

## Section 1: 10-Q (10-Q)

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

### FORM 10-Q

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

For the quarterly period ended September 30, 2018

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

159,140,975 shares of common stock, \$0.01 par value, outstanding as of October 30, 2018.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	September 30, 2018	December 31, 2017
	(unaudited)	
<u>ASSETS</u>		
Real estate portfolio:		
Accounted for using the operating method, net of accumulated depreciation and amortization	\$ 6,624,165	\$ 6,426,602
Accounted for using the direct financing method	8,688	9,650
Real estate held for sale	3,309	6,409
Cash and cash equivalents	607,672	1,364
Receivables, net of allowance of \$1,034 and \$1,119, respectively	2,171	4,317
Accrued rental income, net of allowance of \$1,842 and \$1,936, respectively	25,687	25,916
Debt costs, net of accumulated amortization of \$13,734 and \$12,667, respectively	4,426	5,380
Other assets	82,605	80,896
Total assets	<u>\$ 7,358,723</u>	<u>\$ 6,560,534</u>
<u>LIABILITIES AND EQUITY</u>		
Liabilities:		
Line of credit payable	\$ —	\$ 120,500
Mortgages payable, including unamortized premium and net of unamortized debt costs	12,849	13,300
Notes payable, net of unamortized discount and unamortized debt costs	3,135,311	2,446,407
Accrued interest payable	35,298	20,311
Other liabilities	98,045	119,106
Total liabilities	<u>3,281,503</u>	<u>2,719,624</u>
Equity:		
Stockholders' equity:		
Preferred stock, \$0.01 par value. Authorized 15,000,000 shares		
5.700% Series E, 115,000 shares issued and outstanding, at stated liquidation value of \$2,500 per share	287,500	287,500
5.200% Series F, 138,000 shares issued and outstanding, at stated liquidation value of \$2,500 per share	345,000	345,000
Common stock, \$0.01 par value. Authorized 375,000,000 shares; 158,933,104 and 153,577,028 shares issued and outstanding, respectively	1,591	1,537
Capital in excess of par value	3,823,672	3,599,475
Accumulated deficit	(372,877)	(379,181)
Accumulated other comprehensive income (loss)	(8,012)	(13,738)
Total stockholders' equity of NNN	<u>4,076,874</u>	<u>3,840,593</u>
Noncontrolling interests	346	317
Total equity	<u>4,077,220</u>	<u>3,840,910</u>
Total liabilities and equity	<u>\$ 7,358,723</u>	<u>\$ 6,560,534</u>

See accompanying notes to condensed consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.  
and SUBSIDIARIES

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Revenues:</b>				
Rental income from operating leases	\$ 150,418	\$ 143,376	\$ 449,216	\$ 421,167
Earned income from direct financing leases	242	241	696	743
Percentage rent	284	239	1,018	985
Real estate expense reimbursement from tenants	3,712	3,614	11,640	11,174
Interest and other income from real estate transactions	675	235	1,113	617
	<u>155,331</u>	<u>147,705</u>	<u>463,683</u>	<u>434,686</u>
<b>Operating expenses:</b>				
General and administrative	8,543	7,354	25,980	25,093
Real estate	5,759	5,553	17,449	16,640
Depreciation and amortization	42,479	48,409	130,280	129,878
Impairment losses – real estate and other charges, net of recoveries	3,635	80	9,718	1,247
Retirement severance costs	222	225	743	7,653
	<u>60,638</u>	<u>61,621</u>	<u>184,170</u>	<u>180,511</u>
Earnings from operations	<u>94,693</u>	<u>86,084</u>	<u>279,513</u>	<u>254,175</u>
<b>Other expenses (revenues):</b>				
Interest and other income	(195)	(64)	(258)	(239)
Interest expense	27,194	28,204	80,906	82,092
	<u>26,999</u>	<u>28,140</u>	<u>80,648</u>	<u>81,853</u>
Earnings before gain on disposition of real estate	67,694	57,944	198,865	172,322
Gain on disposition of real estate	14,348	3,185	57,050	20,864
Net earnings	82,042	61,129	255,915	193,186
Earnings attributable to noncontrolling interests	(10)	(9)	(29)	(381)
Net earnings attributable to NNN	82,032	61,120	255,886	192,805
Series D preferred stock dividends	—	—	—	(3,598)
Series E preferred stock dividends	(4,097)	(4,097)	(12,291)	(12,291)
Series F preferred stock dividends	(4,485)	(4,485)	(13,455)	(13,455)
Excess of redemption value over carrying value of Series D preferred shares redeemed	—	—	—	(9,855)
Net earnings attributable to common stockholders	<u>\$ 73,450</u>	<u>\$ 52,538</u>	<u>\$ 230,140</u>	<u>\$ 153,606</u>
<b>Net earnings per share of common stock:</b>				
Basic	<u>\$ 0.47</u>	<u>\$ 0.35</u>	<u>\$ 1.49</u>	<u>\$ 1.03</u>
Diluted	<u>\$ 0.47</u>	<u>\$ 0.35</u>	<u>\$ 1.48</u>	<u>\$ 1.03</u>
<b>Weighted average number of common shares outstanding:</b>				
Basic	<u>156,852,984</u>	<u>149,341,025</u>	<u>154,582,449</u>	<u>148,223,234</u>
Diluted	<u>157,286,165</u>	<u>149,667,609</u>	<u>155,007,857</u>	<u>148,526,361</u>
<b>Other comprehensive income:</b>				
Net earnings attributable to NNN	\$ 82,032	\$ 61,120	\$ 255,886	\$ 192,805
Amortization of interest rate hedges	525	491	1,581	1,394
Fair value of forward starting swaps	2,985	(5,994)	4,080	(7,688)
Net gain (loss) – available-for-sale securities	13	125	65	118
Comprehensive income attributable to NNN	<u>\$ 85,555</u>	<u>\$ 55,742</u>	<u>\$ 261,612</u>	<u>\$ 186,629</u>

See accompanying notes to condensed consolidated financial statements.



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

	Nine Months Ended September 30,	
	2018	2017
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 255,915	\$ 193,186
<b>Adjustments to reconcile net earnings to net cash provided by operating activities:</b>		
Depreciation and amortization	130,280	129,878
Impairment losses – real estate and other charges, net of recoveries	9,718	1,245
Amortization of notes payable discount	1,401	1,330
Amortization of debt costs	2,695	2,611
Amortization of mortgages payable premium	(64)	(65)
Amortization of interest rate hedges	1,581	1,394
Settlement of forward starting swaps	4,080	(7,688)
Gain on disposition of real estate	(57,050)	(20,864)
Performance incentive plan expense	7,231	12,100
Performance incentive plan payment	(432)	(862)
<b>Change in operating assets and liabilities, net of assets acquired and liabilities assumed:</b>		
Decrease in real estate leased to others using the direct financing method	655	661
Decrease (increase) in receivables	1,554	(77)
Increase in accrued rental income	(871)	(1,199)
Increase in other assets	(1,052)	(353)
Increase in accrued interest payable	14,987	17,390
Increase (decrease) in other liabilities	(4,848)	1,659
Other	(272)	(131)
Net cash provided by operating activities	<u>365,508</u>	<u>330,215</u>
<b>Cash flows from investing activities:</b>		
Proceeds from the disposition of real estate	121,810	56,279
<b>Additions to real estate:</b>		
Accounted for using the operating method	(415,118)	(471,396)
Principal payments on mortgages and notes receivable	—	500
Other	(433)	(558)
Net cash used in investing activities	<u>(293,741)</u>	<u>(415,175)</u>

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2018	2017
<b>Cash flows from financing activities:</b>		
Proceeds from line of credit payable	\$ 1,599,500	\$ 956,700
Repayment of line of credit payable	(1,720,000)	(956,700)
Repayment of mortgages payable	(400)	(379)
Proceeds from notes payable	692,913	398,372
Payment of debt costs	(5,506)	(3,237)
Proceeds from issuance of common stock	220,524	174,499
Stock issuance costs	(2,908)	(2,618)
Redemption of Series D preferred stock	—	(287,500)
Payment of Series D preferred stock dividends	—	(3,598)
Payment of Series E preferred stock dividends	(12,291)	(12,291)
Payment of Series F preferred stock dividends	(13,455)	(13,455)
Payment of common stock dividends	(223,836)	(205,110)
Net cash provided by financing activities	534,541	44,683
Net increase (decrease) in cash, cash equivalents and restricted cash	606,308	(40,277)
Cash, cash equivalents and restricted cash at beginning of period <sup>(1)</sup>	1,364	294,540
Cash, cash equivalents and restricted cash at end of period <sup>(1)</sup>	\$ 607,672	\$ 254,263
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid, net of amount capitalized	\$ 62,806	\$ 61,126
Taxes received	\$ —	\$ (3)
<b>Supplemental disclosure of noncash investing and financing activities:</b>		
Increase (decrease) in other comprehensive income	\$ (5,726)	\$ 6,176
Change in lease classification (direct financing lease to operating lease)	\$ 565	\$ 696
Change in lease classification (operating lease to direct financing lease)	\$ 258	\$ —

<sup>(1)</sup> Cash, cash equivalents and restricted cash is the aggregate of cash and cash equivalents and restricted cash and cash held in escrow from the Condensed Consolidated Balance Sheets. NNN had no restricted cash and cash held in escrow at September 30, 2018 and 2017.

See accompanying notes to condensed consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.  
and SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2018  
(Unaudited)

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

**Organization and Nature of Business** – National Retail Properties, Inc., a Maryland corporation, is a fully integrated real estate investment trust (“REIT”) formed in 1984. The terms “NNN” or the “Company” refer to National Retail Properties, Inc. and all of its consolidated subsidiaries.

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

	September 30, 2018
Property Portfolio:	
Total properties	2,847
Gross leasable area (square feet)	29,739,000
States	48
Weighted average remaining lease term (years)	11.4

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by U.S. generally accepted accounting principles (“GAAP”). The unaudited condensed consolidated financial statements reflect all adjustments (including normal recurring accruals) which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. Operating results for the quarter and nine months ended September 30, 2018, may not be indicative of the results that may be expected for the year ending December 31, 2018. Amounts as of December 31, 2017, included in the condensed consolidated financial statements have been derived from the audited consolidated financial statements as of that date. The unaudited condensed consolidated financial statements, included herein, should be read in conjunction with the consolidated financial statements and notes thereto as well as Management’s Discussion and Analysis of Financial Condition and Results of Operations in NNN’s Form 10-K for the year ended December 31, 2017.

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

**Real Estate Portfolio** – NNN records the acquisition of real estate at cost, including acquisition and closing costs. The cost of properties developed by NNN includes direct and indirect costs of construction, property taxes, interest and other miscellaneous costs incurred during the development period until the project is substantially complete and available for occupancy. NNN recorded \$2,500,000 and \$1,694,000 in capitalized interest during the development period for the nine months ended September 30, 2018 and 2017, respectively, of which \$596,000 and \$581,000 was recorded during the quarter ended September 30, 2018 and 2017, respectively.

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

The fair value estimate is sensitive to significant assumptions, such as establishing a range of relevant market assumptions for land, building and rent and where the acquired property falls within that range. These market assumptions for land, building and rent use the most relevant comparable properties for an acquisition. The final range relies upon ranking comparable properties’ attributes from most similar to least similar.

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



In allocating the fair value of the identified intangible assets and liabilities of an acquired property, above-market and below-market in-place lease values are recorded as other assets or liabilities based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases, and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining term of the lease and the applicable option terms if it is probable that the tenant will exercise options. The capitalized above-market lease values are amortized as a reduction of rental income over the remaining terms of the respective leases. The capitalized below-market lease values are amortized as an increase to rental income over the initial term unless the Company believes that it is likely that the tenant will renew the lease for an option term whereby the Company amortizes the value attributable to the renewal over the renewal period.

