30 years
Houston, TX		5,125,771	1,267,125			5,125,771	1,267,125	6,392,896	25,644	1995	04/07	35 years
Humble, TX		1,204,234	1,516,641			1,204,234	1,516,641	2,720,875	30,694	1993	04/07	35 years
Plymouth, MN		827,427	181,549			827,427	181,549	1,008,976	12,860	1955	04/07	10 years
Roseville, MN		861,100	563,575			861,100	563,575	1,424,675	19,959	1963	04/07	20 years
Spokane, WA		214,246	580,318			214,246	580,318	794,564	13,702	1990	04/07	30 years
Spokane, WA		1,252,856	1,146,358			1,252,856	1,146,358	2,399,214	23,200	1997	04/07	35 years
St. Cloud, MN		242,717	391,259			242,717	391,259	633,976	13,857	1986	04/07	20 years
Stillwater, MN		288,745	214,419			288,745	214,419	503,164	10,125	1971	04/07	15 years
Sugarland, TX		3,789,092	1,972,484			3,789,092	1,972,484	5,761,576	39,919	1995	04/07	35 years
West St Paul, MN		835,651	235,825			835,651	235,825	1,071,476	8,352	1972	04/07	20 years
Rochester, MN		318,975	451,053			318,975	451,053	770,028	2,349	1994	10/07	40 years
Rochester, MN		1,054,930	2,327,307			1,054,930	2,327,307	3,382,237	12,121	2003	10/07	40 years
Birmingham, AL		2,377,589	2,144,987			2,377,589	2,144,987	4,522,576	8,937	1985	11/07	30 years
Clearwater, FL		825,012	765,491			825,012	765,491	1,590,503	3,827	1969	11/07	25 years
Mesquite, TX		1,595,876	2,201,161			1,595,876	2,201,161	3,797,037	11,005	1987	11/07	25 years
Seminole, FL		2,165,896	1,495,994			2,165,896	1,495,994	3,661,890	6,233	1985	11/07	30 years
Tampa, FL		2,992,859	1,669,069			2,992,859	1,669,069	4,661,928	8,345	1969	11/07	25 years
Vestavia Hills, AL		1,008,794	955,811			1,008,794	955,811	1,964,605	4,779	1967	11/07	25 years
El Paso, TX		988,006	1,046,430			988,006	1,046,430	2,034,436	1,246	1998	12/07	40 years
El Paso, TX		1,399,045	1,467,945			1,399,045	1,467,945	2,866,990	1,748	1991	12/07	40 years
El Paso, TX		664,183	823,521			664,183	823,521	1,487,704	980	1991	12/07	40 years
El Paso, TX		1,423,681	1,305,604			1,423,681	1,305,604	2,729,285	1,813	1986	12/07	30 years
El Paso, TX		1,807,249	2,287,451			1,807,249	2,287,451	4,094,700	3,177	1983	12/07	40 years
Mountain Jack s:		850,625	1,059,430			850,625	1,059,430	1,910,055	160,018	1986	12/01	40 years



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Centerville, OH										
Mr. E s Music Supercenter:										
Arlington, TX	435,002	2,299,881	334,059	435,002	2,633,940	3,068,942	637,178	1996	06/96	40 years
Muchas Gracias Mexican Restaurant:										
Salem, OR	555,951	735,651		555,951	735,651	1,291,602	111,114	1996	12/06	40 years
New Covenant Church:										
Augusta, GA	176,656	674,253		176,656	674,253	850,909	101,840	1998	12/01	40 years
Office Depot:										
Arlington, TX	596,024	1,411,432		596,024	1,411,432	2,007,456	490,980	1991	01/94	40 years
Richmond, VA	888,772	1,948,036		888,772	1,948,036	2,836,808	564,380	1996	05/96	40 years
Hartsdale, NY	4,508,753	2,327,448		4,508,753	2,327,448	6,836,201	227,831	1996	09/97	40 years
OfficeMax:										
Cincinnati, OH	543,489	1,574,551		543,489	1,574,551	2,118,040	530,737	1994	07/94	40 years
Evanston, IL	1,867,831	1,757,618		1,867,831	1,757,618	3,625,449	551,941	1995	06/95	40 years
Altamonte Springs, FL	1,689,793	3,050,160		1,689,793	3,050,160	4,739,953	905,775	1995	01/96	40 years
Cutler Ridge, FL	989,370	1,479,119		989,370	1,479,119	2,468,489	425,555	1995	06/96	40 years
Sacramento, CA	1,144,167	2,961,206		1,144,167	2,961,206	4,105,373	814,528	1996	12/96	40 years
Salinas, CA	1,353,217	1,829,325		1,353,217	1,829,325	3,182,542	497,348	1995	02/97	40 years
Redding, CA	667,174	2,181,563		667,174	2,181,563	2,848,737	574,933	1997	06/97	40 years

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	Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests	Total				
Kelso, WA	868,003		1,805,539		868,003	1,805,539	2,673,542	449,504	1998	09/97(g)	40 years
Lynchburg, VA	561,509		1,851,326		561,509	1,851,326	2,412,835	430,047	1998	02/98	40 years
Leesburg, FL	640,019		1,929,028		640,019	1,929,028	2,569,047	436,040	1998	08/98	40 years
Griffin, GA	685,470		1,801,905		685,470	1,801,905	2,487,375	392,290	1999	11/98(g)	40 years
Tigard, OR	1,539,873	2,247,321			1,539,873	2,247,321	3,787,194	512,670	1995	11/98	40 years
Orlando Metro Gymnastics:											
Orlando, FL	427,661	1,344,660			427,661	1,344,660	1,772,321	99,448	2003	01/05	40 years
Palais Royale:											
Sealy, TX	475,185	519,176			475,185	519,176	994,361	115,508	1982	03/99	40 years
Palm Tree Computer Systems:											
Orlando, FL	60,351(o)	36,850	101,320		36,850	101,320	138,170	9,815	2001	02/04	40 years
Party City:											
Memphis, TN	266,383		1,136,334		266,383	1,136,334	1,402,717	242,655	1999	06/99	40 years
Pep Boys:											
Chicago, IL	1,077,006	3,756,102			1,077,006	3,756,102	4,833,108	13,414	1993	11/07	35 years
Cicero, IL	1,341,244	3,760,263			1,341,244	3,760,263	5,101,507	13,429	1993	11/07	35 years
Cornwell Heights, PA	2,058,189	3,101,900			2,058,189	3,101,900	5,160,089	15,510	1972	11/07	25 years
East Brunswick, NJ	2,449,212	5,025,778			2,449,212	5,025,778	7,474,990	20,940	1987	11/07	30 years
Jacksonville, FL	809,881	2,330,983			809,881	2,330,983	3,140,864	8,325	1989	11/07	35 years
Joliet, IL	1,505,821	3,726,894			1,505,821	3,726,894	5,232,715	13,310	1993	11/07	35 years
Lansing, IL	868,936	3,439,711			868,936	3,439,711	4,308,647	12,284	1993	11/07	35 years
Las Vegas, NV	1,917,220	2,530,354			1,917,220	2,530,354	4,447,574	9,037	1989	11/07	35 years
Marietta, GA	1,311,037	3,555,989			1,311,037	3,555,989	4,867,026	14,817	1987	11/07	30 years
Marlton, NJ	1,608,391	4,141,816			1,608,391	4,141,816	5,750,207	17,258	1983	11/07	30 years
Philadelphia, PA	1,300,283	3,830,376			1,300,283	3,830,376	5,130,659	13,680	1995	11/07	35 years
Quakertown, PA	1,128,592	3,251,721			1,128,592	3,251,721	4,380,313	11,613	1995	11/07	35 years
Roswell, GA	930,986	2,732,320			930,986	2,732,320	3,663,306	11,385	2007	11/07	30 years
Turnersville, NJ	989,911	3,493,815			989,911	3,493,815	4,483,726	14,558	1986	11/07	30 years
Perfect Teeth:											
Rio Rancho, NM	61,517	122,142			61,517	122,142	183,659	18,465	1997	12/01	40 years
Perkins Restaurant:											
Des Moines, IA	255,874	136,103			255,874	136,103	391,977	34,593	1976	06/05	10 years
Des Moines, IA	225,922	203,330			225,922	203,330	429,252	51,679	1976	06/05	10 years

