

Earnings Per Share – Earnings per share have been computed pursuant to the FASB guidance included in *Earnings Per Share*. The guidance requires classification of the Company’s unvested restricted share units which contain rights to receive nonforfeitable dividends, as participating securities requiring the two-class method of computing earnings per share. Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings to common stockholders and undistributed earnings allocated to common stockholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both common shares and participating securities based on the weighted average shares outstanding during the period. The following table is a reconciliation of the numerator and denominator used in the computation of basic and diluted earnings per common share using the two-class method for the years ended December 31 (dollars in thousands):

	2013	2012	2011
Basic and Diluted Earnings:			
Net earnings attributable to NNN	\$ 160,145	\$ 142,015	\$ 92,325
Less: Series C preferred stock dividends	—	(1,979)	(6,785)
Less: Series D preferred stock dividends	(19,047)	(15,449)	—
Less: Series E preferred stock dividends	(8,876)	—	—
Less: Excess of redemption value over carrying value of Series C preferred shares redeemed	—	(3,098)	—
Net earnings attributable to common stockholders	132,222	121,489	85,540
Less: Earnings attributable to unvested restricted shares	(503)	(741)	(622)
Net earnings used in basic and diluted earnings per share	<u>\$ 131,719</u>	<u>\$ 120,748</u>	<u>\$ 84,918</u>
Basic and Diluted Weighted Average Shares Outstanding:			
Weighted average number of shares outstanding	118,969,771	107,873,577	88,972,723
Less: Unvested restricted shares	(448,590)	(654,127)	(630,102)
Less: Unvested contingent shares	(317,033)	(254,294)	(242,545)
Weighted average number of shares outstanding used in basic earnings per share	118,204,148	106,965,156	88,100,076
Effects of dilutive securities:			
Convertible debt	1,468,559	1,987,842	512,024
Other	192,117	164,517	224,957
Weighted average number of shares outstanding used in diluted earnings per share	<u>119,864,824</u>	<u>109,117,515</u>	<u>88,837,057</u>

For the year ended December 31, 2011, the potential dilutive shares related to certain convertible notes payable were not included in computing earnings per common share because their effects would be antidilutive.

Income Taxes – NNN has made an election to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the “Code”), and related regulations. NNN generally will not be subject to federal income taxes on amounts distributed to stockholders, providing it distributes 100 percent of its REIT taxable income and meets certain other requirements for qualifying as a REIT. For each of the years in the three-year period ended December 31, 2013, NNN believes it has qualified as a REIT. Notwithstanding NNN’s qualification for taxation as a REIT, NNN is subject to certain state taxes on its income and real estate.

NNN and its taxable REIT subsidiaries have made timely TRS elections pursuant to the provisions of the REIT Modernization Act. A taxable REIT subsidiary is able to engage in activities resulting in income that previously would have been disqualified from being eligible REIT income under the federal income tax regulations. As a result, certain activities of NNN which occur within its TRS entities are subject to federal and state income taxes (See Note 14). All provisions for federal income taxes in the accompanying consolidated financial statements are attributable to NNN’s taxable REIT subsidiaries and to the Orange Avenue Mortgage Investments, Inc. (“OAMI”), a majority owned and controlled subsidiary, built-in-gain tax liability.

Income taxes are accounted for under the asset and liability method as required by the FASB guidance included in *Income Taxes*. Deferred tax assets and liabilities are recognized for the temporary differences based on estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using