CapLease, Inc.
Form 10-K
February 21, 2013

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

FORM 10-K
(Mark One)

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

For the fiscal year ended December 31, 2012

OR

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

For the transition period from ____________to ____________

Commission file number 001-32039

CAPLEASE, INC.
(Exact Name of Registrant as Specified in its Charter)

Maryland (State or Other Jurisdiction of Incorporation or Organization)	52-2414533 (I.R.S. Employer Identification No.)
1065 Avenue of the Americas, New York, NY (Address of Principal Executive Offices)	10018 (Zip code)

(212) 217-6300
(Registrant’s Telephone Number, Including Area Code)

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

Title of each Class	Name of each exchange on which registered
Common Stock, $0.01 par value	New York Stock Exchange
8.125% Series A Cumulative Redeemable Preferred Stock, $0.01 par value	New York Stock Exchange
8.375% Series B Cumulative Redeemable Preferred Stock, $0.01 par value	New York Stock Exchange
7.25% Series C Cumulative Redeemable Preferred Stock, $0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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 o 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 for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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. x

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x
As of June 30, 2012, the aggregate market value of the common stock, $0.01 par value per share, of CapLease, Inc. (“Common Stock”), held by non-affiliates (outstanding shares, excluding shares held by executive officers and directors) of the registrant was approximately $263 million, based upon the closing price of $4.15 on the New York Stock Exchange on June 29, 2012.

As of February 15, 2013, there were 75,936,172 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the registrant's 2013 Annual Meeting, to be filed within 120 days after the close of the registrant's fiscal year, are incorporated by reference into Part III of this Annual Report on Form 10-K.

TABLE OF CONTENTS

PART I.		2
Item 1.	Business.	2
Item 1A.	Risk Factors.	13
Item 1B.	Unresolved Staff Comments.	25
Item 2.	Properties.	25
Item 3.	Legal Proceedings.	25
Item 4.	Mine Safety Disclosures.	25
PART II.		26
Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.	26
Item 6.	Selected Financial Data.	28
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations.	30
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk.	47
Item 8.	Financial Statements and Supplementary Data.	52
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.	100
Item 9A.	Controls and Procedures.	100
Item 9B.	Other Information.	100
PART III.		101
Item 10.	Directors, Executive Officers and Corporate Governance.	101
Item 11.	Executive Compensation.	101
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.	101
Item 13.	Certain Relationships and Related Transactions, and Director Independence.	101
Item 14.	Principal Accounting Fees and Services.	101
PART IV.		102
Item 15.	Exhibits and Financial Statement Schedules.	102
PART V.		105
SIGNATURES		105

Note: Items 10, 11, 12, 13 and 14 are incorporated by reference herein from the Proxy Statement.

Except where otherwise indicated or where the context is clear, the portfolio statistics in Items 1 and 1A of this Form 10-K represent or are calculated from our carry value for financial reporting purposes before depreciation and amortization. With respect to our loan portfolio, we have adjusted our carry value to exclude a $0.5 million general loss reserve.

Throughout this Form 10-K, we disclose the credit rating of the tenants (or lease guarantors) underlying our investments and the actual rating on most of our CMBS securities. Credit ratings are one of the factors we evaluate in assessing the likelihood of receipt of expected cash flows on our investments.

PART I.

Item 1. Business.

Explanatory Note for Purposes of the "Safe Harbor Provisions" of Section 21E of the Securities Exchange Act of 1934, as amended

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which involve certain risks and uncertainties. Our actual results or outcomes may differ materially from those projected. Important factors that we believe could cause such differences are discussed in Item 1A (Risk Factors) of this Form 10-K or otherwise accompany the forward-looking statements contained in this Form 10-K. In assessing all forward-looking statements, readers are urged to read carefully all cautionary statements contained in this Form 10-K. We undertake no obligation to publicly release the results of any revisions to our forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Overview

We are a real estate investment trust, or REIT, that primarily owns and manages a diversified portfolio of single tenant commercial real estate properties subject to long-term leases to high credit quality tenants. Many of the properties we own are subject to a net lease, or a lease that requires the tenant to pay all or substantially all property operating expenses, such as utilities, real estate taxes, insurance and routine maintenance.

Our tenants are primarily large public companies or their significant operating subsidiaries and governmental entities with investment grade credit ratings, defined as a published senior unsecured credit rating of BBB-/Baa3 or above from one or both of Standard & Poor's ("S&P") and Moody's Investors Service ("Moody's"). We also imply an investment grade credit rating for tenants that are not publicly rated by S&P or Moody's but (i) are 100% owned by an investment grade parent, (ii) for which we have obtained a private investment grade rating from either S&P or Moody's, (iii) for which we have evaluated the creditworthiness of the tenant and estimated a credit rating that is consistent with an investment grade rating from S&P or Moody's, or (iv) are governmental entity branches or units of another investment grade rated governmental entity.

During 2012, we continued to grow our investment portfolio with approximately $190 million of real property acquisitions and new build-to-suit commitments, and we expect to continue our growth in 2013 and future years.

We have invested in certain owned properties that are leased primarily but not exclusively by one tenant. We have also invested in certain owned properties which were previously leased by one tenant but as a result of lease non-renewals have now become multi-tenant properties. We expect these types of properties will continue to comprise a portion of our portfolio for the foreseeable future. References in this Annual Report on Form 10-K to our "Single Tenant Owned Property Portfolio" include those properties leased primarily but not exclusively by one tenant but do not include our two multi-tenant properties.

In addition to our portfolio of owned properties, we have a modest portfolio of first mortgage loans and other debt investments on single tenant properties. That debt portfolio was reduced significantly during 2011 as a result of our sale of the assets and associated liabilities comprising our collateralized debt obligation, or CDO, as well as the individual sale of certain other loans and securities. The remaining debt portfolio will continue to decrease over time as principal payments are received on the investments. While the focus of our investment activity is expected to remain the ownership of real properties, we may continue to make debt investments from time to time on an opportunistic basis in the future.

Our portfolio produces stable, high quality cash flows generated by long-term leases to primarily investment grade tenants. As of December 31, 2012, we had an approximately $1.9 billion investment portfolio, including the following assets by type:

		Investment(1)		
		(in thousands)	Percentage	
Owned properties	$	1,853,967	95.3	%
Debt investments				
Loans				
Long-term mortgage loans		24,318	1.3	%
Corporate credit notes		3,214	0.2	%
Commercial mortgage loan securitizations		14,419	0.7	%
Certificated mortgage loan investments		47,899	2.5	%
Other		175	0.0	%
Total	$	1,943,991	100.0	%

[1] Here and elsewhere in Item 1 of this Annual Report on Form 10-K, references to our “Investment” represent our carry value for financial reporting purposes before depreciation and amortization. With respect to our loan portfolio, we have adjusted our carry value to exclude a $0.5 million general loss reserve.

Our main business objective is to generate stable, long-term and attractive returns based on the spread between the yields generated by our assets and the cost of financing our portfolio.

Investment Strategy

We focus on the following core business strategies:

- High Credit Quality Tenants. We primarily own and manage commercial real estate properties where the tenant is of high credit quality. As of December 31, 2012, approximately 84% of our Single Tenant Owned Property Portfolio was invested in properties leased to investment grade or implied investment grade tenants, and the weighted average tenant credit rating was A-. Further, our top ten tenants, which comprise approximately 47% of our entire portfolio, were all rated investment grade or implied investment grade and had a weighted average credit rating of A. As of December 31, 2012, our portfolio had the following credit characteristics:

Credit Rating (1) (2)	Investment (in thousands)	Percentage	
Investment grade rating of A- or A3 and above	$781,422	42.4	%
Investment grade rating of below A- or A3	432,131	23.4	%
Implied investment grade rating	319,305	17.3	%
Non-investment grade rating	309,462	16.8	%
Unrated	935	0.1	%
	$1,843,255	100.00	%

(1) Reflects the tenant's or lease guarantor's actual or implied S&P rating or equivalent rating if rated only by Moody's, or in the case of most of our CMBS securities, actual ratings of the securities. Table does not include our two multi-tenant properties. Table also does not include the Fort Wayne, IN property which became vacant as of January 1, 2013.

(2) Seven of our owned real properties within the Single Tenant Owned Property Portfolio where our aggregate investment is $368,463 are leased to more than one tenant and, for purposes of determining the underlying tenant's credit rating on these properties, we have considered the credit rating of only our primary tenant.

- Long-Term Assets Held for Investment. We invest in commercial real estate properties subject to long-term leases. As of December 31, 2012, the weighted average remaining lease term on our Single Tenant Owned Property Portfolio was approximately 6 years. We intend to hold our assets for the long-term, capturing the stable lease cash flows that will be produced from the high credit quality tenants.

- Net Lease Focus. We focus on properties that are subject to a net lease where the tenant is typically responsible for all or substantially all of the property's operating expenses. We believe that this asset class offers more stable and predictable returns than non-net leased properties and will allow us to continue to grow our business without the need to significantly expand our general and administrative costs and headcount.

- Finance with Attractive, Low Cost Debt. Our strategy is to finance most of our assets with attractive, low cost debt, in order to allow us to invest in a greater number of assets and enhance our asset returns. We seek to finance many of our assets with conservative levels of long-term, fixed rate, non-recourse debt. The use of non-recourse debt enables us to isolate the default risk to solely the asset or assets financed. We also have been building an unencumbered pool of assets to improve financial flexibility and expect to continue to pledge most of these assets to a revolving line of credit in order to provide us with an immediate source of liquidity through borrowings under the line.

Our Competitive Strengths

- Established Investment and Portfolio Management Capabilities. We have an experienced in-house team of investment professionals that source, structure, review and close our transactions. In addition, we have developed an extensive national network of property owners, developers, investment sale brokers, tenants, borrowers, mortgage brokers, lenders, institutional investors and other market participants that helps us to identify and evaluate a variety of single tenant investment opportunities. We have developed a highly skilled asset management function for our investments which among other things monitors lease expirations and property operations and manages the renewal or re-let process on our properties.

- Experienced Senior Management Team. Our senior management team is comprised of individuals with expertise in commercial real estate, credit capital markets, asset management and legal, and has worked together for many years through various business cycles. We have substantial experience investing at all levels of the capital structure of single tenant properties. Since 1996, we have originated and underwritten more than $4.8 billion in single tenant transactions, including debt, equity and mezzanine and involving more than 500 properties with more than 100 different tenants. Since our initial public offering in March 2004, we have purchased more than $1.9 billion of single tenant properties.

- Stringent Underwriting Process. Since the founding of our predecessor entity in 1994, we have built and maintain today a strong credit philosophy and underwriting discipline. We have a comprehensive underwriting and due diligence process that is overseen by our investment committee, which includes our chief executive officer, president, chief financial officer and chief investment officer. Our investment committee formally reviews and approves each investment we make prior to funding and all portfolio divestitures. We also have an investment oversight committee of the Board of Directors that approves investments in excess of $50 million.

- Market Expertise. We have been in the net lease business since 1994 and have recognized expertise in the net lease marketplace. We are highly skilled in analyzing single tenant leases and have developed a market leading franchise in our sector. We have substantial experience in financing single tenant assets. Prior to our initial public offering in 2004, we were primarily a lender focused on originating first mortgage loans on net lease properties and selling substantially all of the loans we originated, either through whole-loan or small pool sales or through gain-on-sale commercial mortgage-backed securitizations.

Our Portfolio

We primarily own and manage a diversified portfolio of single tenant commercial real estate properties subject to long-term leases to high credit quality tenants. As of December 31, 2012, some of the highlights of our investment portfolio were as follows:

approximately $1.9 billion owned property portfolio;

οων αππροξιματελψ 12.1 μιλλιον σθυαρε φεετ ωιτη 92.9% οχχυπανχψ;

71 properties in 25 states and leases with 43 different tenants across the Single Tenant Owned Property Portfolio;

ten largest tenants all rated investment grade or implied investment grade with an average credit rating of A;

84% of our Single Tenant Owned Property Portfolio invested in properties leased to investment grade or implied investment grade tenants;

weighted average tenant credit rating of A- across the Single Tenant Owned Property Portfolio;

weighted average remaining lease term of approximately 6 years across the Single Tenant Owned Property Portfolio; and

well diversified portfolio by property type, geography, tenant and tenant industry.