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Des Moines, IA	269,938	218,248	269,938	218,248	488,186	55,471	1977	06/05	10 years
Newton, IA	353,816	401,630	353,816	401,630	755,446	102,081	1979	06/05	10 years
Urbandale, IA	376,690	581,414	376,690	581,414	958,104	73,888	1979	06/05	20 years
Petco:									
Grand Forks, ND	306,629	909,671	306,629	909,671	1,216,301	228,389	1996	12/97	40 years
Petro Express:									
Belmont, NC	1,507,766	1,622,165	1,507,766	1,622,165	3,129,931	32,829	2001	04/07	35 years
Charlotte, NC	1,025,233	1,604,698	1,025,233	1,604,698	2,629,931	37,888	1986	04/07	30 years
Charlotte, NC	1,292,976	1,836,951	1,292,976	1,836,951	3,129,927	43,372	1987	04/07	30 years
Charlotte, NC	1,457,711	2,047,217	1,457,711	2,047,217	3,504,928	48,337	1987	04/07	30 years
Charlotte, NC	1,290,989	1,838,939	1,290,989	1,838,939	3,129,928	43,419	1988	04/07	30 years
Charlotte, NC	1,777,717	1,977,210	1,777,717	1,977,210	3,754,927	46,684	1992	04/07	30 years
Charlotte, NC	1,322,626	869,805	1,322,626	869,805	2,192,431	20,537	1982	04/07	30 years
Charlotte, NC	506,975	697,953	506,975	697,953	1,204,928	24,719	1967	04/07	20 years
Charlotte, NC	629,337	875,591	629,337	875,591	1,504,928	20,674	1986	04/07	30 years
Charlotte, NC	429,432	425,496	429,432	425,496	854,928	10,046	1983	04/07	30 years
Charlotte, NC	2,315,876	2,064,051	2,315,876	2,064,051	4,379,927	41,772	1996	04/07	35 years
Charlotte, NC	1,037,423	1,467,505	1,037,423	1,467,505	2,504,928	29,700	1997	04/07	35 years
Charlotte, NC	2,165,285	1,964,643	2,165,285	1,964,643	4,129,928	39,761	1997	04/07	35 years
Charlotte, NC	1,339,787	1,790,140	1,339,787	1,790,140	3,129,927	36,229	1998	04/07	35 years
Charlotte, NC	2,784,480	3,720,448	2,784,480	3,720,448	6,504,928	75,295	1998	04/07	35 years
Charlotte, NC	1,532,107	1,972,821	1,532,107	1,972,821	3,504,928	39,926	1998	04/07	35 years
Charlotte, NC	1,030,292	1,724,636	1,030,292	1,724,636	2,754,928	40,721	1983	04/07	30 years
Charlotte, NC	1,810,009	2,569,919	1,810,009	2,569,919	4,379,928	45,509	2004	04/07	40 years
Charlotte, NC	1,257,718	1,559,712	1,257,718	1,559,712	2,817,430	27,619	2004	04/07	40 years
Charlotte, NC	1,696,967	2,418,814	1,696,967	2,418,814	4,115,781	42,833	2005	04/07	40 years
Concord, NC	2,144,009	1,985,919	2,144,009	1,985,919	4,129,928	40,191	2000	04/07	35 years

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	Encumbrances (k)	Land	Building, Improvements and Leasehold Interests	Improve-ments	Carrying Costs	Land	Interests					Total
Concord, NC		1,828,292	1,676,647			1,828,292	1,676,647	3,504,939	33,932	2002	04/07	35 years
Conover, NC		917,090	1,275,337			917,090	1,275,337	2,192,427	25,810	1999	04/07	35 years
Cornelius, NC		1,653,202	2,664,228			1,653,202	2,664,228	4,317,430	53,919	2000	04/07	35 years
Denver, NC		2,317,321	1,750,110			2,317,321	1,750,110	4,067,431	35,418	1999	04/07	35 years
Fort Mill, SC		3,825,461	2,554,459			3,825,461	2,554,459	6,379,920	51,697	1998	04/07	35 years
Fort Mill, SC		1,883,231	1,559,190			1,883,231	1,559,190	3,442,421	36,814	1988	04/07	30 years
Gastonia, NC		964,906	1,227,521			964,906	1,227,521	2,192,427	24,843	2001	04/07	35 years
Gastonia, NC		335,424	544,504			335,424	544,504	879,928	9,642	2000	04/07	40 years
Gastonia, NC		1,070,390	1,184,517			1,070,390	1,184,517	2,254,907	23,972	1990	04/07	35 years
Gastonia, NC		744,571	760,356			744,571	760,356	1,504,927	13,465	2003	04/07	40 years
Hickory, NC		1,975,267	1,529,667			1,975,267	1,529,667	3,504,934	30,957	2002	04/07	35 years
Kings Mountain, NC		1,210,397	982,031			1,210,397	982,031	2,192,428	19,874	1988	04/07	35 years
Lake Wylie, SC		1,972,180	1,282,737			1,972,180	1,282,737	3,254,917	25,960	2003	04/07	35 years
Lake Wylie, SC		1,380,939	2,061,482			1,380,939	2,061,482	3,442,421	41,720	1998	04/07	35 years
Lincolnton, NC		722,773	532,154			722,773	532,154	1,254,927	12,565	1989	04/07	30 years
Lincolnton, NC		2,358,754	1,771,201			2,358,754	1,771,201	4,129,955	35,846	2000	04/07	35 years
Matthews, NC		1,196,544	1,745,883			1,196,544	1,745,883	2,942,427	41,222	1987	04/07	30 years
Mineral Springs, NC		677,575	577,353			677,575	577,353	1,254,928	10,224	2002	04/07	40 years
Monroe, NC		420,625	834,302			420,625	834,302	1,254,927	16,885	1997	04/07	35 years
Monroe, NC		709,082	795,846			709,082	795,846	1,504,928	16,106	1999	04/07	35 years
Monroe, NC		857,369	1,022,565			857,369	1,022,565	1,879,934	18,108	2004	04/07	40 years
Rock Hill, SC		2,118,790	1,886,128			2,118,790	1,886,128	4,004,918	38,172	1998	04/07	35 years
Rock Hill, SC		3,095,160	1,909,758			3,095,160	1,909,758	5,004,918	38,650	1999	04/07	35 years
Rock Hill, SC		777,836	727,082			777,836	727,082	1,504,918	17,167	1990	04/07	30 years
Statesville, NC		1,885,746	2,181,682			1,885,746	2,181,682	4,067,428	44,153	1999	04/07	35 years
Thomasville, NC		993,898	1,761,032			993,898	1,761,032	2,754,930	35,640	2000	04/07	35 years
Waxhaw, NC		508,235	746,698			508,235	746,698	1,254,933	13,223	2002	04/07	40 years
York, SC		2,306,150	1,448,777			2,306,150	1,448,777	3,754,927	29,320	1999	04/07	35 years
Charlotte, NC		1,231,265	1,214,175			1,231,265	1,214,175	2,445,440	18,971	1997	05/07	40 years
Charlotte, NC		1,849,143	2,279,590			1,849,143	2,279,590	4,128,733	35,618	2005	05/07	40 years
Rock Hill, SC		3,107,907	2,145,815			3,107,907	2,145,815	5,253,722	33,528	1999	05/07	40 years
PETsMART: Chicago, IL		2,724,138	3,565,721			2,724,138	3,565,721	6,289,859	828,279	1998	09/98	40 years
Picture Factory: Sarasota, FL		1,167,618	1,903,810	218,564		1,167,618	2,122,374	3,289,992	205,716	1996	09/97	40 years
Pier 1 Imports:												

