

TRUSTREET PROPERTIES INC
Form 10-K/A
May 12, 2006

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

FORM 10-K/A

AMENDMENT NO. 1

(Mark One)

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

For the fiscal year ended December 31, 2005

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 1-13089

TRUSTREET PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Maryland	75-2687420
<i>(State or other jurisdiction of incorporation or organization)</i>	<i>(I.R.S. Employer Identification No.)</i>

**450 South Orange Avenue
Orlando, Florida 32801**

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (407) 540-2000

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

<i>Title of each class:</i>	<i>Name of exchange on which registered:</i>
Common stock, \$0.001 par value per share	New York Stock Exchange

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\$1.93 Series A Cumulative Convertible
Preferred Stock

New York Stock Exchange
New York Stock Exchange

7.5% Series C Redeemable Convertible
Preferred Stock

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

None

(Title of class)

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

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

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 x No "

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

Indicate by checkmark if 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 Act). Yes " No x

The aggregate market value of voting common stock held by non-affiliates of the registrant as of June 30, 2005 was \$870.4 million based on the closing sale price of \$16.61 per share on June 30, 2005 on the New York Stock Exchange.

The number of Shares of common stock outstanding as of March 15, 2006 was 67,354,682.

The Form 10-K of Trustreet Properties, Inc. (the "Company") for the year ended December 31, 2005, is being amended to include a revised consent by PricewaterhouseCoopers LLP as Exhibit 23.1. The Company's Form 10-K is also being amended to correct a typographical error on the Company's Consolidated Statements of Cash Flows for the year ended December 31, 2005, that did not impact the subtotals or totals of this statement.

PART II

Report of Independent Registered Certified Public Accounting Firm

To the Board of Directors and Stockholders of
Trustreet Properties, Inc.

We have completed integrated audits of Trustreet Properties, Inc.'s 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedules

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Trustreet Properties, Inc. and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control - Integrated Framework* issued by COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting

Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Orlando, Florida

March 16, 2006

Item 8. Financial Statements and Supplementary Data.

TRUSTREET PROPERTIES, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands)

	December 31,	
	2005	2004
ASSETS		
Real estate investment properties	\$ 1,737,144	\$ 520,207
Net investment in capital leases	150,636	96,463
Real estate held for sale	229,132	165,122
Mortgage, equipment and other notes receivable, net of allowance of \$5,706 and \$7,261, respectively	88,239	290,140
Cash and cash equivalents	20,459	22,744
Restricted cash	32,465	7,402
Receivables, less allowance for doubtful accounts of \$2,394 and \$2,136, respectively	7,665	7,391
Accrued rental income	35,357	27,489
Intangible lease costs, net of accumulated amortization of \$9,666 in 2005	77,663	—
Goodwill	235,895	56,260
Other assets	69,481	50,431
	\$ 2,684,136	\$ 1,243,649
LIABILITIES AND STOCKHOLDERS' EQUITY		
Revolver	\$ 55,000	\$ 21,000
Notes payable	579,002	162,810
Mortgage warehouse facilities	122,722	101,394
Subordinated note payable	—	21,875
Bonds payable	742,201	405,421
Below market lease liability, net of accumulated amortization of \$3,772 in 2005	32,305	—
Due to related parties	232	37,172
Other payables	56,097	33,736
Total liabilities	\$ 1,587,559	\$ 783,408

See accompanying notes to consolidated financial statements.

TRUSTREET PROPERTIES, INC.
CONSOLIDATED BALANCE SHEETS - CONTINUED
(In thousands)

	December 31,	
	2005	2004
Minority interests, including redeemable partnership interest in 2004	\$ 4,077	\$ 6,819
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Preferred stock, \$0.001 par value per share. 84,500 shares authorized and unissued	—	—
Preferred stock, \$0.001 par value per share: Series A Cumulative Convertible Preferred Stock - 8,000 shares authorized, 7,834 shares issued and outstanding at December 31, 2005 (aggregate liquidation value of \$195,855)	8	—
Preferred stock, \$0.001 par value per share: Series C Redeemable Convertible Preferred Stock - 7,500 shares authorized, 7,244 shares issued and outstanding at December 31, 2005 (aggregate liquidation value of \$181,101)	7	—
Excess shares, \$0.001 par value per share. 400,000 shares authorized and unissued	—	—
Common stock, \$0.001 par value per share; 300,000 shares authorized, 67,375 and 35,061 shares issued at December 31, 2005 and 2004, respectively, and 67,357 and 35,032 shares outstanding at December 31, 2005 and 2004, respectively	67	452
Capital in excess of par value	1,489,405	825,134
Accumulated other comprehensive income (loss)	3,547	(12,434)
Accumulated distributions in excess of net income	(400,534)	(359,730)
Total stockholders' equity	1,092,500	453,422
	\$ 2,684,136	\$ 1,243,649

See accompanying notes to consolidated financial statements.

TRUSTREET PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands except for per share data)

	Year Ended December 31,		
	2005	2004	2003
Revenues:			
Rental income from operating leases	\$ 148,955	\$ 56,042	\$ 58,513
Earned income from capital leases	12,002	9,971	10,408
Interest income from mortgage, equipment and other notes receivables	18,070	26,394	29,807
Investment and interest income	2,259	3,770	4,586
Net decrease in value of mortgage loans held for sale, net of related hedge	—	—	(1,853)
Other income	8,793	7,107	9,609
	190,079	103,284	111,070
Expenses:			
General operating and administrative	37,970	28,408	27,622
Interest expense	90,074	47,999	50,576
Property expenses, state and other taxes	7,234	575	929
Depreciation and amortization	30,937	11,527	12,043
Loss on termination of cash flow hedge	8,558	940	502
Impairment provisions on assets	1,964	3,238	10,692
	176,737	92,687	102,364
Income from continuing operations before minority interest and equity in earnings of unconsolidated joint ventures	13,342	10,597	8,706
Minority interest	(1,756)	(3,718)	(1,913)
Equity in earnings of unconsolidated joint ventures	118	105	108
Income from continuing operations	11,704	6,984	6,901
Income from discontinued operations, after income taxes	42,840	34,899	35,548
Gain/(loss) on sale of assets	9,643	135	(9)
Net income	64,187	42,018	42,440
Dividends to preferred stockholders	(24,448)	—	—
Net income allocable to common stockholders	\$ 39,739	\$ 42,018	\$ 42,440
Basic and diluted net income per share:			
Income/(loss) from continuing operations allocable to	\$ (0.06)	\$ 0.20	\$ 0.20

common stockholders						
Income from discontinued operations		0.78	1.00	1.01		
Basic and diluted net income per share	\$	0.72	\$	1.20	\$	1.21
Weighted average number of shares of common stock outstanding (Notes 1 and 15):						
Basic		55,053	35,032	35,032		
Diluted		55,053	35,032	35,032		

See accompanying notes to consolidated financial statements.

TRUSTREET PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME/(LOSS)
Years ended December 31, 2005, 2004 and 2003
(In thousands)

	Preferred Stock Series A	Preferred Stock Series C	Common Stock Number of Shares	Par value	Capital excess of par value	Loans to Stockholders	Accumulated distributions in excess of net income	Accumulated other compre- hensive income/(loss)	Total	Compre- hensive income/ (loss)
Balance at December 31, 2002	—	—	45,249	\$ 452	\$ 816,745	\$ —	\$(306,184)	\$(16,862)	\$ 494,151	
Acquisition of minority interest	—	—	—	—	11,375	—	—	—	11,375	
Stock issuance costs	—	—	—	—	(1,493)	—	—	—	(1,493)	
Net income	—	—	—	—	—	—	42,440	—	42,440	\$ 42,440
Reclassification of market revaluation on available for sale securities to statement of income	—	—	—	—	—	—	—	(78)	(78)	(78)
Reclassification of cash flow hedge losses to statement of income	—	—	—	—	—	—	—	502	502	502
Current period adjustment to recognize change in fair value of cash flow hedges, net of \$1,750 in tax benefit	—	—	—	—	—	—	—	1,991	1,991	1,991
Total comprehensive	—	—	—	—	—	—	—	—	—	-\$ 44,855

income												
Distributions declared and paid (\$1.52 per share)	—	—	—	—	—	—	—	—	(69,002)	—	(69,002)	
Balance at December 31, 2003	—	—	—	—45,249	452	826,627	—	(332,746)	(14,447)	479,886		
Stock issuance costs	—	—	—	—	—	(1,493)	—	—	—	(1,493)		
Net income	—	—	—	—	—	—	—	42,018	—	42,018	\$ 42,018	
Other comprehensive loss, market revaluation on available for sale securities	—	—	—	—	—	—	—	—	(340)	(340)	(340)	

See accompanying notes to consolidated financial statements.

TRUSTREET PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME/(LOSS)
Years ended December 31, 2005, 2004 and 2003
(In thousands)

	Preferred Stock Series A	Preferred Stock Series C	Common Stock		Capital in excess of par value	Loans to Stockholders	in excess of net income	Accumulated other compre- hensive income/(loss)	Total	Compre- hensive income/ (loss)	
	Number of shares	Number of shares	Number of Shares	Par value	par value					(loss)	
Reclassification of cash flow hedge losses to statement of income									\$ 940	\$ 940	\$ 940
Current period adjustment to recognize change in fair value of cash flow hedges, net of \$100 in tax benefit									1,413	1,413	1,413
Total comprehensive income											-\$44,031
Distributions declared and paid (\$1.52 per share)											(69,002)
Balance at December 31, 2004			45,249	452	825,134		(359,730)	(12,434)			453,422
Effect of USRP Merger:											
Assumption of USRP equity	4,084	4	22,599	23	440,483	(224)					440,286
Conversion of CNLRP		7,244	7	(10,223)	(417)	410					

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common shares												
Acquisition of Income Funds	3,750	4	—	—	—	—	88,231	—	—	—	88,235	
Net income	—	—	—	—	—	—	—	—	64,187	—	64,187	\$ 64,187
Reclassification of cash flow hedge losses to statement of income	—	—	—	—	—	—	—	—	—	10,582	10,582	10,582
Current period adjustment to recognize change in fair value of cash flow hedges	—	—	—	—	—	—	—	—	—	6,227	6,227	6,227
Total comprehensive income	—	—	—	—	—	—	—	—	—	—	—	-\$ 80,996

See accompanying notes to consolidated financial statements.

TRUSTREET PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME/(LOSS)
Years ended December 31, 2005, 2004 and 2003
(In thousands)

	Preferred Stock Series A		Preferred Stock Series C		Common Stock		Capital in excess of par value	Loans to Stockholders	Accumulated distributions in excess of net income	Accumulated other compre- hensive income/ (loss)	Total	Compre- hensive income/ loss
	Number of shares	Par value	Number of shares	Par value	Number of Shares	Par value	par value					(loss)
Repayment by stockholder of loan	—	—	—	—	—	—	—	224	—	—	224	
Distributions declared on common stock	—	—	—	—	—	—	—	—	(80,354)	—	(80,354)	
Distributions declared on preferred stock	—	—	—	—	—	—	—	—	(24,448)	—	(24,448)	
Issuance of common stock to directors and employees	—	—	—	—	119	—	2,052	—	—	—	2,052	
Issuance of restricted stock to directors and employees	—	—	—	—	138	—	—	—	—	—	—	
Forfeiture of restricted stock	—	—	—	—	(18)	—	—	—	—	—	—	
Amortization of restricted stock	—	—	—	—	—	—	541	—	—	—	541	
Proceeds from exercised stock options	—	—	—	—	41	—	563	—	—	—	563	
Issuance of common stock	—	—	—	—	9,452	9	136,157	—	—	—	136,166	
Stock issuance costs	—	—	—	—	—	—	(5,183)	—	—	—	(5,183)	

Acquisition of minority interest	—	—	—	—	—	—	1,017	—	(189)	(828)	—
Balance at December 31, 2005	7,834	\$ 8	7,244	\$ 7	67,357	\$ 67	1,489,405	\$	-\$ (400,534)	\$ 3,547	\$ 1,092,500

See accompanying notes to consolidated financial statements.

TRUSTREET PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years ended December 31,		
	2005	2004	2003
Cash flows from operating activities:			
Net income	\$ 64,187	\$ 42,018	\$ 42,440
Adjustments to reconcile net income to net cash provided by operating activities, net of effects of business acquisitions:			
Depreciation and amortization on real estate assets	30,227	10,902	10,869
Depreciation and amortization on non-real estate assets	1,975	1,775	2,597
Amortization of above and below market leases	620	—	—
Amortization of deferred financing costs	9,514	5,535	4,023
Provision for loss on loans	1,235	112	5,462
Impairments and provisions on assets	1,117	9,187	16,943
Gain on sales of assets	(18,007)	(4,943)	(3,475)
Stock based compensation	2,593	—	—
Increase in accrued rental income	(7,906)	(3,533)	(5,728)
Amortization of investment in capital leases	5,507	2,164	1,810
Net decrease in value of mortgage loans held for sale, net of related hedge	—	—	1,853
Investment in mortgage loans held for sale	—	—	(112)
Collection on mortgage loans held for sale	—	—	7,635
Changes in inventories of real estate held for sale	(29,179)	(19,854)	29,618
Changes in other assets	(35,181)	(15,921)	(9,660)
Changes in other payables and due to related parties	21,660	11,643	4,097
Net cash provided by operating activities	48,362	39,085	108,372
Cash flows from investing activities:			
Additions to real estate investment properties and intangibles	(302,000)	(20,726)	—
Proceeds from sale of assets	253,787	20,562	25,312
Proceeds from sale of other investments	—	11,195	19
Decrease/(increase) in restricted cash	(6,974)	5,060	(7,888)
Acquisition of Income Funds	(449,997)	—	—
Cash acquired through Merger	43,646	—	—
Payment of Merger costs for USRP reverse Merger	(14,414)	—	—
Investment in mortgage, equipment and other notes receivable	(5,478)	—	—
Collection on mortgage, equipment and other notes receivable	27,726	34,789	29,075
Net cash provided by/(used in) investing activities	(453,704)	50,880	46,518

See accompanying notes to consolidated financial statements.