Owned Properties

Owned properties comprise approximately 95% of our current portfolio on a total investment basis. All of our owned properties have been acquired since the closing of our initial public offering in 2004. We invest in a variety of commercial property types (e.g., office, warehouse, United States Government and retail), and our investment analysis includes a thorough review of the credit quality of the underlying tenant or tenants and the strength of the related leases. We also thoroughly analyze the property's real estate fundamentals, including location and type of the property, vacancy rates and trends in vacancy rates in the property's market, rental rates within the property's market, recent sales prices and demographics in the property's market. For more detail on our due diligence process, please see "Transaction Review Process" below. We target properties that have one or more of the following characteristics:

- located in good markets with strong growth prospects;
- fungible asset type that will facilitate a re-let of the property if the tenant does not renew;
- barriers to entry in the property’s market, such as zoning restrictions or limited land for future development; and
- core facility of the tenant.

The following table sets forth the occupancy rate as of the end of the last three fiscal years and the average annual rent per square foot for each of the last three fiscal years for our owned property portfolio:

	2012	2011	2010
Occupancy rate	92.9 %	96.2 %	94.7 %
Average annual rent per square foot	$ 12.17	$ 11.37	$ 11.72

Property Type Diversification

The following table summarizes the property types comprising our owned property portfolio as of December 31, 2012.

Property Type		Investment	Percentage	
Office	$	971,373	52	%
Warehouse		382,252	21	%
Retail		206,331	11	%
GSA (US Government)		195,856	11	%
Office/Warehouse		77,640	4	%
Other		20,514	1	%
Total	$	1,853,967	100	%

Tenant Industry Diversification

The following table sets forth certain information regarding the tenant industry concentrations in our owned property portfolio as of December 31, 2012.

Industry	Weighted Average Credit Rating (1)		Investment (2) (in thousands)	Percent of Total	
Insurance	A	$	263,066	14.7	%
Government	AA+		213,128	11.9	%
Food & Beverage	BBB+		212,338	11.8	%
Financial	BBB-		164,985	9.2	%
Energy	BBB		143,190	8.0	%
Grocery	BBB		108,986	6.1	%
Retail Department Stores	A		93,016	5.2	%
Building Materials	A-		83,244	4.6	%
Retail Jewelry	A-		77,640	4.3	%
Automotive	BBB-		67,900	3.8	%
Healthcare	A		67,184	3.7	%
Telecommunications	BBB		62,250	3.5	%
Engineering	BBB-		57,439	3.2	%
Communications	BBB		54,499	3.0	%
Hotel	BB+		47,529	2.6	%
Retail Drug	BBB-		29,051	1.6	%
Publishing	BBB+		20,837	1.2	%
Other	N/A		29,335	1.6	%
Total	A-	$	1,795,617	100.0	%

(1) Reflects actual or implied S&P rating (or equivalent rating if rated only by Moody's) of tenant(s) or lease guarantor(s).

(2) Table does not include the Fort Wayne, IN property which became vacant as of January 1, 2013. Table also does not include a portion of our investment attributed to vacant space in the Landmark building in Omaha, NE.

Geographic Diversification

The following table sets forth certain information regarding the top states where our owned properties are located as of December 31, 2012.

State	Number of Properties		Investment (in thousands)	Percent of Total
TX	11	$	275,766	14.9%
PA	4		207,687	11.2%
CA	7		202,197	10.9%
MD	4		131,594	7.1%
NJ	2		127,871	6.9%
IL	2		109,449	5.9%
VA	4		100,631	5.4%
CO	4		96,120	5.2%
IN	3		91,477	4.9%
KS	3		54,143	2.9%
NE	2		52,600	2.8%
OK	1		41,691	2.2%
KY	6		41,686	2.2%
AL	2		40,406	2.2%
WA	1		39,612	2.1%
GA	4		36,347	2.0%
TN	3		34,171	1.8%
LA	1		29,624	1.6%
WI	1		29,165	1.6%
FL	1		27,266	1.5%
NC	1		27,236	1.5%
Other	4		57,229	3.1%
Total	71	$	1,853,967	100.0

Lease Expirations

The following table sets forth certain information regarding scheduled lease expirations in our owned property portfolio as of December 31, 2012.

Year of Lease Expiration	Square Feet Subject to Expiring Lease	Current Annualized Base Rent (in thousands)	Percent of Annual Rent (1)	
2013	602,407	$15,553	11.6	%
2014	90,870	863	0.6	%
2015	760,075	11,239	8.3	%
2016	1,207,558	16,140	12.0	%
2017	2,937,650	24,423	18.1	%
2018	256,423	4,643	3.4	%
2019	362,722	9,412	7.0	%
2020	878,085	13,164	9.8	%

2021	2,384,675	15,662	11.6	%
2022	819,489	7,522	5.6	%
Thereafter	958,304	15,996	11.9	%

(1) Represents lease expiration dates as a percentage of current annualized base rent on all properties other than the Fort Wayne, IN property which became vacant as of January 1, 2013.

The primary scheduled lease maturities in 2013 are: (i) 174,235 square feet leased to Choice Hotels International, Inc. in Silver Spring, MD scheduled to mature in May 2013, (ii) 101,120 square feet leased to Omnicom Group, Inc. in Irving, TX scheduled to mature in May 2013 and (iii) 191,278 square feet leased to the United States Government (NIH) in Bethesda, MD scheduled to mature in November 2013. We do not expect the Choice Hotels or Omnicom leases to be renewed or extended and are actively marketing those properties for re-let upon conclusion of the tenant's lease term. We lease approximately 22% of the space at the Choice building to three other tenants. We are not aware at this time of the United States Government (NIH)'s plans with respect to the Bethesda, MD property beyond the scheduled lease expiration in November 2013. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Upcoming Lease Maturities and Expected and Potential Tenant Rollovers" for annual rental revenue in accordance with generally accepted accounting principles in the United States (GAAP) from these properties and our estimate of current market rents for these properties. We cannot make any assurance regarding the timing or expected outcomes of our leasing efforts at these properties, including as to when and on what terms we will be able to lease any property which we may need to re-tenant.

The following is a tabular presentation of our owned property portfolio as of December 31, 2012:

							(in thousands)		
Tenant or Guarantor	Location	Property Type	Square Feet	Purchase Date	Lease Maturity (1)	Form of Ownership	2013 Estimated Annual Rent (2)	Purchase Price	Investment (3)
Abbott Laboratories	6480 Busch Blvd, Columbus, OH	Office	111,776	11/2004	11/2016	Fee	$1,010	$12,025	$12,065
Abbott Laboratories	1850 Norman Drive North, Waukegan, IL	Office	131,341	8/2005	8/2017	Fee	1,770	20,325	20,362
Aetna Life Insurance Company	1333 - 1385 East Shaw Avenue, Fresno, CA	Office	122,605	10/2006	11/2016	Fee	1,932	24,255	25,688
Allstate Insurance Company	401 McCullough Drive, Charlotte, NC	Office	191,681	12/2005	12/2015	Fee	2,222	27,172	27,236
Allstate Insurance Company	1819 Electric Road (aka State Hwy. 419), Roanoke, VA	Office	165,808	12/2005	12/2015	Fee	2,365	28,928	28,935
AMEC plc	10777 Clay Road, Houston, TX	Office	227,486	6/2011	12/2020	Fee	2,058	25,000	25,437
Aon Corporation(4)	1000 Milwaukee Ave, Glenview, IL	Office	412,409	8/2004	4/2017	Fee	7,328	85,750	89,087
AT&T Services, Inc.	2270 Lakeside Blvd., Richardson, TX	Office	203,239	5/2012	3/2020	Fee	2,286	29,324	29,324
Baxter International, Inc.	555 North Daniels Way, Bloomington, IN	Warehouse	125,500	10/2004	9/2016	Fee	872	10,500	10,779
Becton, Dickinson and Company(5)	5859 Farinon Drive, San Antonio, TX	Office	95,898	12/2012	3/2021	Fee	1,445	18,100	18,100
Bunge North America, Inc.	6700 Snowden Road, Fort	Industrial	107,520	4/2007	4/2026	Fee	685	10,100	10,268

	Worth, TX								
Cadbury Holdings Limited	945 Route 10, Whippany, NJ	Office	149,475	1/2005	3/2021	Fee	3,740	48,000	50,231
Capital One Financial Corporation	3905 N. Dallas Parkway, Plano, TX	Office	159,000	6/2005	2/2015	Fee	2,419	27,900	31,175
Choice Hotels International, Inc.(6)	10720, 10750 & 10770 Columbia Pike, Silver Spring, MD	Office	223,912	11/2004	5/2013	Fee	2,510	43,500	47,529
Cimarex Energy Company (Development Property)(7)	206 S. Cheyenne, Tulsa, OK	Office	N/A	7/2011	N/A	Joint Venture/Fee	–	41,691	41,691
Comcast Corporation	7475 S Joliet St, Englewood, CO	Office	61,436	12/2012	12/2020	Fee	553	7,000	7,000
Cooper Tire & Rubber Company	500 Bartram Parkway, Franklin, IN	Warehouse	807,042	12/2010	5/2021	Fee	2,674	32,500	32,562
County of Yolo, California	25 North Cottonwood Street, Woodland, CA	Office	63,000	1/2007	6/2023	Fee	1,125	16,400	16,857
Crozer-Keystone Health System	8 and 10 Morton Avenue, Ridley Park, PA	Medical Office	22,708	8/2004	4/2019	Ground Lease	469	4,477	5,879
CVS Corporation	100 Mazzeo Drive, Randolph, MA	Retail	88,420	9/2004	1/2014	Fee	771	10,450	14,101
Del Monte Corporation	2 Nestle Way, Lathrop, CA	Warehouse	751,021	4/2007	12/2017	Estate for Years	2,491	52,357	64,151
Exelis, Inc. (formerly ITT Corporation)	12975 Worldgate Drive, Herndon, VA	Office	167,285	5/2005	3/2019	Fee	5,657	46,081	56,747
Farmers Group, Inc.	3039-3041 Cochran Street, Simi Valley, CA	Office	271,000	1/2007	1/2017	Fee	3,288	41,812	41,879
Farmers New World Life Insurance	3003 77th Avenue Southeast,	Office	155,200	12/2005	12/2020	Fee	2,815	39,550	39,612

Company	Mercer Island, WA								
General Motors Financial Company, Inc.	4001 Embarcadero Drive, Arlington, TX	Office	246,060	12/2006	8/2017	Fee	3,339	43,000	43,374
Invesco Holding Co. Ltd.	4340, 4346 & 4350 South Monaco St., Denver, CO	Office	263,770	3/2006	10/2016	Fee	5,475	69,300	70,020
Johnson Controls, Inc.	6750 Bryan Dairy Road, Pinellas Park, FL	Warehouse	307,275	12/2006	8/2016	Fee	2,223	27,000	27,266
Koninklijke Ahold, N.V.	4001 New Falls Road, Levittown, PA	Retail	70,020	6/2006	4/2026	Fee	1,439	18,575	21,104
Lowes Companies, Inc.(8)	26501 Aliso Creek Rd., Aliso Viejo, CA	Retail	181,160	5/2005	8/2024	Fee	3,470	52,860	53,621
Lowes Companies, Inc.	2401/2501 Elysian Fields Ave., New Orleans, LA	Retail	133,841	11/2011	5/2030	Fee	2,314	28,474	29,624
MetroPCS Communications, Inc.	2250 Lakeside Blvd, Richardson, TX	Office	115,583	5/2012	11/2018	Fee	2,592	16,676	16,676
Michelin North America, Inc.	5600 Cane Run Rd, Louisville, KY	Warehouse	150,000	9/2010	5/2021	Fee	804	8,071	8,071
Multi-tenant (Dodge building)	9394 West Dodge Road, Omaha, NE	Office	133,685	4/2007	Various	Ground Lease	2,338	10,785	18,617
Multi-tenant (Landmark building)	1299 Farnam Street, Omaha, NE	Office	292,714	4/2007	Various	Ground Lease	2,896	30,097	33,983
Nestle Holdings, Inc.	555 Nestle Way, Breinigsville, PA	Warehouse	1,045,153	4/2007	12/2017	Estate for Years	4,599	74,215	87,688
Omnicom Group, Inc.	1660 North Westridge Circle, Irving, TX	Office	101,120	6/2005	5/2013	Fee	560	18,100	18,333
Pearson Plc.	3833 Greenway	Office	194,665	4/2006	4/2021	Fee	1,567	20,750	20,837