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Anchorage, AK	928,321	1,662,584		928,321	1,662,584	2,590,905	492,087	1995	02/96	40 years
Memphis, TN	713,319	821,770		713,319	821,770	1,535,089	216,571	1997	09/96(f)	40 years
Sanford, FL	738,051	803,082		738,051	803,082	1,541,133	196,588	1998	06/97(f)	40 years
Knoxville, TN	467,169	734,833		467,169	734,833	1,202,002	164,571	1999	01/98(f)	40 years
Mason, OH	593,571	885,047		593,571	885,047	1,478,617	188,994	1999	06/98(f)	40 years
Harlingen, TX	316,640	756,406		316,640	756,406	1,073,046	155,221	1999	11/98(f)	40 years
Valdosta, GA	390,838	805,912		390,838	805,912	1,196,750	163,701	1999	01/99(f)	40 years
Pizza Hut:										
Monroeville, AL	547,300	44,237		547,300	44,237	591,537	6,682	1976	12/01	40 years
Pizza Place, The:										
Cohoes, NY	16,396	88,372		16,396	88,372	104,768	7,151	1994	09/04	40 years
Popeye s:										
Snellville, GA	642,169	436,512		642,169	436,512	1,078,681	65,931	1995	12/01	40 years
Pueblo Viejo Restaurant:										
Chandler, AZ	654,765	765,164	7,500	654,765	772,664	1,427,429	122,640	1997	12/01	40 years
Pull-A-Part:										
Birmingham, AL	1,164,780	2,090,094		1,164,780	2,090,094	3,254,874	71,847	1964	08/06	40 years
Augusta, GA	1,414,381		1,450,906	1,414,381	1,450,906	2,865,287	19,648	2007	08/06(q)	40 years
Conley, GA	1,685,604	1,387,170		1,685,604	1,387,170	3,072,774	47,684	1999	08/06	40 years
Norcross, GA	1,831,129	1,040,317		1,831,129	1,040,317	2,871,446	35,761	1998	08/06	40 years
Louisville, KY	3,205,591	1,531,842		3,205,591	1,531,842	4,737,433	52,657	2006	08/06	40 years
Harvey, LA	1,881,371			1,881,371		1,881,371	(e)	(e)	08/06(q)	(e)
Charlotte, NC	2,912,842	1,724,045		2,912,842	1,724,045	4,636,887	59,264	2006	08/06	40 years
Knoxville, TN	961,067		2,384,443	961,067	2,384,443	3,345,510	27,322	2007	08/06(q)	40 years
Nashville, TN	2,164,234	1,414,129		2,164,234	1,414,129	3,578,363	48,611	2006	08/06	40 years

See accompanying report of independent registered public accounting firm.

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	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed	
	Encumbrances (k)	Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests					Total
Lafayette, LA		1,034,830				1,034,830		1,034,830	(e)	(e)	08/06(q)	(e)
Cleveland, OH		4,555,684		2,096,448		4,555,684	2,096,448	6,652,132	6,551	2007	08/06	40 years
Montgomery, AL		934,023				934,023		934,023	(e)	(e)	11/06(q)	(e)
Jackson, MS		1,314,846				1,314,846		1,314,846	(e)	(e)	12/06(q)	(e)
Baton Rouge, LA		890,122				890,122		890,122	(e)	(e)	01/07(q)	(e)
Memphis, TN		1,779,169				1,779,169		1,779,169	(e)	(e)	05/07(q)	(e)
Mobile, AL		549,485				549,485		549,485	(e)	(e)	06/07(q)	(e)
Winston-Salem, NC		845,948				845,948		845,948	(e)	(e)	08/07(q)	(e)
Lithonia, GA		2,409,908				2,409,908		2,409,908	(e)	(e)	08/07(q)	(e)
Columbia, SC		934,755				934,755		934,755	(e)	(e)	09/07(q)	(e)
<b>QuikTrip:</b>												
Alpharetta, GA		1,048,309	606,916			1,048,309	606,916	1,655,225	38,564	1996	06/05	40 years
Clive, IA		623,473	556,970			623,473	556,970	1,180,443	47,188	1994	06/05	30 years
Des Moines, IA		258,759	792,448			258,759	792,448	1,051,207	67,138	1990	06/05	30 years
Des Moines, IA		379,435	455,322			379,435	455,322	834,757	38,576	1996	06/05	30 years
Gainesville, GA		592,192	912,962			592,192	912,962	1,505,154	77,348	1989	06/05	30 years
Herculaneum, MO		856,001	1,612,887			856,001	1,612,887	2,468,888	136,647	1991	06/05	30 years
Johnston, IA		394,289	385,119			394,289	385,119	779,408	32,628	1991	06/05	30 years
Lee's Summit, MO		373,770	1,224,099			373,770	1,224,099	1,597,869	77,781	1999	06/05	40 years
Norcross, GA		948,051	293,896			948,051	293,896	1,241,947	24,900	1993	06/05	30 years
Norcross, GA		844,216	296,867			838,826	296,867	1,135,693	25,151	1989	06/05	30 years
Norcross, GA		966,145	202,430			966,145	202,430	1,168,575	17,150	1994	06/05	30 years
Olathe, KS		792,656	1,391,981			792,656	1,391,981	2,184,637	88,449	1999	06/05	40 years
Tulsa, OK		1,224,843	649,917			1,224,843	649,917	1,874,760	55,062	1990	06/05	30 years
Urbandale, IA		339,566	764,025			339,566	764,025	1,103,591	48,547	1993	06/05	40 years
Wichita, KS		127,250	542,934			127,250	542,934	670,184	45,999	1990	06/05	30 years
Wichita, KS		118,012	453,891			118,012	453,891	571,903	38,455	1989	06/05	30 years
Woodstock, GA		488,383	1,041,883			488,383	1,041,883	1,530,266	66,203	1997	06/05	40 years
<b>Quizno s:</b>												
Rio Rancho, NM		48,566	96,428	13,398		48,566	109,826	158,392	16,186	1997	12/01	40 years
<b>Qwest Corporation Service Center:</b>												
Cedar Rapids, IA		184,490	628,943			184,490	628,943	813,433	79,928	1976	06/05	20 years
Decorah, IA		71,899	271,620			71,899	271,620	343,519	69,037	1974	06/05	10 years
<b>Rally s:</b>												
Toledo, OH		125,882	319,770			125,882	319,770	445,652	127,868	1989	07/92	39 years
<b>REB Oil:</b>												
Deerfield Beach, FL		769,522	273,756			769,522	273,756	1,043,278	13,973	1980	12/05	40 years
<b>Red Lion Chinese Restaurant:</b>												
Cohoes, NY		27,327	147,286			27,327	147,286	174,613	11,918	1994	09/04	40 years
<b>Reliable:</b>												

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St. Louis, MO	2,077,893	13,762,491		2,077,893	13,762,491	15,840,384	1,192,793	1975	05/04	40 years
Rent-A-Center:										
Rio Rancho, NM	145,698	289,284	40,193	145,698	329,477	475,175	48,883	1997	12/01	40 years
Rite Aid:										
Mobile, AL	1,136,618	1,694,187		1,136,618	1,694,187	2,830,805	255,893	2000	12/01	40 years
Orange Beach, AL	1,409,980	1,996,043		1,409,980	1,996,043	3,406,023	301,486	2000	12/01	40 years
Albany, NY	24,707	867,257		24,707	867,257	891,964	71,367	1994	09/04	40 years
Albany, NY (r)	33,794	823,923		33,794	823,923	857,717	67,802	1992	09/04	40 years
Hudson Falls, NY	56,737	780,091	38,787	56,737	818,878	875,615	64,802	1990	09/04	40 years
Saratoga Springs, NY	762,303	590,978		762,303	590,978	1,353,281	48,633	1980	09/04	40 years
Ticonderoga, NY	88,867	688,622		88,867	688,622	777,489	56,668	1993	09/04	40 years
Monticello, NY	850,549	664,400	768,795	664,400	768,795	1,433,195	53,656	1996	03/05	40 years
Rite Rug:										
Columbus, OH	1,596,197	934,236	13,345	1,604,615	939,163	2,543,778	73,339	1970	11/04	40 years
Roadhouse Grill:										
Cheektowaga, NY	689,040	386,251		689,040	386,251	1,075,290	58,340	1994	12/01	40 years

See accompanying report of independent registered public accounting firm.