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

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

	September 30, 2018	December 31, 2017
<b>Intangible lease assets (included in Other assets):</b>		
Above-market in-place leases	\$ 15,297	\$ 16,583
Less: accumulated amortization	(9,081)	(9,299)
Above-market in-place leases, net	<u>\$ 6,216</u>	<u>\$ 7,284</u>
<b>In-place leases</b>		
In-place leases	\$ 104,310	\$ 104,592
Less: accumulated amortization	(60,095)	(61,004)
In-place leases, net	<u>\$ 44,215</u>	<u>\$ 43,588</u>
<b>Intangible lease liabilities (included in Other liabilities):</b>		
Below-market in-place leases	\$ 41,988	\$ 44,468
Less: accumulated amortization	(25,306)	(26,055)
Below-market in-place leases, net	<u>\$ 16,682</u>	<u>\$ 18,413</u>

The amounts amortized as a net increase to rental income for above-market and below-market leases were \$2,334,000 and \$2,696,000 for the nine months ended September 30, 2018 and 2017, respectively, of which \$219,000 and \$1,355,000 were recorded for the quarter ended September 30, 2018 and 2017, respectively. The value of in-place leases amortized to expense were \$7,305,000 and \$14,483,000 for the nine months ended September 30, 2018 and 2017, respectively, of which \$1,789,000 and \$7,875,000 were recorded for the quarter ended September 30, 2018 and 2017, respectively.

**Debt Costs – Line of Credit Payable** – Debt costs incurred in connection with NNN's \$900,000,000 line of credit have been deferred and are being amortized to interest expense over the term of the loan commitment using the straight-line method, which approximates the effective interest method. NNN has recorded debt costs associated with the line of credit as an asset, in *debt costs* on the Condensed Consolidated Balance Sheets.

**Debt Costs – Mortgages Payable** – Debt costs incurred in connection with NNN's mortgages payable have been deferred and are being amortized over the term of the respective loan commitment using the straight-line method, which approximates the effective interest method. These costs of \$147,000 at September 30, 2018 and December 31, 2017, are included in *mortgages payable* on the Condensed Consolidated Balance Sheets net of accumulated amortization of \$69,000 and \$55,000, respectively.

**Debt Costs – Notes Payable** – Debt costs incurred in connection with the issuance of NNN's notes payable have been deferred and are being amortized to interest expense over the term of the respective debt obligation using the effective interest method. These costs of \$29,707,000 and \$22,682,000, at September 30, 2018 and December 31, 2017, respectively, are included in *notes payable* on the Condensed Consolidated Balance Sheets net of accumulated amortization of \$7,952,000 and \$6,337,000, respectively.

**Revenue Recognition** – In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606). The core principle of ASU 2014-09, is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Certain contracts are excluded from ASU 2014-09, including lease contracts within the scope of the FASB guidance included in Leases (Topic 842). NNN adopted ASU 2014-09 on January 1, 2018, and applied the cumulative catch-up transition method. Through the evaluation and implementation process, NNN determined the key revenue stream impacted by ASU 2014-09 is *gain on disposition of real estate* reported on the Condensed Consolidated Statements of Income and Comprehensive Income. Prior to the adoption of ASU 2014-09, NNN recognized revenue at the time of closing (i.e., transfer of asset). Following the adoption of ASU 2014-09, NNN evaluates any separate contracts or performance obligations to determine proper timing and/or amount of revenue recognition, as well as, transaction price allocation. The adoption of ASU 2014-09 did not have a material impact on NNN's financial position and results of operations.

**Earnings Per Share** – Earnings per share have been computed pursuant to the FASB guidance included in *Earnings Per Share*. The guidance requires classification of the Company’s unvested restricted share units, which carry rights to receive nonforfeitable dividends, as participating securities requiring the two-class method of computing earnings per share. Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings to common stockholders and undistributed earnings allocated to common stockholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both common shares and participating securities based on the weighted average shares outstanding during the period.

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Basic and Diluted Earnings:</b>				
Net earnings attributable to NNN	\$ 82,032	\$ 61,120	\$ 255,886	\$ 192,805
Less: Series D preferred stock dividends	—	—	—	(3,598)
Less: Series E preferred stock dividends	(4,097)	(4,097)	(12,291)	(12,291)
Less: Series F preferred stock dividends	(4,485)	(4,485)	(13,455)	(13,455)
Less: Excess of redemption value over carrying value of Series D preferred shares redeemed	—	—	—	(9,855)
Net earnings available to NNN’s common stockholders	73,450	52,538	230,140	153,606
Less: Earnings allocated to unvested restricted shares	(147)	(132)	(412)	(399)
Net earnings used in basic and diluted earnings per share	\$ 73,303	\$ 52,406	\$ 229,728	\$ 153,207
<b>Basic and Diluted Weighted Average Shares Outstanding:</b>				
Weighted average number of shares outstanding	157,634,757	150,076,348	155,316,866	148,934,825
Less: Unvested restricted stock	(294,453)	(277,713)	(276,046)	(288,238)
Less: Unvested contingent restricted shares	(487,320)	(457,610)	(458,371)	(423,353)
Weighted average number of shares outstanding used in basic earnings per share	156,852,984	149,341,025	154,582,449	148,223,234
Other dilutive securities	433,181	326,584	425,408	303,127
Weighted average number of shares outstanding used in diluted earnings per share	157,286,165	149,667,609	155,007,857	148,526,361

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

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

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

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

	Gains or (Losses) on Cash Flow Hedges <sup>(1)</sup>	Gains on Available- for-Sale Securities	Total
Beginning balance, December 31, 2017	\$ (14,655)	\$ 917	\$ (13,738)
Other comprehensive income	4,080	65	4,145
Reclassifications from accumulated other comprehensive income to net earnings	1,581 <sup>(2)</sup>	—	1,581
Net current period other comprehensive income	5,661	65	5,726
Ending balance, September 30, 2018	\$ (8,994)	\$ 982	\$ (8,012)

<sup>(1)</sup> Additional disclosure is included in Note 6 – Derivatives.

<sup>(2)</sup> Reclassifications out of other comprehensive income (loss) are recorded in *interest expense* on the Condensed Consolidated Statements of Income and Comprehensive Income.

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

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820) - Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement," effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The FASB issued final guidance that eliminates certain disclosure requirements for fair value measurements for all entities, requires public entities to disclose certain new information and modifies some disclosure requirements. NNN is currently evaluating the potential impact the adoption of ASU 2018-13 will have on the presentation of NNN's condensed consolidated financial statements.

Use of Estimates – Management of NNN has made a number of estimates and assumptions relating to the reporting of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these condensed consolidated financial statements in conformity with GAAP. Significant estimates include provisions for impairment and allowances for certain assets, accruals, useful lives of assets and purchase price allocation. Actual results could differ from those estimates.

Reclassification – Certain items in the prior year's consolidated financial statements and notes to consolidated financial statements have been reclassified to conform to the 2018 presentation.

**Note 2 – Real Estate:****Real Estate – Portfolio**

Leases – The following outlines key information for NNN’s leases:

	September 30, 2018
Lease classification:	
Operating	2,861
Direct financing	8
Building portion – direct financing/land portion – operating	1
Weighted average remaining lease term (years)	11.4

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

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

	September 30, 2018	December 31, 2017
Land and improvements <sup>(1)</sup>	\$ 2,322,981	\$ 2,289,004
Buildings and improvements	5,256,543	4,969,862
Leasehold interests	3,630	5,261
	7,583,154	7,264,127
Less accumulated depreciation and amortization	(978,553)	(879,445)
	6,604,601	6,384,682
Work in progress for buildings and improvements	19,564	41,920
	\$ 6,624,165	\$ 6,426,602

<sup>(1)</sup> Includes \$10,023 and \$25,799 in land for Properties under construction at September 30, 2018 and December 31, 2017, respectively.

**Real Estate – Held For Sale**

On a quarterly basis, the Company evaluates its Properties for held for sale classification based on specific criteria as outlined in ASC 360, *Property, Plant & Equipment*, including management’s intent to commit to a plan to sell the asset. NNN anticipates the disposition of Properties classified as held for sale to occur within 12 months. As of September 30, 2018, NNN had four of its Properties categorized as held for sale. NNN’s real estate held for sale at December 31, 2017, included six Properties, two of which were sold in 2018. Real estate held for sale consisted of the following as of (dollars in thousands):

	September 30, 2018	December 31, 2017
Land and improvements	\$ 2,520	\$ 3,326
Building and improvements	3,721	5,538
	6,241	8,864
Less accumulated depreciation and amortization	(1,317)	(1,677)
Less impairment	(1,615)	(778)
	\$ 3,309	\$ 6,409

### Real Estate – Dispositions

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

	Quarter Ended September 30,				Nine Months Ended September 30,			
	2018		2017		2018		2017	
	# of Sold Properties	Gain	# of Sold Properties	Gain	# of Sold Properties	Gain	# of Sold Properties	Gain
Gain on disposition of real estate	18	\$ 14,348	6	\$ 3,185	46	\$ 57,050 <sup>(1)</sup>	31	\$ 20,864

<sup>(1)</sup> Amount includes the recognition of a deferred gain related to a leasehold interest that was fully amortized in 2018.

### Real Estate – Commitments

NNN has committed to fund construction commitments on 29 Properties. The improvements on such Properties are estimated to be completed within 12 months. These construction commitments, as of September 30, 2018, are outlined in the table below (dollars in thousands):

Total commitment <sup>(1)</sup>	\$ 48,881
Less amount funded	29,587
Remaining commitment	\$ 19,294

<sup>(1)</sup> Includes land, construction costs, tenant improvements, lease costs and capitalized interest.

### Real Estate – Impairments

Management periodically assesses its real estate for possible impairment whenever certain events or changes in circumstances indicate that the carrying amount of the asset, including accrued rental income, may not be recoverable through operations. Events or circumstances that may occur include significant changes in real estate market conditions and the ability of NNN to re-lease or sell properties that are vacant or become vacant in a reasonable period of time. Impairments are measured as the amount by which the current book value of the asset exceeds the estimated fair value of the asset. As a result of the Company's review of long-lived assets, including identifiable intangible assets, NNN recognized real estate impairments, net of recoveries of \$9,718,000 and \$1,245,000 for the nine months ended September 30, 2018 and 2017, respectively, of which \$3,635,000 and \$78,000 was recorded during the quarter ended September 30, 2018 and 2017, respectively.

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

### Note 3 – Line of Credit Payable:

NNN's \$900,000,000 unsecured revolving credit facility (the "Credit Facility") had a weighted average outstanding balance of \$162,562,000 and a weighted average interest rate of 2.8% during the nine months ended September 30, 2018. The Credit Facility matures January 2022, unless the Company exercises its option to extend maturity to January 2023. The Credit Facility bears interest at LIBOR plus 87.5 basis points; however, such interest rate may change pursuant to a tiered interest rate structure based on NNN's debt rating. The Credit Facility also includes an accordion feature to increase the facility size up to \$1,600,000,000, subject to lender approval. As of September 30, 2018, there was no outstanding balance and \$900,000,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$58,000.

### Note 4 – Notes Payable:

In September 2018, NNN filed a prospectus supplement to the prospectus contained in its February 2018 shelf registration statement and issued \$400,000,000 aggregate principal amount of 4.300% notes due October 2028 (the "2028 Notes") and \$300,000,000 aggregate principal amount of 4.800% notes due October 2048 (the "2048 Notes" and, together with the 2028 Notes, the "Notes").

The 2028 Notes were sold at a discount with an aggregate purchase price of \$397,152,000 with interest payable semi-annually commencing on April 15, 2019. The discount of \$2,848,000 is being amortized to interest expense over the term of the notes using the effective interest method. The effective interest rate for the 2028 Notes after accounting for the note discount is 4.388%. NNN previously entered into two forward starting swaps with an aggregate notional amount of \$250,000,000. Upon issuance of the 2028 Notes, NNN terminated the forward starting swaps resulting in a gain of \$4,080,000, which was deferred in other comprehensive income. The gain is being amortized to interest expense over the term of the 2028 Notes using the effective interest method.

