NATIONAL RETAIL PROPERTIES, INC.
Form 10-Q
November 06, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006.

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	**56-1431377**
(State or other jurisdiction of incorporation or organization)	***(I.R.S. Employer Identification No.)***

450 South Orange Avenue, Suite 900, Orlando, Florida 32801

(Address of principal executive offices, including zip code)

(407) 265-7348

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) for the Securities Exchange Act of 1934 during the preceding 12 months (or for 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 x No ¨

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

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer. ¨

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

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

59,036,098 shares of Common Stock, $0.01 par value, outstanding as of October 30, 2006.

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NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share data)

	September 30, 2006 (unaudited)	December 31, 2005
ASSETS		
Real estate, Investment Portfolio:		
Accounted for using the operating method, net of accumulated depreciation and amortization:		
Held for investment	$ 1,347,432	$ 1,290,748
Held for sale	6,614	7,645
Accounted for using the direct financing method:		
Held for investment	86,467	91,445
Held for sale	3,281	4,259
Real estate, Inventory Portfolio, held for sale	199,123	131,074
Mortgages, notes and accrued interest receivable, net of allowance of $634 and $676, respectively	23,269	51,086
Mortgage residual interests	32,130	55,184
Cash and cash equivalents	9,211	8,234
Restricted cash	36,980	30,191
Receivables, net of allowance of $704 and $847, respectively	8,989	8,547
Accrued rental income, net of allowance of $2,358 and $2,057, respectively	27,894	27,999
Debt costs, net of accumulated amortization of $10,838 and $9,567, respectively	8,681	6,096
Other assets	29,345	20,908
Total assets	$ 1,819,416	$ 1,733,416
LIABILITIES AND SHAREHOLDERS EQUITY		
Line of credit payable	$ 78,800	$ 162,300
Mortgages payable	36,331	151,133
Notes payable secured	26,250	28,250
Notes payable convertible	172,500	
Notes payable, net of unamortized discount of $1,032 and $1,133, respectively, and an unamortized interest rate hedge gain of $3,653 at December 31, 2005	489,768	493,321
Financing lease obligation	26,041	26,041
Accrued interest payable	7,802	5,539
Other liabilities	26,247	20,058
Income tax liability	7,973	13,748
Total liabilities	871,712	900,390
Minority interest	3,247	4,939
Shareholders equity:		
Preferred stock, $0.01 par value. Authorized 15,000,000 shares		
Series A, 1,781,589 shares issued and outstanding, stated liquidation value of $25 per share	44,540	44,540
Series B Convertible, 10,000 shares issued and outstanding at December 31, stated liquidation value of $2,500 per share		25,000
Common stock, $0.01 par value. Authorized 190,000,000 shares; 58,620,316 and 55,130,876 shares issued and outstanding September 30 and December 31, respectively	586	551
Excess stock, $0.01 par value. Authorized 205,000,000 shares; none issued or outstanding		
Capital in excess of par value	850,788	778,485
Retained earnings (deficit)	44,912	(20,489)

Accumulated other comprehensive income	3,631	
Total shareholders equity	944,457	828,087
	$ 1,819,416	$ 1,733,416

See accompanying notes to condensed consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(dollars in thousands, except per share data)

(unaudited)

	Quarter Ended September 30, 2006	Quarter Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Revenues:				
Rental income from operating leases	$ 32,194	$ 24,235	$ 91,188	$ 68,012
Earned income from direct financing leases	2,230	2,366	6,703	7,138
Contingent rental income	58	19	569	468
Real estate expense reimbursement from tenants	1,126	779	2,958	2,511
Interest and other income from real estate transactions	665	1,507	3,783	4,941
Interest income on mortgage residual interests	1,693	2,797	5,937	4,719
	37,966	31,703	111,138	87,789
Gross proceeds from the disposition of real estate, Inventory Portfolio	463	1,900	21,915	6,539
Costs of the disposition of real estate, Inventory Portfolio	(355)	(2,038)	(14,799)	(5,831)
Gain (loss) from the disposition of real estate, Inventory Portfolio	108	(138)	7,116	708
Operating expenses:				
General and administrative	4,663	6,463	18,916	16,981
Real estate	1,452	1,196	4,029	3,362
Depreciation and amortization	5,788	4,412	16,320	11,747
Impairment real estate, Investment Portfolio		344		1,673
Impairment mortgage residual interests valuation adjustment	6,116		8,779	
Restructuring costs			1,580	
	18,019	12,415	49,624	33,763
Earnings from operations	20,055	19,150	68,630	54,734
Other expenses (revenues):				
Interest and other income	(836)	(487)	(2,667)	(1,252)
Interest expense	12,078	8,790	35,387	23,051
	11,242	8,303	32,720	21,799
Earnings from continuing operations before income tax benefit, minority interest and equity in earnings of unconsolidated affiliates	8,813	10,847	35,910	32,935
Income tax benefit	3,301	432	8,725	1,378
Minority interest	1,705	223	(1,587)	239
Equity in earnings (loss) of unconsolidated affiliates	(76)	111	119	1,291
Earnings from continuing operations	13,743	11,613	43,167	35,843
Earnings from discontinued operations:				
Real estate, Investment Portfolio	5,820	762	75,779	16,140