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	Encumbrances (k)	Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests					Total
Road Ranger:												
Belvidere, IL		748,237	1,256,106			748,237	1,256,106	2,004,344	48,412	1997	06/06	40 years
Brazil, IN		2,199,280	907,034			2,199,280	907,034	3,106,314	34,958	1990	06/06	40 years
Cherry Valley, IL												
Cottage		1,409,312	1,897,360			1,409,312	1,897,360	3,306,672	73,127	1991	06/06	40 years
Grove, WI		2,174,548	1,733,398			2,174,548	1,733,398	3,907,946	66,808	1990	06/06	40 years
Decatur, IL		815,213	1,314,354			815,213	1,314,354	2,129,568	50,657	2002	06/06	40 years
Dekalb, IL		747,109	1,657,951			747,109	1,657,951	2,405,060	63,900	2000	06/06	40 years
Elk Run Heights, IA												
Lake Station, IN		1,537,734	2,470,191			1,537,734	2,470,191	4,007,925	95,205	1989	06/06	40 years
Mendota, IL		3,171,775	1,111,643			3,171,775	1,111,643	4,283,418	42,845	1987	06/06	40 years
Oakdale, WI		959,012	1,295,780			959,012	1,295,780	2,254,792	49,941	1996	06/06	40 years
Rockford, IL		1,844,068	1,663,137			1,844,068	1,663,137	3,507,205	64,100	1998	06/06	40 years
Rockford, IL		1,094,045	1,661,684			1,094,045	1,661,684	2,755,729	64,044	1996	06/06	40 years
Springfield, IL		623,214	1,331,082			623,214	1,331,082	1,954,296	51,302	2000	06/06	40 years
Springfield, IL												
Champaign, IL		1,794,961	1,862,562			1,794,961	1,862,562	3,657,523	71,786	1978	06/06	40 years
Dekalb, IL		3,241,075	2,007,662			3,241,075	2,007,662	5,248,737	43,918	2006	02/07	40 years
Fenton, MO		504,730	1,503,084			504,730	1,503,084	2,007,814	32,880	2004	02/07	40 years
Hampshire, IL		2,583,565	2,621,722			2,583,565	2,621,722	5,205,287	57,350	2007	02/07	40 years
Princeton, IL		1,307,002	1,500,812	1,629,412		1,307,002	3,130,224	4,437,226	34,560	1988	02/07	40 years
South Beloit, IL		1,141,447	3,066,368			1,141,447	3,066,368	4,207,815	67,077	2003	02/07	40 years
Cedar Rapids, IA												
Marion, IA		3,823,872	2,308,942			3,823,872	2,308,942	6,132,814	50,508	2002	02/07	40 years
Okawville, IL		1,024,606	983,509			1,024,606	983,509	2,008,115	19,465	1990	03/07	40 years
Dubuque, IA		736,574	1,071,226			736,574	1,071,226	1,807,800	21,201	1974	03/07	40 years
Belvidere, IL		929,718	1,147,323			929,718	1,147,323	2,077,041	10,756	1997	08/07	40 years
South Beloit, IL		560,523	1,941,477			560,523	1,941,477	2,502,000	14,157	2000	09/07	40 years
South Beloit, IL		520,800				520,800		520,800	(e)	(e)	09/07	40 years
South Beloit, IL		1,182,152				1,182,152		1,182,152	(e)	(e)	09/07	40 years
Robb & Stucky:												
Ft. Myers, FL		2,188,440	6,225,401			2,188,440	6,225,401	8,413,841	1,580,217	1997	12/97	40 years
Roger & Mary s:												
Kenosha, WI		1,917,606	3,431,364			1,917,606	3,431,364	5,348,970	928,213	1992	02/97	40 years
Ross Dress For Less:												
Coral Gables, FL		1,782,346	1,661,174			1,782,346	1,661,174	3,443,520	427,005	1994	06/96	40 years
Lodi, CA		613,710	1,414,592			613,710	1,414,592	2,028,302	148,827	1984	03/99	40 years
Schlotzsky s Deli:												
Phoenix, AZ		706,306	315,469			706,306	315,469	1,021,775	47,649	1995	12/01	40 years
Scottsdale, AZ		717,138	310,610			717,138	310,610	1,027,748	46,915	1995	12/01	40 years



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7-Eleven:									
Land O									
Lakes, FL	1,076,572	816,944	1,076,572	816,944	1,893,516	182,961	1999	10/98(g)	40 years
Tampa, FL	1,080,670	917,432	1,080,670	917,432	1,998,102	201,644	1999	12/98(g)	40 years
Shek s									
Chinese									
Express:									
Eden Prairie, MN	64,916	261,347	64,916	261,347	326,263	36,492	1997	12/01	40 years
Shoes on a									
Shoestring:									
Albuquerque, NM	1,441,777	2,335,475	1,441,777	2,335,475	3,777,251	615,495	1997	06/97	40 years
Shop-a-Snak:									
Jasper, AL	551,417	747,418	551,417	747,418	1,298,835	30,364	1998	05/06	40 years
Bessemer, AL	563,863	742,457	563,863	742,457	1,306,320	30,162	2002	05/06	40 years
Birmingham, AL	489,664	769,343	489,664	769,343	1,259,007	31,254	1992	05/06	40 years
Birmingham, AL	438,536	704,005	438,536	704,005	1,142,541	28,600	1989	05/06	40 years
Birmingham, AL	361,182	744,195	361,182	744,195	1,105,377	30,233	1989	05/06	40 years
Chelsea, AL	391,275	627,502	391,275	627,502	1,018,777	25,492	1981	05/06	40 years
Homewood, AL	467,950	656,964	467,950	656,964	1,124,914	26,689	1990	05/06	40 years
Hoover, AL	712,752	864,527	712,752	864,527	1,577,279	35,121	1998	05/06	40 years
Hoover, AL	764,461	1,156,598	764,461	1,156,598	1,921,059	46,987	2005	05/06	40 years
Hoover, AL	445,980	671,989	445,980	671,989	1,117,969	27,300	1989	05/06	40 years
Trussville, AL	271,728	541,741	271,728	541,741	813,469	22,008	1992	05/06	40 years
Tuscaloosa, AL	385,947	732,669	385,947	732,669	1,118,616	29,765	1991	05/06	40 years
Tuscaloosa, AL	525,165	462,868	525,165	462,868	988,033	18,804	1991	05/06	40 years
Tuscaloosa, AL	431,917	559,403	431,917	559,403	991,320	22,726	1991	05/06	40 years

See accompanying report of independent registered public accounting firm.

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	Encumbrances (k)	Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests					Total
Shop & Save: Homestead, PA		1,139,419		2,158,167(j)		1,139,419	2,158,167	3,297,586	166,837	1994	02/97	40 years
Soaks Express Car Wash: Ankeny, IA		661,958				661,958		661,958		(e)	06/05	(e)
Sofa Express: Buford, GA		1,925,129	5,034,846			1,925,129	5,034,846	6,959,975	435,304	2004	07/04	40 years
Sonic Automotive: Charlotte, NC		3,618,837	4,853,587			3,618,837	4,853,587	8,472,424	75,837	1996	05/07	40 years
Spa and Nails Club: Orlando, FL	65,839(o)	40,200	110,531			40,200	110,531	150,731	10,708	2001	02/04	40 years
Spencer s A/C & Appliances: Glendale, AZ		341,713	982,429			341,713	982,429	1,324,143	207,301	1999	12/98(g)	40 years
Sports Authority: Tampa, FL		2,127,503	1,521,730			2,127,503	1,521,730	3,649,233	437,814	1994	06/96	40 years
Sarasota, FL		1,427,840	1,702,852			1,427,840	1,702,852	3,130,692	166,738	1996	09/97	40 years
Memphis, TN (r)		820,340		2,573,264		820,340	2,573,264	3,393,604	592,387	1998	12/97(g)	40 years
Little Rock, AR		3,113,375	2,660,206			3,113,375	2,660,206	5,773,581	617,944	1997	09/98	40 years
Woodbridge, NJ		3,749,990	5,982,660			3,749,990	5,982,660	9,732,650	741,600	1994	01/03	40 years
Bradenton, FL		1,526,340	4,139,363			1,526,340	4,139,363	5,665,703	409,624	1997	01/04	40 years
Sportsman s Warehouse: Sioux Falls, SD		2,619,810	1,929,895			2,619,810	1,929,895	4,549,705	163,505	1998	06/05	30 years
Steak & Ale: Jacksonville, FL		986,565	855,523			986,565	855,523	1,842,088	129,220	1996	12/01	40 years
Stone Mountain Chevrolet: Lilburn, GA		3,027,056	4,685,189			3,027,056	4,685,189	7,712,245	395,313	2004	08/04	40 years
Stop & Go: Grand Prairie, TX		421,254	684,568			421,254	684,568	1,105,822	103,398	1986	12/01	40 years
Kennedale, TX		399,988	692,190			391,208	692,190	1,083,398	104,549	1985	12/01	40 years
Stripes:												