	Drive and 2201 Noria Road, Lawrence, KS								
Praxair, Inc.(9)	1585 Sawdust Rd., The Woodlands, TX	Office	175,035	6/2012	5/2022	Fee	3,028	40,450	40,562
Pulte Mortgage LLC	7390 S. Iola St, Englewood, CO	Office	95,265	12/2012	3/2020	Fee	1,604	19,100	19,100
The Kroger Co.	136 W. Belmont Drive, Calhoun, GA	Retail	65,849	4/2007	1/2022	Estate for Years	465	5,334	7,320
The Kroger Co.	302 Brighton Park Blvd, Frankfort, KY	Retail	53,886	4/2007	1/2022	Estate for Years	422	4,495	6,169
The Kroger Co.	2020 Mallory Lane, Franklin, TN	Retail	62,348	4/2007	1/2022	Estate for Years	564	6,461	8,867
The Kroger Co.	1002 S. Broadway, Georgetown, KY	Retail	62,363	4/2007	1/2022	Estate for Years	491	6,192	8,498
The Kroger Co.	9501 Northshore Drive, Knoxville, TN	Retail	62,348	4/2007	1/2022	Estate for Years	554	6,596	9,053
The Kroger Co.	6678 Covington Hwy., Lithonia, GA	Retail	57,032	4/2007	1/2022	Estate for Years	535	5,834	8,006
The Kroger Co.	540 Island Fort Road, Madisonville, KY	Retail	61,503	4/2007	1/2022	Estate for Years	419	4,265	5,853
The Kroger Co.	808 N. 12th Street, Murray, KY	Retail	56,162	4/2007	1/2022	Estate for Years	449	4,406	6,046
The Kroger Co.	1670 Starlite Drive, Owensboro, KY	Retail	62,360	4/2007	1/2022	Estate for Years	444	5,136	7,048
The Kroger Co.	3651 Peachtree Parkway, Suwanee, GA	Retail	65,726	4/2007	1/2022	Estate for Years	563	7,255	9,957
The Kroger Co.	400 Peachtree Industrial	Retail	75,558	4/2007	1/2022	Estate for	621	8,062	11,064

	Blvd, Suwanee, GA					Years			
Tiffany & Co.	15 Sylvan Way, Parsippany, NJ	Office/Warehouse	367,740	9/2005	9/2025	Fee	4,982	75,000	77,640
Time Warner Cable Enterprises LLC	1320 North Dr. Martin Luther King Jr. Drive, Milwaukee, WI	Office	154,849	11/2006	12/2016	Fee	2,144	28,530	29,165
TJX Companies, Inc.	2760 Red Lion Road, Philadelphia, PA	Warehouse	1,015,500	3/2006	6/2021	Fee	6,215	90,125	93,016
T-Mobile USA, Inc.	695 Grassmere Park, Nashville, TN	Office	69,287	11/2006	1/2017	Fee	1,462	16,195	16,250
United States Government (FBI)	200 McCarty Avenue, Albany, NY	GSA (US Government)	98,184	10/2006	9/2018	Fee	1,312	16,350	17,306
United States Government (SSA)	1029 Camino La Costa, Austin, TX	GSA (US Government)	23,311	8/2005	2/2016	Fee	710	6,900	7,016
United States Government (FBI)	1100 18th Street, North, Birmingham, AL	GSA (US Government)	96,278	8/2005	5/2020	Fee	2,797	21,850	26,636
United States Government (DEA)	1003 17th Street North, Birmingham, AL	GSA (US Government)	35,616	8/2005	12/2020	Fee	1,297	13,369	13,770
United States Government (EPA)	300 Minnesota Avenue, Kansas City, KS	GSA (US Government)	71,979	8/2005	3/2023	Fee	2,877	29,250	33,306
United States Government (NIH) (10)	6116 Executive Bvd, Bethesda, MD	GSA (US Government)	207,055	9/2005	11/2013	Fee	6,662	81,500	84,064
United States Government (VA)	Lot 37, Santiago De los Caballeros Avenue,	GSA (US Government)	56,500	11/2004	2/2015	Fee	1,300	13,218	13,758

	Ponce, PR								
Vacant (11)	2909 Pleasant Center Road, Fort Wayne, IN	Warehouse	764,177	4/2007	N/A	Estate for Years	-	43,837	48,136
Vitamin Shoppe Industries Inc. (Development Property) (12)	14038 North Washington Hwy, Ashland, VA	Warehouse	N/A	8/2012	N/A	Fee	-	10,583	10,583
Walgreen Co.	700 Frederick Blvd, Portsmouth, VA	Retail Drug	13,905	11/2004	7/2018	Fee	356	4,165	4,367
WorleyParsons Limited (13)	15721 Park Row Boulevard, Houston, TX	Office	143,797	12/2012	12/2019	Fee	2,820	35,500	35,500
Total			12,123,421				$131,191	$1,731,061	$1,853,967

(1) Except in the case of our Multi-Tenant Properties, includes lease maturity for our primary tenant. Seven of our owned properties within the Single Tenant Owned Property Portfolio are leased to more than one tenant (see footnotes (4), (5), (6), (8), (9), (10) and (13) below).

(2) Reflects scheduled base rent due for 2013 under our lease with the tenant or tenants except for development properties. Does not reflect straight-line rent adjustments required under GAAP. Also does not include tenant reimbursements of property expenses or above or below market rent amortization adjustments required by GAAP.

(3) Includes carry value of any related intangible assets under GAAP.

(4) As of December 31, 2012, approximately 2% of the property was leased to one other tenant.

(5) As of December 31, 2012, approximately 48% of the property was leased to two other tenants. Beginning in April 2013, Becton, Dickinson will begin leasing the space of a vacating tenant at which point one other tenant will occupy 29% of the property.

(6) As of December 31, 2012, approximately 22% of the property was leased to three other tenants.

(7) We are currently funding construction of the property on a build-to-suit basis for the tenant. Upon completion of construction (estimated in second quarter 2013), the tenant's 12 year lease term will commence.

(8) As of December 31, 2012, approximately 18% of the property was leased to two other tenants.

(9) As of December 31, 2012, approximately 39% of the property was leased to four other tenants.

(10) As of December 31, 2012, approximately 4% of the property was leased to two other tenants.

(11) Until December 31, 2012, the property was leased to Nestlé Holdings, Inc. and subleased by General Mills Operations, Inc. The property became vacant as of January 1, 2013, and is currently being marketed for re-let.

(12) We are currently funding construction of the property on a build-to-suit basis for the tenant. Upon completion of construction (estimated in second quarter 2013), the tenant's 15 year lease term will commence.

(13) As of December 31, 2012, approximately 9% of the property was leased to two other tenants.

Ground Leased and Estate for Years Properties

With respect to certain of our owned properties, we own the improvements on the land and control the land through a ground lease or an estate for years with an option to enter into a ground lease at the expiration of the estate for years. A third party owns the land or a future interest in the land. For most of these properties, we also have an option to purchase the land at fair market value at various scheduled dates in the future. If we exercise the purchase option, the fair market value will be agreed to by us and the land owner or if the parties cannot agree determined through an appraisal process.

We have the right to transfer our interest in all of these properties at any time and our interest in all of these properties will revert to the land owner at the expiration of the ground lease estate unless we have purchased the land or extended the leasehold estate. The approximate duration of our interest in these properties assuming the full estate for years term, if any, and all ground lease options are exercised, is as follows: Breinigsville, PA, Lathrop, CA and Fort Wayne, IN warehouse properties, 60 years; Kroger properties, 69 years; Omaha, NE properties, 63 years; and Crozer-Keystone Health System property, 34 years.

Multi-Tenant Properties

We have classified two owned properties within our portfolio as multi-tenant properties, as each is no longer leased primarily by a single tenant. Both properties are located in Omaha, NE. We have not classified properties leased primarily but not exclusively by one tenant as multi-tenant properties.

The following table summarizes certain additional information about the two multi-tenant properties as of December 31, 2012:

Location	Pct Leased		Number of Tenants	Major Tenants (Lease Maturity (1))
9394 West Dodge Road, Omaha, NE	99	%	6	Hayneedle Inc. (Feb 2016), The Maids International, Inc. (Aug 2016), Union Pacific Railroad Company (Jun 2018), Dex Media, Inc. (Aug 2015)
1299 Farnam Street, Omaha, NE	70	%	16	Pacific Life Insurance Company (Jun 2015), G4S Technology LLC (Aug 2013), Stinson Morrison Hecker, LLP (Jun 2015), Booz Allen Hamilton Inc. (Jun 2013)

(1) Reflects the date of the tenant’s early termination option where applicable, which if exercised would require the tenant to pay an early termination fee.

We continue to actively market the remaining space at the 1299 Farnam Street property to prospective tenants and expect to fill that space over time, though we cannot make any assurance as to when and on what terms will be able to do so.

Loan Investments

As of December 31, 2012, loan investments aggregated approximately $27.5 million, or approximately 2% of our portfolio. All of our loan investments were originated and underwritten by us and are secured by single tenant commercial real estate collateral. Our loan investments are comprised principally of:

- Long-term mortgage loans: fully or nearly fully amortizing first mortgage loans on properties subject to long-term net leases.

- Corporate credit notes: fully amortizing notes with each representing one of two notes comprising a single first mortgage loan on a net lease property with loan cash flows allocated and priorities to the loan collateral established among the two notes. Each corporate credit note generally ranges from 10% to 20% of the original loan amount, and has a junior claim on the real estate mortgage, but a senior claim on the rents in the event of a tenant bankruptcy and lease rejection.

We expect our new investment activity will continue to consist primarily of the ownership of real properties. However, we may make long-term mortgage loans, corporate credit notes and other loan and loan type investments, including mezzanine loans, bridge loans, development loans and preferred equity financings, from time to time on an opportunistic basis in the future.

The following is a tabular presentation of our loan portfolio as of December 31, 2012:

								(in thousands)		
Tenant or Guarantor	Location	Property Type	Square Feet	Coupon	Lease Expiration	Loan Maturity	Original Principal Balance	Principal Balance	Carry Value	Loan to Realty Value (1)
Long-Term Mortgage Loans										
Bank Of America, N.A.	Mt. Airy, MD	Bank Branch	4,500	6.42%	12/2026	12/2026	$3,469	$3,082	$3,082	69%
CVS Corporation	Evansville, IN	Retail Drug	12,900	6.22%	1/2033	1/2033	3,351	3,009	3,009	68%
CVS Corporation	Greensboro, GA	Retail Drug	11,970	6.52%	1/2030	1/2030	1,395	1,172	1,172	69%
CVS Corporation	Shelby Twp., MI	Retail Drug	11,970	5.98%	1/2031	1/2031	2,540	2,297	2,297	81%
Koninklijke Ahold, N.V.	Bensalem, PA	Retail	67,000	7.24%	5/2020	5/2020	3,153	2,250	2,277	65%
Lowes Companies, Inc.(2)	Framingham, MA	Retail	156,543	N/A	10/2031	9/2031	5,545	5,651	1,830	80%
Walgreen Co.	Dallas, TX	Retail Drug	14,550	6.46%	12/2029	12/2029	3,534	2,949	2,949	69%
Walgreen Co.	Nacogdoches, TX	Retail Drug	14,820	6.80%	9/2030	9/2030	3,649	3,179	3,179	62%
Walgreen Co.	Rosemead, CA	Retail Drug	12,004	6.26%	12/2029	12/2029	5,333	4,522	4,522	63%
							31,969	28,111	24,318	
Corporate Credit Notes										
Federal Express Corporation	Bellingham, WA	Warehouse	30,313	5.78%	10/2018	3/2015	362	124	123	57%
Hercules Incorporated	Wilmington, DE	Office	518,409	9.32%	5/2013	5/2013	20,000	2,470	2,470	59%
Lowes Companies, Inc.	N. Windham, ME	Retail	138,134	5.28%	1/2026	9/2015	1,140	392	389	72%
Walgreen Co.	Jefferson City, TN	Retail Drug	14,266	5.49%	3/2030	5/2015	786	232	232	73%

	22,288	3,218	3,214
Total	$54,257	$31,329	$27,532

(1) All percentages have been rounded to the nearest whole percentage. Loan to realty value is the ratio of the principal balance of the loan as of December 31, 2012 to the appraised value of the real estate that secures the loan at the time the loan was made. The current value of the real estate may be different. The loan to realty value for each corporate credit note includes the principal balance of the portion of the loan we have sold.

(2) The loan is a zero coupon note, with a balloon balance of $9,784 due in full at the maturity date of September 2031.