Real estate, Inventory Portfolio, net of income tax expense and minority interest	1,892	4,155	6,158	7,440
	7,712	4,917	81,937	23,580
Earnings before extraordinary gain	21,455	16,530	125,104	59,423
Extraordinary gain, net of income tax expense				11,805
Net earnings	21,455	16,530	125,104	71,228
Series A preferred stock dividends	(1,002)	(1,002)	(3,006)	(3,006)
Series B convertible preferred stock dividends		(418)	(419)	(1,256)
Net earnings available to common shareholders basic	20,453	15,110	121,679	66,966
Series B convertible preferred stock dividends, if dilutive			419	1,256
Net earnings available to common shareholders diluted	$ 20,453	$ 15,110	$ 122,098	$ 68,222

See accompanying notes to condensed consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS - CONTINUED

(dollars in thousands, except per share data)

(unaudited)

	Quarter Ended September 30, 2006	Quarter Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net earnings per share of common stock:				
Basic:				
Continuing operations	$ 0.22	$ 0.19	$ 0.70	$ 0.60
Discontinued operations	0.13	0.09	1.44	0.45
Extraordinary gain				0.22
Net earnings	$ 0.35	$ 0.28	$ 2.14	$ 1.27
Diluted:				
Continuing operations	$ 0.22	$ 0.19	$ 0.70	$ 0.61
Discontinued operations	0.13	0.09	1.42	0.43
Extraordinary gain				0.22
Net earnings	$ 0.35	$ 0.28	$ 2.12	$ 1.26
Weighted average number of common shares outstanding:				
Basic	57,998,523	53,651,776	56,919,808	52,596,163
Diluted	58,225,055	53,901,276	57,675,831	54,122,139

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, 2006	Nine Months Ended September 30, 2005
Cash flows from operating activities:		
Net earnings	$ 125,104	$ 71,228
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Stock compensation expense	2,734	1,017
Depreciation and amortization	17,854	15,891
Impairment real estate	693	3,728
Impairment mortgage residual interests valuation adjustment	8,779	
Amortization of notes payable discount	101	76
Amortization of deferred interest rate hedge gains	(258)	(243)
Equity in earnings of unconsolidated affiliates	(119)	(1,291)
Distributions received from unconsolidated affiliates	877	3,293
Minority interests	2,546	5,821
Gain on disposition of real estate, Investment Portfolio	(68,401)	(9,712)
Extraordinary gain, net of income tax expense		(11,805)
Deferred income taxes	(6,776)	(352)
Change in operating assets and liabilities, net of assets acquired and liabilities assumed in business combinations:		
Additions to real estate, Inventory Portfolio	(127,784)	(64,033)
Proceeds from disposition of real estate, Inventory Portfolio	58,942	52,225
Gain on disposition of real estate, Inventory Portfolio	(11,241)	(17,080)
Decrease in real estate leased to others using the direct financing method	2,280	2,176
Increase in work in process	(2,346)	(514)
Decrease in mortgages, notes and accrued interest receivable	1,040	110
Decrease (increase) in receivables	(433)	4,356
Decrease in mortgage residual interests	14,510	8,493
Decrease (increase) in accrued rental income	(4,948)	1,084
Decrease (increase) in other assets	1,544	(1,025)
Increase in accrued interest payable	2,262	888
Increase (decrease) in other liabilities	2,568	(631)
Increase (decrease) in current tax liability	1,001	(999)
Net cash provided by operating activities	20,529	62,701
Cash flows from investing activities:		
Proceeds from the disposition of real estate, Investment Portfolio	170,059	35,867
Additions to real estate, Investment Portfolio, accounted for using the operating method	(251,386)	(112,128)
Investment in direct financing leases	(1,449)	(310)
Increase in mortgages and notes receivable	(11,011)	(16,028)
Mortgage and notes payments received	37,599	14,384
Business combinations, net of cash acquired		19,610
Restricted cash	(6,789)	(26,500)
Payment of lease costs	(1,645)	(599)
Other	520	(963)

Net cash used in investing activities	$ (64,102)	$ (86,667)