The 2048 Notes were sold at a discount with an aggregate purchase price of \$295,761,000 with interest payable semi-annually commencing on April 15, 2019. The discount of \$4,239,000 is being amortized to interest expense over the term of the notes using the effective interest method. The effective interest rate for the 2048 Notes after accounting for the note discount is 4.890%.

The Notes are senior unsecured obligations of NNN and are subordinated to all secured indebtedness and to the indebtedness and other liabilities of NNN's subsidiaries. Additionally, the Notes are each redeemable at NNN's option, in whole or part anytime, for an amount equal to (i) the sum of the outstanding principal balance of the notes being redeemed plus accrued interest thereon to the redemption date, and (ii) the make-whole amount, if any, as defined in the supplemental indenture dated September 18, 2018, relating to the Notes.

NNN received approximately \$393,502,000 and \$292,386,000 of net proceeds in connection with the issuance of the 2028 Notes and the 2048 Notes, respectively, after incurring debt issuance costs consisting primarily of underwriting discounts and commissions, legal and accounting fees, rating agency fees and printing expenses, totaling \$3,650,000 and \$3,375,000 for the 2028 Notes and the 2048 Notes, respectively.

In September 2018, NNN announced that the Company will redeem the \$300,000,000 5.500% notes payable due July 2021 on October 19, 2018. The notes will be redeemed at a price equal to 100% of the principal amount, plus (i) a make-whole amount of \$18,240,000, and (ii) accrued and unpaid interest.

#### **Note 5 – Stockholders' Equity:**

In February 2018, NNN filed a shelf registration statement with the Securities and Exchange Commission (the "Commission") which permits the issuance by NNN of an indeterminate amount of debt and equity securities.

**Dividend Reinvestment and Stock Purchase Plan** – In February 2018, NNN filed a shelf registration statement with the Commission for its Dividend Reinvestment and Stock Purchase Plan ("DRIP") which permits the issuance by NNN of up to 10,000,000 shares of common stock. The following table outlines the common stock issuances pursuant to NNN's DRIP (dollars in thousands):

	Nine Months Ended September 30,	
	2018	2017
Shares of common stock	225,481	135,721
Net proceeds	\$ 9,115	\$ 5,469

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

	2018 ATM	2016 ATM
Established date	February 2018	March 2016
Termination date	February 2021	February 2018
Total allowable shares	12,000,000	12,000,000
Total shares issued as of September 30, 2018	4,896,563	10,044,656

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

	Nine Months Ended September 30,	
	2018	2017
Shares of common stock	4,896,563	3,969,252
Average price per share (net)	\$ 42.60	\$ 42.00
Net proceeds	\$ 208,579	\$ 166,698
Stock issuance costs <sup>(1)</sup>	\$ 2,792	\$ 2,563

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

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Series D preferred stock<sup>(1)</sup>:</b>				
Dividends	\$ —	\$ —	\$ —	\$ 3,598
Per depositary share	—	—	—	0.312847
<b>Series E preferred stock<sup>(2)</sup>:</b>				
Dividends	4,097	4,097	12,291	12,291
Per depositary share	0.356250	0.356250	1.068750	1.068750
<b>Series F preferred stock<sup>(3)</sup>:</b>				
Dividends	4,485	4,485	13,455	13,455
Per depositary share	0.325000	0.325000	0.975000	0.975000
<b>Common stock:</b>				
Dividends	78,253	70,670	223,836	205,110
Per share	0.500	0.475	1.450	1.385

<sup>(1)</sup> The 6.625% Series D Cumulative Redeemable Preferred Stock (the "Series D Preferred Stock") was redeemed in February 2017. The dividends paid in 2017 included accumulated and unpaid dividends through the redemption date.

<sup>(2)</sup> The 5.700% Series E Cumulative Redeemable Preferred Stock (the "Series E Preferred Stock") has no maturity date and will remain outstanding unless redeemed by NNN. As of May 2018, the Series E Preferred Stock is redeemable by NNN.

<sup>(3)</sup> The 5.200% Series F Cumulative Redeemable Preferred Stock (the "Series F Preferred Stock") has no maturity date and will remain outstanding unless redeemed by NNN. The earliest redemption date for the Series F Preferred Stock is October 2021.

In October 2018, NNN declared a dividend of \$0.500 per share, which is payable in November 2018 to its common stockholders of record as of October 31, 2018.

#### **Note 6 – Derivatives:**

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

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

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

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

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

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

Terminated	Description	Aggregate Notional Amount	Liability (Asset) Fair Value When Terminated	Fair Value Deferred In Other Comprehensive Income <sup>(1)</sup>
June 2011	Two treasury locks	\$ 150,000	\$ 5,300	\$ 5,218
April 2013	Four forward starting swaps	240,000	3,156	3,141
May 2014	Three forward starting swaps	225,000	6,312	6,312
October 2015	Four forward starting swaps	300,000	13,369	13,369
December 2016	Two forward starting swaps	180,000	(13,352)	(13,345)
September 2017	Two forward starting swaps	250,000	7,690	7,688
September 2018	Two forward starting swaps	250,000	(4,080)	(4,080)

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

As of September 30, 2018, \$8,994,000 remained in other comprehensive income related to the effective portion of NNN's previously terminated interest rate hedges. During the nine months ended September 30, 2018 and 2017, NNN reclassified out of other comprehensive income \$1,581,000 and \$1,394,000, respectively, as an increase in interest expense. Over the next 12 months, NNN estimates that an additional \$1,896,000 will be reclassified as an increase in interest expense. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on NNN's long-term debt.

NNN does not use derivatives for trading or speculative purposes or currently have any derivatives that are not designated as hedges. NNN had no derivative financial instruments outstanding at September 30, 2018.

#### **Note 7 – Fair Value of Financial Instruments:**

NNN believes the carrying value of its Credit Facility approximates fair value based upon its nature, terms and variable interest rate. NNN believes that the carrying value of its mortgages payable at September 30, 2018 and December 31, 2017, approximate fair value based upon current market prices of comparable instruments (Level 3). At September 30, 2018 and December 31, 2017, the fair value of NNN's notes payable net of unamortized discount and excluding debt costs was \$3,104,993,000 and \$2,507,106,000, respectively, based upon quoted market prices, which is a Level 1 valuation since NNN's notes payable are publicly traded.

#### **Note 8 – Subsequent Events:**

NNN reviewed its subsequent events and transactions that have occurred after September 30, 2018, the date of the condensed consolidated balance sheet.

In October 2018, NNN redeemed the \$300,000,000 5.500% notes payable that were due in July 2021. The notes were redeemed at a price equal to 100% of the principal amount, plus (i) a make-whole amount of \$18,240,000, and (ii) accrued and unpaid interest.

There were no additional reportable subsequent events or transactions.



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes included in the Annual Report on Form 10-K of National Retail Properties, Inc. for the year ended December 31, 2017. The terms "NNN" and the "Company" refer to National Retail Properties, Inc. and all of its consolidated subsidiaries.

### Forward-Looking Statements

The information herein contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934 (the "Exchange Act"). These statements generally are characterized by the use of terms such as "believe," "expect," "intend," "may," "estimated" or similar words or expressions. Forward-looking statements are not historical facts or guarantees of future performance and are subject to known and unknown risks. Certain factors that could cause actual results or events to differ materially from those NNN anticipates or projects include, but are not limited to, the following:

- Financial and economic conditions may have an adverse impact on NNN, its tenants, and commercial real estate in general;
- NNN may be unable to obtain debt or equity capital on favorable terms, if at all;
- Loss of rent from tenants would reduce NNN's cash flow;
- A significant portion of the source of the Property Portfolio annual base rent is concentrated in specific industry classifications, tenants and geographic locations;
- Owning real estate and indirect interests in real estate carries inherent risks;
- NNN's real estate investments are illiquid;
- Costs of complying with changes in governmental laws and regulations may adversely affect NNN's results of operations;
- NNN may be subject to known or unknown environmental liabilities and hazardous materials on Properties owned by NNN;
- NNN may not be able to successfully execute its acquisition or development strategies;
- NNN may not be able to dispose of properties consistent with its operating strategy;
- NNN may suffer a loss in the event of a default of or bankruptcy of a tenant or a borrower;
- Certain provisions of NNN's leases or loan agreements may be unenforceable;
- Property ownership through joint ventures and partnerships could limit NNN's control of those investments;
- Competition from numerous other REITs, commercial developers, real estate limited partnerships and other investors may impede NNN's ability to grow;
- NNN's loss of key management personnel could adversely affect performance and the value of its securities;
- Uninsured losses may adversely affect NNN's operating results and asset values;
- Acts of violence, terrorist attacks or war may affect the markets in which NNN operates and NNN's results of operations;
- Vacant properties or bankrupt tenants or borrowers could adversely affect NNN's business or financial condition;
- The amount of debt NNN has and the restrictions imposed by that debt could adversely affect NNN's business and financial condition;
- NNN is obligated to comply with financial and other covenants in its debt instruments that could restrict its operating activities, and the failure to comply with such covenants could result in defaults that accelerate the payment of such debt;
- The market value of NNN's equity and debt securities is subject to various factors that may cause significant fluctuations or volatility;
- NNN's failure to qualify as a REIT for federal income tax purposes could result in significant tax liability;
- Even if NNN remains qualified as a REIT, NNN faces other tax liabilities that reduce operating results and cash flow;
- Adverse legislative or regulatory tax changes could reduce NNN's earnings and cash flow and the market value of NNN's securities;
- Compliance with REIT requirements, including distribution requirements, may limit NNN's flexibility and may negatively affect NNN's operating decisions;
- Changes in accounting pronouncements could adversely impact NNN's or NNN's tenants' reported financial performance;
- NNN's failure to maintain effective internal control over financial reporting could have a material adverse effect on its business, operating results and the market value of NNN's securities;
- NNN's ability to pay dividends in the future is subject to many factors;
- Cybersecurity risks and cyber incidents could adversely affect NNN's business, disrupt operations and expose NNN to liabilities to tenants, employees, capital providers, and other third parties; and

- Future investment in international markets could subject NNN to additional risks, including foreign currency exchange rate fluctuations, operational risks due to local economic and political conditions and laws and policies of the U.S. affecting foreign investment.

Additional information related to these risks and uncertainties are included in Item 1A. Risk Factors of NNN's Annual Report on Form 10-K for the year ended December 31, 2017, and may cause NNN's actual future results to differ materially from expected results. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. NNN undertakes no obligation to update or revise such forward-looking statements, whether as a result of new information, future events or otherwise.

#### Overview

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

As of September 30, 2018, NNN owned 2,847 Properties, with an aggregate gross leasable area of approximately 29,739,000 square feet, located in 48 states, with a weighted average remaining lease term of 11.4 years. Approximately 99 percent of the Properties were leased as of September 30, 2018.

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

NNN evaluates the creditworthiness of its current and prospective tenants. This evaluation may include reviewing available financial statements, store level financial performance, press releases, public credit ratings from major credit rating agencies, industry news publications and financial market data (debt and equity pricing). NNN may also evaluate the business and operations of its tenants, including periodically meeting with senior management of certain tenants.

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

## Results of Operations

### Property Analysis

General. The following table summarizes the Property Portfolio:

	September 30, 2018	December 31, 2017	September 30, 2017
<b>Properties Owned:</b>			
Number	2,847	2,764	2,687
Total gross leasable area (square feet)	29,739,000	29,093,000	28,250,000
<b>Properties:</b>			
Leased and unimproved land	2,809	2,740	2,656
Percent of Properties – leased and unimproved land	99%	99%	99%
Weighted average remaining lease term (years)	11.4	11.5	11.4
Total gross leasable area (square feet) – leased	29,296,000	28,703,000	27,366,000

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

Lines of Trade	% of Annual Base Rent <sup>(1)</sup>		
	September 30, 2018	December 31, 2017	September 30, 2017
1. Convenience stores	18.5%	18.1%	18.3%
2. Restaurants – full service	11.8%	12.1%	11.8%
3. Restaurants – limited service	7.8%	7.6%	7.9%
4. Automotive service	7.6%	6.9%	7.0%
5. Family entertainment centers	7.0%	6.4%	6.4%
6. Health and fitness	5.6%	5.6%	5.6%
7. Theaters	5.1%	4.8%	4.8%
8. Automotive parts	3.5%	3.6%	3.7%
9. Recreational vehicle dealers, parts and accessories	3.0%	3.4%	3.4%
10. Wholesale clubs	2.4%	2.2%	2.3%
Other	27.7%	29.3%	28.8%
	100.0%	100.0%	100.0%

<sup>(1)</sup> Based on annualized base rent for all leases in place for each respective period.