TRUSTREET PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
(In thousands)

	Years ended December 31,		
	2005	2004	2003
Cash flows from financing activities:			
Proceeds from borrowings on revolver, term loan and note payable	1,354,475	61,552	34,104
Payment on revolver and note payable	(1,399,640)	(84,177)	(66,751)
Proceeds from borrowings on mortgage warehouse facilities	211,945	196,335	124,127
Payments on mortgage warehouse facilities	(190,617)	(188,454)	(176,372)
Proceeds from borrowings on senior notes	301,188	—	—
Proceeds from issuance of bonds	275,000	5,000	24,906
Retirement of bonds payable	(81,956)	(29,844)	(19,403)
Payment of bond issuance and debt refinancing costs	(27,911)	(908)	(2,231)
Proceeds from termination of cash flow hedge	1,685	—	—
Proceeds from exercised stock options	563	—	—
Retirement of convertible preferred stock	(32,500)	—	—
Loans from stockholder	—	10,900	18,710
Repayment of loan to stockholder	(33,860)	—	—
Acquisition of minority interest	(655)	—	—
Distributions to minority interest	(2,249)	(3,327)	(1,867)
Proceeds from issuance of common stock	136,166	—	—
Payment of stock issuance costs	(6,675)	(1,493)	(1,493)
Distributions to common stockholders	(75,463)	(69,760)	(68,244)
Distributions to preferred stockholders	(26,439)	—	—
Net cash provided by/(used in) financing activities	403,057	(104,176)	(134,514)
Net increase (decrease) in cash and cash equivalents	(2,285)	(14,211)	20,376
Cash and cash equivalents at beginning of year	22,744	36,955	16,579
Cash and cash equivalents at end of year	\$ 20,459	\$ 22,744	\$ 36,955
Supplemental disclosures of cash flow information:			
Interest paid	\$ 80,160	\$ 44,541	\$ 48,114
Income taxes paid	\$ 6,088	\$ 8,508	\$ 4,019
Supplemental disclosures of non-cash investing and financing activities:			
Acquisition of minority interest in lieu of payment on accounts receivable	\$ 1,798	\$ 894	\$ 317
Acquisition of minority interest	\$ —	\$ —	\$ 11,375

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Financing of computer software acquisition	\$	—	\$	—	\$	1,788
Foreclosure on notes receivable and acceptance of underlying real estate collateral	\$	—	\$	452	\$	4,632
Notes receivable accepted in exchange for sale of properties	\$	4,450	\$	3,490	\$	1,394
Restricted cash accepted in exchange for sale of convenience and gas store operations and interest in fuel loading terminal	\$	10,253	\$	—	\$	—
Distributions on common stock declared and unpaid at December 31	\$	7,409	\$	—	\$	758

See accompanying notes to consolidated financial statements.

Refer to Note 2 to the consolidated financial statements for the allocation of assets acquired and liabilities assumed as part of the Merger in February 2005.

During the year ended December 31, 2003, the Company designated approximately \$23.7 million from mortgage loans held for sale to held for investment. The loans serve as collateral for bonds issued by the Company.

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2005, 2004 and 2003

1. Organization and Summary of Significant Accounting Policies:

Organization and Nature of Business - Truststreet Properties, Inc. (the "Company") is the new name adopted upon the Merger (the "Merger") of CNL Restaurant Properties, Inc. ("CNLRP") and eighteen CNL Income Fund partnerships ("the Income Funds") with and into U.S. Restaurant Properties, Inc. ("USRP") on February 25, 2005.

The Company, a Maryland corporation, is a self-administered real estate investment trust ("REIT"). The Company's operations are managed, operated and reported on two distinct segments, a real estate segment and a specialty finance segment. The real estate segment primarily acquires, owns, and manages a portfolio of single-tenant restaurant properties that are generally leased to established tenants under long-term triple-net leases and holds a small portfolio of mortgage loan receivables. The specialty finance segment provides financing, development and advisory services to national and regional restaurant operators. The specialty finance segment includes the Company's investment property sales program, our real estate development and redevelopment group and to a lesser extent, investment banking services, to national and regional restaurant operators.

Beginning in June of 2000, the specialty finance segment was operated by a subsidiary of the Company through a partnership and alliance with Bank of America, N.A. (the "Bank") and CNL/CAS Corp., an affiliate of the Company's chairman. In 2003 and 2004, the Company modified certain terms relating to the alliance with the Bank that resulted in the Bank reducing its ownership interest in the specialty finance segment. Effective January 1, 2005, the Bank and CNL/CAS Corp agreed to redeem their remaining balance of their ownership interest in the specialty finance segment. The Company and the Bank agreed to continue the alliance for five years, but modified the referral fees program. As a result of these modifications, the Company's ownership interest in the specialty finance segment increased to 100 percent.

Operating results for the year ended December 31, 2005 include the results of CNLRP from January 1, 2005 through February 24, 2005 and include the operating results of the merged Company from February 25, 2005 through December 31, 2005. Amounts prior to December 31, 2004 are those of CNLRP.

Principles of Consolidation - The consolidated financial statements of the Company include its majority owned and controlled affiliates and variable interest entities for which the Company is the primary beneficiary. The primary beneficiary of a variable interest entity is the party that absorbs a majority of the entity's expected losses, receives a majority of its expected residual returns, or both, as a result of holding a variable interest that changes with changes in the fair value of the entity's net assets. All significant intercompany balances and transactions among consolidated affiliates and variable interest entities have been eliminated. The equity method of accounting is applied to those investments in non-controlled joint ventures that do not meet the variable interest entities criteria. The Company records investments in equity securities that are not readily marketable at cost. Minority interests represent the minority joint venture partners' proportionate share of the equity in the Company's consolidated joint ventures.

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

1. Organization and Summary of Significant Accounting Policies - Continued:

Use of Estimates - Preparation of the financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities. Significant estimates include provisions for impairment of real estate and loans, accruals, deferred tax assets, goodwill, useful lives of assets, franchise loan investments, asset retirement obligations and environmental liabilities. Actual results could differ from those estimates.

Real Estate and Lease Accounting - The Company records its properties comprised of land, buildings and equipment at cost. Management reviews its properties for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable through operations or sale. Management determines whether impairment in value has occurred by comparing the estimated future undiscounted cash flows, including the residual value of the property, with the carrying cost of the individual property. If impairment is indicated a loss will be recorded for the amount by which the carrying value of the asset exceeds its fair value.

Properties leased to restaurant operators are generally on a triple-net basis, whereby the tenant is responsible for all operating expenses relating to the property, including property taxes, insurance, maintenance and repairs. The leases are accounted for using either the direct financing method for capital leases or the operating method:

Operating method - Leases accounted for using the operating method are recorded at the cost of the asset. Revenue is recognized as rentals are earned and depreciation is charged to operations on a straight-line basis over seven years for equipment and over 30 years for buildings. Contingent rent is recognized as revenue after the related lease sales targets are achieved. When scheduled rentals vary during the lease term, income is recognized on a straight-line basis so as to produce a constant periodic rent over the term of the lease. Accrued rental income is the aggregate difference between the scheduled rents which vary during the lease term and the income recognized on a straight-line basis.

Direct financing method - All of the Company's capital leases are accounted for using the direct financing method and are recorded at the net investment that, at the inception of the lease, generally represents the cost of the asset. Unearned income is deferred and amortized into income over the lease terms so as to produce a constant periodic rate of return on the Company's net investment in the capital leases.

Purchase Accounting for Acquisition of Real Estate - For purchases of real estate held for investment that were consummated subsequent to June 30, 2001, the effective date of SFAS No. 141, "Business Combinations," the fair value of the real estate acquired is allocated to the acquired tangible assets, consisting of land and building, and 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's land and building as if it were vacant. Management uses several methodologies to determine fair market value for assets including qualified appraisals.

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

1. Organization and Summary of Significant Accounting Policies - Continued:

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 at the present value (using a discount rate reflective of 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 and the capitalized below-market lease values are amortized as an increase to rental income over the remaining non-cancelable terms of the respective leases.

The value of the in-place lease is measured as the present value of the estimated value of the theoretical unrealized lease rental income over a construction period. The value of the tenant relationship is calculated as the present value of the lease income during an estimated vacancy period not incurred at the end of the lease term if a lease is projected to be renewed by the tenant. The value of in-place leases and tenant relationships, 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.

When real estate is disposed, the related cost, accumulated depreciation, identified intangible assets and liabilities, the related accumulated amortization of intangibles and any accrued rental income for operating leases and the net investment for capital leases are removed from the accounts and gains and losses from the dispositions are reflected in income. Income from disposition of real estate is recognized in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 66 "Accounting for Real Estate Sales."

Real Estate Held for Sale - The Company acquires, develops and currently owns properties that it intends to sell. The properties that are classified as held for sale primarily consist of properties that have been acquired in the marketplace with the intent to resell. Rental income is recognized without regard to potential future rent increases and the asset is not depreciated. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company classifies its real estate held for sale as discontinued operations for each property in which rental revenues are generated. When real estate held for sale is disposed, the related costs are removed from the accounts and gains and losses from the dispositions are reflected in income from discontinued operations.

Notes Receivable - The Company originated loans to restaurant operators prior to May 2001 and acquired through the Merger, notes and mortgage notes that are generally collateralized by real estate, equipment and business enterprise value. The Company expects these loans to be held until maturity. The loans are recorded at cost and are reduced for any estimated future loss. Whenever it appears that future collection on specific loans appears doubtful, a provision for loan losses is established. The provision for loan losses represents the difference between the carrying amount and the amount management expects to receive. Increases and decreases in the allowance due to changes in the measurement of the impaired loans are included in impairment provisions on assets. Loans continue to be classified as impaired unless they are brought fully current and the collection of scheduled interest and principal is considered probable. Accrual of interest is discontinued when management believes, after considering economic and business conditions and collection efforts, that the borrowers' financial condition is such that collection of interest is doubtful. Subsequent interest is recorded as income upon receipt.

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

1. Organization and Summary of Significant Accounting Policies - Continued:

Cash and Cash Equivalents - The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. These amounts may exceed federally insured levels, however, the Company has not experienced any losses in such accounts.

Restricted Cash - Restricted cash relates to cash held in escrow, subject to certain restrictions and cash received in connection with assets held as collateral for certain debt and is subject to restrictions until released by the trustee.

Derivative Financial Instruments - The Company utilizes derivative instruments to partially offset the effect of fluctuating interest rates on the cash flows associated with a portion of its variable-rate debt. All derivative instruments are recorded on the balance sheet at fair value. Accounting for the changes in the fair value of derivatives associated with hedge transactions is dependent upon the intended use of the derivative and their resulting designation as follows:

Fair-value hedge transactions - When the Company hedges changes in the fair value of an asset or liability, the effective changes in the value of the derivative instrument are offset in the income statement by changes in the value of the hedged item.

Cash-flow hedge transactions - When the Company hedges variability of cash flows related to a variable-rate asset or liability or a forecasted transaction, effective changes in the value of the derivative instrument are reported in other comprehensive income and subsequently recognized in operations in the periods in which earnings are impacted by the variability of the cash flows of the hedged item or forecasted transaction.

The ineffective portion of all hedges are reflected in earnings.

Securitizations - Between 1999 and 2001, certain loans were originated and sold to entities that, in turn, issued securities to investors backed by these assets. The Company retained the servicing rights and participates in cash flows from the retained equity positions and lower rated securities. The present value of the expected cash flows for each retained security, after payment of principal and interest to third-party bond or certificate holders, over the estimated cost of servicing was recorded at the time of sale as a retained interest. The Company's investments in the residual interest in these securitization transactions and an interest-only strip are classified as available-for-sale securities and are included in other assets. Available-for-sale securities are recorded at fair value in other assets on the balance sheet, with the change in fair value during the period excluded from earnings and recorded as a component of other comprehensive income. Accounting for the retained interests requires the Company to estimate their value using market trends and historical experience, expected prepayments and defaults. This information is considered, along with prevailing discount rates and the terms of the bonds and certificates, to arrive at current fair value amounts and determine whether a permanent impairment in value has occurred. The fair value of these investments, including accrued interest, were \$16.0 million and \$16.5 million at December 31, 2005 and 2004, respectively.

Loan Costs - Loan costs incurred in connection with debt have been deferred and are being amortized over the term of the related debt using the effective interest method. Loan costs are included in other assets in the financial statements. As of December 31, 2005 and 2004, the Company had capitalized loan costs of \$50.8 million and \$24.3 million, respectively and recorded accumulated amortization of \$17.6 million and \$11.6 million, respectively.