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Brownsville, TX	1,842,992	1,418,941	1,842,992	1,418,941	3,261,933	72,425	2000	12/05	40 years
Brownsville, TX	1,181,713	1,105,326	1,181,713	1,105,326	2,287,039	56,418	2000	12/05	40 years
Brownsville, TX	2,915,173	1,800,409	2,915,173	1,800,409	4,715,582	91,896	2000	12/05	40 years
Brownsville, TX	2,416,656	1,828,304	2,416,656	1,828,304	4,244,960	93,320	2000	12/05	40 years
Brownsville, TX	1,015,092	1,307,774	1,015,092	1,307,774	2,322,866	66,751	2003	12/05	40 years
Brownsville, TX	1,038,788	1,144,916	1,038,788	1,144,916	2,183,704	58,438	2004	12/05	40 years
Brownsville, TX	1,392,201	1,443,817	1,392,201	1,443,817	2,836,018	73,695	2005	12/05	40 years
Brownsville, TX	1,279,447	1,014,702	1,279,447	1,014,702	2,294,149	51,792	1990	12/05	40 years
Brownsville, TX	2,529,864	1,124,953	2,529,864	1,124,953	3,654,817	57,419	1990	12/05	40 years
Brownsville, TX	2,033,467	1,287,564	2,033,467	1,287,564	3,321,031	65,719	1995	12/05	40 years
Brownsville, TX	933,149	699,086	933,149	699,086	1,632,235	35,683	1999	12/05	40 years
Corpus Christi, TX	1,384,743	1,418,948	1,384,743	1,418,948	2,803,691	72,425	1982	12/05	40 years
Corpus Christi, TX	852,629	1,416,208	852,629	1,416,208	2,268,837	72,286	2005	12/05	40 years
Corpus Christi, TX	1,399,622	1,530,910	1,399,622	1,530,910	2,930,532	78,140	1984	12/05	40 years
Corpus Christi, TX	703,182	1,036,506	703,182	1,036,506	1,739,688	52,905	1986	12/05	40 years
Donna, TX	1,003,876	1,126,591	1,003,876	1,126,591	2,130,466	57,503	1995	12/05	40 years
Edinburg, TX	1,317,408	1,623,891	1,317,408	1,623,891	2,941,299	82,886	1999	12/05	40 years
Edinburg, TX	970,145	1,286,006	970,145	1,286,006	2,256,151	65,640	2003	12/05	40 years
Falfurias, TX	4,243,940	4,458,007	4,243,940	4,458,007	8,701,947	227,544	2002	12/05	40 years
Freer, TX	1,150,862	1,158,251	1,150,862	1,158,251	2,309,113	59,119	1984	12/05	40 years
George West, TX	1,243,224	695,074	1,243,224	695,074	1,938,298	35,478	1996	12/05	40 years
Harlingen, TX	906,427	952,530	906,427	952,530	1,858,957	48,619	1991	12/05	40 years
Harlingen, TX	753,595	1,152,311	753,595	1,152,311	1,905,906	58,816	1999	12/05	40 years
Harlingen, TX	755,002	600,721	755,002	600,721	1,355,723	30,662	1987	12/05	40 years
La Feria, TX	900,096	1,346,774	900,096	1,346,774	2,246,870	68,742	1988	12/05	40 years
Laredo, TX	1,552,558	1,774,827	1,552,558	1,774,827	3,327,385	90,590	2000	12/05	40 years
Laredo, TX	840,629	738,907	840,629	738,907	1,579,536	37,715	2001	12/05	40 years
Laredo, TX	736,451	670,332	736,451	670,332	1,406,784	34,215	1984	12/05	40 years
Laredo, TX	459,027	459,946	459,027	459,946	918,973	23,476	1983	12/05	40 years
Laredo, TX	1,494,871	1,400,482	1,494,871	1,400,482	2,895,353	71,482	1993	12/05	40 years

See accompanying report of independent registered public accounting firm.

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	Encumbrances (k)	Land	Building, Improvements and Leasehold Interests	Improve-ments	Carrying Costs	Land	Building, Improvements and Leasehold Interests				Total	
Laredo, TX		675,128	533,047			675,128	533,047	1,208,175	27,208	1993	12/05	40 years
Lawton, OK		696,670	964,441			696,670	964,441	1,661,111	49,227	1984	12/05	40 years
Los Indios, TX		1,386,972	1,456,932			1,386,972	1,456,932	2,843,903	74,364	2005	12/05	40 years
McAllen, TX		975,217	1,029,752			975,217	1,029,752	2,004,968	52,560	2003	12/05	40 years
McAllen, TX		987,020	893,376			987,020	893,376	1,880,396	45,599	1999	12/05	40 years
Mission, TX		880,169	1,101,301			880,169	1,101,301	1,981,471	56,212	1999	12/05	40 years
Mission, TX		1,125,457	1,213,398			1,125,457	1,213,398	2,338,855	61,934	2003	12/05	40 years
Olmito, TX		3,687,971	2,880,099			3,687,971	2,880,099	6,568,070	147,005	2002	12/05	40 years
Pharr, TX		981,840	1,177,948			981,840	1,177,948	2,159,788	60,124	1988	12/05	40 years
Pharr, TX		784,402	804,743			784,402	804,743	1,589,144	41,075	2000	12/05	40 years
Pharr, TX		2,426,134	1,880,867			2,426,134	1,880,867	4,307,001	96,003	2003	12/05	40 years
Port Isabel, TX		2,062,009	1,298,501			2,062,009	1,298,501	3,360,510	66,278	1994	12/05	40 years
Portland, TX		655,735	914,512			655,735	914,512	1,570,247	46,678	1983	12/05	40 years
Progresso, TX		1,768,974	1,811,221			1,768,974	1,811,221	3,580,195	92,448	1999	12/05	40 years
Riviera, TX		2,351,060	2,158,069			2,351,060	2,158,069	4,509,128	110,151	2005	12/05	40 years
San Benito, TX		1,103,210	1,586,235			1,103,210	1,586,235	2,689,445	80,964	2005	12/05	40 years
San Benito, TX		790,629	1,857,158			790,629	1,857,158	2,647,787	94,792	1994	12/05	40 years
San Juan, TX		1,123,838	1,171,582			1,123,838	1,171,582	2,295,420	59,800	1996	12/05	40 years
San Juan, TX		1,424,383	1,545,557			1,424,383	1,545,557	2,969,940	78,888	2004	12/05	40 years
South Padre Island, TX		1,366,721	1,388,764			1,366,721	1,388,764	2,755,485	70,885	1988	12/05	40 years
Wichita Falls, TX		905,117	1,350,908			905,117	1,350,908	2,256,025	68,953	2000	12/05	40 years
Wichita Falls, TX		484,202	827,999			484,202	827,999	1,312,201	42,262	1983	12/05	40 years
Wichita Falls, TX		439,646	751,484			439,646	751,484	1,191,130	38,356	1984	12/05	40 years
Palm View, TX		835,383	1,372,061			835,383	1,372,061	2,207,444	41,447	2005	10/06	40 years
Harlingen, TX		638,186	1,806,562			638,186	1,806,562	2,444,748	47,046	2006	12/06	40 years
Rio Grande City		1,871,354	1,612,282			1,871,354	1,612,282	3,483,636	41,987	2006	12/06	40 years
San Juan, TX		815,902	1,433,890			815,902	1,433,890	2,249,792	37,341	2006	12/06	40 years
Zapata, TX		1,332,662	1,772,564			1,332,662	1,772,564	3,105,226	46,161	2006	12/06	40 years
Orange Grove, TX		1,766,745	1,838,068			1,766,745	1,838,068	3,604,813	32,549	2007	04/07	40 years
Harlingen, TX		407,920	825,732			407,920	825,732	1,233,652	3,440	1982	11/07	30 years
Laredo, TX		467,915	727,548			467,915	727,548	1,195,463	3,031	1973	11/07	30 years
Laredo, TX		584,244	958,472			584,244	958,472	1,542,716	3,994	1981	11/07	30 years
Laredo, TX		447,733	734,498			447,733	734,498	1,182,231	3,060	1981	11/07	30 years
Laredo, TX		698,261	1,168,532			698,261	1,168,532	1,866,793	4,869	1981	11/07	30 years
Laredo, TX		348,351	1,168,124			348,351	1,168,124	1,516,475	4,867	1983	11/07	30 years
San Benito, TX		419,729	1,135,228			419,729	1,135,228	1,554,957	4,730	1985	11/07	40 years
Del Rio, TX		1,565,013	758,296			1,565,013	758,296	2,323,309	2,369	1996	11/07	40 years
Kerrville, TX		640,368	1,616,290			640,368	1,616,290	2,256,658	5,051	1996	11/07	40 years
Monahans, TX		2,627,558	2,973,453			2,627,558	2,973,453	5,601,011	9,293	1996	11/07	40 years
Odessa, TX		2,632,935	3,198,762			2,632,935	3,198,762	5,831,697	9,996	2006	11/07	40 years
San Angelo, TX		194,277	471,407			194,277	471,407	665,684	1,473	1998	11/07	40 years
Pharr, TX		573,354	1,228,572			573,354	1,228,572	1,801,926	1,280	2000	12/07	40 years