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Acquisitions:</b>				
Number of Properties	18	18	129	182
Gross leasable area (square feet)	529,000	206,000	1,265,000	1,288,000
Initial cash yield	6.9%	6.9%	6.9%	6.9%
Total dollars invested <sup>(1)</sup>	\$ 78,620	\$ 90,139	\$ 396,091	\$ 497,530

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

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

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Number of properties	18	6	46	31
Gross leasable area (square feet)	179,000	46,000	531,000	234,000
Net sales proceeds	\$ 37,586	\$ 7,543	\$ 121,106	\$ 55,806
Gain	\$ 14,348	\$ 3,185	\$ 57,050 <sup>(1)</sup>	\$ 20,864

<sup>(1)</sup> Amount includes the recognition of a deferred gain related to a leasehold interest that was fully amortized in 2018.

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

### Analysis of Revenue

*General.* During the quarter and nine months ended September 30, 2018, rental income increased, as compared to the same periods in 2017, primarily due to the increase in rental income from Property acquisitions (See “Results of Operations – Property Analysis – Property Acquisitions”). NNN anticipates increases in rental income will continue to come from additional Property acquisitions and increases in rents pursuant to existing lease terms.

The following table summarizes NNN’s revenues (dollars in thousands):

	Quarter Ended September 30,					Nine Months Ended September 30,				
	2018	2017	Percent Increase (Decrease)	Percent of Total		2018	2017	Percent Increase (Decrease)	Percent of Total	
				2018	2017				2018	2017
Rental Income <sup>(1)</sup>	\$ 150,944	\$ 143,856	4.9%	97.2%	97.4%	\$ 450,930	\$ 422,895	6.6%	97.3%	97.3%
Real estate expense reimbursement from tenants	3,712	3,614	2.7%	2.4%	2.4%	11,640	11,174	4.2%	2.5%	2.5%
Interest and other income from real estate transactions	675	235	187.2%	0.4%	0.2%	1,113	617	80.4%	0.2%	0.2%
Total revenues	\$ 155,331	\$ 147,705	5.2%	100.0%	100.0%	\$ 463,683	\$ 434,686	6.7%	100.0%	100.0%

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

### *Quarter and Nine Months Ended September 30, 2018 versus Quarter and Nine Months Ended September 30, 2017*

*Rental Income.* Rental Income increased in amount but remained flat as a percent of the total revenues for the quarter and nine months ended September 30, 2018, as compared to the same periods in 2017. The increase for the quarter and nine months ended September 30, 2018, is primarily due to a partial year of Rental Income received as a result of the acquisition of 129 properties with aggregate gross leasable area of approximately 1,265,000 during 2018 and a full year of Rental Income received as a result of the acquisition of 276 properties with a gross leasable area of approximately 2,243,000 square feet in 2017.

## Analysis of Expenses

*General.* Operating expenses were impacted for the quarter ended September 30, 2018, as compared to the same period in 2017, primarily by an increase in general and administrative expense, impairment losses recognized on real estate and offset by a decrease in depreciation and amortization expense. The following table summarizes NNN's expenses (dollars in thousands):

	Quarter Ended September 30,		Percent Increase (Decrease)	Percentage of Total		Percentage of Revenues	
	2018	2017		2018	2017	2018	2017
General and administrative	\$ 8,543	\$ 7,354	16.2%	14.1%	11.9%	5.5%	5.0%
Real estate	5,759	5,553	3.7%	9.5%	9.0%	3.7%	3.7%
Depreciation and amortization	42,479	48,409	(12.2%)	70.0%	78.6%	27.4%	32.8%
Impairment losses – real estate and other charges, net of recoveries	3,635	80	4,443.8%	6.0%	0.1%	2.3%	—
Retirement severance costs	222	225	(1.3%)	0.4%	0.4%	0.1%	0.2%
Total operating expenses	<u>\$ 60,638</u>	<u>\$ 61,621</u>	(1.6%)	<u>100.0%</u>	<u>100.0%</u>	<u>39.0%</u>	<u>41.7%</u>
Interest and other income	\$ (195)	\$ (64)	204.7%	(0.7%)	(0.2%)	(0.1%)	—
Interest expense	27,194	28,204	(3.6%)	100.7%	100.2%	17.5%	19.1%
Total other expenses	<u>\$ 26,999</u>	<u>\$ 28,140</u>	(4.1%)	<u>100.0%</u>	<u>100.0%</u>	<u>17.4%</u>	<u>19.1%</u>

Operating expenses were impacted for the nine months ended September 30, 2018, as compared to the same period in 2017, primarily by an increase in impairment losses recognized on real estate and offset by a decrease in retirement severance costs. The following table summarizes NNN's expenses (dollars in thousands):

	Nine Months Ended September 30,		Percent Increase (Decrease)	Percentage of Total		Percentage of Revenues	
	2018	2017		2018	2017	2018	2017
General and administrative	\$ 25,980	\$ 25,093	3.5%	14.1%	13.9%	5.6%	5.8%
Real estate	17,449	16,640	4.9%	9.5%	9.2%	3.7%	3.8%
Depreciation and amortization	130,280	129,878	0.3%	70.7%	72.0%	28.1%	29.9%
Impairment losses – real estate and other charges, net of recoveries	9,718	1,247	679.2%	5.3%	0.7%	2.1%	0.3%
Retirement severance costs	743	7,653	(90.3%)	0.4%	4.2%	0.2%	1.7%
Total operating expenses	<u>\$ 184,170</u>	<u>\$ 180,511</u>	2.0%	<u>100.0%</u>	<u>100.0%</u>	<u>39.7%</u>	<u>41.5%</u>
Interest and other income	\$ (258)	\$ (239)	7.9%	(0.3%)	(0.3%)	—	—
Interest expense	80,906	82,092	(1.4%)	100.3%	100.3%	17.4%	18.9%
Total other expenses	<u>\$ 80,648</u>	<u>\$ 81,853</u>	(1.5%)	<u>100.0%</u>	<u>100.0%</u>	<u>17.4%</u>	<u>18.9%</u>

### *Quarter and Nine Months Ended September 30, 2018 versus Quarter and Nine Months Ended September 30, 2017*

*General and Administrative.* General and administrative expenses increased in amount and as a percentage of total operating expenses for the quarter and nine months ended September 30, 2018, as compared to the same periods in 2017. General and administrative expenses remained relatively flat as a percentage of revenues for the quarter and nine months ended September 30, 2018, as compared to the same periods in 2017. The increase in general and administrative expenses for the quarter and nine months ended September 30, 2018, is primarily attributable to an increase in compensation costs.

*Real Estate.* Real estate expenses increased in amount for the quarter and nine months ended September 30, 2018, compared to the same periods in 2017. Real estate expenses remained flat as a percentage of total operating expenses and as a percentage of revenues for the quarter and nine months ended September 30, 2018, as compared to the same periods in 2017. The increase is primarily due to an increase in vacant expenses and increases in reimbursable and non-reimbursable expenses from certain properties acquired during the nine months ended September 30, 2018, and from certain properties acquired during the year ended December 31, 2017.

*Depreciation and Amortization.* Depreciation and amortization expenses decreased as a percentage of total operating expenses and as a percentage of revenues for the quarter and nine months ended September 30, 2018, as compared to the same periods in 2017. Depreciation and amortization expenses remained relatively flat in amount for the nine months ended September 30, 2018, as compared to the same period in 2017, but decreased for the quarter ended September 30, 2018, as compared to the same period in 2017. The decrease is primarily due to the write off of intangible assets related to certain leases that were rejected under bankruptcy of a certain tenant during the quarter ended September 30, 2017.

*Impairment losses – real estate and other charges, net of recoveries.* NNN reviews long-lived assets for impairment whenever certain events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Events or circumstances that may occur include changes in real estate market conditions, the ability of NNN to re-lease properties that are currently vacant or become vacant, and the ability to sell properties at a price that exceeds NNN's carrying value. Management evaluates whether an impairment in value has occurred by comparing the estimated future cash flows (undiscounted and without interest charges), and 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. NNN recognized real estate impairments, net of recoveries of \$9,718,000 and \$1,245,000 for the nine months ended September 30, 2018 and 2017, respectively of which \$3,635,000 and \$78,000 was recorded during the quarter ended September 30, 2018 and 2017, respectively.

*Retirement Severance Costs.* For the quarter and nine months ended September 30, 2018 and 2017, retirement severance costs relate primarily to Craig Macnab's retirement as CEO on April 28, 2017.

## **Liquidity**

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

*Cash and Cash Equivalents.* NNN's cash and cash equivalents includes the aggregate of *cash and cash equivalents* and *restricted cash and cash held in escrow* from the Condensed Consolidated Balance Sheets. The table below summarizes NNN's cash flows (dollars in thousands):

	Nine Months Ended September 30,	
	2018	2017
Cash and cash equivalents:		
Provided by operating activities	\$ 365,508	\$ 330,215
Used in investing activities	(293,741)	(415,175)
Provided by financing activities	534,541	44,683
Increase (decrease)	606,308	(40,277)
Net cash at beginning of period	1,364	294,540
Net cash at end of period	<u>\$ 607,672</u>	<u>\$ 254,263</u>

Cash provided by operating activities represents cash received primarily from Rental Income and interest income less cash used for general and administrative expenses. NNN's cash flow from operating activities has been sufficient to pay the distributions for each period presented. The change in cash provided by operations for the nine months ended September 30, 2018 and 2017, 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 Properties. NNN typically uses proceeds from its Credit Facility to fund the acquisition of its Properties.

NNN's financing activities for the nine months ended September 30, 2018, included the following significant transactions:

- \$393,502,000 in net proceeds from the issuance in September of the 4.300% notes payable due in October 2028,
- \$292,386,000 in net proceeds from the issuance in September of the 4.800% notes payable due in October 2048,
- \$9,115,000 in net proceeds from the issuance of 225,481 shares of common stock in connection with the Dividend Reinvestment and Stock Purchase Plan ("DRIP"),

- \$208,579,000 in net proceeds from the issuance of 4,896,563 shares of common stock in connection with the at-the-market ("ATM") equity program,
- \$12,291,000 in dividends paid to holders of the depositary shares of NNN's 5.700% Series E Cumulative Redeemable Preferred Stock (the "Series E Preferred Stock"),
- \$13,455,000 in dividends paid to holders of the depositary shares of NNN's 5.200% Series F Cumulative Redeemable Preferred Stock (the "Series F Preferred Stock"), and
- \$223,836,000 in dividends paid to common stockholders.

*Contractual Obligations and Commercial Commitments.* NNN has committed to fund construction commitments on 29 Properties. The improvements on such Properties are estimated to be completed within 12 months. These construction commitments, at September 30, 2018, are outlined in the table below (dollars in thousands):

Total commitment <sup>(1)</sup>	\$	48,881
Less amount funded		29,587
Remaining commitment	\$	19,294

<sup>(1)</sup> Includes land, construction costs, tenant improvements, lease costs and capitalized interest.

As of September 30, 2018, NNN did not have any other material contractual cash obligations, such as purchase obligations, financing lease obligations or other long-term liabilities other than those reflected in the tables above and previously disclosed under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in NNN's Annual Report on Form 10-K for the year ended December 31, 2017. In addition to items reflected in the tables, NNN has issued preferred stock with cumulative preferential cash distributions, as described below under "Dividends."

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

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

The lost revenues and increased property expenses resulting from vacant Properties or uncollectibility of lease revenues could have a material adverse effect on the liquidity and results of operations if NNN is unable to re-lease the Properties at comparable rental rates and in a timely manner. As of September 30, 2018, NNN owned 38 vacant, un-leased Properties which accounted for less than one percent of total Properties held in the Property Portfolio. Additionally, as of October 31, 2018, less than two percent of the Property Portfolio is leased to six tenants that each filed a 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.