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

1. Organization and Summary of Significant Accounting Policies - Continued:

Goodwill - The excess of the cost of an acquired business over the net of the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed is recorded as goodwill. Goodwill is not amortized but is tested for impairment at a level of reporting referred to as a reporting unit on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairments resulting from this analysis are charged to results of operations in the period in which any impairment is determined. Goodwill attributable to the real estate segment and specialty finance segment was \$179.6 million and \$56.3 million, respectively. No impairment was required at December 31, 2005 or 2004.

Income Taxes - The Company elected to be taxed as a REIT for federal income tax purposes. The Company generally will not be subject to federal corporate income taxes on amounts distributed to stockholders, providing it distributes at least 90 percent of its taxable income and meets certain other requirements for qualifying as a REIT. Earnings and profits, which determine the taxability of dividends to stockholders, differ from reported net income as a result of differing treatment of items for financial versus tax reporting, such as different lives and methods used to depreciate investment properties. Notwithstanding qualification as a REIT for tax purposes, the Company is subject to certain state taxes on its income and property.

Effective January 1, 2001, the Company's subsidiary, CNL-Restaurant Capital Corp., has elected to be treated as a taxable REIT subsidiary ("TRS") pursuant to the provisions of the REIT Modernization Act. As a TRS, its operating Partnership, CNL-Restaurant Capital, 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 statute and regulations. Certain activities reside within CNL-Restaurant Capital Corp. that are therefore subject to federal income taxes. A second less significant TRS began operations during 2002 and is also subject to federal income taxes. Effective with the Merger, the TRS activities of USRP and CNLRP's smaller TRS combined to form a single consolidated TRS.

Environmental Remediation Costs - The Company accrues for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. As part of the Merger, the Company acquired some properties relating to gas stations and convenience stores that had some existing known environmental conditions being handled by third parties. The Company estimated approximately \$4.6 million in losses from environmental remediation obligations as of the Merger date. Through December 31, 2005, the Company had paid approximately \$0.6 million relating to these environmental matters.

Asset Retirement Obligations - As a result of the Merger, the Company assumed retirement obligations for the removal of tanks, fuel lines and other required modifications to the Company's gas stations, as well as estimated future costs to restore land leased under ground leases to its original condition. The fair value of asset retirement obligations assumed on the Merger Date was \$0.62 million and was recorded as a liability based on expected future cash outlays, discounted to its present value based on the Company's credit-adjusted risk-free rate. Over time, the liability is accreted for the change in present value, with this effect included in expenses. The Company recorded accretion expense of \$0.04 million and had a balance of \$0.66 million at December 31, 2005.

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

1. Organization and Summary of Significant Accounting Policies - Continued:

Earnings Per Share - Prior to the Merger, CNLRP stockholders owned 45.2 million shares of CNLRP common stock. As a result of the Merger, CNLRP stockholders received 0.7742 shares of USRP common stock for each CNLRP share and an additional 7.2 million shares of Series C preferred. The Company has restated the weighted average shares outstanding calculation for all periods presented to show the effect of the exchange of the shares as a result of the Merger.

The Company reports both basic and diluted earnings per share. Basic earnings per common share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share reflects the dilutive effect of stock options, restricted stock and convertible preferred stock. Diluted earnings per common share is computed by dividing net income available to common stockholders by the weighted average number of common shares and common share equivalents outstanding during the period, which are computed using the treasury stock method for outstanding stock options. Common share equivalents are excluded from the computations in periods in which they have an anti-dilutive effect.

Equity Compensation Plan - As a result of the Merger, the Company adopted USRP's Flexible Incentive Plan ("Incentive Plan"). Under the Incentive Plan, the Company may grant shares of restricted common stock or options to purchase common stock. Pursuant to this Incentive Plan, stock options may be granted at any time and the aggregate outstanding options that can be granted shall be at an amount equal to or less than 4.9% of the Company's issued and outstanding shares of common stock at the date of grant. Options may be exercised through either the payment of cash or the transfer of shares of the Company's common stock owned by the optionee.

Reclassifications - Certain items in the prior years' financial statements have been reclassified to conform to the 2005 presentation. These reclassifications had no effect on stockholders' equity or net income.

New Accounting Standards - In December 2004, FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets." This statement is effective for the fiscal years beginning after June 15, 2005. This statement addresses financial accounting and reporting obligations associated with the exchange of nonmonetary assets. The statement eliminates the exception to fair value for exchanges of similar productive assets issued in APB Opinion No. 29, "Accounting for Nonmonetary Transactions," and replaces it with a general exception for exchange transactions that do not have commercial substance, that is, transactions that are not expected to result in significant changes in the cash flows of the reporting entity. The adoption of this interpretation is not expected to have a significant impact on the financial position or results of operations of the Company.

As of March 31, 2005, the Company early adopted the provisions of SFAS No. 123(R), "Share-Based Payments" ("FAS 123(R)"), which establishes accounting standards for all transactions in which an entity exchanges its equity instruments for goods and services. FAS 123(R) focuses primarily on accounting for transactions with employees, and carries forward without change prior guidance for share-based payments for transactions with non-employees. FAS 123(R) eliminates the intrinsic value measurement objective in APB Opinion No. 25 and generally requires management of the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the date of the grant. The standard requires grant date fair value to be estimated using either an option-pricing model which is consistent with the terms of the award or a market observed price, if such a price exists. Such cost must be recognized over the period during which an employee is

required to provide service in exchange for the award or the requisite service period (which is usually the vesting period). The standard also requires management of the Company to estimate the number of instruments that will ultimately be issued, rather than accounting for forfeitures as they occur. The Company elected to adopt

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

1. Organization and Summary of Significant Accounting Policies - Continued:

the modified prospective application method as provided by FAS 123(R). Under the modified prospective method, compensation cost is recognized for all awards granted after adoption of this standard and for the unvested portion of previously granted awards that are outstanding on that date.

In May 2005, FASB issued SFAS No. 154, "Accounting Changes and Error Corrections (as amended)" This statement is effective for the fiscal years beginning after December 15, 2005. This Statement replaces APB Opinion No. 20, "Accounting Changes", and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements", and changes the requirements for the accounting for and reporting of a change in accounting principle. Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. This Statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The adoption of this interpretation is not expected to have a significant impact on the financial position or results of operations of the Company.

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations". This interpretation clarifies that the term conditional asset retirement obligation as used in FASB Statement No. 143, "Accounting for Asset Retirement Obligation", refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. Thus, the timing and (or) method of settlement may be conditional on a future event. This interpretation also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. This interpretation is effective no later than the end of fiscal years ending after December 15, 2005. The adoption of this interpretation does not have a significant impact on the financial position or results of operations of the Company.

2. Merger:

On August 9, 2004, CNLRP announced that it had entered into a definitive agreement and plan of Merger with USRP, a publicly traded real estate investment trust, and on February 25, 2005, completed the transactions contemplated by the agreement, including the Merger of CNLRP into USRP, the change of USRP's name to Trustreet Properties, Inc. and the acquisition of the Income Funds. CNLRP previously managed the real estate portfolios of the Income Funds under agreements that terminated effective with the Merger. The Merger was structured to be tax-free to the stockholders of CNLRP and USRP but taxable with respect to the Income Funds. In order to effect the Merger, the Company entered into several new financing transactions. As a result of the Merger, the Company became the largest publicly traded REIT in the United States focused primarily on the restaurant industry and further diversified the Company's real estate portfolio.

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

2. Merger - Continued:

The Merger of CNLRP into USRP through an exchange of equity interests was accounted for using the purchase method of accounting, and CNLRP was treated as the acquiror for accounting purposes since the former common stockholders of CNLRP owned approximately 60.7% and the former common stockholders of USRP own approximately 39.3% of the outstanding common stock of the combined company on a fully diluted basis. In addition, the former directors of CNLRP make up a majority of the current board of directors and the former executive officers of CNLRP manage the Company. As a result of CNLRP being treated as the acquiror for accounting purposes, the assets and liabilities of CNLRP continue to be recorded at historical values. The assets and liabilities of USRP and the Income Funds were recorded at their estimated fair values at the date of the Merger, with the excess of the purchase price of USRP over the sum of tangible and identifiable intangible fair values of USRP recorded as goodwill.

In connection with the allocation of the purchase price to real estate finalized during the fourth quarter of 2005, the following methodology was utilized:

- The fair value of land and buildings was estimated as if the properties were vacant. The land value was estimated and the buildings were valued at estimated replacement cost less depreciation.
- For properties currently under lease, an analysis was performed to determine whether the current lease terms were above or below market rate and an asset or liability, respectively, was determined using discounted cash flows.
- For properties currently under lease, the value associated with having a lease in place was estimated by evaluating the present value of the lost rents for each property that would have resulted if the properties had to be constructed and the costs related to executing the lease.
- The benefit of having a tenant in each specific property with a high likelihood of renewing the lease at the end of the current term was evaluated and a value was determined using the present value of rents during a standard re-lease period.

The purchase price relating to the exchange of interests between USRP and CNLRP was based upon the market capitalization of USRP using an average trading price of USRP common stock and traded Series A Preferred Stock for the day before and the day of the announcement of the proposed Merger on August 9, 2004, as well as the estimated market values for the Series B Convertible Preferred Stock (“the Series B Preferred Stock”) of USRP plus certain Merger related costs incurred by CNLRP.

Equity Interest	Shares (in thousands)	Price	Total Market Value (in thousands)
Series A Preferred Stock	4,084	\$ 23.53	\$ 96,099
Series B Preferred Stock	25	1,300.00	32,500 (a)
Common Stock	22,599	15.24	344,411
			473,010
Transaction costs			14,414

Total \$ 487,424

(a) Includes a \$7.5 million premium as a result of the Merger triggering the redemption provisions of the Series B Preferred Stock.

TRUSTREET PROPERTIES, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
 Years ended December 31, 2005, 2004 and 2003

2. Merger - Continued:

As a result of the exchange of interests between CNLRP and USRP, 45.2 million shares of CNLRP common shares were converted into (i) 35.2 million USRP common shares and (ii) 7.2 million newly issued shares of USRP's Series C Preferred Stock, using an exchange rate of (i) 0.7742 for common shares and (ii) 0.16 per preferred shares. The Company recorded goodwill of approximately \$179.6 million which represented the excess of the fair value of the USRP common stock over the fair value of its tangible and identifiable intangible net assets.

The acquisition of each of the Income Funds by USRP through a combination of cash and USRP Series A Preferred Stock interests was also accounted for using the purchase method of accounting and the assets and liabilities of the Income Funds were recorded at their estimated fair values at the date of the Mergers. The purchase price for the Income Funds was determined as follows:

	(In thousands)
Cash Consideration.....	\$ 449,997.....
Preferred Share Consideration (3,749.9 million shares at \$23.53 per share)	88,235
Purchase Price including transaction costs.....	\$ 538,232..

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

2. Merger - Continued:

The following table shows the allocation of the purchase consideration:

	(In thousands)
Consideration:	
Exchange of equity interests	\$ 473,010
Transaction costs	14,414
Cash	449,997
Series A Preferred Shares	88,235
Total consideration	\$ 1,025,656
Assets Acquired:	
Real estate investment properties	\$ 958,329
Net investment in capital leases	63,648
Real estate held for sale	62,077
Cash	43,646
Restricted cash	7,835
Mortgage and equipment notes receivable	15,077
Accounts receivable	3,140
Other assets:	
Above market leases	43,872
Leases in place	15,325
Tenant relationships	9,069
Other	3,496
Goodwill	179,635 (1)
Total	1,405,149
Liabilities Assumed:	
Revolver	14,150
Notes payable	158,189
Bonds payable	143,505
Due to related parties	270
Other payables:	
Below market leases	27,457
Environmental and exit costs liability	5,619
Distributions payable	4,506
Other	23,941
Minority interests	2,080
Loan due from stockholder (reduction of equity)	(224)
Total	379,493

Net assets acquired	\$ 1,025,656
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(1) The goodwill was assigned to the real estate segment.

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TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

2. Merger - Continued:

In order to gauge the estimated cost of soil and groundwater contamination from the accidental loss of petroleum and other solvents from the Company's underground storage tanks during the first quarter of 2005, the Company performed a number of site investigations of the acquired USRP properties. Based upon the most recent environmental site assessments by its environmental consultants, the Company accrued its best estimate of \$4.6 million, on a non-discounted basis, for the remediation and post-monitoring expenses. This amount is included in environmental and exit costs liability in the table above. It is reasonably possible that the Company's recorded estimate of its obligation may change in the near term.

The following unaudited pro forma condensed consolidated financial information has been prepared utilizing the historical financial statements of CNLRP, USRP and the historical combined financial information of the Income Funds. The unaudited pro forma condensed consolidated statements of earnings assume that the Mergers had occurred as of the beginning of each of the periods presented, after giving effect to certain adjustments including a) rental income adjustments resulting from the straight-lining of scheduled rent increases as if the real estate had been acquired as of the beginning of each of the periods presented, b) the amortization of the intangible assets relating to above market leases and liabilities relating to below market leases over the remaining lease terms, c) the amortization of below market lease liabilities over the remaining lease terms plus renewal options, as applicable, d) elimination of intercompany fees and expenses between CNLRP and the Income Funds, e) adjustments to depreciate real estate assets over the depreciable lives and f) the amortization of identifiable leases in place intangibles and tenant relationship intangibles over the remaining lease terms. The following information also gives effect to the additional interest expense and amortization of loan costs resulting from entering into a series of financings as part of the Merger consisting of a \$275 million net lease securitization, the issuance of \$250 million in senior unsecured notes, and a \$175 million term loan, net of the effect of eliminating the interest expense and amortization of loan costs relating to the repayment of \$213 million of indebtedness. The unaudited proforma condensed financial information is not indicative of the results of operations that would have been achieved had the Mergers reflected herein been consummated on the dates indicated or that will be achieved in the future.