Commercial Mortgage-Backed and Other Real Estate Securities

As of December 31, 2012, real estate securities aggregated approximately $62.3 million, or approximately 3% of our portfolio. Our securities investments are currently comprised primarily of pro rata investments in one or more first mortgage loans on properties net leased to a single tenant. While these investments are structurally similar to our long-term mortgage loan investments, we classify them as securities for financial reporting purposes because they have a CUSIP number. Our securities investments also include senior, subordinate and interest-only classes of primarily net lease loan securitizations.

Our securities investments as of December 31, 2012 are summarized in the following table:

		(In Thousands)				
Security Description	CUSIP No.	Face Amount (1)	Carry Value	Cost Basis	Coupon	Maturity Date
Investments in Commercial Mortgage Loan Securitizations						
BACM 2006-4, Class H (rated D)	05950WAT5	$ 4,000	$ 60	$ –	6.01 %	Sep 2016
BACMS 2002-2, Class V-1 (7-Eleven, Inc.) (rated AA-)	05947UJE9	714	625	625	8.44 %	Sep 2019
BACMS 2002-2, Class V-2 (Sterling Jewelers) (not rated)	05947UJF6	1,090	935	933	8.40 %	Jan 2021
CALFS 1997-CTL1, Class D (rated B-)	140281AF3	2,550	2,423	2,550	6.16 %	Nov 2017
CMLBC 2001-CMLB-1, Class H (rated B-)	201736AM7	11,907	5,954	7,321	6.25 %	Mar 2024
CMLBC 2001-CMLB-1, Class J (rated D)	201736AN5	6,383	1,213	362	6.25 %	Oct 2025
NLFC 1999-LTL-1, Class X (IO) (rated AAA)	63859CCG6	3,474	3,210	3,474	10.36 %	Jan 2024
		30,119	14,419	15,265		
Investments in Certificated Mortgage Loan Transactions						
	72817#AA6	23,487	21,675	23,741	6.70 %	Sep 2020

Certificated Mortgage Loan (with Alcatel-Lucent USA Inc. as tenant in Highlands Ranch, CO) (rated B)						
Certificated Mortgage Loan (with CVS Corporation as tenant / multi-property) (rated BBB+)	126650BB5	16,216	18,689	16,216	5.88 %	Jan 2028
Certificated Mortgage Loan (with Koninklijke Ahold, N.V. as tenant / multi-property) (rated BBB)	008686AA5	6,546	7,534	6,616	7.82 %	Jan 2020
		46,249	47,899	46,573		
Total		$ 76,368	$ 62,318	$ 61,838		

(1) Represents face amount or, in the case of the NLFC 1999-LTL-1, Class X (IO) bond, our amortized cost.

The weighted average life of our securities portfolio as of December 31, 2012 was 6.5 years.

Portfolio Financing

A key component of our portfolio financing strategy is to finance most of our assets with attractive, low cost debt. Doing so allows us to invest in a greater number of assets and enhance our asset returns. We seek to finance many of our assets with conservative levels of long-term, fixed rate, non-recourse debt. The use of non-recourse debt enables us to limit the overall company exposure in the event we default on the debt to the amount we have invested in the asset or assets financed. We also in most case employ amortizing debt on our assets, or debt that will diminish over time as we make scheduled principal payments.

We also have been building an unencumbered pool of assets to improve financial flexibility and expect to continue to pledge most of these assets to a revolving line of credit in order to provide us with an immediate source of liquidity through borrowings under the line. We have also pledged certain of our remaining loan assets to a floating rate, recourse, term loan, where the borrowings are expected to fully amortize over the loan term as principal payments are received on the loans.

As of December 31, 2012, the following statistics summarize various aspects of our overall portfolio financing position:

- overall leverage of approximately 61%;
- $1.0 billion of non-recourse first mortgage debt at a weighted average coupon of 5.39% and a weighted average effective financing rate of 5.6%;
- $72.4 million of non-recourse secured term debt at a coupon of 5.81% and an effective financing rate of 6.0%; and
- $67.7 million of recourse debt to the lenders under two floating rate LIBOR based credit agreements at an effective financing rate of 4.1%.

We expect our leverage levels to continue to decrease over time, primarily as a result of scheduled principal amortization on our debt and lower or no leverage on new asset acquisitions.

Revenue Concentrations in 2012

The United States Government accounted for approximately 13.1% of our total revenue during 2012. The United States Government accounted for approximately 13.8% of our total revenue from our owned properties segment during 2012. Other than the foregoing, we had no greater than 10% revenue concentrations based on total revenue or on a total revenue by segment basis during 2012. Approximately 20.2% and 17.9%, respectively, of our total revenue from our debt investments segment during 2012 was obtained from investments where Alcatel-Lucent USA Inc. or CVS Corporation is the tenant (or lease guarantor), but not our obligor.

Build-to-Suit Program

In recent years we have expanded our new investment activity beyond the traditional investment in completed properties with tenants in occupancy and paying rents, to include build-to-suit projects. Through our build-to-suit program, we seek to source investments at higher rates of return relative to completed projects. We believe that by entering into projects with established developer partners, we can provide the capital needed to get projects built, while at the same time, securing long-term investment assets for our company at yields significantly higher than those available for completed properties. We have sourced a series of investments through this program since it was launched in 2010, and expect this program to continue to be a component of our new investment activity in the future.

We have also been exploring investment in speculative development projects and may look to make limited investments in such projects in the future.

Transaction Review Process

Once a prospective investment opportunity is identified, the transaction undergoes a comprehensive review and due diligence process that is overseen by our investment committee, which includes our chief executive officer, president, chief financial officer and chief investment officer. The focus of our asset review falls into the following areas:

- credit and financial analyses of the tenant as well as an assessment of the tenant's business, the overall industry segment and the tenant's market position within the industry;
- lease quality, including an analysis of the term, tenant termination and abatement rights, landlord obligations and other lease provisions;
- a real estate fundamentals review and analysis;
- an analysis of our ability to finance the asset; and
- an analysis of the risk adjusted returns on the investment.

Prior to entering into any transaction, our investment professionals, assisted by our chief investment officer and chief financial officer as necessary, conduct a review of the tenant's credit quality. This review may include reviews of publicly available information, including any public credit ratings, financial statements, debt and equity analyst reports, and reviews of corporate credit spreads, stock prices, market capitalization and other financial metrics.

While we have no defined minimum credit rating or balance sheet size for tenants, we anticipate that a majority of our tenants will have investment grade or implied investment grade credit ratings. For those tenants that either are below investment grade or are unrated, we may conduct additional due diligence, including additional financial reviews of the tenant and a more comprehensive review of the business segment and industry in which the tenant operates.

Assuming that the credit of the tenant under the lease is satisfactory, a thorough review is then conducted into the quality of the lease, focusing primarily on the landlord's obligations under the lease and those provisions of the lease that would permit the tenant to terminate or abate rent prior to the conclusion of the primary lease term. We analyze the lease to ensure that any property expenses not borne by the tenant are sufficiently underwritten. Each lease is also reviewed by outside counsel and a lease summary is provided to our investment professionals for use in evaluating the transaction.

We conduct a review with respect to the quality of the real estate subject to the lease. The property is reviewed from a traditional real estate perspective, including quality of construction and maintenance, location and value of the real estate and technical issues such as title, survey and environmental. Appraisals, environmental and engineering reports are obtained from third-parties and reviewed by our investment professionals and/or legal counsel. We thoroughly review the property's real estate fundamentals, including location and type of the property, vacancy rates and trends in vacancy rates in the property's market, rental rates within the property's market, recent sales prices and demographics in the property's market. As described in detail under "Our Portfolio—Owned Properties" above, we target properties with one or more of the following: located in good markets with strong growth prospects, fungible asset type, barriers to entry in the market, and a core facility of the tenant. In addition, we may evaluate, or engage a third-party provider to evaluate, alternative uses for the real estate and the costs associated with converting to such alternative uses, as well as examine the surrounding real estate market in greater detail.

In addition to our review of the quality of any individual transaction, our investment committee also:

- evaluates our current portfolio, including consideration of how the subject transaction affects asset diversity and credit concentrations in the tenant, industry or credit level;

- determines whether we can implement appropriate legal and financial structures, including our ability to control the asset in a variety of circumstances, such as an event of default by the tenant or the borrower, as applicable;

- evaluates the leveraged and unleveraged yield on the asset and how that yield compares to our target yields for that asset class and our analysis of the risk profile of the investment; and

- determines our plans for financing the asset.

We use integrated systems such as customized software and models to support our decisions on pricing and structuring investments. Before issuing any form of commitment to fund an investment transaction, the transaction must be approved by our investment committee. The committee meets frequently and on an as-needed basis to evaluate potential investments.

In addition, we have a three-member investment oversight committee of our Board of Directors, which approves all transactions in excess of $50 million. Our chief executive officer is the only member of this committee who is an employee of our company.

We believe that we can continue to grow our business without the need to significantly expand our general and administrative costs and headcount.

Asset Management

We manage a diverse portfolio of primarily single tenant commercial real estate assets. For our owned properties where we are responsible for day-to-day management of the property, we typically hire third party property managers who are overseen by employees of our company. Our owned property investments also require that we perform a variety of asset management functions, such as:

- meeting periodically with our tenants;
- monitoring lease expirations and tenant space requirements and renewing leases as they mature or re-letting space;
- monitoring the financial condition and credit ratings of our tenants;

- performing physical inspections of our properties;
- making periodic improvements to properties where required;
- monitoring portfolio concentrations (e.g., tenant, industry); and
- monitoring real estate market conditions where we own properties.

Asset Surveillance System

We also have created an on-going asset surveillance system that:

- tracks the status of our investments and investment opportunities;
- links into a management program that includes the underlying asset acquisition documents;
- loads expected asset cash flows from our investment files into the system;
- imports data from the system into our financial accounting system;
- monitors actual cash flows on each asset through servicer reports;
- immediately identifies issues such as non-payment of rent and servicer advances of rent or debt service through servicer exception reports; and
- automatically generates system e-mail notifications when the credit ratings of underlying tenants change.

Through this single system we are able to track and document the entire lifecycle of our assets.

Competition

We primarily source property acquisition opportunities through investment sale brokers and directly from a growing number of developers and owners or investors in real estate assets.

We are subject to significant competition. Our competitors include other public and private REITs, private real estate companies, pension funds and individuals. We may face new competitors and, due to our focus on single tenant properties located throughout the United States, and because many of our competitors are locally and/or regionally focused, we will not encounter the same competitors in each region of the United States.

Many of our competitors have greater financial and other resources and may have other advantages over our company. Our competitors may be willing to accept lower returns on their investments and may succeed in buying the assets that we have targeted for acquisition. We may also incur costs on unsuccessful acquisitions that we will not be able to recover.

Environmental Matters

Under various federal, state and local environmental laws, a current owner of real estate may be required to investigate and clean up contaminated property. Under these laws, courts and government agencies have the authority to impose cleanup responsibility and liability even if the owner did not know of and was not responsible for the contamination.

For example, liability can be imposed upon us based on the activities of our tenants or a prior owner. In addition to the cost of the cleanup, environmental contamination on a property may adversely affect the value of the property and our ability to sell, rent or finance the property, and may adversely impact our investment in that property.

Prior to acquisition of a property, we obtain Phase I environmental reports. These reports are prepared in accordance with an appropriate level of due diligence and generally include a physical site inspection, a review of relevant federal, state and local environmental and health agency database records, one or more interviews with appropriate site-related personnel, review of the property's chain of title and review of historic aerial photographs and other information on past uses of the property and nearby or adjoining properties. We may also obtain a Phase II investigation which may include limited subsurface investigations and tests for substances of concern where the results of the Phase I environmental reports or other information indicates possible contamination or where our consultants recommend such procedures.

We believe that our portfolio is in compliance in all material respects with all federal, state and local laws and regulations regarding hazardous or toxic substances and other environmental matters.

At December 31, 2012, we were not aware of any environmental concerns that would have a material adverse effect on our financial position or results of operations.

Employees

As of December 31, 2012, we had 17 full-time employees. We have an experienced staff, many of the members of which have been previously employed by the real estate departments from major financial institutions, law firms and rating agencies. We believe that our relations with our employees are good. None of our employees are unionized.

Available Information

We are required to file annual, quarterly and current reports, proxy statements and other information with the SEC. Investors may read and copy any document that we file, including this Annual Report on Form 10-K, at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Investors may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, from which investors can electronically access our SEC filings.