NNN generally monitors the financial performance of its significant tenants on an ongoing basis.

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

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

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Series D Preferred Stock<sup>(1)</sup>:</b>				
Dividends	\$ —	\$ —	\$ —	\$ 3,598
Per depositary share	—	—	—	0.312847
<b>Series E Preferred Stock<sup>(2)</sup>:</b>				
Dividends	4,097	4,097	12,291	12,291
Per depositary share	0.356250	0.356250	1.068750	1.068750
<b>Series F Preferred Stock<sup>(3)</sup>:</b>				
Dividends	4,485	4,485	13,455	13,455
Per depositary share	0.325000	0.325000	0.975000	0.975000
<b>Common stock:</b>				
Dividends	78,253	70,670	223,836	205,110
Per share	0.500	0.475	1.450	1.385

<sup>(1)</sup> The 6.625% Series D Cumulative Redeemable Preferred Stock (the "Series D Preferred Stock") was redeemed in February 2017. The dividends paid in 2017 included accumulated and unpaid dividends through the redemption date.

<sup>(2)</sup> The Series E Preferred Stock has no maturity date and will remain outstanding unless redeemed by NNN. As of May 2018, the Series E Preferred Stock is redeemable by NNN.

<sup>(3)</sup> The Series F Preferred Stock has no maturity date and will remain outstanding unless redeemed by NNN. The earliest redemption date for the Series F Preferred Stock is October 2021.

In October 2018, NNN declared a dividend of \$0.500 per share which is payable in November 2018 to its common stockholders of record as of October 31, 2018.

### **Capital Resources**

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

### **Debt**

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

	September 30, 2018	Percentage of Total	December 31, 2017	Percentage of Total
Line of credit payable	\$ —	—	\$ 120,500	4.7%
Mortgages payable	12,849	0.4%	13,300	0.5%
Notes payable	3,135,311	99.6%	2,446,407	94.8%
Total outstanding debt	\$ 3,148,160	100.0%	\$ 2,580,207	100.0%

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

*Line of Credit Payable.* NNN's \$900,000,000 unsecured revolving Credit Facility had a weighted average outstanding balance of \$162,562,000 and a weighted average interest rate of 2.8% during the nine months ended September 30, 2018. The Credit Facility matures January 2022, unless the Company exercises its option to extend maturity to January 2023. The Credit Facility



currently bears interest at LIBOR plus 87.5 basis points; however, such interest rate may change pursuant to a tiered interest rate structure based on NNN's debt rating. The Credit Facility also includes an accordion feature to increase the facility size up to \$1,600,000,000, subject to lender approval. As of September 30, 2018, there was no outstanding balance and \$900,000,000 was available for future borrowings under the Credit Facility, excluding undrawn letters of credit totaling \$58,000.

*Notes Payable.* In September 2018, NNN filed a prospectus supplement to the prospectus contained in its February 2018 shelf registration statement and issued \$400,000,000 aggregate principal amount of 4.300% notes due October 2028 (the "2028 Notes") and \$300,000,000 aggregate principal amount of 4.800% notes due October 2048 (the "2048 Notes" and, together with the 2028 Notes, the "Notes").

The 2028 Notes were sold at a discount with an aggregate purchase price of \$397,152,000 with interest payable semi-annually commencing on April 15, 2019. The discount of \$2,848,000 is being amortized to interest expense over the term of the notes using the effective interest method. The effective interest rate for the 2028 Notes after accounting for the note discount is 4.388%. NNN previously entered into two forward starting swaps with an aggregate notional amount of \$250,000,000. Upon issuance of the 2028 Notes, NNN terminated the forward starting swaps resulting in a gain of \$4,080,000, which was deferred in other comprehensive income. The gain is being amortized to interest expense over the term of the 2028 Notes using the effective interest method.

The 2048 Notes were sold at a discount with an aggregate purchase price of \$295,761,000 with interest payable semi-annually commencing on April 15, 2019. The discount of \$4,239,000 is being amortized to interest expense over the term of the notes using the effective interest method. The effective interest rate for the 2048 Notes after accounting for the note discount is 4.890%.

The Notes are senior unsecured obligations of NNN and are subordinated to all secured indebtedness and to the indebtedness and other liabilities of NNN's subsidiaries. Additionally, the Notes are each redeemable at NNN's option, in whole or part anytime, for an amount equal to (i) the sum of the outstanding principal balance of the notes being redeemed plus accrued interest thereon to the redemption date, and (ii) the make-whole amount, if any, as defined in the supplemental indenture dated September 18, 2018, relating to the Notes.

NNN received approximately \$393,502,000 and \$292,386,000 of net proceeds in connection with the issuance of the 2028 Notes and the 2048 Notes, respectively, after incurring debt issuance costs consisting primarily of underwriting discounts and commissions, legal and accounting fees, rating agency fees and printing expenses, totaling \$3,650,000 and \$3,375,000 for the 2028 Notes and the 2048 Notes, respectively. NNN used the net proceeds from the issuance of the Notes to repay all of the outstanding indebtedness under its credit facility, redeem all of its 5.500% notes payable that were due 2021, fund future property acquisitions and for general corporate purposes.

In October 2018, NNN redeemed the \$300,000,000 5.500% notes payable that were due in July 2021. The notes were redeemed at a price equal to 100% of the principal amount, plus (i) a make-whole amount of \$18,240,000, and (ii) accrued and unpaid interest.

### **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 acquisitions.

*Securities Offerings.* In February 2018, NNN filed a shelf registration statement with the Securities and Exchange Commission (the "Commission") which was automatically effective and permits the issuance by NNN of an indeterminate amount of debt and equity securities.

Information related to NNN's publicly held debt and equity securities is included in NNN's Annual Report on Form 10-K for the year ended December 31, 2017.

*Dividend Reinvestment and Stock Purchase Plan.* In February 2018, NNN filed a shelf registration statement which was automatically effective with the Commission for its DRIP, which permits the issuance by NNN of up to 10,000,000 shares of common stock. NNN's 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 (dollars in thousands):

	Nine Months Ended September 30,	
	2018	2017
Shares of common stock	225,481	135,721
Net proceeds	\$ 9,115	\$ 5,469

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

	2018 ATM	2016 ATM
Established date	February 2018	March 2016
Termination date	February 2021	February 2018
Total allowable shares	12,000,000	12,000,000
Total shares issued at September 30, 2018	4,896,563	10,044,656

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

	Nine Months Ended September 30,	
	2018	2017
Shares of common stock	4,896,563	3,969,252
Average price per share (net)	\$ 42.60	\$ 42.00
Net proceeds	\$ 208,579	\$ 166,698
Stock issuance costs <sup>(1)</sup>	\$ 2,792	\$ 2,563

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

### **Recent Accounting Pronouncements**

Refer to Note 1 to the September 30, 2018, Condensed Consolidated Financial Statements.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

NNN is exposed to interest rate risk primarily as a result of its variable rate Credit Facility and its fixed rate debt which is used to finance NNN's development and acquisition activities, as well as for general corporate purposes. NNN's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to reduce overall borrowing costs. To achieve its objectives, NNN borrows at both fixed and variable rates on its long-term debt. As of September 30, 2018, NNN had no outstanding derivatives.

The information in the table below summarizes NNN's market risks associated with its debt obligations outstanding as of September 30, 2018 and December 31, 2017. The table presents principal payments and related interest rates by year for debt obligations outstanding as of September 30, 2018. NNN has a variable interest rate risk on its Credit Facility which had no outstanding balance as of September 30, 2018 and \$120,500,000 as of December 31, 2017. The weighted average rate for the Credit Facility for the nine months ended September 30, 2018 was 2.8%. The table incorporates only those debt obligations that existed as of September 30, 2018, and it does not consider those debt obligations or positions which could arise after this date and therefore has limited predictive value. As a result, NNN's ultimate realized gain or loss with respect to interest rate fluctuations will depend on the exposures that arise during the period, NNN's hedging strategies at that time and interest rates. If interest rates on NNN's variable rate debt increased by one percent, NNN's interest expense would have increased by less than two percent for the nine months ended September 30, 2018.

Debt Obligations (dollars in thousands)

	Fixed Rate Debt			
	Mortgages <sup>(1)</sup>		Unsecured Debt <sup>(2)</sup>	
	Debt Obligation	Weighted Average Effective Interest Rate	Debt Obligation	Effective Interest Rate
2018	\$ 158	5.23%	\$ —	—
2019	652	5.23%	—	—
2020	682	5.23%	—	—
2021	716	5.23%	298,560 <sup>(4)</sup>	5.69%
2022	750	5.23%	322,775	3.99%
Thereafter	9,969	5.23%	2,535,731	3.90% <sup>(3)</sup>
<b>Total</b>	<b>\$ 12,927</b>	<b>5.23%</b>	<b>\$ 3,157,066</b>	<b>4.13%</b>
Fair Value:				
September 30, 2018	\$ 12,927		\$ 3,104,993	
December 31, 2017	\$ 13,392		\$ 2,507,106	

<sup>(1)</sup> NNN's mortgages payable represent principal payments by year and include unamortized premiums and exclude debt costs.

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

<sup>(3)</sup> Weighted average effective interest rate for periods after 2022.

<sup>(4)</sup> In September 2018, NNN announced that the Company would redeem the \$300,000,000 aggregate principal amount of 5.500% notes payable due in July 2021 on October 19, 2018. The notes will be redeemed at a price equal to 100% of the principal amount, plus (i) a make-whole amount of \$18,240,000, and (ii) accrued and unpaid interest.

#### **Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures.* An evaluation was performed under the supervision and with the participation of NNN's management, including NNN's Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer, of the effectiveness as of September 30, 2018, of the design and operation of NNN's disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act. Based on that evaluation, the Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer concluded that the design and operation of these disclosure controls and procedures were effective as of the end of the period covered by this report.

*Changes in Internal Control over Financial Reporting.* There has been no change in NNN's internal control over financial reporting that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, NNN's internal control over financial reporting.

## PART II. OTHER INFORMATION

**Item 1. Legal Proceedings.** Not applicable.

**Item 1A. Risk Factors.** There were no material changes in NNN's risk factors disclosed in Item 1A. Risk Factors of NNN's Annual Report on Form 10-K for the year ended December 31, 2017.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.** Not applicable.

**Item 3. Defaults Upon Senior Securities.** Not applicable.

**Item 4. Mine Safety Disclosures.** Not applicable.

**Item 5. Other Information.** Not applicable.

**Item 6. Exhibits**

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

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

- 4.1 [Form of Seventeenth Supplemental Indenture between National Retail Properties, Inc. and U.S. Bank National Association relating to 4.300% Notes due 2028 and 4.800% Notes due 2048 \(filed as Exhibit 4.1 to Registrant's Current Report on Form 8-K and filed with the Securities and Exchange Commission on September 27, 2018, and incorporated herein by reference\).](#)
- 4.2 [Form of 4.300% Notes due 2028 \(filed as Exhibit 4.2 to Registrant's Current Report on Form 8-K and filed with the Securities and Exchange Commission on September 27, 2018, and incorporated herein by reference\).](#)
- 4.3 [Form of 4.800% Notes due 2048 \(filed as Exhibit 4.3 to Registrant's Current Report on Form 8-K and filed with the Securities and Exchange Commission on September 27, 2018, and incorporated herein by reference\).](#)

### 10. Material Contracts

- 10.1 [Amended and Restated Deferred Fee Plan for Directors, dated as of August 16, 2018 \(filed herewith\).](#)

### 31. Section 302 Certifications

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

### 32. Section 906 Certifications

- 32.1 [Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \(filed herewith\).](#)
- 32.2 [Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \(filed herewith\).](#)

### 101. Interactive Data File

- 101.1 The following materials from National Retail Properties, Inc. Quarterly Report on Form 10-Q for the period ended September 30, 2018, are formatted in Extensible Business Reporting Language: (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of income and comprehensive income, (iii) condensed consolidated statements of cash flows, and (iv) notes to condensed consolidated financial statements.