TRUSTREET PROPERTIES, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
 Years Ended December 31, 2005, 2004 and 2003

2. Merger - Continued:

	Proforma (in thousands)		
	Years ended December 31,		
	2005	2004	2003
Revenues	\$ 209,476	\$ 220,576	\$ 227,138
Income from continuing operations before discontinued operations and cumulative effect of change in accounting principle	\$ 14,688	\$ 15,569	\$ 13,369
Income from discontinued operations	43,488	52,657	48,954
Cumulative effect of change in accounting principle	—	—	(220)
Net income	58,176	68,226	62,103
Dividends to preferred stockholders	(28,703)	(28,703)	(28,703)
Net income allocable to common stockholders	\$ 29,473	\$ 39,523	\$ 33,400
Basic and diluted earnings per share	\$ 0.50	\$ 0.69	\$ 0.60
Basic and diluted weighted average shares outstanding:			
Basic	58,459	57,589	55,261
Diluted	58,459	57,688	55,349

The proforma amounts for the year ended December 31, 2005, includes a non-cash tax charge of \$3.2 million and \$8.7 million of Merger expenses.

3. Real Estate Investment Properties:

Real estate investment properties consist of the following at:

(In thousands)

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	December 31,	
	2005	2004
Land	\$ 946,735	\$ 271,693
Buildings	871,521	307,409
Equipment and other	3,351	1,251
	1,821,607	580,353
Less accumulated depreciation	(84,463)	(60,146)
	\$ 1,737,144	\$ 520,207

TRUSTREET PROPERTIES, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
 Years Ended December 31, 2005, 2004 and 2003

3. Real Estate Investment Properties - Continued:

In 2005, 2004 and 2003 the Company recorded provisions for impairment of \$0.1 million, \$1.2 million and \$2.1 million, respectively. The tenants of these properties experienced financial difficulties and/or ceased payment of rents under the terms of their lease agreements. The provisions represent the amount necessary to reduce the properties' carrying value to estimated fair value.

For the years ended December 31, 2005, 2004 and 2003 tenants paid or are expected to pay directly to real estate taxing authorities approximately \$31.3 million, \$10.1 million and \$10.3 million, respectively, in real estate taxes in accordance with the terms of their triple-net leases.

Substantially all property leases have initial terms of 15 to 20 years (most expiring between 2006 and 2025) and provide for scheduled rent increases, and in some cases, contingent rent. The leases generally allow the tenant to purchase the property at the greater of the Company's purchase price plus a specified percentage or fair market value at specified times. Fixed and determinable lease revenues are recognized on a straight-line basis over the terms of the leases. For the years ended December 31, 2005, 2004 and 2003, the Company recognized \$7.7 million, \$3.3 million and \$5.4 million, respectively, of accrued rental income. The Company recognized contingent rent revenues of \$4.0 million, \$0.7 million and \$0.3 million for the years ended December 31, 2005, 2004 and 2003, respectively, of which \$0.2 million, \$0.09 million and \$0.08 million are reflected as "Income from discontinued operations," respectively, in the Company's Consolidated Statements of Income.

Future minimum contractual lease payments to be received under noncancellable operating leases at December 31, 2005 are as follows:

(In thousands)	
2006	\$ 163,915
2007	161,977
2008	159,906
2009	157,507
2010	153,962
Thereafter	1,121,223
	\$ 1,918,490

4. Net Investment in Capital Leases:

The components of net investment in capital leases consist of the following at:

	(In thousands)	
	December 31,	
	2005	2004
Minimum lease payments		
receivable	\$ 217,841	\$ 172,927
Estimated residual values	42,392	24,556
	4	7

Interest receivable from secured equipment leases		
Less unearned income	(109,601)	(101,027)
Net investment in capital leases	\$ 150,636	\$ 96,463

TRUSTREET PROPERTIES, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
 Years Ended December 31, 2005, 2004 and 2003

4. Net Investment in Capital Leases - Continued:

The following is a schedule of future minimum lease payments to be received on capital leases at December 31, 2005:

	(In thousands)
2006	\$ 18,729
2007	18,868
2008	18,999
2009	19,050
2010	18,511
Thereafter	123,684
	\$ 217,841

The Company's real estate segment recorded provisions for losses on capital leases totaling \$0.3 million during the year ended December 31, 2004. The tenants of these properties experienced financial difficulties and ceased payment of rents. The provisions represent the amount necessary to reduce the carrying values of the capital leases to their estimated fair value.

5. Real Estate Held for Sale:

Real estate held for sale consists of the following at December 31:

	(In thousands)	
	2005	2004
Real estate segment	\$ 22,677	\$ 49,261
Specialty finance segment	206,455	115,861
	\$ 229,132	\$ 165,122

As part of the Merger, the Company acquired several convenience, gas and restaurant operations which were under contract to sell as of the date of the Merger. In September 2005, the Company sold eighteen gas station operating units and a 50 percent interest in a bulk fuel loading terminal located in Hawaii. The values assigned to these assets at the Merger date were the expected net sales proceeds, as a result of which, the Company did not record any gain or loss on the sale of these assets. The sales proceeds of \$10.2 million were deposited into an escrow account and as of March 15, 2006, all pending tax issues have been cleared and the release of escrowed funds is pending certain administrative approvals.

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

5. Real Estate Held for Sale - Continued:

Operating results of discontinued operations are as follows:

	(In thousands)		
	Year ended December 31,		
	2005	2004	2003
Rental income	\$ 13,144	\$ 14,364	\$ 14,946
Food, beverage and retail revenues	34,776	13,471	13,728
Food, beverage and retail expenses	(33,878)	(14,258)	(13,856)
Other property related expenses	(3,013)	(2,157)	(2,232)
Interest expense	(5,715)	(3,534)	(2,267)
Impairment provisions	(448)	(4,999)	(9,447)
Earnings from discontinued operations	4,866	2,887	872
Sales of real estate	318,142	290,977	226,250
Cost of real estate sold	(270,213)	(248,027)	(197,920)
Gain on disposal of discontinued operations	47,929	42,950	28,330
Income tax (provision)/benefit	(9,955)	(10,938)	6,346
Income from discontinued operations, after income tax	\$ 42,840	\$ 34,899	\$ 35,548

6. Mortgage, Equipment and Other Notes Receivable:

Mortgage, equipment and other notes receivable consist of the following at December 31:

	(In thousands)	
	2005	2004
Outstanding principal	\$ 93,332	\$ 296,412
Accrued interest income	742	2,277
Deferred financing income	(129)	(1,321)
Unamortized deferred costs	—	33
Allowance for uncollectible notes	(5,706)	(7,261)
	\$ 88,239	\$ 290,140

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

6. Mortgage, Equipment and Other Notes Receivable - Continued:

Approximately \$79 million and \$273 million of the outstanding principal balance as of December 31, 2005 and 2004, respectively, is secured by mortgages. The remaining principal is secured by franchise restaurant equipment and other collateral. The loans carry interest rates ranging from 2.4 percent to 12.5 percent. The loans are due in monthly installments with maturity dates ranging from 2006 to 2023 and generally prohibit prepayment for certain periods or include prepayment penalties. As of December 31, 2005 and 2004, approximately \$16.1 million and \$15.0 million in notes receivable are considered impaired and approximately \$3.5 million and \$2 million are non-accrual status with regard to recognition of interest. The Company recognized \$0.3 million and \$0.5 million of interest income as of December 31, 2005 and 2004, respectively, on impaired loans.

During July 2005, the Company sold mortgage loans receivable of approximately \$194 million to a third party. The sale resulted in a gain of approximately \$9.6 million and a related hedge loss of \$8.6 million. The gain is reflected in gain on sale of assets in the accompanying statement of income.

Changes in the allowance for loan losses for 2005 and 2004 are summarized as follows:

	(In thousands)	
	2005	2004
Balance at beginning of year	\$ 7,261	\$ 13,964
Provision for loan losses	1,296	112
Recoveries on loans previously charged off	(1,222)	(683)
Interest income reserves	124	311
Loans charged off	(1,753)	(6,443)
Balance at end of year	\$ 5,706	\$ 7,261

7. Securitized Portfolios:

The following table represents the securitized portfolio and all managed loans as of December 31:

	Total principal amount (In thousands)		Principal amount > 60 days past due (In thousands)	
	2005	2004	2005	2004
Mortgage loans	\$ 424,684	\$ 660,712	\$ 3,566	\$ 9,315
Equipment and other loans	12,593	22,597	—	—
Total loans managed or securitized	437,277	683,309	3,566	9,315

Less:

Loans securitized	(343,945)	(386,897)	(1,617)	(8,717)
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Loans held in

portfolio (Note 6)	\$ 93,332	\$ 296,412	\$ 1,949	\$ 598
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TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

7. Securitized Portfolios - Continued:

The total loan portfolio managed by the Company, including the loan portfolio managed for others, had net charge-offs during the years ended December 31, 2005, 2004 and 2003 of \$3.8 million, \$7.5 million and \$14.5 million, respectively.

The following table summarizes cash flows received from and paid to securitization trusts for the years ended December 31:

	(In thousands)		
	2005	2004	2003
Servicing fees received	\$ 1,298	\$ 1,387	\$ 1,597
Other cash flows received on retained interests	\$ 1,715	\$ 3,820	\$ 4,332
Servicing advances paid	\$ (4,062)	\$ (3,949)	\$ (4,128)
Collection of servicing advances	\$ 4,117	\$ 3,041	\$ 3,603

8. Intangible Lease Costs:

Intangible lease costs consists of the following at December 31:

	(in thousands)	
	2005	2004
Intangible lease origination costs:		
Leases in place	\$ 29,524	\$ —
Tenant relationships	12,300	—
	41,824	—
Less accumulated amortization	(5,197)	—
	36,627	—
Above market lease values	45,505	—
Less accumulated amortization	(4,469)	—
	41,036	—
Total	\$ 77,663	\$ —

Above market lease values are amortized to rental income over the remaining terms of the leases acquired in connection with each applicable property. The weighted average amortization period for above market leases is 10.5 years. Leases in place and tenant relationships are amortized over the remaining terms of the leases acquired in connection with each applicable property and the amortization is included in depreciation and amortization expense. The weighted average amortization period for leases in place and tenant relationships are 12.8 years and 8.3 years,

respectively. The weighted average amortization period for all intangible assets is 10.2 years.

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

8. Intangible Lease Costs - Continued:

The Company recognized aggregate amortization expense on intangible assets of approximately \$9.8 million for 2005. Based on the balance of intangible assets at December 31, 2005, subject to amortization, the estimated aggregate amortization expense for each of the succeeding five years and thereafter is as follows:

	(In thousands)
2006	\$ 10,727
2007	9,464
2008	8,366
2009	7,414
2010	6,617
Thereafter	35,075
	\$ 77,663

9. Borrowings:

Borrowings consist of the following at December 31:

	2005			Expected maturity/ retirement date	2004	
	Amount (In thousands)	Average Rate	Capacity		Amount (In thousands)	Average rate
Revolver	\$ 55,000	5.96%	\$ 175,000	April 2008	\$ 21,000	4.04%
Term loan	275,000	5.71%	275,000	April 2010	—	—
Senior unsecured notes	300,000	7.50%	300,000	April 2015	—	—
Notes payable	2,027	6.81%	6,150	2006	162,810	5.83%
Mortgage note payable (a)	829	8.00%	829	June 2007	—	—
Mortgage warehouse facilities	122,722	4.78%	260,000	Annual	101,394	2.78%
Subordinated note payable	—	—	—	—	21,875	7.00%
Series 2000-A bonds	219,158	7.97%	219,158	2009-2017	239,165	7.96%

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payable				
Series 2001-A		129,460	August 2006	
bonds payable (a)	129,460	3.91%		— —
Series 2001-4		25,447	2009-2013	
bonds payable	25,447	8.90%		28,489 8.90%
Series 2001		93,137	October 2006	
bonds payable	93,137	3.77%		111,577 1.89%
Series 2003		8,512	2006-2007	
bonds payable	8,512	7.95%		26,190 6.02%
Series 2005		266,487	2012	
bonds payable	266,487	4.67%		— —
			\$	
	1,497,779		1,759,180	\$ 712,500
Senior unsecured notes premium	1,146			
			\$	
	1,498,925			

(a) Assumed debt as a result of the Merger described in Note 2.