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, 2006	2005
Cash flows from financing activities:		
Proceeds from line of credit payable	$ 324,700	$ 187,200
Repayment of line of credit payable	(408,200)	(84,300)
Repayment of mortgages payable	(19,802)	(5,734)
Proceeds from notes payable convertible	172,500	
Repayment of notes payable secured	(2,000)	
Repayment of notes payable		(9,400)
Payment of debt costs	(3,864)	
Proceeds from issuance of common stock	44,607	7,724
Payment of Series A Preferred Stock dividends	(3,006)	(3,006)
Payment of Series B Convertible Preferred Stock dividends	(419)	(1,256)
Payment of common stock dividends	(56,273)	(51,399)
Minority interest distributions	(3,592)	(5,948)
Minority interest contributions	2	
Stock issuance costs	(103)	(6)
Net cash provided by financing activities	44,550	33,875
Net increase in cash and cash equivalents	977	9,909
Cash and cash equivalents at beginning of period	8,234	1,947
Cash and cash equivalents at end of period	$ 9,211	$ 11,856
Supplemental disclosure of cash flow information:		
Interest paid, net of amount capitalized	$ 36,547	$ 26,217
Taxes paid	$ 816	$ 3,594
Supplemental disclosure of non-cash investing and financing activities:		
Issued 79,500 and 103,400 shares of restricted common stock in 2006 and 2005, respectively, pursuant to the Company s 2000 Performance Incentive Plan	$ 1,763	$ 1,951
Converted 10,000 shares of Series B Convertible Preferred Stock to 1,293,996 shares of common stock	$ 25,000	$
Issued 30,979 shares of common stock in 2006 pursuant to the Company s Deferred Director Fee Plan	$ 621	$
Issued 10,318 shares of common stock in 2006 to directors pursuant to the Company s 2000 Performance Incentive Plan	$ 223	$
Note and mortgage notes accepted in connection with real estate transactions	$	$ 1,015
Mortgage note received in connection with real estate disposition	$	$ 1,400

Issued 1,636,532 shares of common stock in connection with the acquisition of National Properties Corporation (NAPE)	$	$ 31,160
Disposition of real estate and transfer of related mortgage payable	$ 95,000	$ 406
Transfer of six real estate properties from Inventory Portfolio to Investment Portfolio	$ 12,933	$
Surrender 28,535 shares of restricted common stock in 2005	$	$ 431
Change in other comprehensive income	$ 3,631	$

See accompanying notes to condensed consolidated financial statements.

NATIONAL RETAIL PROPERTIES, INC.

and SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

(unaudited)

Note 1 Organization and Summary of Significant Accounting Policies:

Organization and Nature of Business National Retail Properties, Inc., a Maryland corporation, formerly known as Commercial Net Lease Realty, Inc., is a fully integrated real estate investment trust (REIT) formed in 1984. The term Company refers to National Retail Properties, Inc. and its majority owned and controlled subsidiaries. These subsidiaries include the wholly owned qualified REIT subsidiaries of National Retail Properties, Inc., as well as the taxable REIT subsidiaries and their majority owned and controlled subsidiaries (collectively, NNN TRS). Effective May 1, 2006, Commercial Net Lease Realty, Inc. changed its name to National Retail Properties, Inc.

Prior to January 1, 2005, the Company held a 98.7 percent, non-controlling and non-voting interest in Commercial Net Lease Realty Services, Inc. and its majority owned and controlled subsidiaries (Services). Kevin B. Habicht, an officer and director of the Company, James M. Seneff, Jr. and Gary M. Ralston, each a former officer and director of the Company, (collectively the Services Investors) owned the remaining 1.3 percent interest, which was 100 percent of the voting interest in Services. Effective January 1, 2005, the Company acquired the remaining 1.3 percent interest in Services, increasing the Company s ownership in Services to 100 percent. Effective November 1, 2005, Commercial Net Lease Realty Services, Inc. merged into National Retail Properties, Inc. CNLRS Exchange I, Inc., a taxable REIT subsidiary (TRS), became the TRS holding company for the Company s development and exchange activities.

The Company s operations are divided into two primary business segments: (i) investment assets, including real estate assets, structured finance investments (included in mortgages and notes receivable on the condensed consolidated balance sheet), and mortgage residual interests (collectively, Investment Assets), and (ii) inventory real estate assets (Inventory Assets). The Investment Assets are operated through National Retail Properties, Inc. and its wholly owned qualified REIT subsidiaries. The Company acquires, owns, invests in, manages and develops properties that are leased primarily to retail tenants under long-term commercial net leases (the Investment Properties or Investment Portfolio). As of September 30, 2006, the Company owned 691 Investment Properties, with an aggregate gross leasable area of 9,324,000 square feet, which are located in 45 states. In addition to the Investment Properties, as of September 30, 2006, the Company had $7,587,000 and $32,130,000 in structured finance investments and mortgage residual interests, respectively. The Inventory Assets are operated through the NNN TRS. The NNN TRS, directly and indirectly, through investment interests, acquires and develops real estate primarily for the purpose of selling the real estate (the Inventory Properties or Inventory Portfolio). As of September 30, 2006, the NNN TRS owned 102 Inventory Properties.