We also make available free of charge on or through our web site (www.caplease.com), our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Investors can access our filings with the SEC by visiting the "Investors" section of our web site at www.caplease.com.

The information on our web site is not, and shall not be deemed to be, a part of this report or incorporated into any other filings we make with the SEC.

Item 1A. Risk Factors.

Set forth below and elsewhere in this annual report on Form 10-K and in other documents we file or furnish with the SEC are risks and uncertainties that could adversely affect our business and operations and cause actual results to differ materially from the results contemplated by any forward-looking statements made by us or on our behalf.

Risks Related to Operations

Current market conditions expose us to a variety of risks.

Current economic and commercial real estate conditions continue to show signs of weakness and could negatively impact our ability to execute on our business plan. For example, these conditions could adversely impact our ability to:

- add new assets to the portfolio, which could cause our common stock price to decline;
- retain tenants or promptly re-let vacant space on favorable terms or at all as leases mature, which could result in a reduction of our funds from operations and cash available for distribution;
- sell assets or refinance debt on favorable terms or at all, which could result in a reduction of our results of operations and weaken our liquidity and financial condition; and
- raise additional equity capital to support our business on favorable terms or at all, which could cause our common stock price to decline.

If we lower or eliminate our dividend, the market value of our common stock may decline.

The level of our common stock dividend is established by our Board of Directors from time to time based on a variety of factors, including market conditions, our cash available for distribution, our funds from operations and our maintenance of REIT status. Various factors could cause our Board of Directors to decrease or eliminate our common stock dividend level, including our desire due to market conditions or otherwise to maintain higher levels of liquidity, tenant defaults resulting in a material reduction in our cash flows or a material loss resulting from an adverse change in one or more of the tenants underlying our investments. We have not established a minimum dividend payment level and we cannot assure you that we will be able to pay dividends in the future. If we lower or eliminate our common stock dividend, the market value of common stock in our company could be adversely affected.

We conduct a significant part of our business with Wells Fargo Bank, N.A. and its affiliates, and their continued business with us is not guaranteed.

We rely on Wells Fargo Bank, N.A. and its affiliates in various aspects of our business. For example:

- Wells Fargo Bank and its affiliates provide us with asset financing through a revolving credit agreement.

- We have obtained mortgage financing on our owned properties from Wells Fargo Bank (as successor to Wachovia Bank, N.A.) in the past, and we expect to continue to do so in the future.

- Affiliates of Wells Fargo Bank have performed investment banking services for us, including in connection with our initial public offering and various of our other public equity offerings.

These parties are not obligated to do business with us, and any adverse developments in their business or in our relationship with them could result in these parties choosing not to do business with us or a significant reduction in our business with them. Termination of our business or a significant reduction in our business with these parties could have a material adverse effect on our business, operating results, financial condition and liquidity.

The market price of our stock may be adversely impacted by our pace of investment activity.

The markets in which we compete for investments are competitive and our pace of investment activity continues to be impacted by competitive and market conditions. If our pace of investment activity does not match market expectations the market price of our common stock could be adversely affected.

Risks Related to Portfolio Assets

Single tenant leases involve significant risks of tenant default.

Most of the properties we own are leased to a single tenant. Therefore, a default in payment by a single tenant under its lease is likely to cause a complete reduction in the operating cash flows from that property and a significant reduction in the value of that property, and could cause a significant reduction in our revenues, cash flows and hence our liquidity, and a significant impairment loss recorded directly to our Statement of Operations.

Credit ratings may prove to be inaccurate.

We consider credit ratings assigned by S&P and/or Moody’s to our tenants, their guarantors or parent companies when making investment and leasing decisions. A credit rating is not a guarantee of continued financial performance and only reflects the rating agency's opinion of an entity's ability to meet its financial commitments, such as its senior unsecured obligations, in accordance with their stated terms. A rating may ultimately prove not to accurately reflect the credit risk associated with a particular tenant. In addition, ratings may be changed, qualified, suspended, placed on watch or withdrawn over time. If a tenant’s rating is downgraded, qualified, suspended, placed on watch or withdrawn, such tenant may be more likely to default in its obligations to us, and investors may view our cash flows as less stable.

An adverse change in the financial condition of one or more tenants could have a material adverse impact on us.

We rely on rent payments from our tenants for our cash flows and make property investments based on the financial strength of such tenant and our expectations of their continued payment of rent under the lease, among other factors. Adverse changes in the financial condition of the tenants or the certainty of their ability to pay rents could have a material adverse impact on us. For example:

- The bankruptcy or insolvency of any of our tenants could result in that tenant ceasing to make rental payments, resulting in a reduction of our cash flows and losses to our company. In addition to the rent loss, due to our focus on net leased properties, our expenses will likely increase as the tenant will no longer pay or reimburse us for the operating costs at the property.

-

The credit quality of the tenant or tenants is frequently a significant factor in determining the value of our properties, and an adverse change in the subject tenant's financial condition or a decline in the credit rating of such tenant may result in a decline in the value of our properties and a resulting impairment charge directly to our Statement of Operations.

- An adverse change in the financial condition of one or more of our tenants or a decline in the credit rating of one or more of our tenants could make it more difficult for us to arrange long-term financing for that asset, including by increasing our cost of financing.

Our assets may be subject to impairment losses and losses of disposition, which could materially adversely affect our financial condition and results of operations.

We periodically evaluate our investments for impairment indicators. If we determine that an impairment has occurred (and solely in the case of our securities investments, the impairment is due to credit factors), we would be required to reduce the carrying value of the investment, and record a loss directly to the Statement of Operations in the applicable period. The judgment regarding the existence of impairment indicators is based on a variety of factors such as market conditions, the status of significant leases, the financial condition of major tenants, our expectations regarding future cash flows and the estimated fair value of our investment and/or related collateral. We have incurred substantial impairment losses and losses on disposition in the past, and may continue to do so in the future. These losses could have a material adverse effect on our financial condition and results of operations.

Bankruptcy laws will limit our remedies if a tenant becomes bankrupt and rejects the lease.

We rely on rent payments from the tenant to service our financing of the asset and generate the return we expect to earn. If the tenant becomes insolvent or bankrupt, they have the right under the United States Bankruptcy Code to reject the lease and rent payments could cease. In such a case, our remedies will be limited under the Bankruptcy Code. The premises may not be recoverable promptly from the tenant and our claim for damages, which will be unsecured and is limited to rent under the lease for the greater of one year or 15 percent (but not more than three years) of the remaining term, plus rent already due but unpaid, may not be sufficient to cover our debt service and any other expenses with respect to the property.

We are subject to tenant credit concentrations that make us more susceptible to adverse events with respect to certain tenants.

We are subject to tenant credit concentrations, the most significant of which are the following as of December 31, 2012:

- approximately $195.9 million, or 10.1%, of our assets represent investments in seven properties leased to the United States Government;

- approximately $93.0 million, or 4.8%, of our assets represent investments in one property leased to TJX Companies, Inc.; and

- approximately $89.1 million, or 4.6%, of our assets represent investments in one property leased to, or lease guaranteed by, Aon Corporation.

Any bankruptcy, insolvency or failure to make rental payments by, or any adverse change in the financial condition of, one or more of these tenants, or any other tenant to whom we may have a significant credit concentration now or in the future, could result in a material reduction of our cash flows and hence our liquidity or material losses to our company.

We are subject to tenant industry concentrations that make us more susceptible to adverse events with respect to certain industries.

We are subject to industry concentrations, the most significant of which are the following as of December 31, 2012:

- approximately $263.1 million, or 13.5%, of our assets represent investments in properties leased to, or leases guaranteed by, companies in the insurance industry (e.g., Aon Corporation, Allstate Insurance Company, Farmers New World Life Insurance Company and Aetna Life Insurance Company);

- approximately $212.3 million, or 10.9%, of our assets represent investments in properties leased to, or leases guaranteed by, companies in the food and beverage industry (e.g., Del Monte Corporation, Nestlé Holdings, Inc., Cadbury Holdings Limited and Bunge North America, Inc.);

- approximately $209.7 million, or 10.8%, of our assets represent investments in properties leased to, or leases guaranteed by, federal or state governmental entities or branches or units thereof (e.g., United States Government and County of Yolo, California);

- approximately $165.0 million, or 8.5%, of our assets represent investments in properties leased to, or leases guaranteed by, companies in the financial industry (e.g., Capital One Financial Corporation, General Motors

Financial Company, Inc., Invesco Holding Co. Ltd. and Pulte Mortgage LLC);

- approximately $143.2 million, or 7.4%, of our assets represent investments in properties leased to, or leases guaranteed by, companies in the energy industry (e.g., AMEC plc, Cimarex Energy Company, Praxair, Inc. and WorleyParsons Limited); and

- approximately $118.8 million, or 6.1%, of our assets represent investments in properties leased to, or leases guaranteed by, companies in the retail grocery industry (e.g., The Kroger Co. and Koninklijke Ahold, N.V.).

Any downturn in one or more of these industries, or in any other industry in which we may have a significant credit concentration now or in the future, could result in a material reduction of our cash flows and hence our liquidity or material losses to our company.

We are subject to geographic concentrations that make us more susceptible to adverse events in these areas.

We are subject to geographic concentrations, the most significant of which are the following as of December 31, 2012:

- approximately $210.0 million, or 10.8%, of our assets represent investments in properties located in the Philadelphia, PA metropolitan area;

- approximately $188.3 million, or 9.7%, of our assets represent investments in properties located in the Washington, D.C. metropolitan area;
- approximately $152.1 million, or 7.8%, of our assets represent investments in properties located in the Dallas/Fort Worth, TX metropolitan area;
- approximately $127.9 million, or 6.6%, of our assets represent investments in properties located in the Northern New Jersey area;
- approximately $109.4 million, or 5.6%, of our assets represent investments in properties located in the Chicago, IL metropolitan area;
- approximately $101.5 million, or 5.2%, of our assets represent investments in properties located in the Houston, TX metropolitan area; and
- approximately $100.0 million, or 5.2%, of our assets represent investments in properties located in the Southern California area.

An economic downturn or other adverse events or conditions such as terrorist attacks or natural disasters in one or more of these areas, or any other area where we may have a significant credit concentration now or in the future, could result in a material reduction of our cash flows and hence our liquidity or material losses to our company.

Our investments in assets backed by below investment grade credits have a greater risk of default.

We invest in assets where the underlying tenant's credit rating is below investment grade (approximately $309.5 million, or 16.8%, of our portfolio as of December 31, 2012). Investments backed by below investment grade tenants have comprised a larger percentage of our new investment activity in recent years and may continue to do so in the future. These investments will have a greater risk of default and bankruptcy than investments in properties leased exclusively to investment grade tenants.

Our investments in assets where the underlying tenant does not have a publicly available credit rating expose us to certain risks.

We have historically been successful at obtaining attractively priced long-term financing for our assets due in part to the high credit quality of the underlying tenant. When we invest in a property where the underlying tenant does not have a publicly available credit rating, we rely on our own estimates of the tenant's credit rating. If our lender disagrees with our ratings estimates, we may not be able to obtain our desired level of leverage and/or our financing costs may exceed those that we projected. This outcome could have an adverse impact on our returns on that asset and hence our operating results.

Real estate investments are relatively illiquid and their values may decline.

Real estate investments are relatively illiquid. Our ability to vary our portfolio by selling and buying investments in response to changes in economic and other conditions is limited. We may encounter difficulty in disposing of properties when tenants vacate either at the expiration of the applicable lease or otherwise. If we decide to sell any of our investments, our ability to do so and the prices we receive upon sale may be affected by many factors, including, whether the property is leased and if it is leased, the duration and other terms of the lease, as well as debt structures in place on the investment, any limits of our form of property ownership such as an estate for years or ground lease, the number of potential buyers, the number of competing properties on the market and other market conditions. As a result, we may be unable to sell our investments for an extended period of time or without incurring a loss, which would adversely affect our results of operations, liquidity and financial condition.

Our real estate investments are subject to risks particular to real property.

We are subject to general risks of investing in real estate. These risks may include those listed below:

- non-performance of lease obligations by tenants;
- civil unrest, acts of God, including earthquakes, floods and other natural disasters, which may result in uninsured losses, and acts of war or terrorism, including the consequences of terrorist attacks, such as those that occurred on September 11, 2001;
- adverse changes in national and local economic and market conditions;
- the costs of complying or fines or damages as a result of non-compliance with the Americans with Disabilities Act;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- the ongoing need for capital improvements, particularly in older structures; and
- other circumstances beyond our control.