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

9. Borrowings - Continued:

Revolver and Term Loan. Through December 2004, CNLRP's short term debt consisted of a \$40 million revolving line of credit (the "Revolver"). In February 2005, CNLRP amended the Revolver to increase the capacity from \$40 million to \$60 million. In February 2005 the Company obtained bridge financing with the lender consisting of a senior collateralized revolving credit facility of up to \$125 million and a senior collateralized term loan of up to \$650 million. The new revolving facility replaced the Company's previous revolving line of credit. The bridge financing bore interest at a floating rate of the London Interbank Offer Rate, or LIBOR, plus three percent. In March 2005, the Company reduced the capacity to \$385 million on the senior collateralized term loan when it paid off \$265 million of the outstanding balance and terminated that portion of the bridge financing. In April 2005, the Company entered into a senior credit facility (the "Facility") with available capacity of \$350 million with a syndicate of lenders. The Company paid approximately \$4.5 million in fees to the lenders for lending and administrative services related to the financing. In April 2005, the Company drew on the Facility to pay off the outstanding balance and terminate the bridge Revolver and term loan. The Facility consists of a revolving credit facility in an initial amount of \$175 million and a term loan of \$175 million. This revolver bears interest at LIBOR plus 2.25 percent per annum, and the interest rate for the term loan facility is LIBOR plus two percent per annum. The initial maturity date of the revolver is April 2008, with an available one year extension, and the maturity date of the term loan is April 2010. The Company's obligations under the Facility are guaranteed by substantially all of the Company's subsidiaries and are collateralized by a pledge of the ownership interests in certain of its direct and indirect subsidiaries. The Facility provided for an increase of up to \$100 million at the option of the borrower to be allocated between the revolver and the term loan. In December 2005, the Company exercised its option and increased the term loan by \$100 million under the same terms and conditions as the initial borrowing.

The Company uses fixed and floating rate debt to finance acquisitions, development and maturing debt. These transactions expose the Company to market risk related to changes in interest rates. The Company reviews its borrowing and attempts to mitigate interest rate exposure through the use of long-term debt maturities and derivative instruments, where appropriate. As of December 31, 2005, the Company had the following derivative instruments outstanding:

Type of Hedge	Notional Amount at December 31, 2005 (\$ in millions)	Cap Strike Price or Swap Rate	Trade Date	Maturity Date	Estimated Value at December 31, 2005 (in millions)
Interest Rate Cap	\$ 142.5	6.000%	08/13/01	08/26/06	\$ —
Interest Rate Cap	\$ 106.4	4.500%	09/28/01	10/25/06	\$ 0.2
Interest Rate Swap	\$ 175.0	4.202%	05/16/05	04/01/10	\$ 3.7
	\$ 21.5	3.500%	12/17/03	02/01/11	\$ 0.7

Interest
Rate Cap

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

9. Borrowings - Continued:

In May 2005, the Company entered into an interest rate swap agreement, for notional borrowings of \$175 million which applies to the term loan described above, to protect the Company against fluctuation in the LIBOR rate. Under the interest rate swap agreement, the Company pays a fixed rate of 4.20 percent and receives a floating rate. The floating rate is based on LIBOR. This agreement matures April 1, 2010. The net payments or receipts are recognized as an adjustment to interest expense. The agreement was entered into with a major financial institution, and the Company anticipates that the financial institution will satisfy its obligations under the agreement.

Senior Unsecured Notes. In March 2005, the Company issued \$250 million in senior uncollateralized notes. In September 2005, the Company issued an additional \$50 million notes at a premium. The notes pay interest semi-annually in arrears at the stated rate of 7.5 percent per annum and are due April 2015. The notes are subordinated to all of the Company's existing and future collateralized debt. The Company can redeem the notes in whole or in part, at any time on or after April 1, 2010 at specified redemption prices.

Notes Payable. In July 2005, the Company sold a portfolio of mortgage loans receivable at a gain of \$9.6 million and paid off \$157.7 million in Notes Payable that financed the mortgage loans. Upon the sale of the loans and repayment of the related debt, the Company recognized \$10.6 million in hedge losses previously recorded in other comprehensive income (loss) to earnings. In addition, during the period from July 1, 2005 to July 18, 2005, the Company recognized a gain of approximately \$2 million relating to decreases in the fair value hedge liability prior to the closing of the sale, resulting in a net loss on termination of the hedge of \$8.6 million.

Mortgage Note Payable. In February 2005, the Company acquired through the Merger, a mortgage note payable that USRP had assumed as part of an office building acquisition. The mortgage bears interest at a stated rate of 8.0 percent per annum with payments of principal and interest due monthly through June 2007.

Mortgage Warehouse Facilities. As of December 31, 2004, the Company maintained a \$100 million and a \$160 million mortgage warehouse facility for the short-term financing of properties purchased with an intent to sell. In February 2005, the \$160 million mortgage warehouse facility was renewed with similar terms until February 2006 and was then extended until March 2006 with similar terms. In May 2005, the \$100 million warehouse facility was renewed until May 2006, and the amended agreement increased the facility advance rate for real estate acquisitions. The Company pays the warehouse facilities a fee of up to one percent of an individual borrowing upon the repayment of the borrowing, depending upon how long the loan was outstanding.

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

9. Borrowings - Continued:

Subordinated Note Payable. In April 2005, the Company paid in full the \$21.875 million subordinated note payable using proceeds from the new senior credit facility described above.

Bonds Payable. Collateral for the Series 2000-A bonds consist of 248 commercial real estate properties operated as restaurants leased to tenants, with a carrying value of \$284.1 million at December 31, 2005. The Series 2000-A bonds bear interest at a weighted average fixed rate of 7.9 percent per annum. The bond indenture provides for an optional redemption at their remaining principal balance when remaining rents due under the leases that serve as collateral are less than ten percent of the aggregate initial rents due under the leases.

In February 2005, the Company acquired through the Merger, Triple Net Lease Mortgage Notes Series 2001-A. The notes bear interest at LIBOR plus 48 basis points plus associated fees of approximately 50 basis points, amortize over fifteen years and have a scheduled final maturity date of August 2006. The notes are collateralized by 262 properties with a carrying value of \$260.7 million at December 31, 2005. The notes include covenants relating to delinquency percentages or debt service coverage. If the Company fails to comply with certain financial covenants then principal payments may be accelerated. The Company maintains an interest rate cap agreement with a strike rate of 6.0 percent to reduce sensitivity to increases in LIBOR.

Collateral for the Series 2001-4 bonds consists of 45 mortgage loans that had a carrying value of approximately \$38.6 million as of December 31, 2005. The Series 2001-4 bonds bear interest at a rate of 8.90 percent per annum. The bond indenture requires monthly principal and interest payments received from mortgage loan borrowers to be applied to the bonds. The bond indenture also provides for an optional redemption of the bonds at their remaining principal balance when the remaining amounts due under the loans that serve as collateral for the bonds are less than ten percent of the aggregate amounts due under the loans at the time of issuance.

Collateral for the Series 2001 bonds consists of 115 commercial real estate properties operated as restaurant units which have a carrying value of approximately \$157.1 million as of December 31, 2005. The bonds are scheduled to amortize over a 15-year period with a balloon payment in 2006. The 2001 bonds bear interest at a rate of LIBOR plus 48 basis points per annum plus associated costs of 45.75 basis points. The Company entered into an interest rate cap agreement with a strike rate of 4.50 percent to reduce sensitivity to increases in LIBOR.

Collateral for the Series 2003 bonds consists of eight mortgage loans and one equipment lease, with a combined carrying value of \$20.2 million at December 31, 2005. The bond indenture requires monthly principal and interest payments received from borrowers to be applied to the bonds. The Company entered into an interest rate cap agreement with a strike rate of 3.5 percent to reduce sensitivity to increases in LIBOR. In May 2004, the Company issued an additional \$5 million note from the Series 2003. The note bears interest at LIBOR plus 600 basis points.

In March 2005, the Company completed a \$275 million offering of Triple Net Lease Mortgage Notes, Series 2005 (the "Series 2005 Bonds"). The notes bear interest at a fixed rate plus associated fees of approximately 39 basis points, amortize over twenty years and have an expected final maturity date in 2012. The notes are collateralized by 326 properties with a combined carrying value of approximately \$323.9 million at December 31, 2005. The notes include covenants relating to delinquency percentages or debt service coverage. If certain ratios are exceeded or not maintained, then principal payments may be accelerated.

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

9. Borrowings - Continued:

The Series 2000-A and Series 2001 bonds also include certain covenants relating to delinquency percentages or debt service coverage. If certain ratios are exceeded or not maintained, then principal payment may be accelerated. Due primarily to tenant defaults and bankruptcies in 2003 and 2004, the Company has made accelerated principal payments on the Series 2000-A bonds. As a result, certain cash flow normally remaining in excess of the scheduled principal and interest payments is required to be used for additional debt reduction. During the years ended December 31, 2005, 2004 and 2003, the Company was required to make additional debt reductions of approximately \$2.1 million, \$2.4 million and \$0.4 million, respectively, as a result of exceeding certain ratios in the net lease pools.

Through March 2005, the Company entered into four interest rate swaps which were designated as hedges for the Series 2005 Bonds, and recorded other comprehensive income of \$1.7 million relating to these instruments. The Company terminated these four interest rate swaps in March 2005 when the Company completed its offering of the Series 2005 Bonds and received \$1.7 million in proceeds. The Company will amortize the \$1.7 million recorded in comprehensive income into earnings over seven years, the expected maturity of the Series 2005 Bonds. The Company expects to recognize approximately \$0.4 million of that amount in earnings during 2006.

Series B Preferred Stock. The Merger triggered a redemption provision of the USRP Series B Preferred Stock, as a result of which, the Company recorded this preferred stock as an obligation. A \$32.5 million obligation was recorded and included a redemption premium of \$7.5 million. The holders of the preferred stock exercised their redemption options in March 2005.

Some sources of debt financing require that the Company maintains certain standards of financial performance, such as a fixed-charge coverage ratio, a tangible net worth requirement and a restriction on the level of secured debt, and may restrict the amount or timing of common stock dividend payments. Any failure to comply with the terms of these debt covenants would constitute a default and could create an immediate need to find alternative borrowing sources. The Company is in compliance with all of our covenants at December 31, 2005.

The following schedule of future principal payments on outstanding indebtedness at December 31, 2005 reflects the annual maturities of the warehouse facilities and assumes that bonds payable amortize in accordance with estimated payment amounts.

	(In thousands)
2006	\$ 378,161
2007	25,526
2008	81,916
2009	30,233
2010	308,032
Thereafter	673,911
	\$ 1,497,779

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

10. Fair Value of Financial Instruments:

The Company believes that the carrying value of its cash and cash equivalents, accounts receivables, accounts payable and other accruals approximate fair value because of their short term maturities. The Company believes that the carrying amount of mortgage and other notes receivables approximate fair value based on current rates which similar loans would be made to borrowers with similar credit and for similar maturities. The Company's other investments are recorded at fair value which was derived based on a discounted cash flow analysis applying assumptions regarding the amount and timing of future cash flows. At December 31, 2005, the fair value of the Company's Series 2005 bonds payable was \$217 million based upon secondary market activity. At December 31, 2005 and 2004, the fair value of the Company's Series 2000-A bonds payable was \$304 million and \$261 million, respectively, based upon secondary market trading. The Company believes that the carrying amount of the Company's other debt approximates fair value based upon current valuation for similar bond issuances.

11. Income Tax:

The Company elected to be taxed as a REIT under the Internal Revenue Code. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a current requirement that it distribute at least 90 percent of its taxable income to its stockholders. As a REIT, the Company generally is not subject to corporate level federal and state income tax on net income it distributes to its stockholders, except for taxes applicable to its taxable REIT subsidiaries ("TRS").

The Company has a TRS in which certain activities, including primarily the purchase of real property with the intent to resell have been conducted since 2001. A second, smaller TRS, in which certain activities involving the property improvement and redevelopment of real property were conducted, was reorganized to join in the filing of a consolidated return with the first TRS effective January 1, 2005. As a result of the Merger with USRP, a TRS organized by USRP was similarly reorganized such that the retail convenience, gas, and restaurant operations are similarly consolidated into the primary TRS. These reorganizations have simplified the tax reporting structure into a single TRS.

The purchase of real property with the intent to resell; the property improvement and redevelopment of real property; and the operations of convenience and gas stations and restaurants, all of which, among other activities, are conducted within the TRS, are treated as discontinued operations.

On March 31, 2005, other subsidiaries within the REIT purchased from the TRS a 100 percent interest in a partnership that held a pool of mortgage loans collateralizing a \$160.8 million note payable carrying a variable interest rate (the "Loan Transfer"). A portion of this variable interest rate was fixed through the initiation of a hedge transaction. This hedge met the definition of a cash flow hedge, and as a result, changes in its value were reported in other comprehensive income ("OCI"), net of applicable income taxes at the then applicable effective tax rate.

As a result of the Loan Transfer, the items of income and expense associated with the mortgage loans and related note payable are no longer reflected in the TRS income tax returns. Accordingly, any deferred tax asset or liability, and any tax effect of the hedge will not be realized. The tax provision for the year ended December 31, 2005, includes a \$3.2 million non-cash charge related to the Loan Transfer.