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Subway:										
Eden Prairie, MN	54,097	150,449	67,341	54,097	217,790	271,887	30,410	1997	12/01	40 years
Albany, NY	2,734	66,667		2,734	66,667	69,401	5,486	1992	09/04	40 years
Cohoes, NY	21,862	117,829		21,862	117,829	139,691	9,534	1994	09/04	40 years
SuperValu:										
Huntington, WV	1,254,238	760,602		1,254,238	760,602	2,014,840	206,788	1971	02/97	40 years
Maple Heights, OH	1,034,758	2,874,414		1,034,758	2,874,414	3,909,172	781,481	1985	02/97	40 years
Susser:										
Corpus Christi, TX	630,043	3,131,407		630,043	3,131,407	3,761,450	688,257	1983	03/99	40 years
Swansea										
Quick Cash:										
Swansea, IL	45,815	132,365		45,815	132,365	178,180	19,995	1997	12/01	40 years
Taco Bell:										
Ocala, FL	275,023	754,990		275,023	754,990	1,030,013	114,035	2001	12/01	40 years
Ormond										
Beach, FL	632,337	525,616		632,337	525,616	1,157,953	79,390	2001	12/01	40 years
Phoenix, AZ	593,718	282,777		593,718	282,777	876,495	42,711	1995	12/01	40 years
Bedford, IN	796,772	936,942		796,772	936,942	1,733,714	38,063	1989	05/06	40 years
Columbus, IN	1,256,948	2,054,570		1,256,948	2,054,570	3,311,518	83,466	1990	05/06	40 years
Columbus, IN	690,142	1,212,681		690,142	1,212,681	1,902,823	49,265	2005	05/06	40 years
Evansville, IN	221,196	828,023		221,196	828,023	1,049,219	33,638	2003	05/06	40 years

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	Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests	Total				
Evansville, IN	308,068	1,300,511			308,068	1,300,511	1,608,579	52,833	2000	05/06	40 years
Evansville, IN	524,368	1,815,101			524,368	1,815,101	2,339,469	73,738	2005	05/06	40 years
Fishers, IN	989,998	486,260			989,998	486,260	1,476,258	19,754	1998	05/06	40 years
Greensburg, IN	648,296	1,079,007			648,296	1,079,007	1,727,303	43,834	1998	05/06	40 years
Indianapolis, IN	1,031,743	1,649,975			1,031,743	1,649,975	2,681,718	67,030	2004	05/06	40 years
Indianapolis, IN	547,218	703,287			547,218	703,287	1,250,505	28,571	2004	05/06	40 years
Madisonville, KY	682,108	1,192,867			682,108	1,192,867	1,874,975	48,460	1999	05/06	40 years
Owensboro, KY	638,693	1,326,161			638,693	1,326,161	1,964,854	53,875	2005	05/06	40 years
Shelbyville, IN	670,216	1,755,847			670,216	1,755,847	2,426,063	71,331	1998	05/06	40 years
Speedway, IN	407,707	1,426,319			407,707	1,426,319	1,834,026	57,944	2003	05/06	40 years
Terre Haute, IN	1,037,327	1,655,660			1,037,327	1,655,660	2,692,987	67,261	2003	05/06	40 years
Terre Haute, IN	1,313,692	2,249,313			1,313,692	2,249,313	3,563,005	91,378	2003	05/06	40 years
Vincennes, IN	501,783	879,791			501,783	879,791	1,381,574	35,742	2004	05/06	40 years
Taco Bron Restaurant:											
Tucson, AZ	827,002	305,209	17,814		844,816	305,209	1,150,025	52,810	1974	12/01	40 years
Texas Roadhouse:											
Grand Junction, CO	584,237	920,143			584,237	920,143	1,504,380	138,979	1997	12/01	40 years
Thornton, CO	598,556	1,019,164			598,556	1,019,164	1,617,720	153,936	1998	12/01	40 years
TGI Friday s:											
Corpus Christi, TX	1,209,702	1,532,125			1,209,702	1,532,125	2,741,827	231,414	1995	12/01	40 years
Thomasville:											
Buford, GA	1,266,527	2,405,629			1,266,527	2,405,629	3,672,156	207,987	2004	07/04	40 years
Top s:											
Lacey, WA	2,777,449	7,082,150			2,777,449	7,082,150	9,859,599	1,925,460	1992	02/97	40 years
Tractor Supply Co.:											
Aransas Pass, TX	100,967	1,599,293			100,967	1,599,293	1,700,260	305,694	1983	03/99	40 years
Ultra Car Wash:											
Mobile, AL	1,070,724	1,086,104			1,070,724	1,086,104	2,156,828	10,182	2005	08/07	40 years
Uni-Mart:											
Avis, PA	391,801	326,046			391,801	326,046	717,847	38,718	1976	08/05	20 years
Bear Creek, PA (r)	190,558	230,193			190,558	230,193	420,752	27,335	1980	08/05	20 years
Bloomsburg, PA (r)	206,402	501,424			206,402	501,424	707,826	59,544	1981	08/05	20 years
Bloomsburg, PA (r)	540,561	146,127			540,561	146,127	686,689	17,352	1967	08/05	20 years
Bloomsburg, PA (r)	515,108	888,074			515,108	888,074	1,403,182	105,459	1998	08/05	20 years
Chambersburg, PA (r)	75,678	197,035			75,678	197,035	272,713	23,397	1990	08/05	20 years
Coraopolis, PA	475,572	347,360			475,572	347,360	822,932	41,248	1983	08/05	20 years
Dallas, PA (r)	890,855	1,435,745			890,855	1,435,745	2,326,601	170,494	1995	08/05	20 years

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East Brady, PA (r)	269,433	583,204	269,433	583,204	852,637	69,255	1987	08/05	20 years
Emporium, PA	380,032	568,625	380,032	568,625	948,657	67,524	1996	08/05	20 years
Hazleton, PA	670,271	377,355	670,271	377,355	1,047,625	44,811	1974	08/05	20 years
Hazleton, PA (r)	2,529,165	727,550	2,529,165	727,550	3,256,716	86,396	2001	08/05	20 years
Johnsonburg, PA (r)	780,536	503,662	780,536	503,662	1,284,198	59,809	1978	08/05	20 years
Larksville, PA (r)	245,870	333,875	245,870	333,875	579,745	39,648	1990	08/05	20 years
Luzerne, PA	170,866	415,295	170,866	415,295	586,161	49,316	1989	08/05	20 years
Moosic, PA (r)	323,126	308,844	323,126	308,844	631,970	36,675	1980	08/05	20 years
Pleasant Gap, PA (r)	331,885	592,844	331,885	592,844	924,730	70,400	1996	08/05	20 years
Port Vue, PA (r)	824,158	117,629	824,158	117,629	941,787	13,968	1953	08/05	20 years
Punxsutawney, PA (r)	252,648	541,842	252,648	541,842	794,490	64,344	1983	08/05	20 years
Ridgway, PA	382,341	258,740	382,341	258,740	641,081	30,725	1975	08/05	20 years
Shamokin, PA (r)	323,994	506,335	323,994	506,335	830,329	60,127	1956	08/05	20 years
Shippensburg, PA (r)	203,610	330,098	203,610	330,098	533,708	39,199	1989	08/05	20 years
St. Clair, PA	212,150	475,086	212,150	475,086	687,236	56,416	1984	08/05	20 years
St. Mary s, PA	274,323	260,942	274,323	260,942	535,265	30,986	1979	08/05	20 years
Taylor, PA (r)	180,533	526,884	180,533	526,884	707,417	62,567	1973	08/05	20 years
White Haven, PA (r)	485,984	866,602	485,984	866,602	1,352,587	102,909	1990	08/05	20 years
Wilkes-Barre, PA (r)	178,104	471,437	178,104	471,437	649,541	55,983	1989	08/05	20 years
Wilkes-Barre, PA (r)	171,040	422,438	171,040	422,438	593,478	50,164	1999	08/05	20 years
Wilkes-Barre, PA (r)	875,774	1,956,613	875,774	1,956,613	2,832,386	232,348	1998	08/05	20 years
Williamsport, PA (r)	908,758	122,164	908,758	122,164	1,030,922	14,507	1950	08/05	20 years