Should any of these events occur, our financial condition, liquidity and operating results could be adversely affected.

Risks Related to Ownership of Real Estate

We may not be able to renew our leases or re-lease our properties.

Upon the maturity of leases at our properties, we may not be able to renew the leases or re-let all or a portion of that property, or the terms of renewal or re-letting (including the cost of concessions to tenants) may be less favorable to us than the current lease terms. We focus on single tenant properties and non-renewal of the lease by the tenant is likely to result in some downtime before the property is re-leased and a complete reduction in the cash flows from the property until the property is re-let. In addition, we will be responsible for all of the operating costs following a vacancy at a single tenant building. In addition to our Fort Wayne, IN property where the lease expired on December 31, 2012, we have certain other leases which are scheduled to mature during 2013. See Item 1 of this Form 10-K under "Business—Our Portfolio—Owned Properties—Lease Expirations."

If we are unable to renew existing leases or re-let promptly all or a substantial portion of the space located in our properties, or if the rental rates upon renewal or re-letting are significantly lower than the current rates, our funds from operations and cash available for distribution to stockholders will be adversely affected due to the resulting reduction in rental receipts and increase in property operating costs.

Current economic conditions could adversely impact our ability or the terms under which we are able to renew leases as they mature or re-let vacant space.

Operating expenses of our properties could reduce our cash flow and funds available for future dividends.

For certain of our owned properties, we are responsible for operating costs of the property. In these instances, our lease requires the tenant to reimburse us for all or a portion of these costs, either in the form of an expense reimbursement or increased rent. Our reimbursement may be limited to a fixed amount or a specified percentage annually. To the extent operating costs exceed our reimbursement, our returns and net cash flows from the property and hence our overall operating results and cash flows could be materially adversely affected.

We have greater exposure to operating costs when we invest in owned properties leased to the United States Government.

Our leases with the United States Government are typical Government Services Administration, or GSA, type leases. These leases do not provide that the United States Government is wholly responsible for operating costs of the property, but include an operating cost component within the rent we receive that increases annually by an agreed upon percentage based upon the Consumer Price Index, or CPI. Thus, we have greater exposure to operating costs on our properties leased to the United States Government because if the operating costs of the property increase faster than the CPI, we will bear those excess costs.

We are subject to risks associated with the development of properties.

We have begun and expect to continue to make new investments through our build-to-suit program, where we engage experienced developers as partners and agree to fund and construct commercial real estate projects on a build-to-suit basis for large corporate tenants. As of December 31, 2012, we had two such projects in process, one for Cimarex Energy Co. in Tulsa, OK and another for Vitamin Shoppe, Inc. in Ashland, VA. We are subject to certain risks associated with the development of these or any other properties we intend to develop, including the following:

- Completion of the project in a timely and workmanlike manner will be dependent upon the efforts of various parties outside of our control, such as our developer partner and the general contractor and any subcontractors. Construction could be delayed if these parties fail to perform their obligations or for a variety of other reasons outside of our control, which could subject us to losses for failure to timely deliver the completed project to the tenant or result in a termination of the underlying lease.

- Unanticipated environmental conditions at the property could also delay completion of the project or force us to abandon the project if we determine that remediation of the conditions would be too expensive.

- Construction costs may exceed original estimates, which could adversely impact our expected return from the investment.

We also may enter into development projects on a speculative or other than build-to-suit basis in the future. In addition to the risks set forth above, these projects would expose us to a variety of additional risks, including the following:

- We may not be able to lease the available space in our recently completed projects at rents or occupancy levels that are sufficient to be profitable.

- Delays in construction and leasing could subject us to increased expenses and construction costs, and reduce the profitability of the project.

- Some developments may fail to achieve expectations, possibly making them unprofitable.

- We may abandon development opportunities after we begin to explore them and as a result, we may fail to recover costs already incurred.

Our investments in properties subject to an estate for years or ground lease are subject to various unique risks.

Our ownership interest in certain properties includes an estate for years in or a ground lease of the land, along with fee title to the improvements on the land. An estate for years and a ground lease are more limited forms of ownership than a fee interest, as they generally mean that another unrelated party has a present or future interest in the land. Our estate for years and ground lease investments are subject to a variety of risks which could materially adversely impact the value of our investment, such as:

- the existence of the estate for years or ground lease and the interest of a third party in the property could reduce the value of our investment or make it more difficult or more expensive to sell or obtain financing for our investment; and

- unless we have purchased the land, we will lose any remaining investment in these properties when the estate for years and/or ground lease expires.

An uninsured loss or a loss that exceeds the insurance policy limits on our owned properties could subject us to lost capital or revenue on those properties.

Our comprehensive loss insurance policies may include substantial deductibles and certain exclusions. For example, our earthquake insurance coverage for properties we own in California will typically include a customary deductible of five percent of our insurable value. If we are subject to an uninsured loss or a loss that is subject to a substantial deductible, we could lose part of our capital invested in, and anticipated revenue from, the property, which could harm our operating results and financial condition and our ability to pay dividends.

Noncompliance with environmental laws could adversely affect our financial condition and operating results.

The real properties we own are subject to various federal, state and local environmental laws. Under these laws, courts and government agencies have the authority to require the current owner of a contaminated property to clean up the property, even if the owner did not know of and was not responsible for the contamination. For example, liability can be imposed upon us based on activities of one of our tenants or a prior owner.

Prior to acquisition of a property, we obtain Phase I environmental reports and, in some cases, a Phase II environmental report. However, these reports may not reveal all environmental conditions at a property and we may incur material environmental liabilities of which we are unaware. The costs incurred to clean up a contaminated property, to defend against a claim, or to comply with environmental laws could be material and could adversely affect our financial condition, liquidity and operating results.

New rules relating to the accounting for leases could adversely affect our business.

The Financial Accounting Standards Board and International Accounting Standards Board continue to propose and re-propose significant modifications to lease accounting rules, including a requirement that landlords and tenants capitalize lease rights and obligations on their balance sheets. The effective dates of these possible accounting changes, if any, are unknown at this time. The new rules if adopted could materially impact our financial statements by requiring us to capitalize our leases and change the timing of recognition of lease income. The rules could adversely affect us by causing tenants to approach their leasing decisions differently. Tenants may favor owning as opposed to leasing properties, because this accounting change may remove many of the differences in the way tenants account for owned property versus leased property. Tenants may also prefer shorter lease terms, in an effort to reduce the lease liability required to be recorded on the balance sheet. Tenants may also disfavor lease renewal options, as the new rules may require a tenant to assume that a renewal right would be exercised and accrue a liability relating to the longer lease term.

Risks Related to Debt Assets

We invest in CMBS securities, including subordinate securities, which entail significant risks.

We invest in commercial mortgage-backed securities, or CMBS. CMBS securities entitle the holder to receive payments that depend primarily on the cash flow from a specified pool of commercial mortgage loans. Our CMBS investments primarily include classes of securities backed by pools of first mortgage loans on net lease properties (with most of the underlying loan collateral originated by us in the mid to late 1990s). Generally, we have invested in subordinate classes of the securitization pool, or securities that are in a near “first loss” position in the event of losses on the assets within the pool. Consequently, in the event of a loss on one or more commercial real estate loans contained in a securitization, we could lose all or a substantial portion of our investment in the related security.

We have limited recourse in the event of a default on any of our mortgage loans.

Our mortgage loan investments are non-recourse obligations of the property owner, and, in the event of default, we are generally dependent entirely on the loan collateral to recover our investment. Our loan collateral consists primarily of a mortgage on the underlying property and an assignment of the tenant's lease. In the event of a default, we may not be able to recover the premises promptly and the proceeds we receive upon sale of the property may be adversely affected by risks generally incident to interests in real property, including changes in general or local economic conditions and/or specific industry segments, declines in real estate values, increases in interest rates, real estate tax rates and other operating expenses including energy costs, changes in governmental rules, regulations and fiscal policies, including environmental legislation, acts of God, and other factors which are beyond our or our borrower's control. As discussed above, bankruptcy laws will limit our remedies with respect to the tenant's lease. There can be no assurance that our remedies with respect to the loan collateral will provide us with a recovery adequate to recover our investment.

We may experience losses on our mortgage loans.

Our portfolio includes mortgage loans on properties subject to a net lease. The typical net lease requires the borrower or tenant to maintain casualty insurance on the underlying property. These insurance policies may include substantial deductibles and certain exclusions. If the underlying property is subject to a casualty loss that is uninsured or subject to a substantial deductible, rent payments on the related lease may cease, our loan may default and we could lose some or all of our investment.

Our collateral rights under our corporate credit notes are limited.

Our collateral rights on our corporate credit notes are more limited than the collateral rights we have under our long-term mortgage loans. Our corporate credit notes represent one of two notes comprising a single first mortgage loan on a net lease property. Both notes are secured by the same first mortgage and assignment of the tenant's lease and rents, and the note holders have agreed amongst themselves that the corporate credit note holder will have a junior claim on the real estate mortgage and a senior claim on the rents in the event of a tenant bankruptcy and lease rejection. So our collateral rights with respect to the real estate mortgage will be junior to the holder of the related real estate note. Further, while we will have a senior claim on the lease assignment in a tenant bankruptcy, as discussed above, our claim for damages will be unsecured and limited to an amount defined under the Bankruptcy Code (the greater of one year's rent or 15% (but not more than three years) of rent over the remaining lease term, plus rent already due but unpaid). Therefore, there can be no assurance that our remedies with respect to the loan collateral will provide us with a recovery adequate to recover our investment.

We may make mezzanine investments and they will likely have a greater risk of loss than mortgage loans.

We have made and may continue to make in the future mezzanine and other generally subordinate investments. These investments generally involve a higher degree of risk than our first mortgage loans. We may not be able to recover some or all of any future mezzanine investments.

We may be required to repurchase assets that we have sold or to indemnify holders of the debt issued in our term financings.

If any of the assets we have pledged to obtain long-term financing do not comply with representations and warranties that we make about certain characteristics of the assets, the borrowers and the underlying properties, we may be required to repurchase those assets, repay the related borrowings or replace the assets with substitute assets. In addition, in the case of assets that we have sold such as those in our CDO, we may be required to indemnify persons for losses or expenses incurred as a result of a breach of a representation or warranty. Repurchased assets may require a significant allocation of working capital to carry on our books, and our ability to borrow against such assets may be limited. Any significant repurchases, repayments or indemnification payments could materially and adversely affect our financial condition, liquidity and operating results.

Risks Related to Borrowings

Our use of debt financing could have a material adverse effect on our financial condition.

We are subject to the risks normally associated with debt financing, including the risk that our cash flows will be insufficient to meet required principal and interest payments on the debt, and the risk that we will be unable to refinance our existing indebtedness, or that the terms of such refinancing will not be as favorable as the terms of our existing indebtedness. As of December 31, 2012, the scheduled principal payments on our long-term debt over the next five years and thereafter were as follows:

	Expected Maturity Dates					
	2013	2014	2015	2016	2017	Thereafter
	(in thousands, notional amounts)					
Mortgages on real estate investments	$73,573	$183,975	$269,583	$278,214	$86,263	$ 119,146
Credit agreements	2,267	3,260	62,128	–	–	–
Secured term loan	14,242	12,851	11,862	12,516	7,680	13,267
Convertible senior notes	–	–	–	–	19,210	–
Other long-term debt	–	–	–	–	–	30,930

Included in the above amounts are balloon payments on our debt instruments, including $55 million aggregate of non-recourse mortgage debt due in May 2013 on our Choice Hotels, Capital One and Omnicom properties. Most of our debt provides for balloon payments that are payable at maturity. Our ability to make these balloon payments will depend upon our cash balances and borrowing capacity under our revolving credit agreement and our ability to refinance the related debt, raise additional capital and/or sell assets or any related collateral. Our ability to refinance debt, raise capital and/or sell assets will in turn be affected by various factors existing at the relevant time, such as capital and credit market conditions, the state of the national and regional economies, local real estate conditions, available interest rate levels, the lease terms for and equity in and value of any related collateral, our financial condition and the operating history of the collateral, if any. We cannot provide any assurance that we will be able to repay our debt or refinance it on terms as favorable as the existing indebtedness or at all. If we are unable to obtain sufficient financing to fund the scheduled balloon payments or to sell the related collateral at a price that generates sufficient proceeds to make the scheduled balloon payments, we could lose all or a substantial portion of our investment in the asset financed.