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

11. Income Tax - Continued:

The components of the net deferred tax asset which is included in other assets consist of the following at December 31:

	(In thousands)	
	2005	2004
Deferred tax asset:		
Cash flow hedge related difference	\$ —	\$ 3,355
Loan valuation and related hedge differences	3,980	(1,668)
Loan origination fees	262	535
Real estate loss reserves	577	846
Reserve for investment losses	2,014	1,906
Fixed assets	(2,110)	407
Other	836	(42)
Net recorded deferred tax asset	\$ 5,559	\$ 5,339

The income tax provision/(benefit) of \$10.0 million, \$10.9 million and \$(6.3) million for the years ended December 31, 2005, 2004 and 2003, respectively, have been allocated to discontinued operations. The consolidated provision for income taxes from continuing operations differs from the amount computed by applying the federal statutory rate of 35 percent for 2005 and 34 percent for 2004 and 2003 to income before taxes for each of the three years ended December 31:

	(In thousands)		
	2005	2004	2003
Expected tax at US statutory rate	\$ 7,471	\$ 2,420	\$ 2,343
REIT income not subject to US income tax (dividend paid deduction)	(16,293)	(8,001)	(9,801)
Benefit allocated to discontinued operations	8,822	5,581	454
Change in valuation allowance	—	—	7,004
Provision for income taxes from continuing operations	\$ —	\$ —	\$ —

12. Distributions:

As discussed in Notes 1 and 2, CNLRP was treated as the acquiror for financial statement purposes while Trustreet Properties, formerly known as U.S. Restaurant Properties, Inc. (USRP), is the legal and tax survivor. The following unaudited distribution information is based on taxable earnings and profits for the calendar year which includes the taxable activity of USRP for January 1, 2005 through February 24, 2005 and the taxable activity of the merged company from February 25, 2005 through December 31, 2005.

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

12. Distributions - Continued:

The distributions to the common stockholders in 2005 were deemed to be 77.18 percent taxable income and 22.82 percent return of capital. The 2005 distribution to all classes of preferred shareholders was 100 percent taxable income. Specifically, the distributions were characterized as follows:

	(Unaudited)	
	Common Shareholders	Preferred Shareholders (all classes)
Ordinary income	62.24%	80.64%
Qualified dividend income	14.45%	18.73%
25% Section 1250 unrecaptured gain	0.49%	0.63%
Total taxable income	77.18%	100.00%
Return of capital	22.82%	0.00%
Total	100.00%	100.00%

For the period from January 1, 2005 through February 25, 2005, 30 percent of the distributions received by CNLRP stockholders were considered to be ordinary income and 70 percent were considered to be return of capital.

For the year ended December 31, 2004, 22 percent of the distributions received by CNLRP stockholders were considered to be ordinary income, 69 percent were considered a return of capital, seven percent were qualified dividends and two percent were capital gains for federal income tax purposes. During the year ended December 31, 2003, 39 percent of the distributions received by CNLRP stockholders were considered to be ordinary income, and 61 percent were considered a return of capital. There was no preferred stock outstanding during 2004 and 2003.

13. Related Party Transactions:

The following table and disclosures summarize related party transactions with affiliated entities for the years ended December 31:

	(In thousands)		
Amounts received (paid):	2005	2004	2003
Services purchased from affiliates (1)	\$ (927)	\$ (2,268)	\$ (3,094)
Rental and other expenses to affiliates for office space (2)	\$ (1,621)	\$ (1,411)	\$ (1,445)

Dealer servicing fee (3)	\$ 1,747	\$ (1,493)	\$ (1,493)
Servicing fees from affiliates (4)	\$ 1,401	\$ 2,884	\$ 4,612
Referral fees from the Bank (5)	\$ —	\$ 1,657	\$ 1,109

TRUSTREET PROPERTIES, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
 Years ended December 31, 2005, 2004 and 2003

13. Related Party Transactions - Continued:

- (1) Services purchased from affiliates include human resources, tax planning and compliance, computer systems support, investor relations and other services. Post Merger, the Company performed substantially all of these functions internally.
- (2) In May 2002, the Company purchased a combined five percent partnership interest in CNL Plaza, Ltd. and CNL Plaza Venture, Ltd. (the "Plaza") which owns and operates the office tower in which the Company headquarters are located, for \$0.2 million. Affiliates of two members of the Board of Directors, including the Chairman, own the remaining partnership interests. The Company has severally guaranteed 8.33 percent of an unsecured promissory note on behalf of the Plaza. The guaranty, after a refinancing during 2005 by the Plaza, equated to \$1.2 million of the \$14 million unsecured promissory note. The guaranty continues through December 31, 2010. The Company received distributions of \$0.10 million, \$0.07 million and \$0.07 million during the years ended December 31, 2005, 2004 and 2003, respectively, from the Plaza. Since November 1999, the Company has leased its office space from CNL Plaza, Ltd., an affiliate of a member of the Company's board of directors. As of March 15, 2006, the Company is currently discussing and evaluating the possible sale of the five percent interest. As a result of the Merger, the Company is incurring the rental expenses under these leases in 2005. The Company's leases expire in 2014 and provide for scheduled rent increases over the term of the lease. Rental and other expenses for the years ended December 31, 2005, 2004 and 2003 include accrued rental expense (the additional rent expense resulting from the straight-lining of scheduled rent increases over the term of the lease) and executory costs. Future commitments due under the office space operating leases are as follows at December 31, 2005:

	(In thousands)
2006	\$ 1,436
2007	1,480
2008	1,525
2009	1,570
2010	1,617
Thereafter	6,661
	\$ 14,289

- (3) Soliciting dealer servicing fee paid to an affiliate in connection with the Company's previous common stock offerings. During 2005, the Company received a refund of approximately \$1.7 million from the affiliate and began paying an outside stock transfer agent for stock and investor servicing fees.
- (4) Property management and other administrative services provided to affiliates investing in restaurant net lease properties and loans. During 2005, these affiliates became part of the Company as a result of the Merger.
- (5) During the years ended December 31, 2004 and 2003, the Company received referral fees paid by the Bank, a partner in the specialty finance segment through January 1, 2005, under a business referral program between the Company and the Bank. The Company did not receive any referral fees from the Bank in 2005.

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

13. Related Party Transactions - Continued:

During 2004 and 2003, CNL Financial Group (“CFG”), an affiliate, advanced \$10.9 million and \$18.7 million, respectively, to the Company in the form of a demand balloon promissory note. The loan bore interest at a rate of LIBOR plus 2.5 percent or at the base rate as defined in the agreement. The balance outstanding as of December 31, 2004 was \$35.8 million, which included accrued interest. In April 2005, the Company paid the demand balloon promissory note in full to CFG in the amount of \$36.4 million, including accrued interest.

During the year ended December 31, 2002 the specialty finance segment acquired a portfolio of 109 real estate properties, which have been classified as held for sale, for approximately \$117 million by acquiring all of the limited partner and general partner interests in CNL Net Lease Investors, LP, (“NLI”). Eight of the properties acquired were vacant and the remaining 101 properties were leased to restaurant operators under triple-net leases. The Chairman of the Board and Vice Chairman of the Board of Directors of the Company, through an affiliate, owned the 0.1 percent general partner interest in NLI prior to the acquisition by the specialty finance segment and agreed to waive their rights to benefit from the transaction. Of the original 109 properties, 107 have been sold to third parties as of December 31, 2005. The Company has recognized approximately \$11.6 million in net gains on the sales of these properties through December 2005.

During the year ended December 31, 2002, a tenant and borrower of the Company assigned loans in the amount of \$7.5 million to Restaurants Acquisitions I, LLC, an affiliate of the Chairman. The Company agreed to the assignment and advanced an additional \$3.6 million to the affiliate in exchange for an \$11.1 million participating note. The note was amended during 2004 to remove the participating feature and change the maturity date from May 2014 to December 2007. The note bears interest at a rate of ten percent per annum. The Company earned \$1.1 million in interest income from the affiliate during each of the years 2005, 2004 and 2003.

During the year ended December 2003, OrangeDen, LLC, a subsidiary engaged in restaurant operations, entered into a collateral contribution agreement (“the Agreement”) with two separate affiliates, CFG and Cherry Den, LLC, to provide collateral for a letter of credit to an insurance company for worker’s compensation and general liability coverage relating to employees leased to the restaurant operations within the real estate segment. The collateral consisted of certificates of deposit with one-year terms amounting to \$353,000 and were included in real estate and restaurant assets held for sale at December 31, 2003 relating to this Agreement. In December 2004, the Company sold its interest in OrangeDen, LLC, to Cherry Den, LLC, an affiliate of the Chairman and Vice Chairman of the Board of Directors. The Company received \$0.7 million in proceeds from the sale and recognized a net gain of \$1.2 million, which included the recognition of \$0.8 million in gains on the sales of real estate used in its restaurant operations, which had previously been deferred.

14. Stock Options and Restricted Shares:

The Company adopted USRP’s Flexible Incentive Plan (the “Plan”). Under the Plan, the Company may grant shares of restricted common stock or stock options to purchase common stock. Pursuant to this Plan, stock options may be granted at any time and the aggregate outstanding options that can be granted shall be at an amount equal to or less than 4.9% of the Company’s issued and outstanding shares of common stock at the date of grant. Options may be exercised through either the payment of cash or the transfer of shares of the Company’s common stock owned by the optionee, at the Company’s discretion.

TRUSTREET PROPERTIES, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
 Years ended December 31, 2005, 2004 and 2003

14. Stock Options and Restricted Shares - Continued:

No stock options were issued during the year ended December 31, 2005, and previously granted options were fully vested as of the date of the Merger. As a result, no compensation cost was recognized relating to stock options during the year ended December 31, 2005. Early adoption of FAS 123(R), and the change from applying the original provisions of SFAS No. 123, did not have an impact on income from continuing operations, net income, cash flow from operations, cash flow from financing activities, and basic and diluted earnings per share for the year ended December 31, 2005.

The following is a summary of options outstanding by range of exercise price as of December 31, 2005:

	\$12.23	\$15.50	All options
Options outstanding (in thousands)	4	8	12
Average option price per share	\$ 12.23	\$ 15.50	\$ 14.36
Weighted average remaining contractual life (years)	2.43	0.82	1.38
Options exercisable (in thousands)	4	8	12
Average option price per share	\$ 12.23	\$ 15.50	\$ 14.36

The following is a summary of stock option activity for the year ended December 31, 2005:

	Number of options (in thousands)	Weighted average exercise price at grant date
Options outstanding at December 31, 2004	—	\$ —
Options assumed through Merger	71	\$ 14.95
Exercised	(44)	\$ 13.85
Forfeited	—	\$ —
Expired	(15)	\$ 21.57
Options outstanding and exercisable at December 31, 2005	12	\$ 14.36

In March 2005, the Company granted approximately 0.1 million shares of non-vested common stock to members of its board of directors and certain employees. The non-vested shares had a fair market value of approximately \$2.3 million based on the Company's stock price on the date of grant. The Company records compensation expense over the vesting period.

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

14. Stock Options and Restricted Shares - Continued:

The following is a summary of the status of the Company's non-vested shares as of December 31, 2005, and changes during the year ended December 31, 2005:

	Number of shares (in thousands)	Weighted average fair value at grant date
Non-vested shares at beginning of period		\$ —
Granted	138	\$ 17.01
Vested		\$ —
Forfeited	(18)	\$ 17.20
Non-vested shares at December 31, 2005	120	\$ 16.98

As of December 31, 2005, there was \$1.2 million of total unrecognized compensation costs related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of approximately 3.5 years.

15. Stockholders' Equity:

On February 25, 2005, in accordance with the terms of the Merger, approximately 45.2 million shares of CNLRP common stock were converted into 35.2 million shares of the Company's common stock and 7.2 million newly issued shares of the Company's Series C Preferred Stock.

Outstanding Warrants - At December 31, 2005, two investors had outstanding Series B warrants to purchase 0.4 million shares of the Company's common stock at an exercise price of \$16.39 per share. The warrants became exercisable on October 10, 2003 and expire between 2010 and 2011. At December 31, 2005, 0.4 million shares of common stock were reserved for that purpose.

During the year ended December 31, 2005, the Company issued 1.4 million shares of common stock through a controlled equity program and issued 8.05 million shares through a public offering totaling \$129.9 million in proceeds, net of stock issuance costs. The Company sold the shares of common stock at a range of \$14.25 to \$16.67.

Redeemable Preferred Stock

Series A Preferred Stock - The Series A Preferred Stock has a liquidation preference of \$25.00 per share. The Series A Preferred Stock is redeemable, in whole or in part, at the option of the Company, (i) for such number of shares of Company common stock as are issuable at a conversion rate of 0.9384 shares of Company common stock for each share of Series A Preferred Stock, provided that for 20 trading days within any period of 30 consecutive trading days,

including the last trading day of such period, the closing price of the common stock on the New York Stock Exchange equals or exceeds the conversion price, subject to adjustment in certain circumstances, plus cash in the amount of any accrued and unpaid dividends, or (ii) for cash at a redemption price equal to \$25.00 per share of Series A Preferred Stock, plus any accrued and unpaid dividends. The Series A Preferred Stock has no stated maturity and is not subject to a sinking fund provision. Shares of Series A Preferred Stock are convertible, in whole or in part, at the option of the holder at any time, unless previously redeemed, into shares of common stock at a conversion

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

15. Stockholders' Equity - Continued:

price of \$26.64 per share of common stock (equivalent to a conversion rate of 0.9384 shares of common stock). Distributions on Series A Preferred Stock are cumulative and are equal to the greater of (i) \$1.93 per annum or (ii) the cash distribution paid or payable on the number of shares of common stock into which a share of Series A Preferred Stock is convertible. Holders of Series A Preferred Stock are entitled to receive dividends in parity with holders of Series C Preferred Stock and in preference to any dividends to common stockholders. Upon liquidation, holders of Series A Preferred Stock are entitled to receive distributions in parity with holders of Series C Preferred Stock and in preference to any distributions to common stockholders.