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	Encumbrances (k)	Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Building, Improvements and Leasehold Interests					Total
Yeagertown, PA		142,061	180,073			142,061	180,073	322,134	21,384	1977	08/05	20 years
Ashland, PA (r)		355,322	545,140			355,322	545,140	900,462	62,464	1977	09/05	20 years
Bear Creek, PA (r)		689,374	274,920			689,374	274,920	964,294	31,501	1980	09/05	20 years
Mountaintop, PA (r)		422,770	616,488			422,770	616,488	1,039,259	70,639	1987	09/05	20 years
Abbottstown, PA		110,362	400,101			110,362	400,101	510,463	19,588	2000	01/06	40 years
Beech Creek, PA		476,516	612,664			476,516	612,664	1,089,180	29,994	1988	01/06	40 years
Canisteo, NY		141,912	485,183			141,912	485,183	627,095	23,753	1983	01/06	40 years
Carlisle, PA		347,858	411,491			347,858	411,491	759,349	20,145	1988	01/06	40 years
Curwensville, PA (r)		226,015	607,989			226,015	607,989	834,004	29,766	1983	01/06	40 years
Dansville, PA (r)		179,736	359,203			179,736	359,203	538,939	17,585	1988	01/06	40 years
Effort, PA (r)		1,297,431	1,201,954			1,297,431	1,201,954	2,499,385	58,845	2000	01/06	40 years
Ellwood City, PA		196,089	526,155			196,089	526,155	722,244	25,760	1987	01/06	40 years
Export, PA (r)		221,840	214,852			221,840	214,852	436,692	10,519	1988	01/06	40 years
Hastings, PA		199,089	455,379			199,089	455,379	654,468	22,295	1989	01/06	40 years
Howard, PA		136,416	374,695			136,416	374,695	511,111	18,345	1987	01/06	40 years
Hughesville, PA (r)		290,136	566,229			290,136	566,229	856,365	27,721	1977	01/06	40 years
Jersey Shore, PA (r)		514,708	381,372			514,708	381,372	896,080	18,671	1960	01/06	40 years
Leeper, PA		285,510	643,886			285,510	643,886	929,396	31,523	1987	01/06	40 years
Lewisberry, PA		412,356	533,848			412,356	533,848	946,204	26,136	1988	01/06	40 years
McSherrytown, PA (r)		134,501	364,946			134,501	364,946	499,447	17,867	1988	01/06	40 years
Mercersburg, PA		672,259	746,309			672,259	746,309	1,418,568	36,538	1988	01/06	40 years
Milesburg, PA (r)		133,831	372,913			133,831	372,913	506,744	18,257	1987	01/06	40 years
Minersville, PA (r)		679,595	581,718			679,595	581,718	1,261,313	28,479	1974	01/06	40 years
Montoursville, PA (r)		158,346	415,372			158,346	415,372	573,718	20,336	1988	01/06	40 years
Nanticoke, PA (r)		174,583	482,239			174,583	482,239	656,822	23,610	1988	01/06	40 years
New Florence, PA		298,364	812,449			298,364	812,449	1,110,813	39,776	1989	01/06	40 years
Newstead, NY		254,635	835,411			254,635	835,411	1,090,046	40,900	1990	01/06	40 years
Nuangola, PA (r)		1,062,388	1,202,832			1,062,388	1,202,832	2,265,220	58,888	2000	01/06	40 years
Phillipsburg, PA		428,193	268,962			428,193	268,962	697,155	13,168	1978	01/06	40 years
Pittsburgh, PA		905,332	1,346,177			905,332	1,346,177	2,251,509	65,907	1967	01/06	40 years
Plainfield, PA (r)		243,945	382,518			243,945	382,518	626,463	18,727	1988	01/06	40 years
Plains, PA (r)		204,417	401,264			204,417	401,264	605,681	19,645	1994	01/06	40 years
Punxsutawney, PA (r)		293,717	649,800			293,717	649,800	943,517	31,813	1983	01/06	40 years



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Reynoldsville, PA	113,312	327,933		113,312	327,933	441,245	16,055	1983	01/06	40 years
Summerville, PA	92,798	271,832		92,798	271,832	364,630	13,308	1988	01/06	40 years
Warriors Mark, PA (r)	148,499	404,981		148,499	404,981	553,480	19,827	1995	01/06	40 years
Williamsport, PA (r)	295,036	378,715		295,036	378,715	673,751	18,541	1988	01/06	40 years
Zelienople, PA (r)	160,219	437,168		160,219	437,168	597,387	21,403	1988	01/06	40 years
United Rentals:										
Carrollton, TX	477,893	534,807		477,893	534,807	1,012,700	40,667	1981	12/04	40 years
Cedar Park, TX	535,091	829,241		535,091	829,241	1,364,332	63,056	1990	12/04	40 years
Clearwater, FL	1,173,292	1,810,665		1,173,292	1,810,665	2,983,957	137,685	2001	12/04	40 years
Fort Collins, CO	2,057,322	977,971		2,057,322	977,971	3,035,293	74,367	1975	12/04	40 years
Irving, TX	708,389	910,786		708,389	910,786	1,619,175	69,257	1984	12/04	40 years
La Porte, TX	1,114,553	2,125,426		1,114,553	2,125,426	3,239,979	161,620	2000	12/04	40 years
Littleton, CO	1,743,092	1,943,650		1,743,092	1,943,650	3,686,742	147,798	2002	12/04	40 years
Oklahoma City, OK	744,145	1,264,885		744,145	1,264,885	2,009,030	96,183	1997	12/04	40 years
Perrysberg, OH	641,867	1,119,085		641,867	1,119,085	1,760,952	85,097	1979	12/04	40 years
Plano, TX	1,030,426	1,148,065		1,030,426	1,148,065	2,178,491	87,301	1996	12/04	40 years
Temple, TX	1,159,775	1,360,379		1,159,775	1,360,379	2,520,154	103,445	1998	12/04	40 years
Ft. Worth, TX	510,490	1,127,796		510,490	1,127,796	1,638,286	83,409	1997	01/05	40 years
Ft. Worth, TX	1,427,764			1,427,764		1,427,764	(i)	(i)	01/05	(i)
Melbourne, FL	746,558	607,128		746,558	607,128	1,353,686	39,843	1970	05/05	40 years
United Trust Bank:										
Bridgeview, IL	673,238	744,154		673,238	744,154	1,417,392	112,398	1997	12/01	40 years
Vacant Land:										
Longwood, FL	585,152			585,152		585,152	(e)	(e)	03/06	(e)
Florence, AL	1,022,509			1,022,509		1,022,509	(e)	(e)	06/04	(e)
Florence, AL	243,266			243,266		243,266	(e)	(e)	06/04	(e)
Vacant Property:										
Mesa, AZ	152,609	399,801	112,765	152,609	512,566	665,175	77,418	1997	12/01	40 years
Dallas, GA	1,287,630	1,952,791		1,287,630	1,952,791	3,240,421	225,793	1997	05/03	40 years

See accompanying report of independent registered public accounting firm.