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 accounting principles generally accepted in the United States of America. The unaudited condensed consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, 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, 2006 may not be indicative of the results that may be expected for the year ending December 31, 2006. Amounts as of December 31, 2005, included in the condensed consolidated financial statements, have been derived from the audited consolidated financial statements as of that date. These unaudited condensed consolidated financial statements 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 the Form 10-K for the year ended December 31, 2005.

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

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

The NNN TRS develops real estate through various joint venture development affiliate agreements. The NNN TRS consolidates the joint venture development entities listed in the table below based upon either the Company being the primary beneficiary of the respective variable interest entity or the Company having a controlling interest over the respective entity. The Company eliminates significant intercompany balances and transactions and records a minority interest for its other partners ownership percentage. The following table summarizes each of the investments entered into during the nine months ended September 30, 2006:

Date of Agreement	**Entity Name**	**Ownership %**
February 2006	CNLRS BEP, L.P.	50%
February 2006	CNLRS Rockwall, L.P.	50%
September 2006	NNN Harrison Crossing, L.P.	50%
September 2006	CNLRS RGI Bonita Springs, LLC	50%

The Company holds a variable interest in, but is not the primary beneficiary of, CNL Plaza Ltd., a variable interest entity. The Company s maximum exposure to loss as a result of its involvement with CNL Plaza Ltd. as of September 30, 2006, is $4,589,000. As of September 30, 2006, CNL Plaza, Ltd. had total assets and liabilities of $54,084,000 and $61,540,000, respectively.

In May 2005, the Company exercised its option to purchase 78.9 percent of the common shares of Orange Avenue Mortgage Investments, Inc. (OAMI). As a result, the Company has consolidated OAMI in its condensed consolidated financial statements.

Investment in Unconsolidated Affiliate The Company accounts for its investment in an unconsolidated affiliate under the equity method of accounting (see Note 4). The Company exercises influence over this unconsolidated affiliate, but does not control the affiliate.

Real Estate Investment Portfolio For purchases of real estate that were consummated subsequent to June 30, 2001, the effective date of Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, the fair value of the real estate acquired is allocated to the acquired tangible assets, consisting of land, building and tenant improvements, and the identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, the value of in-place leases and the value of tenant relationships, based in each case on their relative fair values.

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

In allocating the fair value of the identified intangible assets and liabilities of an acquired property, above-market and below-market in-place lease values are recorded as other assets or liabilities based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management s estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. The capitalized above-market lease values are amortized as a reduction of rental income over the remaining non-cancelable terms of the respective leases. The capitalized below-market lease values are amortized as an increase to rental income over the initial term and any fixed rate renewal periods in the respective leases. The Company s leases do not currently include fixed-rate renewal periods.

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

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

The Company reviews long-lived assets, including identifiable intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Events or circumstances that may occur include changes in real estate market conditions, the ability of the Company to re-lease properties that are currently vacant or become vacant, and the ability to sell properties at an attractive return. If the Company determines that the carrying amount is impaired, the long-lived assets are written down to their fair value with a corresponding charge to earnings.

Real Estate Inventory Portfolio The NNN TRS acquires, develops and owns properties that it intends to sell. The properties that are classified as held for sale at any given time may consist of properties that have been acquired in the marketplace with the intent to resell the properties that have been, or are currently being, constructed by the NNN TRS. The NNN TRS records the acquisition of the real estate at cost, including the acquisition and closing costs. The cost of the real estate developed by the NNN TRS includes direct and indirect costs of construction, interest and other miscellaneous costs incurred during the development period until the project is substantially complete and available for occupancy. Real estate held for sale is not depreciated. In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the NNN TRS classifies its real estate held for sale as discontinued operations for each property in which rental revenues are generated (see Note 14). When real estate held for sale is disposed of, the related costs are removed from the accounts and gains and losses from the dispositions are reflected in earnings.

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

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

Other Comprehensive Income The components for other comprehensive income for the nine months ended September 30, 2006 (dollars in thousands):

Balance at beginning of period	$
Treasury lock gain on swaps[(1)]	4,148
Treasury lock amortization	(752)
Mortgage residual interests unrealized gain[(2)]	235
Balance at end of period	$ 3,631

(1) Fair value of interest rate swaps reclassified from the Company s unsecured notes payable from the unamortized interest rate hedge gain resulting from the termination of the $94,000,000 swap in June 2004.

(2) Unrealized gain on mortgage residual interests based upon a third party valuation analysis.

The Company s total comprehensive income (dollars in thousands):

	Quarter Ended September 30, 2006	Quarter Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net earnings	$ 21,455	$ 16,530	$ 125,104	$ 71,228
Other comprehensive income	(152)		3,631	1,254
Total comprehensive income	$ 21,303	$ 16,530	$ 128,735	$ 72,482

Revenue Recognition Rental revenues for non-development real estate assets are recognized when earned in accordance with SFAS No. 13, Accounting For Leases, based on the terms of the lease at the time of acquisition of the leased asset. Rental revenues for properties under construction commence upon completion of construction of the leased asset and delivery of the leased asset to the tenant. Some leases provide for scheduled rent increases throughout the lease term. Such amounts are recognized on a straight-line basis over the terms of the leases.