## SIGNATURES

Pursuant to the requirements 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.

DATED this 1<sup>st</sup> day of November, 2018.

NATIONAL RETAIL PROPERTIES, INC.

By: /s/ Julian E. Whitehurst

Julian E. Whitehurst  
Chief Executive Officer, President  
and Director

By: /s/ Kevin B. Habicht

Kevin B. Habicht  
Chief Financial Officer, Executive  
Vice President and Director

## Exhibit Index

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## Section 2: EX-10.1 (EXHIBIT 10.1)

Exhibit 10.1

**NATIONAL RETAIL PROPERTIES, INC.**

**DEFERRED FEE PLAN FOR DIRECTORS**

**(As Amended and Restated as of August 16, 2018)**

### **ARTICLE 1 INTRODUCTION**

This National Retail Properties, Inc. Deferred Fee Plan is established by National Retail Properties, Inc. (the “Company”) for the benefit of its Directors and their Beneficiaries (as such terms are defined below), and it shall be maintained according to the terms hereof. The Deferred Fee Plan is intended to comply with Section 409A of the Internal Revenue Code of

1986, as amended, effective for amounts deferred under the Deferred Fee Plan for services performed after December 31, 2004.

## **ARTICLE 2 DEFINITIONS**

When used herein, the following capitalized words and phrases shall have the meanings assigned to them, unless the context clearly indicates otherwise. Other capitalized words and phrases shall have the meanings assigned to them in the applicable Performance Incentive Plan.

**2.1 “Administrator”** means the Board or its delegate.

**2.2 “Affiliated Company”** means each entity which would be treated as a single employer with the Company under Code Section 414(b) or (c). In applying such Code Sections for purposes of determining whether the Director has incurred a Separation from Service with the Company and each Affiliated Company, the default provisions of Treasury Regulations Section 1.409A-1(h)(3) providing for the language “at least 50 percent” to be used instead of “at least 80 percent” shall be disregarded.

**2.3 “Beneficiary”** means the person or persons, natural or otherwise, designated by a Director under Article 8.

**2.4 “Board”** means the Board of Directors of the Company.

**2.5 “Cash Account”** means a bookkeeping account established by the Company in the name of a Director to which is credited (i) any Fees that are deferred by the Director under section 3.1(a) and directed into the Cash Account under section 3.1 (b), and (ii) any interest that is credited to the Director under Article 4.

**2.6 “Cash Fees”** means any Fees payable in cash.

**2.7 “Code”** means the Internal Revenue Code of 1986, as amended, and the rules, regulations and guidance thereunder. Any reference to a provision in the Code shall include any successor provision thereto.



**2.8 “Deferred Fee Accounts”** means a Director’s Cash Account and Stock Account, and such sub-accounts within such accounts as are necessary for the proper administration of the Deferred Fee Plan. Within a Director’s Deferred Fee Accounts, sub-accounts shall be maintained for amounts deferred for services performed on and before December 31, 2004 and for amounts deferred for services performed after December 31, 2004. Earnings shall be credited to the sub-accounts on which the amounts are earned.

**2.9 “Deferred Fee Agreement”** means a written agreement, substantially in the forms included in Exhibit A hereto, between the Company and a Director, which, together with the Deferred Fee Plan, governs the Director’s rights to payment of deferred Fees (adjusted for investment performance) under the Deferred Fee Plan.

**2.10 “Deferred Fee Plan”** means the National Retail Properties, Inc. Deferred Fee Plan for Directors effective as of February 16, 2004, as amended and restated on May 30, 2008 and again on August 16, 2018 as set forth in this document, and as further amended by the Board from time to time.

**2.11 “Director”** means a regular, active director of the Company (or any Subsidiary or Affiliate) who is not employed by the Company (or any Subsidiary or Affiliate) or who has not accepted an offer of employment from the Company (or any Subsidiary or Affiliate), as determined by the Board, in its sole discretion.

**2.12 “Distribution Date”** means the date payment of amounts credited to a Director’s Deferred Fee Accounts are scheduled to commence to be paid, as specified in such Director’s Deferred Fee Agreements. A Distribution Date shall be a specified fixed date, January 15 of the year following the year in which the Director’s Separation from Service occurs, the first day of the month after the Director reaches his or her Social Security normal retirement age, as determined as of the date of his or her Deferred Fee Agreement or a series of four (4) annual installments commencing on the first anniversary of the date on which a Director’s Separation from Service occurs. The four (4) installments would be payable as follows: on the first anniversary - 25% of the Stock Account or Cash Account balance, as applicable; on the second anniversary - 33% of the remaining Stock Account or Cash Account balance, as applicable; on the third anniversary - 50% of the remaining Stock Account or Cash Account balance, as applicable; and on the fourth anniversary - 100% of the remaining Stock Account or Cash Account balance, as applicable.

**2.13 “Fair Market Value”** means, with respect to a share of Common Stock, the Fair Market Value as determined under the Performance Incentive Plans calculated as of the trading day preceding the applicable determination date under the Deferred Fee Plan or, if no trading occurs on such date, the last day on which trading occurred.

**2.14 “Fees”** means (i) the annual retainer paid to a Director, (ii) any fees paid to a Director for attending meetings of the Board or any committee of the Board, and (iii) any fees paid to a Director for serving as chairman or lead director of the Board or chair of any committee of the Board.

**2.15 “Interest”** means the amount of interest credited to a Director’s Cash Account pursuant to Article 4.

**2.16 “Performance Incentive Plans”** means the National Retail Properties 2017 Performance Incentive Plan (the “**2017 Performance Incentive Plan**”), the National Retail Properties 2007 Performance Incentive Plan (the “**2007 Performance Incentive Plan**”) and the Commercial Net Lease Realty, Inc. 2000 Performance Incentive Plan (the “**2000 Performance Incentive Plan**”), in each case, as amended from time to time.

**2.17 “Phantom Share”** means a Phantom Stock Award or Deferred Share Award or portion of a Phantom Stock Award or Deferred Share Award that entitles the holder to receive one share of Common Stock or cash in an amount equal to the Fair Market Value thereof.

**2.18 “Separation from Service”** is, for amounts deferred for services performed after December 31, 2004 (and earnings on such amounts), intended to have the meaning provided in Code Section 409A and applicable regulations. The Deferred Fee Plan is intended to be a plan provided to directors, and in accordance with applicable regulations, a Director shall be treated as having a Separation from Service for purposes of the Deferred Fee Plan on the later of the date that (i) the Director ceases to serve on the Board or a board of directors of an Affiliated Company and (ii) the Director is not an independent contractor to the Company or an Affiliated Company. Continued service as an employee of the Company or an Affiliated Company shall not affect whether a Director has incurred a Separation from Service under the Deferred Fee Plan. For a Director’s Deferred Fee Accounts attributable to amounts deferred for services performed before January 1, 2005 (and earnings on such amounts), a separation from service shall mean termination of service as a Director.

**2.19 “Stock Account”** means a bookkeeping account established by the Company in the name of a Director to which are credited (i) Phantom Shares for any Fees that are deferred by the Director under section 3.1(a) and directed into the Stock Account under section 3.1(b), and (ii) any additional Phantom Shares that are credited by the Company under Article 5.

**2.20 “Stock Fees”** means the Fees payable in shares of Common Stock.

**2.21 “Subsequent Deferral Election Agreement”** means a written agreement, substantially in the form included in Exhibit B hereto, between the Company and a Director which, together with the Deferred Fee Plan, governs the Director’s rights to payment of deferred Fees (adjusted for investment performance) under the Deferred Fee Plan.

**2.22 “Unforeseeable Emergency”** means a severe financial hardship to the Director resulting from an illness or accident of the Director, the Director’s spouse, the Director’s beneficiary, or the Director’s dependent (as defined in Code Section 152, without regard to Code Section 152(b)(1), (b)(2), and (d)(1)(B)); loss of the Director’s property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by insurance); or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Director to the extent permitted by Code Section 409A.

**ARTICLE 3**  
**DEFERRAL OF FEES**

**3.1 Election to Defer Fees.**

(a) The election to defer Fees earned for services provided during a given year shall be made no later than December 31 of the previous year, or such earlier date as the Board may determine, by filing a Deferred Fee Agreement with the Company. For a new Director, the election to defer Fees earned during his or her initial calendar year of service shall be made within thirty (30) days following the Director's election or appointment, and such election shall apply only to Fees that are earned for services provided after such election is made. A new director who does not elect to make deferrals of Director's Fees during the initial thirty (30)-day election period may not later elect to make deferrals of Director's Fees for the calendar year of his or her initial eligibility. If a payment of Director's Fees (such as annual retainer fees or fees for serving as Chairman of a Committee) are due for services performed over a period of time which includes the period both before and the period after the date of the election, the election will apply to an amount equal to the total amount of the Director's Fee paid for such performance period multiplied by the ratio of the number of days remaining in the performance period after the election over the total number of days in the performance period. Director's Fees paid for attending a meeting are earned for services performed on the date of the meeting. A Director who does not have an election to defer Director's Fees in effect may make a deferral election for Director's Fees earned for services performed in the subsequent calendar year provided such election is provided to the Chief Accounting Officer of the Company not later than December 31 of the calendar year preceding the year it is to be effective. Effective for elections to defer for 2008 and later, an election to defer shall continue in effect unless modified or revoked in accordance with section 3.3 or a subsequent deferral election is made in accordance with section 6.5.

(b) When a Director elects to defer Fees under section 3.1(a), the Director shall also elect whether amounts deferred should be credited to his or her Cash Account or to his or her Stock Account; provided, however, that deferred Stock Fees may be credited only to his or her Stock Account.

**3.2 Crediting to Deferred Fee Accounts.**

(a) When a Director elects under section 3.1(b) to have Cash Fees credited to his or her Cash Account, the Company shall credit the Director's Cash Account, on the date that they otherwise would have been payable, with the portion of the Cash Fees that are specified in the Deferred Fee Agreement.

(b) When a Director elects under section 3.1(b) to have Cash Fees credited to his or her Stock Account, the Company shall credit the Director's Stock Account, on the date that they otherwise would have been payable, with a certain number of Phantom Shares. The number of Phantom Shares (rounded up to the nearest whole share) credited to the Stock Account shall be the quotient that results from dividing the portion of the Cash Fees that are specified in the Deferred Fee Agreement by the Fair Market Value of a share of Common Stock.

(c) When a Director elects under section 3.1(b) to have Stock Fees credited to his or her Stock Account, the Company shall credit the Director's Stock Account, on the date that the shares of Common Stock that comprise the Stock Fees otherwise would have been transferred to the Director, with a number of Phantom Shares equal to the portion of the shares of Common Stock that are specified in the Deferred Fee Agreement.

(d) Phantom Shares credited to a Director's Stock Account under the Deferred Fee Plan shall be granted pursuant to Phantom Stock Awards under the 2000 Performance Incentive Plan and Deferred Shares under the 2007 Performance Incentive Plan and the 2017 Performance Incentive Plan, as applicable. Phantom Shares credited to a Director's Stock Account before June 27, 2007 are granted pursuant to the 2000 Performance Incentive Plan and Phantom Shares credited on and after June 27, 2007, but before May 25, 2017, are granted pursuant to the 2007 Performance Incentive Plan and Phantom Shares credited on and after May 25, 2017 are granted pursuant to the 2017 Performance Incentive Plan. Approval of the Deferred Fee Plan by the Compensation Committee of the Board shall constitute approval of the grant of all such Phantom Stock Awards and Deferred Share Awards. Such Phantom Shares shall have the terms set forth in the Director's Deferred Fee Agreement (which shall serve to the extent necessary as the agreement for the award under the Performance Incentive Plans) and the Deferred Fee Plan, to the extent that such terms are not inconsistent with the terms of the applicable Performance Incentive Plan. All such Phantom Shares shall be fully vested and nonforfeitable. Such Phantom Shares shall not be transferable pursuant to the Performance Incentive Plans.