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	Encumbrances (k)	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period (b)			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciated and Amortized in Latest Income Statement Computed
		Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Improvements and Leasehold Interests	Total				
Woodstock,		1,937,017	1,284,901			1,890,769	1,284,901	3,175,670	148,568	1997	05/03	40 years
Wichita, TX		54,999	202,085			54,999	104,974	159,973	17,360	1984	07/04	40 years
Wichita, TX		73,290	520,950			73,290	242,896	316,186	78,344	1986	12/01	40 years
Wichita, TX		893,270	978,344	76,664		893,270	1,055,008	1,948,278	372,149	1967	11/93	40 years
Wichita, TX		470,840	530,289			470,840	530,289	1,001,130	80,096	1996	12/01	40 years
Wichita, IL		91,709	264,956			91,709	264,956	356,665	40,055	1997	12/01	40 years
Wichita, PA		226,366	1,159,833	7,830		226,366	817,667	1,044,033	148,722	1998	11/98	40 years
Wichita Pass,		89,537	1,240,882			89,537	1,240,882	1,330,419	275,219	1983	03/99	40 years
Wichita, TX		421,897	1,915,483			421,897	1,915,483	2,337,380	97,557	1995	12/05	40 years
Wichita, TX		873,758	964,185			873,758	964,185	1,837,943	210,523	1982	03/99	40 years
Wichita, TX		405,107	643,759			405,107	643,759	1,048,866	111,798	1976	12/01	40 years
Wichita, TX		592,730	1,186,705			592,730	1,186,705	1,779,435	60,571	1998	12/05	40 years
Wichita, NY		48,482	261,352			48,482	261,352	309,834	22,048	1994	09/04	40 years
Wichita, TX		2,490,210	2,937,449			2,490,210	2,937,449	5,427,659	345,762	1996	04/03	40 years
Wichita, TX		3,762,030		3,006,391		3,762,030	3,006,391	6,768,421	735,939	1998	03/98(g)	40 years
Wichita, FL		1,957,974	1,400,970			1,957,974	1,400,970	3,358,944	161,987	1994	05/03	40 years
Wichita, OK		1,193,187	3,055,724			1,193,187	3,055,724	4,248,911	194,165	2003	06/05	40 years
Wichita, TX		507,231	2,315,424			507,231	2,315,424	2,822,655	508,910	1983	03/99	40 years
Wichita, AL		419,811	1,684,505			419,811	1,684,505	2,104,316	370,240	1983	03/99	40 years
Wichita, VA		192,830	278,892	83,773		192,830	362,665	555,495	35,690	1995	12/95	40 years
Wichita, TX		585,872				585,872		585,872	(i)	(i)	02/98	
Wichita, TX		501,136	333,445			501,136	333,445	834,581	50,364	1980	12/01	40 years
Wichita, TX		624,318	418,975			624,318	418,975	1,043,293	63,282	1995	12/01	40 years
Wichita, TX		290,860		910,051		290,860	910,051	1,200,911	16,115	2007	12/06(q)	40 years
Wichita, TX		823,643	934,191			823,643	934,191	1,757,834	22,381	2006	01/07	40 years
Wichita, FL		476,055	981,779			476,055	981,779	1,457,834	23,521	2006	01/07	40 years
Wichita, FL		893,834	1,013,995			893,834	1,013,995	1,907,829	24,293	2006	01/07	40 years

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newwood,	1,031,974	696,950	1,031,974	696,950	1,728,924	105,269	1997	12/01	40 ye
pendence,	502,623	1,209,307	502,623	1,209,307	1,711,930	61,725	1994	12/05	40 ye
ngfoot:									
verdam,	(l)	1,521,190	(l)	1,521,190	1,521,190	23,768	2004	05/07	40 ye
ton, AR	(l)	308,519	(l)	308,519	308,519	3,535	2001	05/07	40 ye
wman, SC	(l)	969,274	(l)	969,274	969,274	17,308	1998	05/07	40 ye
nswick,	(l)	1,450,274	(l)	1,450,274	1,450,274	22,661	2003	05/07	40 ye
ton, GA	(l)	1,540,648	(l)	1,540,648	1,540,648	24,017	2004	05/07	40 ye
drige, TN	(l)	1,030,351	(l)	1,030,351	1,030,351	18,399	1989	05/07	35 ye
nklin, OH	(l)	562,698	(l)	562,698	562,698	10,048	1998	05/07	40 ye
y, IN	(l)	1,486,297	(l)	1,486,297	1,486,297	23,223	2004	05/07	40 ye
argetown,	(l)	678,799	(l)	678,799	678,799	14,141	1997	05/07	40 ye
ane, NC	(l)	561,025	(l)	561,025	561,025	10,018	1998	05/07	35 ye
ldmont, SC	(l)	566,582	(l)	566,582	566,582	10,117	1999	05/07	35 ye
ntworth,	(l)	551,919	(l)	551,919	551,919	9,856	1998	05/07	35 ye
dsta, GA	(l)	1,476,879	(l)	1,476,879	1,476,879	23,076	2004	05/07	40 ye
teland, IN	(l)	1,471,230	(l)	1,471,230	1,471,230	16,857	2004	07/07	40 ye
Moines,	(l)	816,275	(l)	816,275	816,275	9,353	1987	07/07	40 ye
nsville, IN	(l)	575,761	(l)	575,761	575,761	6,597	2002	07/07	40 ye
rney, MO	(l)	1,268,709	(l)	1,268,709	1,268,709	14,537	2003	07/07	40 ye
n-Dixie:									
umbus,	1,023,371	1,874,875	1,023,371	1,874,875	2,898,246	208,970	1984	07/03	40 ye
part:									
olewood,	307,846	311,313	307,846	311,313	619,159	22,376	1990	02/05	40 ye
dleburg	199,234	148,106	199,234	148,106	347,340	10,799	1961	02/05	40 ye
ghts, OH									
s									
taurant:									
ora, CO	1,168,457	1,104,345	1,168,457	1,104,345	2,272,802	93,706	2000	06/05	30 ye
reshold									
rests:	2,532,133		2,532,133		2,532,133	1,547,131		(n)	
	\$ 26,454,684	\$ 941,102,953	\$ 1,116,459,120	\$ 85,827,593	\$ 941,336,554	\$ 1,200,041,008	\$ 2,141,377,563	\$ 111,086,973	

See accompanying report of independent registered public accounting firm.

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	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at Close of Period (b) Building, Improvements and Leasehold			Accumulated Depreciation and Amortization	Date of Construction	Date Acquired	Life on Which Depreciation and Amortization in Latest Income Statement is Computed
Encumbrances (k)	Land	Building, Improvements and Leasehold Interests	Improvements	Carrying Costs	Land	Interests	Total			
Real Estate Held for Investment the Company has Invested in Under Direct Financing Leases:										
Barnes and Noble:										
Plantation, FL		3,498,559			(c)	(c)	(c)	1996	05/95	(c)
Borders Books & Music:										
Altamonte Springs, FL		3,267,579			(c)	(c)	(c)	1997	09/97	(c)
Checkers:										
Orlando, FL		286,910			(c)	(c)	(c)	1988	07/92	(c)
CVS:										
San Antonio, TX		783,974			(c)	(c)	(c)	1993	12/93	(c)
Amarillo, TX	158,851	855,348		(d)	(d)	(d)	(d)	1994	12/94	(d)
Lafayette, LA		949,128			(c)	(c)	(c)	1995	01/96	(c)
Irving, TX		1,228,436			(c)	(c)	(c)	1996	12/96	(c)
Oklahoma City, OK	(l)	1,365,125		(l)	(c)	(c)	(c)	1997	06/97	(c)
Oklahoma City, OK	(l)	1,419,093		(l)	(c)	(c)	(c)	1997	06/97	(c)
Ft. Worth, TX		1,135,110			(c)	(c)	(c)	1996	09/97	(c)
Haltom City, TX	413,918	1,660,859		(d)	(d)	(d)	(d)	1996	09/97	(d)
Denny s:										
Stockton, CA		939,974	508,573		(d)	(d)	(d)	1982	09/06	(d)
Eckerd:										
Kennett Square, PA	(l)		1,984,435	(l)	(c)	(c)	(c)	2000	12/00	(c)
Arlington, VA		3,201,489			(c)	(c)	(c)	2002		