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

The following is a reconciliation of the denominator of the basic net earnings per common share computation to the denominator of the diluted net earnings per common share computation:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Weighted average number of common shares outstanding	58,283,212	53,939,449	57,185,486	52,851,636
Unvested restricted stock	(284,689)	(287,673)	(265,678)	(255,473)
Weighted average number of common shares outstanding used in basic earnings per share	57,998,523	53,651,776	56,919,808	52,596,163
Weighted average number of common shares outstanding used in basic earnings per share	57,998,523	53,651,776	56,919,808	52,596,163
Effect of dilutive securities:				
Restricted stock	102,629	101,501	85,290	90,212
Common stock options	93,707	136,224	107,428	131,846
Directors deferred fee plan	30,196	11,775	27,695	9,922
Assumed conversion of Series B Convertible Preferred Stock to common stock			535,610	1,293,996
Weighted average number of common shares outstanding used in diluted earnings per share	58,225,055	53,901,276	57,675,831	54,122,139

The Series B Convertible Preferred Shares were not included in computing diluted earnings per common share for the quarter ended September 30, 2005 because their effects would be dilutive. In April 2006, the Series B Convertible Preferred Shares were converted into 1,293,996 shares of common stock and therefore are included in the computation of both basic and diluted weighted average number of shares outstanding. In addition, the potential dilutive shares related to the 2026 convertible notes payable were not included in computing earnings per common share because their effects would be dilutive.

Stock-Based Compensation On January 1, 2006, the Company adopted the provisions of SFAS No. 123 (R), Share-Based Payments (SFAS 123R), under the modified prospective method. Under the modified prospective method, compensation cost is recognized for all awards granted after the adoption of this standard and for the unvested portion of previously granted awards that are outstanding as of that date. In accordance with SFAS 123R, the Company will estimate the fair value of restricted stock and stock option grants at the date of grant and amortize those amounts into expense on a straight line basis or amount vested, if greater, over the appropriate vesting period. Adoption of SFAS 123R did not have a significant impact on the Company s earnings from continuing operations, net earnings, cash flow from operations, cash flow from financing activities and basic and diluted earnings per share for the quarter and nine months ended September 30, 2006.

Income Taxes The Company has made an election to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, and related regulations. The Company generally will not be subject to federal income taxes on amounts distributed to shareholders, providing it distributes at least 100 percent of its real estate investment trust taxable income and meets certain other requirements for qualifying as a REIT. Notwithstanding the Company s qualification for federal taxation as a REIT, the Company is subject to certain state and local taxes on its income and real estate.

The Company and the NNN TRS have made timely TRS elections pursuant to the provisions of the REIT Modernization Act. A TRS is able to engage in activities resulting in income that previously would have been disqualified from being eligible REIT income under the federal income tax regulations. As a result, certain activities of the Company which occur within its TRS entities are subject to federal and state income taxes (See Real Estate - Inventory Portfolio). All provisions for federal income taxes in the accompanying condensed consolidated financial statements are attributable to the NNN TRS and to OAMI s built-in-gain tax liability.

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

New Accounting Standards In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, Accounting for Income Taxes. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact, if any, of applying the various provisions of FIN 48.

In September 2006, the Securities and Exchange Commission (SEC) staff issued Staff Accounting Bulletin (SAB) Topic 1N, Financial Statements - Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). SAB 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the current year s financial statements are materially misstated. SAB 108 references both the iron curtain and rollover approaches to quantifying a current year misstatement for purposes of determining its materiality. The iron curtain approach focuses on how the current year s balance sheet would be affected in correcting a misstatement without considering the year(s) in which the misstatement originated. The rollover approach focuses on the amount of the misstatement that originated in the current year s income statement. SAB 108 states that registrants must quantify the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. Both the iron curtain approach and rollover approach should be used in assessing the materiality of a current year misstatement. SAB 108 provides that once a current year misstatement has been quantified, the guidance in SAB Topic 1M, Financial Statements - Materiality, (SAB 99) should be applied to determine whether the misstatement is material and should result in an adjustment to the financial statements. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB 108 will not have a significant impact on the financial position or results of operations of the Company.

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

Use of Estimates The preparation of the Company s condensed consolidated financial statements in conformity with GAAP requires management to make estimates and judgments on assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include impairments and allowances for certain assets, accruals, useful lives of assets and capitalization of costs. Actual results could differ from those estimates.

Reclassification Certain items in the prior year s condensed consolidated financial statements and notes to condensed consolidated financial statements have been reclassified to conform to the 2006 presentation. These reclassifications had no effect on shareholders equity or net earnings.