Series C Preferred Stock - The Company's 7.5 percent Series C Preferred Stock has a liquidation preference of \$25.00 per share. The Series C Preferred Stock is not redeemable prior to February 25, 2009, unless the Board of Directors determines that such a redemption is necessary or advisable to preserve the status of the Company as a REIT. On and after February 25, 2009, and with appropriate notice, the Series C Preferred Stock is redeemable, in whole or in part, at the option of the Company for cash at a redemption price of \$25.00 per share, plus all accrued and unpaid dividends thereon to and including the date fixed for redemption, without interest. If fewer than all of the outstanding shares of Series C Preferred Stock are to be redeemed, the Series C Preferred Stock to be redeemed shall be redeemed pro rata (as nearly as may be practicable without creating fractional shares), by lot or by any other equitable method determined by the Company that will not result in a violation of the Ownership Limit, provided that such method satisfies any applicable requirements of any securities exchange on which the Series C Preferred Stock are then listed or any national quotation system on which the Series C Preferred Stock are then quoted. If such redemption is to be by lot and, as a result of such redemption, any holder of a number of shares of Series C Preferred Stock would become a holder of a number of shares of Series C Preferred Stock in excess of the Ownership Limit because such holders of shares of Series C Preferred Stock were not redeemed, or were redeemed only in part, then, except as otherwise provided in the Articles of Incorporation, the Company will redeem the requisite number of Series C Preferred Stock of such holder such that such holder will not violate the Ownership Limit subsequent to such redemption. Shares of Series C Preferred Stock are convertible, in whole or in part, at the option of the holder at any time, unless previously redeemed, into shares of common stock at an initial conversion price of \$19.50 (equivalent to a conversion rate of 1.28205 shares of common stock for each share of Series C Preferred Stock). Distributions on Series C Preferred Stock are cumulative and are equal to \$1.875 per share per annum. Holders of Series C Preferred Stock are entitled to receive dividends in parity with holders of Series A Preferred Stock and in preference to any dividends to common stockholders. Upon liquidation, holders of Series C Preferred Stock are entitled to receive distributions in parity with holders of Series A Preferred Stock and in preference to any distributions to common stockholders.

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

15. Stockholders' Equity - Continued:

Computation of Earnings Per Common Share - For the years ended December 31, 2005, 2004 and 2003, basic and diluted earnings per common share for income (loss) from continuing operations available to common stockholders has been computed as follows:

	Year ended December 31, (in thousands)		
	2005	2004	2003
Numerator:			
Income from continuing operations	\$ 11,704	\$ 6,984	\$ 6,901
Gain on sale of assets	9,643	135	(9)
Less: Preferred stock dividends	(24,448)	—	—
Income/(loss) from continuing operations available to common stockholders	\$ (3,101)	\$ 7,119	6,892
Denominator:			
Basic and diluted weighted average number of shares outstanding (1) (2)	55,053	35,032	35,032
Basic and diluted income/(loss) from continuing operations allocable to common stockholders per share	\$ (0.06)	\$ 0.20	\$ 0.20

(1) For the year ended December 31, 2005, the potential dilution from the Company's outstanding Common Stock Equivalents was anti-dilutive to the loss from continuing operations per share calculation. As such, the Company excluded stock options to purchase approximately 0.012 million shares of common stock, warrants to purchase 0.4 million shares of common stock, restricted stock of approximately 0.1 million shares and the conversion of Series A and Series C Preferred Stock into 16.6 million shares of common stock from the computation of diluted earnings per share as these Common Stock Equivalents were anti-dilutive.

(2) For the years ended December 31, 2004 and 2003, the Company did not have any Common Stock Equivalents.

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

15. Stockholders' Equity - Continued:

The following unaudited presentation assumes that the Series C Preferred Stock issued to the CNLRP stockholders in connection with the Merger was outstanding for all periods presented.

	(In thousands)		
	Year ended December 31,		
	2005	2004	2003
Historical income (loss) from continuing operations and gain of sale of assets less preferred stock dividends	\$ (3,101)	\$ 7,119	\$ 6,892
Proforma adjustment for Series C Preferred Stock dividends	(2,264)	(13,583)	(13,583)
Proforma loss from continuing operations allocable to common stockholders	\$ (5,365)	\$ (6,464)	\$ (6,691)
 Basic and diluted proforma earnings (loss) per share:			
From continuing operations	\$ (0.10)	\$ (0.18)	\$ (0.19)
From discontinued operations	0.78	1.00	1.01
	\$ 0.68	\$ 0.82	\$ 0.82

16. Concentration of Credit Risk:

No individual lessee or borrower (or affiliated groups of lessees or borrowers) or restaurant chain represented more than ten percent of the Company's revenues relating to its properties, loans and secured equipment leases during the years ended December 31, 2005, 2004 or 2003.

Although the Company's properties are geographically diverse throughout the United States and lessees and borrowers operate a variety of restaurant concepts, 25 restaurant chains constitute 75 percent of the Company's properties. Failure of any one of these restaurant chains or any significant lessees or borrowers could significantly impact results of operations if the Company is not able to timely protect its interest.

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

17. Segment Information:

The Company has established separate legal entities to operate and measure the real estate and specialty finance segments.

The real estate segment primarily acquires and holds real estate. It also holds certain mortgage and equipment loans generally until maturity. The specialty finance segment includes the Company's investment property sales program, our Real Estate Development and Redevelopment Group and investment banking services to national and regional restaurant operators. The specialty finance segment's earnings are from lease income prior to sale, net gains from investment property sales, gains from development and sale of restaurant/retail real estate and to a lesser extent, advisory services and servicing activities.

The following tables summarize the results for the real estate and specialty finance segments. Consolidating eliminations and results of the parent company are reflected in the "other" column.

	Year ended December 31, 2005 (In thousands)			
	Real estate segment	Specialty finance segment	Other	Consolidated Totals
Revenues	\$ 177,645	\$ 17,351	\$ (4,917)	\$ 190,079
Expenses:				
General operating and administrative	12,853	28,602	(3,485)	37,970
Interest expense	80,539	10,556	(1,021)	90,074
Property expenses, state and other taxes	7,153	487	(406)	7,234
Depreciation and amortization	29,490	1,447	—	30,937
Loss on termination of cash flow hedge	8,558	—	—	8,558
Impairments and provisions on assets	1,889	75	—	1,964
Minority interest net of equity in earnings	250	1,388	—	1,638
	140,732	42,555	(4,912)	178,375
Discontinued operations:				
	10,575	32,265	—	42,840

Income from discontinued operations, net of income tax					
Gain on sale of assets	9,643	—	—	9,643	
Net income/(loss)	\$ 57,131	\$ 7,061	\$ (5)	\$ 64,187	
Assets at December 31, 2005	\$ 2,304,122	\$ 379,100	\$ 914	\$ 2,684,136	
Investments accounted for under the equity method at December 31, 2005	\$ 834	\$ —	\$ —	\$ 834	

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

17.

Segment Information - (Continued):

	Year ended December 31, 2004 (In thousands)			
	Real estate segment	Specialty finance segment	Other	Consolidated Totals
Revenues	\$ 76,957	\$ 29,337	\$ (3,010)	\$ 103,284
Expenses:				
General operating and administrative	8,868	21,515	(1,975)	28,408
Interest expense	29,262	18,314	423	47,999
Property expenses, state and other taxes	575	—	—	575
Depreciation and amortization	10,653	874	—	11,527
Loss on termination of cash flow hedge	—	940	—	940
Impairments and provisions on assets	2,684	554	—	3,238
Minority interest net of equity in earnings	61	3,552	—	3,613
	52,103	45,749	(1,552)	96,300
Discontinued operations:				
Income from discontinued operations, net of income tax	5,730	29,169	—	34,899
Gain on sale of assets	135	—	—	135
Net income/(loss)	\$ 30,719	\$ 12,757	\$ (1,458)	\$ 42,018
Assets at December 31, 2004				
	\$ 795,125	\$ 451,237	\$ (2,713)	\$ 1,243,649
Investments accounted for under the equity method	\$ 947	\$ —	\$ —	947

at December 31,
2004

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

17. Segment Information - (Continued):

	Year ended December 31, 2003 (In thousands)			
	Real estate segment	Specialty finance segment	Other	Consolidated Totals
Revenues	\$ 81,996	\$ 32,254	\$ (3,180)	\$ 111,070
Expenses:				
General operating and administrative	8,980	21,059	(2,417)	27,622
Interest expense	27,481	23,653	(558)	50,576
Property expenses, state and other taxes	929	—	—	929
Depreciation and amortization	11,109	934	—	12,043
Loss on termination of cash flow hedge	—	502	—	502
Impairments and provisions on assets	4,350	6,342	—	10,692
Minority interest net of equity in earnings	114	1,691	—	1,805
	52,963	54,181	(2,975)	104,169
Discontinued operations:				
Income/(loss) from discontinued operations, net of income tax	(1,266)	36,814	—	35,548
Loss on sale of assets	—	(9)	—	(9)
Net income/(loss)	\$ 27,767	\$ 14,878	\$ (205)	\$ 42,440

18. Commitments and Contingencies:

As a result of the Merger, the Company acquired properties subject to leases where the Company was the lessee under these leases. During the year ended December 31, 2005, the Company incurred \$3.3 million in ground rent expense related to such leases, with such amounts recorded as property expenses. The remaining lease terms (excluding renewal option terms) expire between 2006 and 2024. Minimum future lease obligations at December 31, 2005 are as follows:

	(In thousands)
2006	\$ 3,214
2007	2,872
2008	2,255
2009	1,647
2010	1,162
Thereafter	4,994
	\$ 16,144

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

18. Commitments and Contingencies - Continued:

In the ordinary course of business, the Company has outstanding commitments to qualified borrowers and tenants. These commitments, including development agreements, if accepted by the potential tenants, obligate the Company to purchase sale leaseback properties. At December 31, 2005, the Company had committed to purchase \$134 million in real estate properties.

As of December 31, 2005, the Company had entered into 56 operating leases relating to real estate held for sale which provide that, in the event the Company sells the leased property before the fifth lease year, the annual rent will increase to the fifth year contractual rate effective on the day of the sale, and that the Company will compensate the tenant for the increase.

As part of the Merger, the Company assumed certain agreements in connection with certain gas station properties, that obligate the Company to pay a release price should a gas station property change gas brands. The agreements are customary in the retail petroleum industry. Some, but not all, of the agreements release the Company from the aforementioned obligation upon the sale of the property to a third party.

On January 18, 2005, Robert Lewis and Sutter Acquisition Fund, LLC, two limited partners in several Income Funds, filed Plaintiffs' Corrected Original Petition for Class Action, Cause No. 05-00083-F, a purported class action lawsuit on behalf of the limited partners of the Income Funds against the Company, USRP, the Income Funds and the general partners (Mr. Seneff, Mr. Bourne and CNL Realty Corporation) of the Income Funds, and subsidiaries of the Company in the District Court of Dallas County, Texas (the "Court"). The complaint alleged that the general partners of the Income Funds breached their fiduciary duties in connection with the proposed Mergers between the Income Funds and USRP and that the Company, subsidiaries of the Company and USRP aided and abetted in the alleged breaches of fiduciary duties. The complaint further alleged that the Income Fund general partners violated provisions of the Income Fund partnership agreements and demanded an accounting as to the affairs of the Income Funds. On April 26, 2005, a supplemental plea to jurisdiction was held. On May 2, 2005, the plaintiffs filed their First Amended Petition for Class Action. In the Amended Petition the plaintiffs did not add any parties or claims, but they did add allegations that the general partners of the Income Funds, with CNLRP and USRP, prepared and distributed a false and misleading final proxy statement filing to the limited partners of the Income Funds and the shareholders of CNLRP and USRP. The plaintiffs are seeking unspecified compensatory and exemplary damages and equitable relief, which also included an injunction preventing the defendants from proceeding with the Mergers. On May 26, 2005, the Court entered a Final Order Dismissing Action for lack of subject matter jurisdiction. On June 22, 2005, the plaintiffs filed a Notice of Appeal of the Order of Dismissal. On September 7, 2005, the plaintiffs filed an appellants' brief. On November 7, 2005, the Company and the other defendants filed on appellees' brief. On December 12, 2005, the plaintiffs filed their Appellants' Replying Brief. The Court has scheduled oral argument on the appeal for May 3, 2006. Management of the Company believes the claims against the Company are without merit and intends to vigorously defend against such claims.

During 2004, Management Strategies, Inc. filed a lawsuit against USRP. The complaint alleges that the Company owes approximately \$3 million in sales and fuel tax liabilities to the State of Georgia. The management of the Company believes the claims against the Company are without merit and intends to defend vigorously against such claims.

TRUSTREET PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
Years ended December 31, 2005, 2004 and 2003

18. Commitments and Contingencies - Continued:

The Company may be subject to claims or litigation in the ordinary course of business. At December 31, 2005, there were no outstanding claims against the Company in the ordinary course of business that are expected to have a material adverse effect on the Company's financial position or results of operations.