**3.3 Modification or Revocation of Deferral.** A Director may, effective as of the beginning of the subsequent calendar year, change the amount of Fees to be deferred for services performed in such subsequent year, execute a new Deferred Fee Agreement or revoke his or her existing election to defer Fees. A modification or revocation must be provided in writing to the Company by December 31 of the year preceding the calendar year during which such modification or revocation is to be effective, or such earlier date as the Board shall determine. No modification or revocation of a deferral election may be made except as permitted by this section 3.3 or section 6.5.

#### **ARTICLE 4 INTEREST**

Interest on the balance shall be credited to each Director's Cash Account, as of the end of each calendar quarter, at the Prime Rate of interest, as announced from time to time by Wells Fargo & Company (or successor) as its prime rate of interest.

#### **ARTICLE 5 DIVIDENDS**

Each Director with Phantom Shares credited to his or her Stock Account on the record date of a dividend on Shares shall be credited on the payment date of the dividend with a dollar amount equal to the product of the number of Phantom Shares credited to the Director's Stock Account on the dividend record date and the dividend per share of Common Stock. On the next

following date on which annual retainer fees are payable by the Company, the Director's Stock Account shall be credited with a number of Phantom Shares (rounded up to the nearest whole share) equal to the dollar amount credited under the preceding sentence for dividends paid divided by the Fair Market Value of the Common Stock. Phantom Shares credited on account of dividends under this Article 5 shall have the same terms as the Phantom Shares to which the dividends relate.

## **ARTICLE 6 PAYMENT OF DEFERRED FEES**

**6.1 Payment Dates.** A Director (or his or her Beneficiary) shall be entitled to receive a benefit equal to the amounts credited to his or her Deferred Fee Accounts at the time or times specified in such Director's Deferred Fee Agreements. Amounts credited to a Director's Cash Account shall be paid in cash. Phantom Shares credited to a Director's Stock Account shall be settled as set forth in Performance Incentive Plans for Phantom Stock Awards or Deferred Share Awards, as applicable. The distribution shall be made on or as soon as administratively feasible following the Distribution Date for such payments, provided that payment shall be made no later than ninety (90) days following the Distribution Date and the specific commencement date shall be determined at the sole discretion of the Administrator.

**6.2 Change in Payment Election.** A Director may, effective for Fees deferred for services performed in a subsequent calendar year, change the Distribution Date. A change in Distribution Date election must be provided in writing to the Chief Accounting Officer of the Company by December 31 of the year preceding the calendar year for which the election is to be effective.

**6.3 Rehired Directors.** If a former Director has a Separation from Service and then returns to service as a Board member or independent contractor, any payments being made to such Director by virtue of his or her previous Separation from Service shall continue to be made to him or her without regard to such return to service.

**6.4 Six Month Delay For Specified Employees.** In the event that the Company or Affiliated Company has stock which is publicly traded on an established securities market and to the extent Code Section 409A(a)(2)(B), which applies to certain "specified employees," is applicable to distributions to a Director under the Deferred Fee Plan, no payment of a Director's Deferred Fee Account (and earnings) shall be made by reason of a Separation of Service before the date which is six (6) months and one day following the Director's Separation of Service or the Director's death, if earlier. Any payments which would otherwise have been payable to the Directors during the period of delay shall be made in a lump sum following the end of such delay. A Deferred Fee Account shall continue to be credited with interest and dividends during the period of such delay.

**6.5 Subsequent Deferrals.** A Director shall be permitted to make a subsequent deferral election to the extent permitted and in accordance with the requirements of Treasury Regulation Section 1.409A-2(b)(1), including the requirement that (a) a subsequent deferral election may not take effect until at least twelve (12) months after the date such election is filed

with the Chief Accounting Officer of the Company, (b) an election to further defer a distribution (other than a distribution upon death or an Unforeseeable Emergency) must result in the first distribution subject to the election being made at least five (5) years after the previously elected Distribution Date, and (c) a Subsequent Deferral Election Agreement affecting a distribution must be filed with the Chief Accounting Officer of the Company at least twelve (12) months prior to the Distribution Date on which the payment is scheduled to be distributed.

## **ARTICLE 7 DEATH AND HARDSHIP WITHDRAWALS**

**7.1 Death.** Upon a Director's death, all amounts credited to his or her Deferred Fee Accounts shall be paid as soon as administratively feasible, but no later than ninety (90) days following the date of the Director's death in a lump sum to his or her beneficiaries in accordance with Article 8 or to the Director, as applicable. Payments from the Cash Account shall be payable in cash and payments from the Stock Account shall be payable in shares of Common Stock, subject to the provisions of section 9.1.

**7.2 Hardship Withdrawals.** Except as set forth in this section 7.2, no Director, Beneficiary, nor any other individual or entity shall have any right to make any early withdrawals from such Director's Deferred Fee Accounts. A Director may, in the discretion of the Administrator under section 9.7, be entitled to withdraw all or a portion of the amount credited to his or her Deferred Fee Accounts in the event of an Unforeseeable Emergency. Such a withdrawal shall not exceed the amount reasonably necessary to satisfy the emergency need (including amounts necessary to pay any federal, state, local or foreign income taxes or penalties reasonably anticipated to result from the withdrawal) and not reasonably available from other resources of the Director (including reimbursement or compensation by insurance or otherwise, and liquidation of the Director's assets, to the extent liquidation itself would not cause severe financial hardship). Withdrawals from the Cash Account shall be payable in cash and withdrawals from the Stock Account shall be payable in shares of Common Stock, subject to the provisions of section 9.1.

## **ARTICLE 8 BENEFICIARIES**

Each Director may designate from time to time any person or persons, natural or otherwise, as his or her Beneficiary or Beneficiaries to whom benefits are to be paid if he or she dies while entitled to benefits. Each Beneficiary designation shall be made either in the Deferred Fee Agreement or on a form prescribed by the Chief Accounting Officer of the Company and shall be effective only when filed with the Chief Accounting Officer during the Director's lifetime. Each Beneficiary designation filed with the Chief Accounting Officer shall revoke all Beneficiary designations previously made by the Director. The revocation of a Beneficiary designation shall not require the consent of any Beneficiary. If the Director's Beneficiary predeceases the Director, or no Beneficiary has been designated, the Director's Beneficiary shall be deemed to be the Director's spouse or, if none, the Director's estate.

## ARTICLE 9 ADMINISTRATION

**9.1 Plan Limitations.** Phantom Shares credited to a Director's Stock Account under the Deferred Fee Plan shall be granted under the Performance Incentive Plans and shall be subject to the share limitations in the Performance Incentive Plans.

**9.2 No Acceleration of Payments.** Notwithstanding anything in the Deferred Fee Plan to the contrary, no accelerated payment of a Deferred Fee Account attributable to deferrals for services performed after December 31, 2004 (and earnings thereon) shall be made except in accordance with the following rules:

(i) In the Administrator's discretion to clear out a small balance held for the benefit of the Director, provided that the Administrator's decision is evidenced in writing prior to the date of the distribution, the distribution is not greater than the applicable dollar amount under Code Section 402(g)(1)(B) and the payment results in the termination of all benefits due under the plan and all other "account balance plans" treated as a single nonqualified deferred compensation plan with the Deferred Fee Plan under Treasury Regulation Section 1.409A-1(c)(2);

(ii) The Company's discretionary decision to terminate and liquidate the Deferred Fee Plan within thirty (30) days before or the twelve (12) months following a "change in the ownership or effective control of a corporation, or a change in the ownership of a substantial portion of the assets of a corporation," as defined in Treasury Regulation Section 1.409A-3(i)(5), and provided such termination complies with the terms of Treasury Regulation Section 1.409A-3(j)(4)(ix)(B);

(iii) A termination and liquidation of the Deferred Fee Plan in accordance with Treasury Regulation Section 1.409A-3(j)(4)(ix)(C) provided such termination and liquidation complies with the requirements of such regulation, including that all other agreements, methods, programs, and arrangements required to be terminated and liquidated are so terminated or liquidated; or

(iv) Pursuant to such other events as permitted under Code Section 409A and applicable regulatory authority thereunder, including but not limited to accelerated payment of an amount intended to comply with a correction program under Code Section 409A.

**9.3 Right to Amend or Terminate.** The Board may amend or terminate the Deferred Fee Plan at any time in whole or in part. No amendment or termination of the Deferred Fee Plan shall reduce any amounts credited to a Director's Deferred Fee Accounts, any amount owed to him or her by the Company as of the date of amendment or termination, or the amount of interest accrued or number of Phantom Shares credited, as of such date, to his or her account. Notwithstanding the foregoing, the Board may make any amendment necessary or appropriate to comply with Code Section 409A. In connection with a termination of the Deferred Fee Plan, to the extent permitted by section 9.2 for amounts deferred for services performed on or before

December 31, 2004, the Company, without the consent of any Director or Beneficiary, may cause the timing of distributions under the Deferred Fee Plan to be accelerated.

**9.4 Unfunded Obligation.** The obligation of the Company to pay any benefits under the Deferred Fee Plan shall be unfunded and unsecured, and any payments under the Deferred Fee Plan shall be made from the general assets of the Company. Directors' rights under the Deferred Fee Plan are not assignable or transferable other than by will or the laws of descent and distribution, and such rights are exercisable during the Director's lifetime only by him or her, or by his or her guardian or legal representative. In order to comply with Code Section 409A(b), no trust or funding as provided in this section or other funding shall be made for a Director's or Beneficiary's benefit under the Deferred Fee Plan except in compliance with the following:

(i) Except for assets located in a foreign jurisdiction with respect to a Participant who performs substantially all of his or her services in such foreign jurisdiction, no assets set aside for paying benefits under the Deferred Fee Plan (including the trust provided for in this section) shall be located or transferred outside of the United States;

(ii) No trust provided for in this section or other funding vehicle shall provide that assets will become restricted to the provision of benefits in connection with a change in the Company's financial health or the occurrence of a "restricted period" as defined in Code Section 409A(b)(3)(B) (or other similar financial measure determined by the Secretary of the Treasury); and

(iii) In the event the Company or an Affiliate has a "restricted period" as defined in Code Section 409A(b)(3)(B), no contributions shall be made to the trust (or other set aside or funding arrangement) with respect to an "applicable covered employee" as defined in Code Section 409A(b)(3)(D) during such restricted period.

**9.5 Withholding.** The Directors, their Beneficiaries and personal representatives shall bear any and all federal, state, local or other taxes imposed on benefits under the Deferred Fee Plan. The Company may deduct from any distributions under the Deferred Fee Plan the amount of any taxes required to be withheld from such distribution by any federal, state or local government, and may deduct from any compensation or other amounts payable to the Director the amount of any taxes required to be withheld with respect to any other amounts under the Deferred Fee Plan by any federal, state or local government.

**9.6 Applicable Law.** The Deferred Fee Plan shall be construed and enforced in accordance with the laws of the State of Maryland, except to the extent superseded by federal law.

**9.7 Administration and Interpretation.** Phantom Shares credited to a Director's Stock Account under the Deferred Fee Plan are subject to the terms and conditions of the Performance Incentive Plan for Phantom Stock Awards. The Board shall have the authority and responsibility to administer and interpret the Deferred Fee Plan on behalf of the Company; provided that the Board may, in its discretion, delegate to the Chief Financial Officer of the Company any or all authority and responsibility to act with respect to administrative matters with



respect to the Deferred Fee Plan; provided, further, that the Compensation Committee of the Board shall retain authority and responsibility to administer and interpret on its own behalf and/or on behalf of the Company any Phantom Stock Award that is deemed granted pursuant to the terms of the Deferred Fee Plan. Benefits due and owing to a Director or Beneficiary under the Deferred Fee Plan shall be paid when due without any requirement that a claim for benefits be filed. However, any Director or Beneficiary who has not received the benefits to which he or she believes himself or herself entitled may file a written claim with the Board, who shall act on the claim within thirty (30) days, and such action on any such claim shall be conclusive.