Note 2 Real Estate Investment Portfolio:

Leases As of September 30, 2006, 637 of the Investment Property leases have been classified as operating leases and 67 leases have been classified as direct financing leases. For the Investment Property leases classified as direct financing leases, the building portions of the property leases are accounted for as direct financing leases while the land portions of 43 of these leases are accounted for as operating leases. Substantially all leases have initial terms of 10 to 20 years (expiring between 2006 and 2026) and provide for minimum rentals. In addition, the majority of the leases provide for contingent rentals and/or scheduled rent increases over the terms of the leases. Generally, the tenant is also required to pay all property taxes and assessments, substantially maintain the interior and exterior of the building and carry property and liability insurance coverage. Certain of the Company s Investment Properties are subject to leases under which the Company retains responsibility for certain costs and expenses of the property. As of September 30, 2006, the weighted average remaining lease term was approximately 12 years. Generally, the leases of the Investment Properties provide the tenant with one or more multi-year renewal options subject to generally the same terms and conditions as the initial lease.

Held for Investment Accounted for Using the Operating Method Real estate subject to operating leases consisted of the following (dollars in thousands):

	September 30, 2006	December 31, 2005
Land	$ 656,607	$ 569,484
Buildings and improvements	767,552	796,744
Leasehold interests	2,532	2,532
	1,426,691	1,368,760
Less accumulated depreciation and amortization	(81,983)	(79,067)
	1,344,708	1,289,693
Work in progress	4,307	3,012
	1,349,015	1,292,705
Less impairment	(1,583)	(1,957)
	$ 1,347,432	$ 1,290,748

In connection with the development of the nine Investment Properties, the Company has agreed to fund construction commitments of $28,099,000, of which $16,262,000, including land costs, has been funded as of September 30, 2006.

In May 2006, the Company disposed of two office buildings containing an aggregate of 555,000 rentable square feet and a related parking garage with approximately 1,000 parking spaces (DC Office Properties). The carrying value of the DC Office Properties was $163,723,000 at December 31, 2005. The sale of the DC Office Properties yielded $227,876,000 of proceeds which included the assumption of a $95,000,000 mortgage secured by the DC Office Properties and the Company recognized a gain of $59,496,000 during the nine months ended September 30, 2006.

Held for Sale   Accounted for Using the Operating Method   The Investment Portfolio included certain properties that were held for sale, which consisted of the following (dollars in thousands):

	September 30, 2006	December 31, 2005
Land	$ 5,088	$ 5,805
Buildings and improvements	1,972	2,546
	7,060	8,351
Less accumulated depreciation and amortization	(173)	(130)
	6,887	8,221
Less impairment	(273)	(576)
	$ 6,614	$ 7,645

Held for Sale   Accounted for Using the Direct Financing Method   The following lists the components of net investment in direct financing leases that were held for sale (dollars in thousands):

	September 30, 2006	December 31, 2006
Minimum lease payments to be received	$ 4,793	$ 6,484
Estimated unguaranteed residual values	1,017	1,290
Less unearned income	(2,529)	(3,515)
Net investment in direct financing leases	$ 3,281	$ 4,259

Impairments   As a result of the Company s review of long lived assets including identifiable intangible assets, for impairment, the Company recognized the following impairments:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Continuing operations:				
Real estate	$	$ 344	$	$ 344
Intangibles[(1)]				1,328
		344		1,672
Discontinued operations:				
Real estate	273	78	693	2,056
	$ 273	$ 422	$ 693	$ 3,728

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

Note 3 Real Estate Inventory Portfolio:

As of September 30, 2006, the Company owned 102 Inventory Properties: 74 completed inventory, 10 under construction and 18 land parcels. As of December 31, 2005, the Company owned 63 Inventory Properties: 47 completed inventory, 12 under construction and four land parcels. The Inventory Portfolio consisted of the following (dollars in thousands):

	September 30, 2006	December 31, 2005
Inventory:		
Land	$ 42,170	$ 26,430
Building	73,971	37,081
	116,141	63,511
Construction Projects:		
Land	59,171	44,168
Work in process	23,811	23,395
	82,982	67,563
	$ 199,123	$ 131,074

In connection with the development of 10 of the Inventory Properties, the Company has agreed to fund construction commitments of $44,092,000, of which $35,527,000, including land costs, has been funded as of September 30, 2006.