19. Selected Quarterly Financial Data (Unaudited):

The following table presents selected unaudited quarterly financial data for each fiscal quarter during the years ended December 31, 2005 and 2004:

(In thousands except for per share data)

2005 Quarter	First	Second	Third	Fourth	Year
Continuing operations:					
Revenues (1)	\$ 33,482	\$ 50,810	\$ 52,093	\$ 53,694	\$ 190,079
Earnings/(loss) from continuing operations allocable to common stockholders					
(1)(2)	\$ (4,301)	\$ (2,713)	\$ 2,392	\$ 1,521	\$ (3,101)
Discontinued operations:					
Earnings and gains from discontinued operations, net					
(1)	4,827	13,686	9,296	15,031	42,840
Net income allocable to common stockholders					
	\$ 526	\$ 10,973	\$ 11,688	\$ 16,552	\$ 39,739
Net income/(loss) per share of					

common stock
(basic and
diluted):

Continuing operations (1)	\$ (0.08)	\$ (0.04)	\$ 0.03	\$ 0.03	\$ (0.06)	
Discontinued operations (1)	\$ 0.09	\$ 0.25	\$ 0.17	\$ 0.27	\$ 0.78	

TRUSTREET PROPERTIES, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
 Years ended December 31, 2005, 2004 and 2003

19. Selected Quarterly Financial Data (Unaudited) - Continued:

(In thousands except for per share data)

2004 Quarter	First	Second	Third	Fourth	Year
Continuing operations:					
Revenues (1)	\$ 25,682	\$ 25,116	\$ 26,989	\$ 25,497	\$ 103,284
Earnings/(loss) from continuing operations allocable to common stockholders (1)(2)					
	\$ 3,172	\$ 1,038	\$ 3,587	\$ (678)	\$ 7,119
Discontinued operations:					
Earnings and gains from discontinued operations, net (1)					
	7,676	8,182	11,329	7,712	34,899
Net income allocable to common stockholders					
	\$ 10,848	\$ 9,220	\$ 14,916	\$ 7,034	\$ 42,018
Net income/(loss) per share of common stock (basic and diluted):					
Continuing operations (1)					
	\$ 0.09	\$ 0.03	\$ 0.10	\$ (0.02)	\$ 0.20
Discontinued operations (1)					
	\$ 0.22	\$ 0.23	\$ 0.33	\$ 0.22	\$ 1.00

- (1) The results of operations relating to properties that were either disposed of or that were classified as held for sale during the year ended December 31, 2005 and 2004 are reported as discontinued operations.
- (2) Earnings/(loss) from continuing operations allocable to common stockholders includes income from continuing operations and gain/(loss) on sale of assets, net of dividends to preferred stockholders.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

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

1. Consolidated Financial Statements

Report of Independent Registered Certified Public Accounting Firm.

Consolidated Balance Sheets at December 31, 2005 and 2004.

Consolidated Statements of Income for the years ended December 31, 2005, 2004 and 2003.

Consolidated Statements of Stockholders' Equity and Comprehensive Income/(Loss) for the years ended December 31, 2005, 2004 and 2003.

Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003.

Notes to Consolidated Financial Statements.

2. Financial Statement Schedules

Schedule II - Valuation and Qualifying Accounts for the years ended December 31, 2005, 2004 and 2003 (previously filed on the Company's annual report on Form 10-K filed on March 16, 2006 and incorporated herein by reference).

Schedule III - Real Estate and Accumulated Depreciation at December 31, 2005 (previously filed on the Company's annual report on Form 10-K filed on March 16, 2006 and incorporated herein by reference).

Notes to Schedule III - Real Estate and Accumulated Depreciation at December 31, 2005 (previously filed on the Company's annual report on Form 10-K filed on March 16, 2006 and incorporated herein by reference).

Schedule IV - Mortgage Loans on Real Estate at December 31, 2005 (previously filed on the Company's annual report on Form 10-K filed on March 16, 2006 and incorporated herein by reference).

All other Schedules are omitted as the required information is inapplicable or is presented in the financial statements or notes thereto.

3. Exhibits

2.1 Agreement and Plan of Merger by and between the Registrant and CNL Restaurant Properties, Inc., dated as of August 9, 2004 (previously filed as Exhibit 2.1 to the Registrant's current report on Form 8-K filed on August 10, 2004 and incorporated herein by reference).

2.2 Agreements and Plans of Merger by and among the Registrant, a separate, wholly-owned subsidiary of the operating partnership of the Registrant and each of the 18 Income Funds (previously filed as Exhibits 2.2 - 2.19 to the Registrant's current report on Form 8-K filed on August 10, 2004 and incorporated herein by reference).

- 3.1 Restated Articles of Incorporation of the Registrant dated November 11, 1997, as amended by the Articles of Amendment to the Articles of Restatement of the Registrant dated February 24, 2005 and the Articles of Amendment to the Articles of Restatement of the Registrant dated February 24, 2005 (previously filed as Exhibit 3.1 to the Registrant's quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2005 and incorporated herein by reference).
- 3.2 Third Amended and Restated Bylaws (previously filed as Exhibit 3.1 on the Company's current report on Form 8-K filed on August 15, 2005 and incorporated herein by reference).
- 4.1 Specimen of Common Stock Certificate (previously filed as Exhibit 4.1 to the Registrant's Registration Statement on Form S-4 (File No. 333-21403) and incorporated herein by reference).
- 4.2 Articles Supplementary Classifying and Designating a Series of Preferred Stock as Series A Cumulative Convertible Preferred Stock (previously filed as Exhibit 3.2 to the Registrant's current report on Form 8-K filed on November 14, 1997 and incorporated herein by reference).
- 4.3 Amendment to Articles Supplementary Classifying and Designating a Series of Preferred Stock as Series A Cumulative Convertible Preferred Stock (previously filed as Exhibit 3.2 to the Registrant's current report on Form 8-K filed on February 25, 2005 and incorporated herein by reference).
- 4.4 Articles Supplementary Classifying and Designating a Series of Preferred Stock as 8% Series B Convertible Preferred Stock (previously filed as Exhibit 4.01 to the Registrant's Form 10-Q for the fiscal quarter ended June 30, 2003 and incorporated herein by reference).
- 4.5 Articles Supplementary Classifying and Designating a Series of Preferred Stock as 8% Series B-1 Convertible Preferred Stock (previously filed as Exhibit 99.5 to the Registrant's current report on Form 8-K filed on September 16, 2004 and incorporated herein by reference).
- 4.6 Articles Supplementary Establishing and Fixing The Rights and Preferences of 7.5% Series C Redeemable Convertible Preferred Stock (previously filed as Exhibit 4.1 to the Registrant's registration statement on Form 8-A (File No. 001-13089) and incorporated herein by reference).
- 4.7 Specimen of 7.5% Series C Redeemable Convertible Preferred Stock Certificate (previously filed as Exhibit 4.2 to the Registrant's registration statement on Form 8-A (File No. 001-13089) and incorporated herein by reference).
- 4.8 Indenture dated as of March 4, 2005, among Net Lease Funding 2005, LP, MBIA Insurance Corporation and Wells Fargo Bank, N.A., as indenture trustee relating to \$275,000,000 Triple Net Lease Mortgage Notes, Series 2005 (previously filed as Exhibit 99.1 to the Registrant's current report on Form 8-K filed on March 10, 2005 and incorporated herein by reference).
- 4.9 Securities Purchase Agreement relating to the Series B Preferred Stock (previously filed as Exhibit 4.02 to the Registrant's Form 10-Q for the fiscal quarter ended June 30, 2003 and incorporated herein by reference).
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- 4.12 Stock Purchase Warrant - The Riverview Group, LLC (previously filed as Exhibit 4.05 to the Registrant's Form 10-Q for the fiscal quarter ended June 30, 2003 and incorporated herein by reference).
- 4.13 Indenture, dated as of March 23, 2005, between the Registrant and Wells Fargo Bank, National Association, as trustee, relating to the Registrant's 7 ½% Senior Noted due 2015 (previously filed as Exhibit 4.1 to the Registrant's current report on Form 8-K filed on March 28, 2005 and incorporated herein by reference).
- 4* Pursuant to Regulation S-K Item 601(b)(4)(iii), the Registrant by this filing agrees, upon request, to furnish to the Securities and Exchange Commission a copy of instruments defining the rights of holders of long-term debt of the Registrant.
- 10.6 Registrant Flexible Incentive Plan, as amended, (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on March 20, 2006 and incorporated herein by reference).
- 10.7 Bridge Credit Agreement dated as of February 25, 2005, by and among the Registrant, as borrower, certain subsidiaries of the Registrant, as guarantors, Bank of America, N.A., as Administrative Agent, L/C Issuer and Swing Line Lender, and certain other lenders party thereto, and Banc of America Securities LLC, as Sole Lead Arranger and Sole Book Manager (previously filed as Exhibit 10.1 to the Registrant's current report on Form 8-K filed on March 3, 2005 and incorporated herein by reference).
- 10.8 Bridge Credit Agreement dated as of February 25, 2005, by and among Net Lease Funding 2005, LP, as borrower, Bank of America, as Administrative Agent, and certain other lenders party thereto, and Banc of America Securities LLC, as Sole Lead Arranger and Sole Book Manager (previously filed as Exhibit 10.2 to the Registrant's current report on Form 8-K filed on March 3, 2005 and incorporated herein by reference).
- 10.9 Credit Agreement, dated as of April 8, 2005, by and among the Registrant, as borrower, certain subsidiaries of the Registrant, as guarantors, Bank of America, N.A., as Administrative Agent, L/C Issuer and Swing Line Lender, Bank of America Securities LLC, as Sole Lead Arranger and Sole Book Manager, Key Bank, National Association, as Syndication Agent, Credit Suisse First Boston, Societe Generale, and Wachovia Bank National Association, as Co-Documentation Agents, and the lenders party thereto (previously filed as Exhibit 10.1 to the Registrant's current report on Form 8-K filed on April 13, 2005 and incorporated herein by reference).
- 10.10 Pledge Agreement, dated as of April 8, 2005, by substantially all of the Borrower's domestic subsidiaries, in favor of Bank of America, N.A., in its capacity as Administrative Agent (previously filed as Exhibit 10.2 to the Registrant's current report on Form 8-K filed on April 13, 2005 and incorporated herein by reference).
- 12.1 Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends (previously filed on the Company's annual report on Form 10-K filed on March 16, 2006 and incorporated herein by reference).
- 21 Subsidiaries of Registrant (previously filed on the Company's annual report on Form 10-K filed on March 16, 2006 and incorporated herein by reference).
- 23.1 Consent of PricewaterhouseCoopers LLP (filed herewith).
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) 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) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.1

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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).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 12th day of May, 2006.

TRUSTREET PROPERTIES, INC.

By:

/s/ CURTIS B. McWILLIAMS
Curtis B. McWilliams
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT INDEX

Exhibit Number

- 2.1 Agreement and Plan of Merger by and between the Registrant and CNL Restaurant Properties, Inc., dated as of August 9, 2004 (previously filed as Exhibit 2.1 to the Registrant's current report on Form 8-K filed on August 10, 2004 and incorporated herein by reference).
- 2.2 Agreements and Plans of Merger by and among the Registrant, a separate, wholly-owned subsidiary of the operating partnership of the Registrant and each of the 18 Income Funds (previously filed as Exhibits 2.2 - 2.19 to the Registrant's current report on Form 8-K filed on August 10, 2004 and incorporated herein by reference).
- 3.1 Restated Articles of Incorporation of the Registrant dated November 11, 1997, as amended by the Articles of Amendment to the Articles of Restatement of the Registrant dated February 24, 2005 and the Articles of Amendment to the Articles of Restatement of the Registrant dated February 24, 2005 (previously filed as Exhibit 3.1 to the Registrant's quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2005 and incorporated herein by reference).
- 3.2 Third Amended and Restated Bylaws (previously filed as Exhibit 3.1 on the Company's current report on Form 8-K filed on August 15, 2005 and incorporated herein by reference).
- 4.1 Specimen of Common Stock Certificate (previously filed as Exhibit 4.1 to the Registrant's Registration Statement on Form S-4 (File No. 333-21403) and incorporated herein by reference).
- 4.2 Articles Supplementary Classifying and Designating a Series of Preferred Stock as Series A Cumulative Convertible Preferred Stock (previously filed as Exhibit 3.2 to the Registrant's current report on Form 8-K filed on November 14, 1997 and incorporated herein by reference).
- 4.3 Amendment to Articles Supplementary Classifying and Designating a Series of Preferred Stock as Series A Cumulative Convertible Preferred Stock (previously filed as Exhibit 3.2 to the Registrant's current report on Form 8-K filed on February 25, 2005 and incorporated herein by reference).
- 4.4 Articles Supplementary Classifying and Designating a Series of Preferred Stock as 8% Series B Convertible Preferred Stock (previously filed as Exhibit 4.01 to the Registrant's Form 10-Q for the fiscal quarter ended June 30, 2003 and incorporated herein by reference).
- 4.5 Articles Supplementary Classifying and Designating a Series of Preferred Stock as 8% Series B-1 Convertible Preferred Stock (previously filed as Exhibit 99.5 to the Registrant's current report on Form 8-K filed on September 16, 2004 and incorporated herein by reference).
- 4.6 Articles Supplementary Establishing and Fixing The Rights and Preferences of 7.5% Series C Redeemable Convertible Preferred Stock (previously filed as Exhibit 4.1 to the Registrant's registration statement on Form 8-A (File No. 001-13089) and incorporated herein by reference).
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