Our credit agreements, convertible senior notes and other long-term debt referenced in the table above are recourse obligations, meaning that our lender will have general recourse against our assets if we fail to make required payments on the debt.

Our debt obligations could adversely affect our ability to execute on our growth strategy as we may need to utilize the liquidity we could otherwise use to add new assets to repay our debt obligations.

If our debt cannot be repaid, refinanced or extended, we may not be able to make distributions to stockholders at expected levels or at all. Further, if prevailing interest rates or other factors at the time of a refinancing result in higher interest rates or other restrictive financial covenants upon the refinancing, then such refinancing would adversely affect our cash flows and funds available for operation and distribution.

Our credit agreements are secured, recourse obligations and expose us to interest rate and unexpected prepayment risks.

We have financed certain of our investments pursuant to credit agreements we have entered into with Wells Fargo Bank and KeyBank. These borrowing agreements expose us to a variety of risks, including the following:

- They are priced at floating rates based on LIBOR, or the London Interbank Offered Rate. Therefore, increases in LIBOR rates will cause our borrowing costs to increase and our net income to decrease.

- Our obligations are secured by the assets we have pledged to the lender and recourse to all of our other assets. If we fail to make the required debt service payments, the lender can foreclose on the pledged assets and we could lose all or a substantial portion of our investment in such assets. Further, in the event we are unable to satisfy our payment obligations under the agreements from the assets securing the borrowings, we will remain obligated to satisfy these obligations out of other assets of our company.

- We have pledged certain assets which we refer to as the borrowing base to the lender to secure our obligations, and the value of the borrowing base determines the amount we may borrow. The value of the borrowing base is subject to periodic redetermination which could require us to repay a portion of our then-outstanding borrowing, referred to as an overadvance. The primary factors that could cause the value of the borrowing base to decline are a decline in net operating income from the property or a reduced valuation based on an updated appraisal which may be obtained by the lender at any time. A failure to repay such an overadvance would be a default under the agreements and could have a material adverse effect on our financial and liquidity position.

- Our credit agreement with Wells Fargo Bank is an uncommitted revolver, meaning the lender must agree to each asset financed, and we cannot assure you that we will be able to finance assets on this facility at any given time.

Leveraging our portfolio is an important component of our strategy and subjects us to increased risk of loss.

A key component of our strategy is to borrow against, or leverage, our assets to allow us to invest in a greater number of assets and enhance our asset returns. However, leverage also subjects us to increased risk of loss. We are more highly leveraged compared to certain of our competitors. The use of leverage may result in increased losses to us in the following ways:

- We rely on the cash flows from the assets financed to fund our debt service requirements. Therefore, in the event of a tenant default on its rent payments, our losses are expected to increase as we will need to fund our debt service requirements from other sources.

- To the extent we have financed our assets under our variable rate credit agreements with Wells Fargo Bank and KeyBank, our debt service requirements will increase as short-term interest rates rise. In addition, if short-term interest rates rise in excess of the yields on our assets financed, we will be subject to losses.

- Our lenders will have a first priority claim on the collateral we pledge and the right to foreclose on the collateral. Therefore, if we default on our debt service obligations, we would be at risk of losing the related collateral.

- Our credit agreements with Wells Fargo Bank and KeyBank are fully recourse lending arrangements. Therefore, if we default on either of these agreements, the lender will have general recourse to our company’s assets, rather than limited recourse to just the assets financed.

We may not be able to implement our long-term financing strategy.

Part of our business strategy is to secure long-term financing of our assets to enable us to invest in a greater number of assets and enhance our asset returns. Our ability to implement our long-term financing strategy is subject to the following risks:

- We may not be able to achieve our desired leverage level due to market conditions, decreases in the market value of our assets, increases in interest rates and other factors.

- We are subject to conditions in the mortgage and other long-term financing markets which are beyond our control, including the liquidity of these markets and maintenance of attractive credit spreads.

- In the event of an adverse change in the financial condition of our underlying tenant, it may not be possible or it may be uneconomical for us to obtain long-term financing for the subject asset.

Our inability to implement our long-term financing strategy may cause us to experience lower leveraged returns on our assets than would otherwise be the case, and could have a material adverse effect on our operating results.

Certain of our assets are cross-collateralized, and certain of our indebtedness is cross-defaulted.

As of December 31, 2012, the three warehouse properties we own in Breinigsville, PA, Lathrop, CA and Fort Wayne, IN all serve as collateral for a single mortgage note. In addition, (1) our secured term loan is secured by interests in 28 of our investments, (2) our credit agreement with Wells Fargo Bank is secured by interests in 16 of our owned properties and (3) our credit agreement with KeyBank is secured by interests in 11 of our investments. To the extent that any of our investments are cross-collateralized, the lender will have recourse to any and all of the assets that secure the debt in the event that we default under the loan documents. Therefore, cross-collateralizing our investments generally exposes us to increased risk of loss under the related financing arrangement.

In addition, our credit agreements with Wells Fargo Bank and KeyBank and our convertible senior notes contain cross-default provisions, meaning that a default under one obligation could result in the other lender accelerating the maturity of our obligations to them.

Hedging transactions may not effectively protect us against anticipated risks and may subject us to certain other risks and costs.

We may enter into hedging transactions to manage our exposure to interest rate fluctuations prior to the time we obtain long-term fixed rate financing for our assets. Our hedging strategy exposes us to certain risks, among them the following:

- If we do not complete the long-term financing or obtain it in the time frame we designate at the time of the hedge transaction, our hedging strategy may not have the desired beneficial impact on our results of operations or financial condition.

- Our hedging strategy may serve to reduce the returns which we could possibly achieve if we did not utilize the hedge.

- Our hedging transactions may not perform as expected, including during periods of market dislocation.

- No hedging activity can completely insulate us from the risks associated with changes in interest rates and, therefore, our hedging strategy may not have the desired beneficial impact on our results of operations or financial condition.

- Hedging transactions are entered into at the discretion of our management team and they may conclude that it is not in our company’s best interest to hedge the interest rate risks with respect to certain expected long-term financings, particularly during periods of market dislocation.

- Hedging costs increase as the period covered by the hedge increases and during periods of rising and volatile interest rates. We may increase our hedging activity and thus increase our hedging costs during periods when interest rates are volatile or rising.

Risks Related to Business Strategy and Policies

We face significant competition that could harm our business.

We are subject to significant competition. Our competitors include other public and private REITs, private real estate companies, pension funds and individuals. We may face new competitors and, due to our focus on single tenant properties located throughout the United States, and because many of our competitors are locally and/or regionally focused, we will not encounter the same competitors in each region of the United States. Many of our competitors have greater financial and other resources and may have other advantages over our company. Our competitors may be willing to accept lower returns on their investments, may have access to lower cost capital and may succeed in buying the assets that we target for acquisition. We may incur costs on unsuccessful acquisitions that we will not be able to recover. Our failure to compete successfully could have a material adverse effect on our financial condition, liquidity and operating results.

Our network of investment sale brokers may sell investment opportunities to our competitors.

An important source of our investments is our network of investment sale brokers. These brokers are not contractually obligated to do business with us. Further, our competitors also have relationships with many of these brokers and actively compete with us in our efforts to obtain investments from these brokers. As a result, we may lose potential transactions to our competitors, causing our investment pace to fail to meet market expectations, which could have a material adverse effect on the market price of our stock.

Joint venture investments will expose us to certain risks.

We may from time to time enter into joint venture transactions for portions of our existing or future portfolio assets, which may include certain of our real properties and/or some or all of our loan and securities investments. Investing in this manner subjects us to certain risks, among them the following:

- We will not exercise sole decision-making authority regarding the joint venture’s business and assets and, thus, we may not be able to take actions that we believe are in our company’s best interests.

- We may be required to accept liability for obligations of the joint venture (such as recourse carve-outs on mortgage debt obligations) beyond our economic interest.

- Our returns on joint venture assets may be adversely affected if the assets are not held for the long-term, or a period of about ten years.

Our ability to grow our business will be limited by our ability to attract debt or equity financing, and we may have difficulty accessing capital on attractive terms.

We expect to fund future investments primarily from debt or equity capital. Therefore, our ability to grow is dependent upon the availability of debt or equity capital from public or institutional investors. Further, additional debt and/or equity capital may not be available to us at an acceptable cost. The capital markets also have been, and in the future may be, adversely affected by various other events or conditions beyond our control, such as the credit crisis, financial turmoil and economic recession that occurred over the past several years, the United States’ military involvement in the Middle East and elsewhere, the terrorist attacks on September 11, 2001, the ongoing War on Terrorism by the United States and the bankruptcy of major companies, such as Lehman Brothers Holdings Inc. and Enron Corp. Events such as an escalation in the War on Terrorism, new terrorist attacks, or additional bankruptcies in the future, as well as other events beyond our control, could adversely affect the availability and cost of capital for our business. As a REIT, we will also be dependent upon the availability and cost of capital in the REIT markets specifically, which can be impacted by various factors such as interest rate levels, the strength of real estate markets and investors' appetite for REIT investments. We cannot assure you that we will be successful in attracting sufficient debt or equity financing to fund future investments, or at an acceptable cost.

Future offerings of debt and equity may not be available to us or may adversely affect the market price of our common stock.

We expect to continue to increase our capital resources by making additional offerings of equity and debt securities in the future, which would include classes of preferred stock, common stock and senior or subordinated notes. All debt securities and other borrowings, as well as all classes of preferred stock, will be senior to our common stock in a liquidation of our company. Additional equity offerings could dilute our stockholders' equity, reduce the market price of shares of our common stock, or be of preferred stock having a distribution preference that may limit our ability to make distributions on our common stock. Market conditions could cause us to seek sources of potentially less attractive capital. Our ability to estimate the amount, timing or nature of additional offerings is limited as these factors will depend upon market conditions and other factors.

The concentration of our company’s common stock could have an adverse impact on the value of your investment.

As of December 31, 2012, approximately 45.1% of our common stock was owned by five different institutional investors (based on SEC filings made by these investors). This concentration of ownership could have an adverse impact on the value of your investment, including as a result of the following:

- Trading volume in our stock may be limited, which will reduce the liquidity of your investment.
- The sale of a significant number of our shares in the open market by a significant stockholder or otherwise could cause our stock price to decline.
- Although none of these investors on its own controls a majority of our common stock, these owners could determine to act together and given their significant concentration may be able to take actions that are not in your best interest.

REIT distribution requirements could adversely affect our ability to execute our business plan and may require us to incur debt or sell assets to make such distributions.

To maintain our status as a REIT, we must distribute annually at least 90% of our taxable income. To the extent we satisfy this requirement but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax and may be subject to a 4% nondeductible excise tax on our undistributed taxable income. We generally intend to distribute each year all or substantially all of our taxable income so as to comply with the REIT requirements and to avoid federal income tax and nondeductible excise tax.

From time to time, we may generate less cash flow than taxable income, for example, if we are required to use cash income we receive from our assets to make principal payments on our indebtedness or due to timing differences in when we record income for tax purposes.

As a result of the foregoing, we may be required to take one or more of the following steps in order to comply with the REIT distribution requirements and to avoid corporate income tax and the 4% nondeductible excise tax:

- sell assets in adverse market conditions;
- borrow on unfavorable terms;
- distribute amounts that would otherwise be invested in future investments, capital expenditures or repayment of debt;
- distribute shares of our common stock rather than cash; or
- utilize cash on hand to fund distributions.

Thus, compliance with the REIT distribution requirements may hinder our ability to grow, which could adversely affect the value of our common stock.

The federal income tax laws governing REITs are complex, and our failure to qualify as a REIT under the federal tax laws will result in adverse tax consequences.

We intend to continue to operate in a manner that will allow us to qualify as a REIT under the federal income tax laws. The REIT qualification requirements are extremely complex, however, and interpretations of the federal income tax laws governing qualification as a REIT are limited. Accordingly, we cannot be certain that we will be successful in qualifying as a REIT. At any time, new laws, interpretations, or court decisions may change the federal tax laws or the federal income tax consequences of our qualification as a REIT.

If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income. Our taxable income would be determined without deducting any distributions to our stockholders. We might need to borrow money or sell assets in order to pay any such tax. If we cease to qualify as a REIT, we no longer would be required to distribute most of our taxable income to our stockholders. Unless the federal income tax laws excused our failure to qualify as a REIT, we could not re-elect REIT status until the fifth calendar year after the year in which we failed to qualify as a REIT.

Our ownership limitations may restrict or prevent you from engaging in certain transfers of our stock.