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

	Quarter Ended September 30,				Nine Months Ended September 30,			
	2006		2005		2006		2005	
	# of Properties	Gain	# of Properties	Gain	# of Properties	Gain	# of Properties	Gain
Continuing operations	1	$ 108	1	$ (138)	3	$ 7,116	3	$ 708
Minority interest						(3,504)		
Total continuing operations		108		(138)		3,612		708
Discontinued operations	17	399	4	11,292	43	4,001	15	15,807
Intersegment eliminations				426		124		565
Minority interest				(5,393)		(505)		(5,393)
Total discontinued operations		399		6,325		3,620		10,979
	18	$ 507	5	$ 6,187	46	$ 7,232	18	$ 11,687

Note 4 Investments in Unconsolidated Affiliate:

In May 2002, the Company purchased a combined 25 percent partnership interest in CNL Plaza, Ltd. and CNL Plaza Venture, Ltd. (collectively, Plaza) for $750,000. Plaza owns a 346,000 square foot office building and an interest in an adjacent parking garage. The Company has severally guaranteed 41.67 percent of a $14,000,000 unsecured promissory note on behalf of Plaza. The maximum obligation of the Company under this guarantee is $5,834,000, plus interest. Interest accrues based on a tiered rate structure with a maximum of 300 basis points above LIBOR (the current rate is 175 basis points above LIBOR). This guarantee will continue through the loan maturity in December 2010. The fair value of the

Company s guarantee is $47,000. During the nine months ended September 30, 2006 and 2005, the Company received $877,000 and $396,000, respectively, in distributions from Plaza. For the nine months ended September 30, 2006, the Company recognized earnings of $119,000, of which a loss of $76,000 was recognized during the quarter ended September 30, 2006. For the nine months ended September 30, 2005 the Company recognized a loss from Plaza of $136,000, of which a loss $53,000 was recognized during the quarter ended September 30, 2005.

Note 5 Business Combination:

Between June 2001 and July 2003, a wholly owned subsidiary of the Company, Net Lease Funding, Inc. (NLF), entered into five limited liability company agreements with OAMI to create five limited liability companies (collectively, the LLCs). Kevin B. Habicht, an officer and director of the Company is an officer, director and indirect minority shareholder of OAMI. Craig Macnab, an officer and director of the Company and Julian E. Whitehurst, an officer of the Company, are each an officer and director of OAMI. Each of the LLCs holds an interest in mortgage loans and is 100 percent equity financed. Prior to the May 2005 acquisition of the 78.9 percent equity interest in OAMI, the Company held a non-voting and non-controlling interest in each of the LLCs ranging between 36.7 and 44.0 percent and accounted for its investment under the equity method of accounting. For the nine months ended September 30, 2005, the Company recognized $1,467,000 of earnings. The Company did not recognize earnings from the LLCs during the quarter ended September 30, 2005. The Company received $2,749,000 in distributions from the LLCs during the nine months ended September 30, 2005.

In May 2005, the Company acquired a 78.9 percent equity interest in OAMI which resulted in an extraordinary gain of $11,805,000, net of income tax expense of $7,223,000 for the nine months ended September 30, 2005. During the quarter ended December 31, 2005, the Company finalized the purchase price allocation based on the fair value of the assets acquired which resulted in a reduction to the extraordinary gain of $4,242,000. The adjustment to the extraordinary gain was recorded in accordance with SFAS No. 141, Business Combinations. Additionally, in November 2005, Commercial Net Lease Realty Services, Inc. merged into National Retail Properties, Inc. resulting in a tax benefit of $7,223,000 related to the acquisition of OAMI. The extraordinary gain for the year ended December 31, 2005 related to the OAMI acquisition after all adjustments was $14,786,000.

Also as a result of the acquisition of a 78.9 percent equity interest in OAMI, the Company s interest in the LLCs is no longer accounted for as an equity investment and is now part of OAMI in the Company s condensed consolidated financial statements. Certain officers and directors own preferred shares of OAMI.

Note 6 Notes Receivable:

The structured finance investments bear a weighted average interest rate of 15.3% per annum, of which 10.0% is payable monthly and the remaining 5.3%, accrues and is due at maturity. The principal balance of each structured finance investment is due in full at maturity, which range between November 2007 and August 2008. The structured finance investments are generally structured as loans secured by the borrowers pledge of their respective membership interests in the entities which own real estate. As of September 30, 2006 and December 31, 2005, the outstanding principal balance of the structured finance investments was $7,587,000 and $27,805,000, respectively.

During the nine months ended September 30, 2006, the Company entered into structured finance investments of $9,117,000. In addition, the Company received principal payments of $29,335,000 on certain structured finance investments plus accrued interest and prepayment penalties during the nine months ended September 30, 2006.

Note 7 Mortgage Residual Interests:

OAMI holds the mortgage residual interests (Residuals) from seven securitizations (See Note 5 Business Combination). The following table summarizes the investment interests in each of the transactions:

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

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

Each of the Residuals is recorded at fair value based upon a third party valuation. Unrealized gains and losses are reported as other comprehensive income in shareholders equity, and permanent losses as a result of a change in the timing or amount of estimated cash flows are recorded as an impairment. As a result of the increase in historical prepayments of the underlying loans of the Residuals, the third party valuation increased the average life equivalent Constant Prepayment Rate (CPR) speeds assumption from a range of 18.7% to 22.9% up to a range of 39.2% to 47.8%. The effect of the change in the assumption of future prepayments as well as the actual prepayments received during the nine months ended September 30, 2006, resulted in the Company recognizing a valuation impairment of $8,779,000 for the nine months ended September 30, 2006, of which $6,116,000 was recorded during the quarter ended September 30, 2006. In addition, the Company had $235,000 of unrealized gains recorded in other comprehensive income at September 30, 2006.