**9.8 Code Section 409A.** The Deferred Fee Plan is intended to comply with the requirements of Code Section 409A, and the provisions of the Deferred Fee Plan and any Deferred Fee Agreement and Subsequent Deferral Election Agreement shall be interpreted in a manner that satisfies the requirements of Code Section 409A, and the Deferred Fee Plan shall be operated accordingly. For purposes of Code Section 409A, each payment in a series of installment payments provided hereunder shall be treated as a separate payment. If any provision of the Deferred Fee Plan or any term or condition of any Deferred Fee Agreement or Subsequent Deferral Election Agreement would otherwise frustrate or conflict with this intent, the provision, term or condition shall be interpreted and deemed amended so as to avoid this conflict. Notwithstanding the foregoing, the Company makes no representation that the Deferred Fee Plan complies with Code Section 409A and shall have no liability to any Director or Beneficiary for any failure to comply with Code Section 409A.

## EXHIBIT A

**FOR NEW DIRECTORS - Please note:** This election must be filed with the Company not later than 30 days after your election or appointment as a Director. The election will apply only to those fees earned for services performed after the election is filed with the Company. The Director may change this election in accordance with section 6.5 of the Deferred Fee Plan or on a prospective basis effective for fees paid for services performed beginning on the first day of the calendar year following the date written revocation of this election is delivered to the Company.

**FOR EXISTING DIRECTORS - Please note:** This election must be filed with the Company before the beginning of the calendar year for which it will be effective. The Director may change this election in accordance with section 6.5 of the Deferred Fee Plan or on a prospective basis effective for fees paid for services performed beginning on the first day of the calendar year following the date written revocation of this election is delivered to the Company.

### DEFERRED FEE AGREEMENT

This Agreement (this "Agreement") between National Retail Properties, Inc. (the "Company") and \_\_\_\_\_ (the "Director") is made under the National Retail Properties, Inc. Deferred Fee Plan for Directors (the "Deferred Fee Plan").

**1. Deferred Fee Plan.** The Director agrees to the terms and conditions of the Deferred Fee Plan, a copy of which has been previously delivered to the Director and constitutes a part of this Agreement. Capitalized words and phrases, when used in this Agreement, shall have the meaning given to them in the Deferred Fee Plan, unless the context clearly indicates otherwise.

**2. Election to Defer Cash Fees.** The Director authorizes and directs the Company to defer \_\_\_\_\_% of his or her Cash Fees earned during 20\_\_\_. Subject to the terms of the Deferred Fee Plan, this election will automatically renew and remain in full force and effect for all subsequent years unless and until the Director submits a change in deferral election before December 31 (or such earlier date as determined by the Administrator of the Deferred Fee Plan) covering such subsequent years.

**3. Election to Defer Stock Fees.** The Director authorizes and directs the Company to defer \_\_\_\_\_% of his or her Stock Fees earned during 20\_\_\_. Subject to the terms of the Deferred Fee Plan, will automatically renew and remain in full force and effect for all subsequent years unless and until the Director submits a change in deferral election before December 31 (or such earlier date as determined by the Administrator of the Deferred Fee Plan) covering such subsequent years.

**4. Investment of Deferred Fees.** The Director elects to have his or her deferred Cash Fees credited to (check one):

Cash Account OR

Stock Account

Deferred Stock Fees are automatically credited to the Director's Stock Account.

### 5. Time of Distribution.

Cash Account. The Director elects to receive the amount of deferred Fees credited to his or her Cash Account pursuant to this Agreement (including credits attributable to "earnings" or "interest" on such deferred amounts) as follows (select one):

- In a lump sum on \_\_\_\_\_, 20\_\_;
- In a lump sum on January 15 of the year following the year in which his or her termination of service as a Director occurs, or if such termination of service does not constitute a Separation from Service (as determined under Section 409A of the Internal Revenue Code of 1986, as amended) for purposes of the Deferred Fee Plan, January 15 of the year following the date on which the Director has a Separation from Service;
- In a lump sum on the first day of the month after the Director reaches his or her Social Security normal retirement age, as determined as of the date of this Agreement; and
- In a series of four (4) annual installments commencing on the first anniversary of the date on which his or her Separation from Service occurs as follows:

First Anniversary	25% of the Cash Account balance
Second Anniversary	33% of the remaining Cash Account balance
Third Anniversary	50% of the remaining Cash Account balance
Fourth Anniversary	100% of the remaining Cash Account balance

Stock Account. The Director elects to receive the amount of deferred Fees credited to his or her Stock Account pursuant to this Agreement (including credits attributable to "earnings" or "dividends" on such deferred amounts) as follows (select one):

- In a lump sum on \_\_\_\_\_, 20\_\_;
- In a lump sum on January 15 of the year following the year in which his or her termination of service as a Director occurs, or if such

termination of service does not constitute a Separation from Service (as determined under Section 409A of the Internal Revenue Code of 1986, as amended) for purposes of the Deferred Fee Plan, January 15 of the year following the date on which the Director has a Separation from Service;

- In a lump sum on the first day of the month after the Director reaches his or her Social Security normal retirement age, as determined as of the date of this Agreement; and
- In a series of four (4) annual installments commencing on the first anniversary of the date on which his or her Separation from Service occurs as follows:

First Anniversary	25% of the Stock Account balance
Second Anniversary	33% of the remaining Stock Account balance
Third Anniversary	50% of the remaining Stock Account balance
Fourth Anniversary	100% of the remaining Stock Account balance

**6. Section 409A Compliance Provisions.** Section 409A of the Internal Revenue Code of 1986, as amended, (the “Code”), applies to amounts deferred under a nonqualified deferred compensation plan, such as the Deferred Fee Plan. By executing this Agreement, the Director consents to the Company’s right to amend the Deferred Fee Plan in conformity with Section 409A of the Code even if such amendment would adversely affect the Director’s rights with respect to amounts deferred under this Agreement or a prior Deferred Fees Agreement.

**7. Beneficiary.** The Director requests that, following his or her death, any amounts remaining in his or her Deferred Fee Accounts be paid (in accordance with Section 5 above) to the Beneficiary or Beneficiaries he or she has designated below.

This form supersedes any previous Beneficiary designation the Director might have previously made under the Deferred Fee Plan.

NAME & ADDRESS

RELATIONSHIP

PERCENTAGE

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

NAME & ADDRESS

RELATIONSHIP

PERCENTAGE

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**IN WITNESS WHEREOF**, this Agreement is executed on the day and year written below.

\_\_\_\_\_

Director

Date

For Company Use

Date Election Received \_\_\_\_\_, 20\_\_.

By: \_\_\_\_\_

**EXHIBIT B**

***Please note:** This election must be filed with the Company at least twelve (12) months prior to the date on which payment was originally scheduled to be distributed. This election shall become effective on the date it is filed with the Chief Accounting Officer of the Company, and any such election shall be effective only if the conditions described in section 6.5 of the Deferred Fee Plan are satisfied.*

**SUBSEQUENT DEFERRAL ELECTION AGREEMENT**

This Agreement between National Retail Properties, Inc. (the “Company”) and \_\_\_\_\_ (the “Director”) is made under the National Retail Properties, Inc. Deferred Fee Plan for Directors (the “Deferred Fee Plan”)

**1. Subsequent Deferral Election.** The Director hereby elects to change his or her deferral election with respect to certain amounts previously deferred under the Deferred Fee Plan. This Agreement will be effective only if all of the following requirements are met:

- The election is received by the Chief Accounting Officer of the Company at least twelve (12) months prior to the Distribution Date currently in effect;
- The election is not effective for at least twelve (12) months from the date it is received by the Chief Accounting Officer of the Company; and
- The new Distribution Date is at least five (5) years after the Distribution Date currently in effect.

<b>Year and Type of Compensation Covered by Existing Election</b>	<b>Existing Distribution Date*</b>	<b>New Distribution Date*</b>	<b>Method of Payment</b>
(for example, 2018 Cash Fees)			A
			A
			A

\*If existing payment date is (i) January 15 of the year following the year in which the Director’s termination from service as a director occurs or (ii) the first day of the month after the Director reaches his or her Social Security normal retirement age, the new payment date must be at least five (5) years after such original date.

**A** - In a series of four (4) annual installments commencing on the New Distribution Date (and each anniversary thereof) as follows:

First Anniversary	25% of the Stock Account and/or Cash Account balance, as applicable
Second Anniversary	33% of the remaining Stock Account and/or Cash Account balance, as applicable
Third Anniversary	50% of the remaining Stock Account and/or Cash Account balance, as applicable
Fourth Anniversary	100% of the remaining Stock Account and/or Cash Account balance, as applicable

**2. Deferred Fee Plan.** The Director agrees to the terms and conditions of the Deferred Fee Plan, a copy of which has been previously delivered to the Director and constitutes a part of this Agreement. Capitalized words and phrases, when used in this Agreement, shall have the meaning given to them in the Deferred Fee Plan, unless the context clearly indicates otherwise.

**3. Section 409A Compliance Provisions.** Section 409A of the Internal Revenue Code of 1986, as amended, (the “Code”), applies to amounts deferred under a nonqualified deferred compensation plan, such as the Deferred Fee Plan. By executing this Agreement, the Director consents to the Company’s right to amend the Deferred Fee Plan in conformity with Section 409A of the Code even if such amendment would adversely affect the Director’s rights with respect to amounts deferred under this Agreement or a prior Deferred Fees Agreement.

**4. Beneficiary.** The Director requests that, following his or her death, any amounts remaining in his or her Deferred Fee Accounts be paid (in accordance with the above) to the Beneficiary or Beneficiaries he or she has designated below.

This form supersedes any previous Beneficiary designation the Director might have previously made under the Deferred Fee Plan.

NAME & ADDRESS

RELATIONSHIP

PERCENTAGE

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

NAME & ADDRESS

RELATIONSHIP

PERCENTAGE

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**IN WITNESS WHEREOF**, this Agreement is executed on the day and year written below.

\_\_\_\_\_  
Director      Date

For Company Use

Date Election Received \_\_\_\_\_, 20\_\_.

By: \_\_\_\_\_

**Section 3: EX-31.1 (EXHIBIT 31.1)**



OF THE SARBANES-OXLEY ACT OF 2002

I, Julian E. Whitehurst, certify that:

1. I have reviewed this report on Form 10-Q of National Retail Properties, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 1, 2018

/s/ Julian E. Whitehurst

Date

Name: Julian E. Whitehurst

Title: Chief Executive Officer and President

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## Section 4: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002

I, Kevin B. Habicht, certify that:

1. I have reviewed this report on Form 10-Q of National Retail Properties, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the

period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 1, 2018

/s/ Kevin B. Habicht

Date

Name: Kevin B. Habicht

Title: Chief Financial Officer

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## Section 5: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

### CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Julian E. Whitehurst, Chief Executive Officer and President, certifies, to the best of his knowledge, that (1) this Quarterly Report of National Retail Properties, Inc. ("NNN") on Form 10-Q for the period ended September 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (this "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (2) the information contained in this Report fairly presents, in all material respects, the financial condition of NNN as of September 30, 2018 and December 31, 2017 and its results of operations for the quarter and nine months ended September 30, 2018 and 2017.

November 1, 2018

/s/ Julian E. Whitehurst

Date

Name: Julian E. Whitehurst

Title: Chief Executive Officer and President

A signed original of this written statement required by Section 906 has been provided to NNN and will be retained by NNN and furnished to the Securities and Exchange Commission or its staff upon request.

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## Section 6: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

### CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Kevin B. Habicht, Chief Financial Officer, certifies, to the best of his knowledge, that (1) this Quarterly Report of National Retail Properties, Inc. (“NNN”) on Form 10-Q for the period ended September 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (this “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (2) the information contained in this Report fairly presents, in all material respects, the financial condition of NNN as of September 30, 2018 and December 31, 2017 and its results of operations for the quarter and nine months ended September 30, 2018 and 2017.

November 1, 2018

/s/ Kevin B. Habicht

Date

Name: Kevin B. Habicht

Title: Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to NNN and will be retained by NNN and furnished to the Securities and Exchange Commission or its staff upon request.

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