In order to maintain our REIT qualification, no more than 50% in value of our outstanding stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the federal income tax laws to include various kinds of entities) during the last half of any taxable year. “Individuals” for this purpose include natural persons, private foundations, some employee benefit plans and trusts, and some charitable trusts. In order to preserve our REIT qualification, our charter generally prohibits any person from directly or indirectly owning more than 9.9% in value or in number of shares, whichever is more restrictive, of any class or series of the outstanding shares of our capital stock.

If anyone transfers shares in a way that would violate our ownership limits, or prevent us from continuing to qualify as a REIT under the federal income tax laws, we will consider the transfer to be null and void from the outset and the intended transferee of those shares will be deemed never to have owned the shares or those shares instead will be transferred to a trust for the benefit of a charitable beneficiary and will be either redeemed by us or sold to a person whose ownership of the shares will not violate our ownership limits. Anyone who acquires shares in violation of our ownership limits or the other restrictions on transfer in our charter bears the risk of suffering a financial loss when the shares are redeemed or sold if the market price of our stock falls between the date of purchase and the date of redemption or sale.

Provisions of our charter and Maryland law may limit the ability of a third-party to acquire control of our company.

Our charter contains restrictions on stock ownership and transfer.

As described above, our charter contains stock ownership limits. These limits may delay, defer or prevent a transaction or a change of control of our company that might involve a premium price for stock of our company or otherwise be in the best interest of our stockholders.

Our Board of Directors may issue additional stock without stockholder approval.

Our charter authorizes our Board of Directors to amend the charter to increase or decrease the aggregate number of shares of stock we have authority to issue, without any action by the stockholders. Issuances of additional shares of stock may delay, defer or prevent a transaction or a change of control of our company that might involve a premium price for stock of our company or otherwise be in the best interest of our stockholders.

Other provisions of our charter and bylaws may delay or prevent a transaction or change of control.

Our charter and bylaws also contain other provisions that may delay, defer or prevent a transaction or a change of control of our company that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders. For example, our charter and bylaws provide that: a two-thirds vote of stockholders is required to remove a director, vacancies on our Board of Directors may only be filled by the remaining directors (or, if no directors remain, by the stockholders), the number of directors may be fixed only by the directors, our bylaws may only be amended by our directors and a majority of shares is required to call a special stockholders meeting.

Increased market interest rates may reduce the value of our stock.

We believe that investors consider the dividend distribution rate on shares of REIT stock, expressed as a percentage of the market price of the shares, relative to market interest rates as an important factor in deciding whether to buy or sell shares of REIT stock. If market interest rates go up, prospective purchasers of REIT stock may expect a higher dividend distribution rate. Higher interest rates would also likely increase our borrowing costs and might decrease cash available for distribution. Thus, higher market interest rates could cause the market price of stock in our company to decline.

The market price of our stock may vary substantially.

Various factors can affect the market price of our stock including the following:

- actual or anticipated variations in our quarterly results of operations;
- the extent of investor interest in our company, real estate generally or commercial real estate specifically;

- the reputation of REITs generally and the attractiveness of their equity securities in comparison to other equity securities, including securities issued by other real estate companies, and fixed income securities;
- changes in expectations of future financial performance or changes in estimates of securities analysts;
- fluctuations in stock market prices and volumes; and
- announcements by us or our competitors of acquisitions, investments or strategic alliances.

We depend on our key personnel.

We depend on the efforts and expertise of our senior management team. There is no guarantee that any member of our senior management team will remain employed with our company. If any member of our senior management team were to die, become disabled or otherwise leave our employ, we may not be able to replace him with a person of equal skill, ability and industry expertise.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate offices are located at 1065 Avenue of the Americas, New York, NY 10018. Our lease at this property expires in January 2023.

Our owned real properties are described above under “Business—Our Portfolio—Owned Properties.”

Item 3. Legal Proceedings.

From time to time, we are involved in legal proceedings in the ordinary course of business. We do not believe that any matter we are currently involved in will have a material adverse effect on our business, results of operations or financial condition. However, periodic settlements and/or professional or other fees and expenses related to any matter could have an adverse impact on our results of operations in the quarterly or annual period in which they are recognized.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II.

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

Information and Holders of Record

Our common stock has been listed for trading on the New York Stock Exchange (“NYSE”) under the symbol “LSE” since our initial public offering on March 19, 2004. On February 15, 2013, the reported closing sale price per share of common stock on the NYSE was $6.10 and there were 658 holders of record of our common stock. The table below sets forth the quarterly high and low sales prices of our common stock on the NYSE for the periods indicated.

Fiscal Year	Low	High
2011		
First Quarter	$5.18	$6.01
Second Quarter	4.73	5.60
Third Quarter	3.47	5.01
Fourth Quarter	3.06	4.33
2012		
First Quarter	$3.85	$4.41
Second Quarter	3.85	4.26
Third Quarter	4.09	5.45
Fourth Quarter	4.65	5.62

Dividends

The table below sets forth the cash dividends paid on our common stock for the periods indicated:

Quarter Ended	Dividend Payment Date	Dividend per Share
2011		
March 31, 2011	April 15, 2011	$0.065
June 30, 2011	July 15, 2011	0.065
September 30, 2011	October 17, 2011	0.065
December 31, 2011	January 17, 2012	0.065
2012		
March 31, 2012	April 16, 2012	$0.065
June 30, 2012	July 16, 2012	0.065
September 30, 2012	October 15, 2012	0.070
December 31, 2012	January 15, 2013	0.075

We generally intend to distribute each year all or substantially all of our REIT taxable income (which does not necessarily equal net income as calculated in accordance with generally accepted accounting principles) to our stockholders so as to comply with the REIT provisions of the Internal Revenue Code and to avoid federal income tax and the nondeductible excise tax. Our dividend policy is determined from time to time by our Board of Directors in their sole discretion, and will depend on factors such as our cash available for distribution, our funds from operations, our maintenance of REIT status, market conditions and such other factors as our Board of Directors deems relevant.

Tax Characteristics of 2012 Dividends

The following table summarizes the taxable nature of our common dividends during 2012:

Total common dividend per share (tax basis)	$0.275	
Capital gain	0.00	%
Ordinary income	0.00	%
Return of capital	100.00	%
	100.00	%

Stock Price Performance Graph

The graph below compares the cumulative total stockholder return of our common stock with that of the Standard & Poor's 500 Composite Stock Price Index and the Standard & Poor's 500 REIT Index from December 31, 2007 through December 31, 2012. The graph assumes that you invested $100 at the close of market on December 31, 2007 in our common stock and each of the indexes, with dividends reinvested. The comparisons in this graph are provided in accordance with Securities and Exchange Commission disclosure requirements and are not intended to forecast or be indicative of the future performance of our common stock.

Company / Index	Base Period 12/31/07	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12
CapLease, Inc.	100	22.18	60.17	83.68	61.60	90.03
S&P 500 Index	100	63.00	79.67	91.68	93.61	108.59
S&P 500 REIT Index	100	58.81	73.52	96.85	109.02	130.29

Common Stock Repurchases

During August 2011, our Board of Directors approved a share repurchase program authorizing us to repurchase in the aggregate up to $20 million of our outstanding common stock. The program has no expiration date and permits us to purchase shares through a variety of methods, including in the open market or through privately negotiated transactions, in accordance with applicable securities laws. It does not obligate us to make any repurchases at any specific time or situation. The timing and extent to which we repurchase our shares will depend upon a variety of factors, including market conditions, our liquidity, and regulatory requirements.

We did not repurchase any shares of common stock during the three months or year ended December 31, 2012, through the above program or otherwise. As of December 31, 2012, we had remaining authorization to repurchase up to approximately $13.3 million through the above program.

Item 6. Selected Financial Data.

The following selected historical financial information for the five years ended December 31, 2012 is derived from our audited consolidated financial statements. The data should be read in conjunction with the consolidated financial statements, related notes, and other financial information included in this Form 10-K.

	Year ended December 31,				
	2012	2011	2010	2009	2008
	(in thousands, except per share amounts)				
Statement of Operations data					
Revenues:					
Rental revenue	$ 137,126	$ 127,995	$ 121,661	$ 121,513	$ 121,652
Interest income from loans and securities	7,768	19,655	27,621	30,667	35,039
Tenant reimbursements	16,287	13,900	12,159	11,473	11,457
Other revenue	861	793	974	1,532	764
Total revenues	162,042	162,343	162,415	165,185	168,912
Expenses:					
Interest expense	67,137	76,595	83,024	88,195	95,963
Property expenses	27,798	25,741	23,038	20,008	19,497
General and administrative expenses	11,642	10,581	10,604	10,757	10,443
General and administrative expenses - stock based compensation	3,200	2,785	2,541	2,118	1,978
Depreciation and amortization expense on real property	48,189	47,313	44,636	44,614	44,516
Other expenses	1,001	199	267	308	314
Total expenses	158,967	162,214	164,110	166,000	172,711
Other gains (losses):					
Gain (loss) on investments, net	1,009	648	(7,949)	(10,886)	(3,309)
Provision for loss on property investment	—	—	—		—
Loss on derivatives	—	—	—	—	(19,496)
Gain (loss) on extinguishment of debt, net	10,790	(3,698)	(293)	9,829	1,713
Total other gains (losses)	11,799	(3,050)	(8,242)	(1,057)	(21,092)
Provision for income taxes	—	—	—	(201)	—
Income (loss) from continuing operations	14,874	(2,921)	(9,937)	(2,073)	(24,891)
Discontinued operations:					
Income (loss) from discontinued operations	(1,372)	(2,798)	(3,255)	4,054	1,957
Gain (loss) on investments, net	(15,229)	1,426	—	—	—
Provision for loss on property investment	—	(16,423)	—	(15,999)	(354)
Gain on extinguishment of debt	—	18,861	—	—	—
Total discontinued operations	(16,601)	1,066	(3,255)	(11,945)	1,603

Net loss before non-controlling interest in consolidated subsidiaries	(1,727)	(1,855)	(13,192)	(14,018)	(23,288)
Non-controlling interest in consolidated subsidiaries	27	20	52	51	124
Net loss	(1,700)	(1,835)	(13,140)	(13,967)	(23,164)
Dividends allocable to preferred shares	(10,003)	(6,510)	(5,618)	(2,844)	(2,844)
Net loss allocable to common stockholders	$ (11,703)	$ (8,345)	$ (18,758)	$ (16,811)	$ (26,008)
Earnings per share:					
Income (loss) per common share, basic and diluted:					
Income (loss) from continuing operations	$ 0.08	$ (0.15)	$ (0.27)	$ (0.10)	$ (0.61)
Income (loss) from discontinued operations	(0.25)	0.02)	(0.06)	(0.24)	0.04
Net loss per common share, basic and diluted	$ (0.17)	$ (0.13)	$ (0.33)	$ (0.34)	$ (0.57)
Weighted average number of common shares outstanding, basic and diluted	67,121	64,758	56,189	49,297	45,526
Dividends declared per common share	$ 0.275	$ 0.26	$ 0.245	$ 0.21	$ 0.60
Dividends declared per preferred A share	$ 2.03	$ 2.03	$ 2.03	$ 2.03	$ 2.03
Dividends declared per preferred B share	$ 1.55	—	—	—	—
Other data					
Cash flows from operating activities	$ 57,092	$ 47,768	$ 47,689	$ 57,364	$ 64,359
Cash flows from investing activities	(193,574)	119,605	(25,051)	70,342	9,547
Cash flows from financing activities	95,499	(128,955)	(28,442)	(97,599)	(99,514)

	As of December 31,				
	2012	2011	2010	2009	2008
			(in thousands)		
Balance sheet data					
Real estate investments, net	$1,541,416	$1,401,526	$1,398,399	$1,408,819	$1,510,413
Loans held for investment, net	26,972	33,139	210,040	221,211	285,779
Commercial mortgage-backed securities	62,318	59,435	145,965	153,056	161,842
Cash and cash equivalents	30,177	71,160	32,742	38,546	8,439
Total assets	1,750,443	1,641,623	1,870,271	1,904,415	2,045,525
Mortgages on real estate investments	1,012,075	972,924	928,429	943,811	972,324
Collateralized debt obligations	—	—	254,210	263,310	268,265
Credit agreements	67,655	70,668	105,345	126,262	189,262
Secured term loan	72,417	88,142	101,880	114,070	123,719
Convertible senior notes	19,210	34,522	33,926	49,452	