Note 8 Mortgages Payable:

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

In May 2006, the Company disposed of the DC Office Properties that were subject to a first mortgage with an original and outstanding principal balance of $95,000,000. Upon disposition of these Investment Properties, the buyer assumed the mortgage.

Note 9 Notes Payable Convertible:

In September 2006, the Company filed a prospectus supplement to the prospectus contained in its February 2006 shelf registration statement and issued $150,000,000 of 3.95% convertible senior notes due September 2026 (with a 2011 put option). Subsequently, the Company issued an additional $22,500,000 in connection with the underwriters over-allotment option (collectively, the

Convertible Notes). The Convertible Notes are senior, unsecured obligations of the Company and are subordinated to all secured indebtedness of the Company. The Convertible Notes were sold at par with interest payable semi-annually commencing on March 15, 2007 (effective interest rate of 3.95%).

The notes are convertible, at the option of the holder, at any time on or after September 15, 2025. Prior to September 15, 2025, holders may convert their Convertible Notes under certain circumstances. The initial conversion rate per $1,000 principal amount of Convertible Notes is 40.9015 shares of the Company s common stock. This is equivalent to an initial conversion price of $24.4490 per share of common stock, which represents a 15% premium over the $21.26 closing price of the Company s common stock at the time the transaction was priced. The initial conversion rate is subject to adjustment in certain circumstances. Upon conversion of each $1,000 principal amount of Convertible Notes, the Company will settle any amounts up to the principal amount of the notes in cash and the remaining conversion value, if any, will be settled, at the Company s option, in cash, common stock or a combination thereof.

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

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

Note 10 Common Stock:

During the nine months ended September 30, 2006, the Company issued 2,002,904 shares of common stock pursuant to the Company s Dividend Reinvestment and Stock Purchase Plan and received net proceeds of $42,674,000.

During the nine months ended September 30, 2006 and 2005, the Company declared and paid dividends to its common shareholders of $56,273,000 and $51,399,000, respectively, or $0.985 and $0.975 per share, respectively, of common stock.

Note 11 Preferred Stock:

Holders of each of the Company s preferred stock issuances are entitled to receive, when and as authorized by the board of directors, cumulative preferential cash distributions based on the stated rate and liquidation preference per annum. The following table outlines each issuance of the Company s preferred stock:

Non-Voting Preferred Stock Issuance	Shares Outstanding At September 30, 2006	Liquidation Preference (per share)	Fixed Annual Cash Distribution (per share)	Dividends Declared and Paid For the Nine Months Ended September 30, 2006 Total	2006 Per Share	2005 Total	2005 Per Share
9% Series A	1,781,589	$ 25.00	$ 2.25	$ 3,006,000	$ 1.6875	$ 3,006,000	$ 1.6875
6.7% Series B Perpetual [(1)]		$ 2,500.00	167.50	419,000	41.875	1,256,000	$ 125.625

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

Note 12 Restructuring Costs:

During the nine months ended September 30, 2006, the Company recorded restructuring costs of $1,580,000, which included severance costs and accelerated vesting of restricted stock in connection with the workforce reduction in April 2006.

Note 13 Income Taxes:

For income tax purposes, the Company has taxable REIT subsidiaries in which certain real estate activities are conducted. Additionally, the Company has its 78.9 percent equity interest in OAMI which the Company has consolidated in its financial statements as a result of the Company s acquisition in May 2005. OAMI, upon making its REIT conversion, has remaining tax liabilities relating to the built-in-gain of its assets. The Company treats some depreciation expense and certain other items differently for tax than for financial reporting purposes. The principal differences between the Company s effective tax rates for the quarters ended September 30, 2006 and 2005 and the statutory rates, relate to state taxes and nondeductible expenses such as meals and entertainment expenses.

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

	September 30, 2006	December 31, 2005
Temporary differences:		
Built-in-gain	$ (10,475)	$ (14,551)
Depreciation	(530)	(315)
Stock based compensation	90	35
Other	279	(180)
Net operating loss carryforward	2,945	544
Net deferred income tax asset (liability)	$ (7,691)	$ (14,467)
Current income tax asset (payable)	(282)	719
Income tax asset (liability)	$ (7,973)	$ (13,748)

In assessing the ability to realize a deferred tax asset, management considers whether it is more likely than not that some portion or the entire deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabiliti