CapLease, Inc.
Form DEFM14A
July 31, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement
Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material Pursuant to § 240.14a-12

CapLease, Inc.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.
Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Common stock, $0.01 par value per share, of the Company, or Company common stock

8.125% Series A Cumulative Redeemable Preferred Stock of the Company, or Series A preferred stock

8.375% Series B Cumulative Redeemable Preferred Stock of the Company, or Series B preferred stock

7.25% Series C Cumulative Redeemable Preferred Stock of the Company, or Series C preferred stock and, together with the Series A preferred stock and the Series B preferred stock, the Company preferred stock

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(2) Aggregate number of securities to which transaction applies:

88,974,504 shares of Company common stock (including 1,137,284 restricted shares and 128,900 performance shares, each of which will vest or accelerate immediately prior to the effective time of the merger)

6,473,073 shares of Company preferred stock

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

In accordance with Section 14(g) of the Securities Exchange Act of 1934, as amended, the filing fee was determined by multiplying 0.0001364 by the sum (A) the product of 88,974,504 shares of Company common stock (including restricted shares and performance shares) multiplied by the common merger consideration of $8.50 per share of Company common stock, plus (B) the product of 6,473,073 shares of Company preferred stock multiplied by the preferred merger consideration of (1) $25.00 per share of Company preferred stock plus (2) estimated accrued but

unpaid dividends of $0.47 per share of Company preferred stock.

(4) Proposed maximum aggregate value of transaction:

$921,152,453.31

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(5) Total fee paid:

$125,645.19

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

CAPLEASE, INC.

July 31, 2013

Dear Stockholder,

You are cordially invited to attend a special meeting of stockholders of CapLease, Inc. to be held on Tuesday, September 10, 2013 at 10:00 a.m., local time. The special meeting will take place at the offices of Hunton & Williams LLP, 200 Park Avenue, 52nd Floor, New York, New York 10166. At the special meeting, we will ask you to approve the merger of CapLease, Inc. with and into a wholly owned subsidiary of American Realty Capital Properties, Inc., which we refer to as the merger, and the other transactions contemplated by the Agreement and Plan of Merger, dated as of May 28, 2013, among CapLease, Inc., American Realty Capital Properties, Inc. and certain affiliates of each, which we refer to as the merger agreement. If the merger is completed, you, as a holder of our common stock, will be entitled to receive $8.50 in cash, without interest and less any applicable withholding taxes, in exchange for each share of common stock you own, as more fully described in the accompanying proxy statement.

Our board of directors has unanimously approved the merger, the merger agreement and the other transactions contemplated by the merger agreement, and has declared the merger, the merger agreement and the other transactions contemplated by the merger agreement advisable and in the best interests of the Company and our stockholders. **Our board of directors unanimously recommends that you vote "FOR" the approval of the merger and the other transactions contemplated by the merger agreement.**

The merger and the other transactions contemplated by the merger agreement must be approved by the affirmative vote of the holders of a majority of the outstanding shares of our common stock. The proxy statement accompanying this letter provides you with more specific information concerning the special meeting, the merger, the merger agreement and the other transactions contemplated by the merger agreement. We encourage you to read the proxy statement carefully and in its entirety. You may also obtain more information about CapLease, Inc. from us or from documents we have filed with the Securities and Exchange Commission.

Your vote is very important regardless of the number of shares of common stock that you own. Whether or not you plan to attend the special meeting, we request that you authorize your proxy by completing and returning the enclosed proxy card as promptly as possible. The failure to vote in person or by proxy (including as a result of broker non-votes and abstentions) will have the same effect as voting against the merger and the other

transactions contemplated by the merger agreement.

Thank you for your cooperation and continued support.

On Behalf of the Board of Directors,

Paul H. McDowell
Chairman and Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the merger, passed upon the merits or fairness of the merger or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.

This document is dated July 31, 2013, and is first being mailed, along with the enclosed proxy card, to our common stockholders on or about August 5, 2013.

CAPLEASE, INC.

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD SEPTEMBER 10, 2013

Dear Stockholder:

You are cordially invited to attend a special meeting of the common stockholders of CapLease, Inc., a Maryland corporation, which we refer to as the Company, on Tuesday, September 10, 2013 at 10:00 a.m., local time, at the offices of Hunton & Williams LLP, 200 Park Avenue, 52nd Floor, New York, New York 10166. The special meeting is being held for the purpose of acting on the following matters:

1. to consider and vote on a proposal to approve the merger of the Company with and into a wholly owned subsidiary of American Realty Capital Properties, Inc., which we refer to as the merger, and the other transactions contemplated by the Agreement and Plan of Merger, dated as of May 28, 2013, among the Company, American Realty Capital Properties, Inc. and certain affiliates of each, which we refer to as the merger agreement;

2. to consider and cast a non-binding, advisory vote regarding the compensation that may be paid or become payable to the Company's named executive officers that is based on or otherwise relates to the merger; and

3. to consider and vote on a proposal to approve any adjournments of the special meeting for the purpose of soliciting additional proxies if there are not sufficient votes at the special meeting to approve the merger and the other transactions contemplated by the merger agreement.

The Company's board of directors has unanimously determined that the merger agreement, the merger and the other transactions contemplated by the merger agreement are advisable and in the best interests of the Company and its stockholders, and has approved the merger, the merger agreement and the other transactions contemplated by the merger agreement. The Company's board of directors unanimously recommends that the holders of the Company's common stock vote FOR the proposal to approve the merger and the other

transactions contemplated by the merger agreement, FOR the proposal to approve, on a non-binding, advisory basis, the compensation that may be paid or become payable to the Company's named executive officers that is based on or otherwise relates to the merger, and FOR the proposal to approve any adjournments of the special meeting for the purpose of soliciting additional proxies if there are not sufficient votes at the special meeting to approve the merger and the other transactions contemplated by the merger agreement.

All holders of record of shares of our common and preferred stock, as of the record date, which was the close of business on July 12, 2013, are entitled to receive notice of the special meeting or any postponements or adjournments of the special meeting. However, only holders of our common stock on the record date are entitled to attend and to vote at the special meeting or any postponements or adjournments of the special meeting. **The Company's preferred stockholders are entitled to notice of the special meeting, but they are not entitled to attend or to vote at the special meeting, and no vote or proxy is being solicited from the Company's preferred stockholders.**

Approval of the merger and the other transactions contemplated by the merger agreement requires the affirmative vote of holders of a majority of the outstanding shares of our common stock. **Accordingly, regardless of the number of shares that you own, your vote is important**. Even if you plan to attend the special meeting in person, we request that you authorize your proxy to vote your shares by marking, signing, dating and promptly returning the enclosed proxy card in the postage-paid envelope. If your shares are held in "street name," which means shares held of record by a broker, bank or other nominee, you should provide the record holder of your shares with instructions on how to vote your shares in accordance with the voting instructions provided by your broker, bank or other nominee. **The failure to vote on this proposal in person or by proxy (including as a result of broker non-votes and abstentions) will have the same effect as voting against the merger and the other transactions contemplated by the merger agreement.**

Approval, on a non-binding, advisory basis, of the compensation that may be paid or become payable to the Company’s named executive officers that is based on or otherwise relates to the merger requires the affirmative vote of a majority of the votes cast by holders of our common stock on the proposal. The failure to vote on this proposal in person or by proxy (including as a result of broker non-votes and abstentions) will have no effect on the outcome of this proposal.

Approval of any adjournments of the special meeting for the purpose of soliciting additional proxies if there are not sufficient votes at the special meeting to approve the merger and the other transactions contemplated by the merger agreement requires the affirmative vote of a majority of the votes cast by holders of our common stock on the proposal. The failure to vote on this proposal in person or by proxy (including as a result of broker non-votes and abstentions) will have no effect on the outcome of this proposal.

Any proxy may be revoked at any time before it is voted by delivery of a properly executed, later-dated proxy card, by filing a written revocation of your proxy with our Secretary at our offices located at 1065 Avenue of the Americas, New York, New York 10018, or by your voting in person at the special meeting.

We encourage you to read this document carefully and in its entirety. If you have any questions or need assistance voting your shares, please call our proxy solicitor, Innisfree M&A Incorporated, toll-free at (877) 456-3463. In addition, you may obtain information about us from our website at www.caplease.com and from certain documents that we have filed with the Securities and Exchange Commission.

By Order of the Board of Directors,

Paul C. Hughes
Vice President, General Counsel
and Corporate Secretary

New York, New York

July 31, 2013

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ANNEXES

Annex A – Merger Agreement

Annex B – Opinion of Wells Fargo Securities, LLC, dated May 28, 2013

Annex C – Opinion of Houlihan Lokey Financial Advisors, Inc., dated May 28, 2013

Annex D – Voting Agreement

Annex E – Letter Agreement

SUMMARY

This summary highlights only selected information from this document relating to (1) the merger of CapLease, Inc. with and into a wholly owned subsidiary of American Realty Capital Properties, Inc., which we refer to as the merger, (2) the merger of our operating partnership, Caplease, LP, with and into American Realty Capital Properties, Inc.'s operating partnership, ARC Properties Operating Partnership, L.P., which we refer to as the partnership merger, (3) certain other transactions contemplated by the merger agreement and (4) the special meeting. References to the mergers refer to both the merger and the partnership merger. This summary does not contain all of the information about the mergers, the merger agreement, the other transactions contemplated by the merger agreement or the special meeting that may be important to you. You should read carefully this document in its entirety, including the annexes and the other documents to which we have referred you, including the merger agreement attached to this document as Annex A. Each item in this summary includes a page reference directing you to a more complete description of that item. You may obtain the information incorporated by reference in this document without charge by following the instructions in the section titled "Where You Can Find More Information" on page 87.

The Parties to the Mergers (Page 25)

CapLease, Inc.
1065 Avenue of the Americas

New York, New York 10018
(212) 217-6300

CapLease, Inc., which we refer to as "we," "us," "our," "the Company," or "CapLease," is a publicly traded Maryland corporation listed on the New York Stock Exchange, or NYSE, that qualified as a real estate investment trust, or REIT, for U.S. federal income tax purposes commencing with its taxable year ended December 31, 2004. The Company, operating through its various subsidiaries and affiliates, owns and manages a diversified portfolio of single-tenant commercial real estate properties subject to long-term leases to high-credit-quality tenants. As of March 31, 2013, our single-tenant owned property portfolio consisted of 71 properties in 25 states and leases with 43 different tenants. 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.

Caplease, LP
1065 Avenue of the Americas

New York, New York 10018
(212) 217-6300

Caplease, LP, which we refer to as the Company operating partnership, is a Delaware limited partnership through which we own, either directly or indirectly through subsidiaries, most of our assets. The Company owns approximately 99.8% of the common equity ownership units of the Company operating partnership.

CLF OP General Partner LLC
1065 Avenue of the Americas

New York, New York 10018
(212) 217-6300

CLF OP General Partner LLC, which we refer to as the general partner of the Company operating partnership, is a Delaware limited liability company and wholly owned subsidiary of the Company that serves as the sole general partner of the Company operating partnership.

American Realty Capital Properties, Inc. and Safari Acquisition, LLC
405 Park Avenue

New York, New York 10022

(212) 415-6500

American Realty Capital Properties, Inc., which we refer to as ARCP, is a publicly traded Maryland corporation listed on The NASDAQ Global Select Market that qualified as a REIT for U.S. federal income tax purposes commencing with its taxable year ended December 31, 2011, focused on acquiring and owning single-tenant freestanding commercial properties subject to net leases with high-credit-quality tenants. Additional information about ARCP can be found on its website at www.arcpreit.com.

Safari Acquisition, LLC, which we refer to as Merger Sub, is a Delaware limited liability company and a direct wholly owned subsidiary of ARCP that was formed for the purpose of entering into the merger agreement.

ARC Properties Operating Partnership, L.P.

405 Park Avenue

New York, New York 10022

(212) 415-6500

ARC Properties Operating Partnership, L.P., which we refer to as the ARCP operating partnership, is a Delaware limited partnership through which ARCP conducts substantially all of its business. ARCP is the sole general partner of the ARCP operating partnership.

Consideration to the Company's Stockholders (Page 66)

At the effective time of the merger, each outstanding share of common stock, par value $0.01 per share, which we refer to as Company common stock (other than shares of Company common stock held by our subsidiaries, ARCP or any subsidiary of ARCP, which will be automatically canceled and retired and cease to exist with no payment being made with respect thereto), will be converted into the right to receive $8.50 in cash, without interest and less any applicable withholding taxes. We refer to this consideration to be received for each share of Company common stock in the merger as the common merger consideration. In addition, in connection with the merger, each outstanding share

of our 8.125% Series A Cumulative Redeemable Preferred Stock, 8.375% Series B Cumulative Redeemable Preferred Stock and 7.25% Series C Cumulative Redeemable Preferred Stock, which we refer to collectively as Company preferred stock, will be converted into the right to receive an amount in cash equal to the sum of $25.00 plus all accrued and unpaid dividends on such share of Company preferred stock to, but excluding, the closing date of the merger, without interest and less any applicable withholding taxes. We refer to this consideration to be received for each share of Company preferred stock in the merger as the preferred merger consideration.

At the effective time of the partnership merger, each outstanding equity ownership unit of the Company operating partnership (other than any unit held by Merger Sub or any of its subsidiaries) will be converted into the right to receive $8.50 per unit in cash, without interest and less any applicable withholding taxes. We refer to this consideration to be received for each equity ownership unit of the Company operating partnership as the partnership merger consideration. We refer to the common merger consideration, the preferred merger consideration and the partnership merger consideration, collectively, as the merger consideration.

The Mergers (Page 27)

Pursuant to the merger agreement, on the closing date, we will be merged with and into Merger Sub with Merger Sub surviving as a wholly owned subsidiary of ARCP. We sometimes use the term surviving entity in this document to refer to Merger Sub as the surviving entity. The merger of the Company with and into the Merger Sub will become effective at the later of the time that the articles of merger with respect to the merger are accepted for record by the State Department of Assessments and Taxation of Maryland, or the SDAT, and the certificate of merger has been duly filed with the Secretary of State of the State of Delaware, or Delaware Secretary, or such later time that the parties to the merger agreement may specify in such documents (which will not exceed 30 days after the articles of merger are accepted for record by the SDAT and the certificate of merger is duly filed with the Delaware Secretary). We use the term effective time of the merger in this document to describe the time the merger becomes effective.

Also on the closing date, after the effective time of the merger, the Company operating partnership will be merged with and into the ARCP operating partnership with the ARCP operating partnership continuing as the surviving partnership. The general partner of the Company operating partnership has approved the merger agreement and the partnership merger and such approval is the only approval of the holders of equity ownership units of the Company operating partnership required to complete the partnership merger. The partnership merger will be effective upon the filing of a certificate of merger with respect to the partnership merger with the Delaware Secretary or at such later time that the parties shall have agreed upon and designated in such filing (which will not exceed 30 days after the partnership certificate of merger is filed with the Delaware Secretary). The time that the partnership merger becomes effective is referred to in this document as the effective time of the partnership merger.

The Special Meeting (Page 19)

The Proposals

The special meeting of our stockholders will be held on Tuesday, September 10, 2013 at 10:00 a.m., local time, at the offices of Hunton & Williams LLP, 200 Park Avenue, 52nd Floor, New York, New York 10166. At the special meeting, the holders of Company common stock will be asked to consider and vote on:

a proposal to approve the merger of the Company with and into Merger Sub and the other transactions contemplated by the merger agreement, which we refer to as the merger proposal;

a proposal to approve, on a non-binding, advisory basis, the compensation that may be paid or become payable to the Company's named executive officers that is based on or otherwise relates to the merger, discussed under "The Mergers—Change of Control and Termination Benefits—Quantification of Change of Control and Termination Payments and Benefits of Named Executive Officers" on page 57, which we refer to as the non-binding compensation proposal; and

a proposal to approve any adjournments of the special meeting for the purpose of soliciting additional proxies if there are not sufficient votes at the special meeting to approve the merger proposal, which we refer to as the adjournment proposal.

The persons named in the accompanying proxy will also have discretionary authority to vote upon other business, if any, that properly comes before the special meeting and any adjournments or postponements of the special meeting.

Record Date, Notice and Quorum

All holders of record of Company common stock and Company preferred stock as of the record date, which was the close of business on July 12, 2013, are entitled to receive notice of the special meeting or any postponements or adjournments of the special meeting. However, only holders of Company common stock on the record date are entitled to attend and vote at the special meeting or any postponements or adjournments of the special meeting.

Each holder of Company common stock will be entitled to cast one vote on each matter presented at the special meeting for each share of Company common stock that such holder owned as of the record date. On the record date, there were 88,845,604 shares of Company common stock outstanding and entitled to vote at the special meeting.

The presence, in person or by proxy, of holders of a majority of the outstanding shares of Company common stock will constitute a quorum for purposes of the special meeting. Shares held in “street name” whose nominees are not provided with voting instructions by the beneficial owner (which we refer to as broker non-votes) will not be voted at the special meeting and will not be counted as part of the quorum.

Required Vote

Approval of the merger proposal requires the affirmative vote of holders of a majority of the outstanding shares of Company common stock. **The failure to vote in person or by proxy (including as a result of broker non-votes and abstentions) will have the same effect as voting against the merger proposal.**

Approval of the non-binding compensation proposal requires the affirmative vote of a majority of votes cast by the holders of Company common stock present, in person or by proxy, at the special meeting. The failure to vote on this proposal in person or by proxy (including as a result of broker non-votes and abstentions) will have no effect on the outcome of this proposal.

Approval of the adjournment proposal requires the affirmative vote of a majority of the votes cast by the holders of Company common stock present, in person or by proxy, at the special meeting. The failure to vote on this proposal in person or by proxy (including as a result of broker non-votes and abstentions) will have no effect on the outcome of this proposal.

The Company's preferred stockholders are not entitled to attend or to vote at the special meeting, and no vote or proxy is being solicited from the Company's preferred stockholders.

As of the record date, our directors and named executive officers owned and are entitled to vote an aggregate of approximately 3,418,748 shares of Company common stock, entitling them to exercise approximately 3.9% of the voting power of the Company common stock entitled to vote at the special meeting. Our named executive officers have entered into a voting agreement with ARCP, which we refer to as the voting agreement, in which they agreed to vote the shares of Company common stock they own in favor of the merger proposal. The full text of the voting agreement is attached to this document as Annex D and is incorporated in this document by reference.

Proxies; Revocation

Any holders of record of Company common stock entitled to vote may authorize a proxy by returning the enclosed proxy, or may attend and vote at the special meeting in person. If shares of Company common stock that you own are held in "street name" by your broker, bank or other nominee, you should instruct your broker, bank or other nominee on how to vote your shares using the instructions provided by your broker, bank or other nominee.

Any proxy may be revoked at any time before it is voted at the special meeting by delivery of a properly executed, later-dated proxy card, by filing a written revocation of your proxy with our Corporate Secretary or by voting in person at the special meeting.

Your attendance at the special meeting will not, in itself, constitute revocation of your previously submitted proxy; you must vote in person at the special meeting. If you have instructed your bank, broker or other nominee to vote your shares of Company common stock, the options described above for changing your vote do not apply. Instead, you must follow the instructions provided by your bank, broker or other nominee to change your vote.

Recommendation of the Company's Board of Directors (Page 37)

The Company's board of directors has unanimously:

determined that it is advisable and in the best interests of the Company and the holders of Company common stock for the Company to enter into the merger agreement and consummate the merger and the other transactions contemplated by the merger agreement;

approved the merger, the merger agreement and the other transactions contemplated by the merger agreement and directed that the merger and the other transactions contemplated by the merger agreement be submitted to our common stockholders for approval at a special meeting of stockholders; and

recommended that you vote "FOR" the merger proposal.

The Company's board of directors also recommends that you vote "FOR" the non-binding compensation proposal and "FOR" the adjournment proposal.

Opinions of the Company's Financial Advisors (Page 40)

Opinion of Wells Fargo Securities

In connection with the merger, Wells Fargo Securities, LLC, which we refer to as Wells Fargo Securities, rendered an opinion, dated May 28, 2013, to the Company's board of directors as to the fairness, from a financial point of view and as of such date, of the common merger consideration to be received pursuant to the merger agreement by holders of Company common stock (other than ARCP and its affiliates). The full text of Wells Fargo Securities' written opinion is attached as Annex B to this document and is incorporated in this document by reference. The written opinion sets forth, among other things, the assumptions made, procedures followed, factors considered and limitations on the review undertaken by Wells Fargo Securities in rendering its opinion.

The opinion was addressed to the Company's board of directors (in its capacity as such) for its information and use in connection with its evaluation of the common merger consideration from a financial point of view and did not address any other terms, aspects or implications of the merger or any related transactions. Wells Fargo Securities' opinion did not address the merits of the underlying decision by the Company to enter into the merger agreement or the relative merits of the merger or any related transactions compared with other business strategies or transactions available or that have been or might be considered by the Company's management or the Company's board of directors or in which the Company might engage. The opinion should not be construed as creating any fiduciary duty on the part of Wells Fargo Securities to any party and the opinion does not constitute a recommendation to the Company's board of directors or any other person or entity in respect of the merger or any related transactions, including as to how any holder of any of the Company's securities should vote or act in connection with the merger, any related transactions or any other matters. See "The Mergers—Opinions of the Company's Financial Advisors—Opinion of Wells Fargo Securities" beginning on page 40 for more information.

Opinion of Houlihan Lokey

On May 28, 2013, Houlihan Lokey Financial Advisors, Inc., which we refer to as Houlihan Lokey, rendered its opinion to the Company's board of directors as to, as of May 28, 2013, the fairness, from a financial point of view, to the holders of Company common stock (other than ARCP and its affiliates) of the common merger consideration to be received by the holders of Company common stock (other than ARCP and its affiliates) in the merger pursuant to the merger agreement.

Houlihan Lokey's opinion was directed to the Company's board of directors (in its capacity as such) and only addressed the fairness, from a financial point of view, to the holders of Company common stock (other than ARCP and its affiliates) of the common merger consideration to be received by the holders of Company common stock (other than ARCP and its affiliates) in the merger pursuant to the merger agreement and did not address any other aspect or implication of the merger, the merger agreement or the transactions contemplated by the merger agreement. The summary of Houlihan Lokey's opinion in this document is qualified in its entirety by reference to the full text of its written opinion, which is attached as Annex C to this document and sets forth the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Houlihan Lokey in preparing its opinion. However, neither Houlihan Lokey's opinion nor the summary of its opinion and the related analyses set forth in this document are intended to be, and do not constitute advice or a recommendation to the Company's board of directors or any holder of Company common stock as to how to act or vote with respect to the merger, the merger agreement or the transactions contemplated by the merger agreement. See "The Mergers—Opinions of the Company's Financial Advisors—Opinion of Houlihan Lokey" beginning on page 46 for more information.

Material United States Federal Income Tax Consequences (Page 59)

The receipt of the merger consideration for each of our shares of Company common stock and Company preferred stock pursuant to the merger will be a taxable transaction for United States federal income tax purposes. Generally for United States federal income tax purposes, you will recognize gain or loss as a result of the merger measured by the difference, if any, between the merger consideration per share and your adjusted tax basis in that share. In addition, under certain circumstances, we may be required to withhold a portion of your merger consideration under applicable tax laws. Tax matters can be complicated, and the tax consequences of the merger to you will depend on your particular tax situation. We encourage you to consult your tax advisor regarding the tax consequences of the merger to you.

Interests of the Company's Directors and Executive Officers in the Merger (Page 52)

In considering the recommendations of the Company's board of directors to approve the merger and the other transactions contemplated by the merger agreement, the Company's stockholders should be aware that the executive officers and directors of the Company have certain interests in the merger that may be different from, or in addition to, the interests of the Company's stockholders generally. These interests may create potential conflicts of interest. The Company's board of directors was aware of those interests and considered them, among other matters, in reaching its decision to approve the merger, the merger agreement and the other transactions contemplated by the merger agreement.

Change of Control and Termination Benefits (Page 55)

The Company has entered into employment agreements with each of Paul H. McDowell, Chairman of the Board and Chief Executive Officer of the Company, Shawn P. Seale, Senior Vice President, Chief Financial Officer and Treasurer of the Company, William R. Pollert, President of the Company, Robert C. Blanz, the Senior Vice President and Chief Investment Officer of the Company, and Paul C. Hughes, Vice President, General Counsel and Corporate Secretary of the Company, which we refer to collectively as the employment agreements. The employment agreements with Messrs. McDowell, Seale, Pollert and Blanz were entered into in 2004. In 2007, the Company entered into the employment agreement with Mr. Hughes and amended the employment agreement with Mr. Blanz.

The completion of the merger will constitute a change of control under the employment agreements. It is currently contemplated that at the effective time of the merger, the employment of Messrs. McDowell, Seale, Pollert, Blanz and Hughes will terminate, although as described below, they may become employees of ARCP or one of its affiliates upon completion of the merger. Whether or not they become employees of ARCP or one of its affiliates, it is anticipated that the executives' termination will be without cause and that they will become entitled to certain

severance payments.

Concurrently with the execution of the merger agreement, Messrs. McDowell, Seale, Pollert, Blanz and Hughes entered into a letter agreement with ARCP, which we refer to as the letter agreement, pursuant to which each executive agreed to use good faith efforts to negotiate (i) an amendment to his existing employment agreement (to be effective immediately prior to the effective time of the merger) that includes reduced severance payable thereunder such that the new severance plus any other "parachute payments" as defined under Section 280G of the Internal Revenue Code of 1986, as amended, which we refer to as the Code, equal the maximum amount payable to such executive without triggering excise tax liability under Section 4999 of the Code, and (ii) a new employment agreement with ARCP or one of its affiliates (effective as of the date following the date on which the effective time of the merger occurs) that includes an increase in compensation payable thereunder, other than "parachute payments," in an amount at least equal to the reduction in severance. If the executive and ARCP cannot agree to such terms the executive will enter into an amendment to his current employment agreement to provide that if excise tax liability under Section 4999 of the Code is triggered the executive will be obligated to pay one-half of the excise tax liability. The full text of the letter agreement is attached to this document as Annex E and is incorporated in this document by reference.

Go Shop Period and No Solicitation of Transactions by the Company (Page 73)

The merger agreement provides for a 40-day "go shop" period which ended at 11:59 p.m. (New York City time) on July 7, 2013, that allowed the Company to actively solicit, encourage and engage in discussions and negotiations with third parties regarding potential Company acquisition proposals (as detailed below). Following the expiration of the go shop period, the merger agreement restricts our ability to solicit or engage in discussions or negotiations with a third party regarding specified transactions involving the Company or its subsidiaries. Notwithstanding these restrictions, under certain circumstances and subject to certain conditions, the Company's board of directors may respond to an unsolicited written acquisition proposal or terminate the merger agreement and enter into an acquisition agreement with respect to a superior proposal. See "The Merger Agreement—Covenants and Agreements—Go Shop Period and No Solicitation of Transactions by the Company" on page 73 for more information.

Conditions to Completion of the Merger (Page 79)

Mutual Closing Conditions

The obligation of each party to complete the mergers is subject to the satisfaction or waiver, at or prior to the effective time of the merger, of the following conditions:

approval of the merger and the other transactions contemplated by the merger agreement by holders of a majority of the outstanding shares of Company common stock; and

the absence of any law or order by any governmental authority restricting, preventing or prohibiting the consummation of the mergers.

Additional Closing Conditions for the Benefit of ARCP, the ARCP Operating Partnership and Merger Sub

The obligation of ARCP, the ARCP operating partnership and Merger Sub to complete the mergers is subject to the satisfaction or waiver, at or prior to the effective time of the merger, of certain customary conditions, including:

the accuracy as of the date of the merger agreement and as of the effective time of the merger of all representations and warranties made by the Company, the Company operating partnership and the general partner of the Company operating partnership in the merger agreement (subject to certain materiality standards);

each of the Company, the Company operating partnership and the general partner of the Company operating partnership must have performed and complied in all material respects with the agreements and covenants required to be performed or complied with by it at or prior to the closing date; and

the absence of any event, change or occurrence that has had or would reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Company.

Additional Closing Conditions for the Benefit of the Company, the Company Operating Partnership and the General Partner of the Company Operating Partnership

The obligation of the Company, the Company operating partnership and the general partner of the Company operating partnership to complete the mergers is subject to the satisfaction or waiver, at or prior to the effective time of the merger, of certain customary conditions, including:

the accuracy as of the date of the merger agreement and as of the effective time of the merger of all representations and warranties made by ARCP, the ARCP operating partnership and Merger Sub in the merger agreement (subject to certain materiality standards); and

each of ARCP, the ARCP Operating Partnership and Merger Sub must have performed and complied in all material respects with the agreements and covenants required to be performed or complied with by it at or prior to the closing date.

Financing (Page 52)

The merger agreement does not contain a financing condition to the completion of the mergers. ARCP has represented in the merger agreement that it will have sufficient financing available to complete the mergers and other transactions contemplated by the merger agreement at the effective time of the merger. ARCP has informed us that it intends to fund the cash consideration payable under the merger agreement using a combination of the following resources:

ARCP's available cash on hand;

A portion of the $896.0 million in net proceeds from the sale of shares of ARCP common stock and convertible preferred stock in separate, previously disclosed private placement transactions, which transactions were completed on June 7, 2013;

A portion of the $289.2 million in net proceeds (or $318.2 if the underwriters exercise their overallotment option in full) from the sale of ARCP's 3.00% convertible senior notes due 2018, which issuance closed on July 29, 2013. On July 29, 2013, the underwriters delivered notice to ARCP electing to partially exercise their overallotment option to purchase $10.0 million aggregate principal amount of such convertible senior notes, which is expected to close on or about August 1, 2013;

An expected issuance of approximately $500 million of ARCP common stock;

Approximately $400.0 million of financing under ARCP's credit facility. ARCP has commitments on its unsecured credit facility (including revolving and term loans) for total borrowings of $1.45 billion with an "accordion" feature of up to $2.5 billion, subject to borrowing base availability, among other conditions; and

Additional alternative financing arrangements, as needed, from the issuance of additional ARCP common stock, preferred securities or other debt, equity or equity-linked financings.

See "The Mergers—Financing" on page 52 for more information.

Termination of the Merger Agreement (Page 80)

Termination by Mutual Agreement

The merger agreement may be terminated at any time before the effective time of the merger by the mutual written agreement of ARCP and the Company.

Termination by Either ARCP or the Company

The merger agreement may also be terminated prior to the effective time of the merger by either ARCP or the Company if:

the merger has not been consummated by February 28, 2014 (provided that this termination right will not be available to a party if that party (or an affiliate of that party) failed to fulfill its obligations under the merger agreement and that failure was a principle cause of, or resulted in, the failure of the mergers to be consummated);

a governmental authority has issued a final and non-appealable order permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by the merger agreement (provided that this termination right will not be available to a party if the issuance of such order was primarily due to the failure of that party (or an affiliate of that party) to perform any of its obligations under the merger agreement); or

the holders of Company common stock fail to approve the merger and the other transactions contemplated by the merger agreement at a duly convened meeting of the Company's stockholders (provided that this termination right will not be available to the Company if the failure to obtain such approval from the holders of Company common stock was primarily due to the Company's failure to perform any of its obligations under the merger agreement).

Termination by the Company

The merger agreement may also be terminated prior to the effective time of the merger by the Company:

if ARCP, the ARCP operating partnership or Merger Sub has breached in any material respect any of its representations, warranties, covenants or agreements in the merger agreement that would, or would reasonably be expected to, result in a failure of the Company's condition to complete the merger to be satisfied and such breach either (i) cannot be cured by February 28, 2014, or (ii) if curable, has not been cured within 20 days after ARCP receives written notice of such breach (provided that this termination right will not be available to the Company if the Company is then in breach of the merger agreement and such breach would result in the failure of ARCP's condition to complete the merger related to the accuracy of the Company's representations and warranties or the Company's material performance of or compliance with its obligations under the merger agreement); or

at any time prior to the approval of the merger and the other transactions contemplated by the merger agreement by the holders of Company common stock in order to enter into an alternative acquisition agreement with respect to a superior proposal; provided, that such termination will be null and void unless the Company concurrently pays the termination fee of either $11 million or $21 million, depending on specific circumstances provided in the merger agreement, plus an expense reimbursement amount of $4 million, as discussed below.

Termination by ARCP

The merger agreement may also be terminated prior to the effective time of the merger by ARCP if:

- the Company, the Company operating partnership or the general partner of the Company operating partnership has breached in any material respect any of its representations, warranties, covenants or agreements in the merger agreement that would, or would reasonably be expected to, result in a failure of ARCP's condition to complete the merger to be satisfied and such breach either (i) cannot be cured by February 28, 2014 or (ii) if curable, has not been cured within 20 days after the Company receives written notice of such breach (provided that this termination right will not be available to ARCP if ARCP, the ARCP Operating Partnership or Merger Sub is then in breach of the merger agreement and such breach would result in the failure of the Company's condition to complete the merger related to the accuracy of ARCP's, the ARCP operating partnership's and Merger Sub's representations and warranties or ARCP's, the ARCP operating partnership's and Merger Sub's material performance of or compliance with their obligations under the merger agreement); or

- (i) the Company's board of directors has made an adverse recommendation change, (ii) the Company, the Company operating partnership or the general partner of the Company operating partnership has materially breached any of its obligations under the provisions of the merger agreement regarding (A) its obligations to prepare this document, (B) its obligation to hold the special meeting or (C) the solicitation of transactions, or (iii) the Company enters into an alternative acquisition agreement (provided that the termination right under clauses (i) and (ii) will not be available to ARCP after the holders of Company common stock approve the merger).

Termination Fees and Expenses (Page 81)

The merger agreement requires the Company to pay a termination fee of $11 million plus a fixed expense reimbursement amount of $4 million to ARCP if:

- the Company terminates the merger agreement to enter into an alternative acquisition agreement with respect to an unmatched superior proposal (as defined below); or

- ARCP terminates because the Company has entered into an alternative acquisition agreement with respect to an unmatched superior proposal.

The merger agreement requires the Company to pay a termination fee of $21 million plus a fixed expense reimbursement amount of $4 million to ARCP if:

(i) the merger agreement is terminated by (A) either party due to failure to complete the mergers by February 28, 2014, or failure to receive the requisite vote from the Company stockholders or (B) ARCP due to the Company, the Company operating partnership or the general partner of the Company operating partnership materially breaching the merger agreement, and (ii) the Company (A) received a Company acquisition proposal (defined below) after the date of the merger agreement but prior to the termination of the merger agreement (regardless of whether such proposal is withdrawn) and (B) within 11 months of the termination of the merger agreement, the Company executes a definitive agreement or consummates a transaction with respect to any Company acquisition proposal;

the Company terminates the merger agreement to enter into an alternative acquisition agreement that is unrelated to an unmatched superior proposal; or

ARCP terminates because (i) the Company's board of directors has made an adverse recommendation change, (ii) the Company, the Company operating partnership or the general partner of the Company operating partnership has materially breached any of its obligations under the provisions of the merger agreement regarding (A) its obligations to prepare this document, (B) its obligation to hold the special meeting or (C) the solicitation of transactions, or (iii) the Company has entered into an alternative acquisition agreement that is unrelated to an unmatched superior proposal.

See "The Merger Agreement—Termination Fee and Expenses Payable by the Company to ARCP" on page 81 for more information.

Convertible Notes and Trust Preferred Securities Redemption (Page 52)

The Company has agreed to, among other things, (i) use its commercially reasonable efforts to redeem the Company's outstanding convertible notes and trust preferred securities pursuant to the terms of their respective indentures, (ii) timely deliver notices and take all actions necessary in connection with the redemptions and as may be required by the mergers and the transactions contemplated by the merger agreement and (iii) take all actions required to be taken by the indentures to cause the indentures to terminate. The Company is not required to effect such redemptions prior to the closing date unless ARCP provides funds to the Company in an amount sufficient to satisfy the respective redemption. The parties agreed that the redemption of the Company's convertible notes and trust preferred securities are not conditions to the completion of the mergers. The parties have agreed that should the Company be unable to effect the redemptions, the parties will negotiate in good faith to cause the surviving entity to assume the applicable obligations in accordance with each respective indenture.

Regulatory Matters (Page 59)

We are unaware of any material federal, state or foreign regulatory requirements or approvals that are required for the execution of the merger agreement or the completion of the mergers, other than the filing of the articles of merger with respect to the merger with, and the acceptance of such articles of merger for record by, the SDAT, the filing of the certificate of merger with respect to the merger with, and the acceptance of such certificate of merger for record by, the Delaware Secretary, and the filing of a certificate of merger with respect to the partnership merger by the Company operating partnership with, and the acceptance of such certificate of merger for record by, the Delaware Secretary.

No Dissenters' Rights of Appraisal (Page 86)

Under Maryland corporation law, our common stockholders and preferred stockholders who object to the merger do not have any appraisal rights or dissenters' rights in connection with the merger. However, our common stockholders can vote against the merger and the other transactions contemplated by the merger agreement.

Delisting and Deregistration of Our Common and Preferred Stock (Page 64)

If the merger is completed, our common stock and preferred stock will no longer be traded on the NYSE and will be deregistered under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act.

Market Price of Our Common Stock (Page 84)

Shares of Company common stock are traded on the NYSE under the ticker symbol “LSE.” On May 24, 2013, the last trading day prior to the date of the public announcement of the merger agreement, the closing price of our common stock on the NYSE was $7.10 per share. On July 30, 2013, the last trading day before the date of this document, the closing price of our common stock on the NYSE was $8.48 per share. We encourage you to obtain current market quotations for shares of Company common stock.

Additional Information (Page 87)

You can find more information about the Company in the periodic updates and other information on file with the U.S. Securities and Exchange Commission, or the SEC. The information is available at the SEC’s public reference facilities and at the website maintained by the SEC at www.sec.gov.

QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGERS

The following questions and answers briefly address some questions you may have regarding the special meeting, the mergers, the merger agreement and the other transactions contemplated by the merger agreement. These questions and answers may not address all questions that may be important to you. Please refer to the more detailed information contained elsewhere in this document, as well as the additional documents to which we refer or that we incorporate by reference, including the merger agreement, a copy of which is attached to this document as Annex A, and the other annexes to this document.

Q: What is the proposed transaction?

A: The proposed transaction is the acquisition of the Company and its subsidiaries, including the Company operating partnership, by ARCP pursuant to the merger agreement. Once the merger has been approved by the holders of Company common stock, and the other closing conditions under the merger agreement have been satisfied or waived, the Company will merge with and into Merger Sub with Merger Sub continuing as the surviving entity. Immediately after the effective time of the merger, the Company operating partnership will be merged with and into the ARCP operating partnership with the ARCP operating partnership continuing as the surviving partnership. For additional information about the merger and the partnership merger, please review the merger agreement attached to this document as Annex A and incorporated in this document by reference. We encourage you to read the merger agreement carefully and in its entirety, as it is the principal document governing the mergers.

Q: As a holder of Company common stock or Company preferred stock, what will I receive in the merger?

A: For each outstanding share of Company common stock that you own immediately prior to the effective time of the merger, you will receive $8.50 in cash, without any interest and less any applicable withholding taxes. For each outstanding share of Company preferred stock that you own immediately prior to the effective time of the merger, you will receive the sum of $25.00 plus all accrued and unpaid dividends through, but excluding, the closing date, without any interest and less any applicable withholding taxes.

Q: Will I receive any regular quarterly dividends with respect to Company common stock or Company preferred stock that I own?

A: On June 12, 2013, we declared a regular quarterly dividend of $0.0775 per share of Company common stock for the quarterly period ended June 30, 2013, payable on July 15, 2013, to stockholders of record at the close of business on June 28, 2013. Under the terms of the merger agreement, we may declare and pay regular quarterly cash dividends for full quarterly periods in accordance with past practice and for any interim period through, but excluding, the closing date at an annual rate not to exceed $0.31 per share of Company common stock. We may also pay quarterly cash dividends for full quarterly periods in accordance with past practice and for any interim period through, but excluding, the closing date in accordance with the terms of our preferred stock.

Q: When do you expect the mergers to be completed?

A: We are working toward completing the mergers as promptly as practicable. If the holders of Company common stock vote to approve the merger proposal at the special meeting, and assuming that the other conditions to the mergers are satisfied or waived, it is anticipated that the mergers will become effective as soon as practicable following the special meeting.

Q: If the merger is completed, when can I expect to receive the merger consideration for my shares of Company common stock or Company preferred stock?

A: Promptly after the completion of the merger, you will receive a letter of transmittal describing how you may exchange your shares of Company common stock or Company preferred stock, as applicable, for the merger consideration.

Q: When and where is the special meeting?

A: The special meeting will take place on Tuesday, September 10, 2013 at 10:00 a.m., local time, at the offices of Hunton & Williams LLP, 200 Park Avenue, 52nd Floor, New York, New York 10166.

Q: Who can attend and vote at the special meeting?

A: All of our common stockholders and preferred stockholders of record as of the close of business on July 12, 2013, the record date for the special meeting, are entitled to receive notice of the special meeting or any adjournments or postponements of the special meeting. However, only the holders of Company common stock on the record date are entitled to attend and vote at the special meeting or any postponements or adjournments of the special meeting. Each holder of Company common stock is entitled to cast one vote on each matter properly brought before the special meeting for each share of Company common stock that such holder owned as of the record date. Common stockholders who hold their shares in “street name,” which means through a broker, bank or other nominee, must provide a “legal proxy” from that broker, banker or other nominee in order to vote in person at the special meeting. **The Company’s preferred stockholders are not entitled to attend or vote at the special meeting, and no vote or proxy is being solicited from the Company’s preferred stockholders.**

Q: How many votes must be present to hold the special meeting?

A: The presence, in person or by proxy, of holders of a majority of the outstanding shares of Company common stock will constitute a quorum for purposes of the special meeting. Broker non-votes will not be voted at the special meeting and will not be counted as part of the quorum.

Q: How do I cast my vote if my shares of Company common stock are held in “street name”?

A: If you hold your shares of Company common stock in “street name” through a broker, bank or other nominee, your broker, bank or other nominee will not vote your shares unless you provide instructions on how to vote. You must provide the record holder of your shares with instructions on how to vote your shares, in accordance with the voting directions provided by your broker, bank or other nominee. Brokers who hold shares of Company common stock in “street name” for a beneficial owner typically have the authority to vote in their discretion on “routine” proposals when they have not received instructions from the beneficial owner. However, brokers are not allowed to exercise their voting discretion with respect to the approval of matters that are “non-routine” without specific instructions from the beneficial owner. We refer to this as a broker non-vote, which are shares held by a broker that are present in person or represented at the meeting, but with respect to which the broker is not instructed by the beneficial owner of such shares to vote on the particular proposal and the broker does not have discretionary voting power on such proposal. All proposals for the special meeting are non-routine and non-discretionary. As a result, your failure to give voting instructions to your broker with respect to any shares of Company common stock held in “street name” will result in those shares not being voted at the special meeting, and such uninstructed shares will not be deemed present for quorum purposes. Your broker, bank or other nominee will vote your shares held in “street name” only if you provide instructions on how to vote. Please follow the directions on the voting instruction form sent to you by your broker

or other nominee with this document. Please note that if you desire to attend and vote in person at the special meeting, you must provide a “legal proxy” from your bank, broker or other nominee.

Q: What vote of holders of Company common stock is required to approve the merger proposal?

A: Approval of the merger proposal requires the affirmative vote of a majority of the outstanding shares of Company common stock. **The failure to vote in person or by proxy (including as a result of broker non-votes and abstentions) will have the same effect as voting against the merger proposal.**

Q: What vote of holders of Company common stock is required to approve the non-binding compensation proposal?

A: Approval of the non-binding compensation proposal requires the affirmative vote of a majority of the votes cast by the holders of Company common stock present, in person or by proxy, at the special meeting. The failure to vote on the non-binding compensation proposal in person or by proxy (including as a result of broker non-votes and abstentions) will have no effect on the outcome of the non-binding compensation proposal.

Q: What vote of holders of Company common stock is required to approve the adjournment proposal?

A: Approval of the adjournment proposal requires the affirmative vote of a majority of the votes cast by the holders of Company common stock present, in person or by proxy, at the special meeting. The failure to vote on the adjournment proposal in person or by proxy (including as a result of broker non-votes and abstentions) will have no effect on the outcome of the adjournment proposal.

Q: How does the common merger consideration compare to the market price of Company common stock?

A: The common merger consideration represents a premium over the recent trading price of our common stock, including a 19.7% premium over the closing price of $7.10 per share on May 24, 2013, the last trading day prior to the public announcement of the merger agreement, a 20.6% premium over its 30-day average trading price prior to May 24, 2013 and a 120.8% premium over its 52-week low trading price prior to May 24, 2013.

Q: How does the Company's board of directors recommend that I vote?

A: The Company's board of directors unanimously recommends that holders of Company common stock vote "FOR" the merger proposal, "FOR" the non-binding compensation proposal and "FOR" the adjournment proposal.

Q: Why am I being asked to consider and cast a vote on the non-binding compensation proposal?

A: In July 2010, the SEC adopted rules that require companies to seek a non-binding, advisory vote to approve certain compensation that may be paid or become payable to their named executive officers that is based on or otherwise relates to corporate transactions such as the merger.

Q: What will happen if holders of Company common stock do not approve the non-binding compensation proposal?

A: The vote to approve the non-binding compensation proposal is a vote separate and apart from the vote to approve the merger proposal. Approval of the non-binding compensation proposal is not a condition to completion of the merger, and it is advisory in nature only, meaning it will not be binding on either the Company or ARCP. Accordingly, to the extent that the Company is contractually obligated to pay the merger-related compensation, if the merger is completed, such compensation will be payable, subject only to the conditions applicable to such compensation payments, regardless of the outcome of the advisory vote.

Q: Do any of the Company's directors or executive officers have any interest in the merger that is different from mine?

A: The Company's directors and executive officers may have interests in the merger that are different from, or in addition to, yours, including the consideration that they would receive with respect to Company restricted stock and Company performance shares in connection with the merger. Further, our executive officers are expected to become entitled to certain severance payments and benefits following the completion of the merger.

Q: How do I cast my vote?

A: If you are a common stockholder of record on the record date, you may authorize a proxy for the special meeting or vote in person at the special meeting. You may authorize your proxy by completing, signing, dating and returning the enclosed proxy card in the accompanying pre-addressed, postage-paid envelope. If you attend the special meeting in person, you may request a ballot when you arrive.

Q: What will happen if I abstain from voting or fail to vote?

A: With respect to the merger proposal, if you abstain from voting, fail to cast your vote in person or by proxy or if you hold your shares in "street name" and fail to give voting instructions to the record holder of your shares, it will have the same effect as a vote against the merger proposal.

With respect to the non-binding compensation proposal and the adjournment proposal, if you abstain from voting, your shares of Company common stock will be present at the special meeting but the abstention will have no effect on the outcome of the non-binding compensation proposal or the adjournment proposal. If you fail to cast your vote in person or by proxy or if you hold your shares in "street name" and fail to give voting instructions to the record holder of your shares, your shares will not be present at the special meeting, which will have no effect on the outcome of the non-binding compensation proposal or the adjournment proposal.

Q: How will proxy holders vote shares of my Company common stock?

A: If you properly authorize a proxy via the enclosed proxy card, your shares of Company common stock will be voted as you direct. If you authorize a proxy but do not direct how your votes should be cast, your shares of Company common stock will be voted "FOR" the merger proposal, "FOR" the non-binding compensation proposal and "FOR" the adjournment proposal. The proxy holders will vote in their discretion upon such other matters as may properly come before the special meeting or any adjournment or postponement of the special meeting.

Q: What happens if I sell my shares of Company common stock before the special meeting?

A: If you held your shares of Company common stock on the record date but transfer them prior to the effective time of the merger, you will retain your right to vote at the special meeting, but not the right to receive the common merger consideration for the transferred shares. The right to receive the common merger consideration when the merger becomes effective will pass to the person who owns the shares you previously owned.

Q: Can I change my vote after I have mailed my proxy card?

A: Yes. If you own shares of Company common stock as a record holder on the record date, you may revoke a previously authorized proxy at any time before it is exercised by filing with our Corporate Secretary a notice of revocation or a duly authorized proxy bearing a later date or by attending the meeting and voting in person. Attendance at the meeting will not, in itself, constitute revocation of a previously authorized proxy. If you own shares of Company common stock in "street name" and have instructed a broker, bank or other nominee to vote your shares of Company common stock, the foregoing options for changing your vote do not apply and instead you must follow the instructions received from your broker, bank or other nominee to change your vote.

Q: Is the merger expected to be taxable to me?

A: Yes. The receipt of the merger consideration for each share of Company common stock and each share of Company preferred stock, as applicable, pursuant to the merger will be a taxable transaction for United States federal income tax purposes. Generally, for United States federal income tax purposes, you will recognize gain or loss as a result of the merger measured by the difference, if any, between the merger consideration received for each share and your adjusted tax basis in that share. In addition, under certain circumstances, we may be required to withhold a portion of your merger consideration under applicable tax laws. See "The Mergers—Material United States Federal Income Tax Consequences" on page 59 for additional information. Tax matters can be complicated, and the tax consequences of the merger to you will depend on your particular tax situation. We encourage you to consult your tax advisor regarding the tax consequences of the merger to you.

Q: If I have certificates representing my shares of Company common stock, should I send them in now?

A: No. Shortly after the merger is completed, you will receive a letter of transmittal with instructions informing you of how to send your Company common stock certificates or Company preferred stock certificates, as applicable, to the exchange agent in order to receive the merger consideration for your respective shares. You should use the letter of transmittal to exchange any share certificates for the merger consideration to which you are entitled as a result of the merger. DO NOT SEND ANY SHARE CERTIFICATES WITH YOUR PROXY.

Q: What rights do I have if I oppose the merger?

A: If you are a holder of record of Company common stock on the record date, you may vote against the merger proposal. You are not, however, entitled to dissenters' or appraisal rights under Maryland law.

Q: What will happen to shares of Company common stock or Company preferred stock that I currently own after completion of the merger?

A: Following the completion of the merger, your shares of Company common stock or Company preferred stock, as applicable, will be canceled and will represent only the right to receive your portion of the merger consideration. Trading in shares of Company common stock and Company preferred stock on the NYSE will cease. Price quotations for shares of Company common stock and Company preferred stock will no longer be available, and we will cease filing periodic reports with the SEC.

Q: Have any stockholders already agreed to approve the merger?

A: Yes. There is a voting agreement between ARCP and certain officers of the Company pursuant to which those officers have agreed, among other things, to vote their shares of Company common stock in favor of the merger proposal. The full text of the voting agreement is attached to this document as Annex D and is incorporated in this document by reference. Approximately 3.5% of the outstanding shares of Company common stock as of the record date are subject to the voting agreement.

Q. What will happen to the outstanding equity ownership units of the Company operating partnership?

A. The equity units of the Company operating partnership outstanding immediately prior to the effective time of the partnership merger (other than equity units owned by the surviving entity or any of its subsidiaries) will be converted in the partnership merger into the right to receive $8.50 per unit, without interest and less applicable withholding taxes. The general partner of the Company operating partnership has approved the merger agreement and the partnership merger and such approval is the only approval of the holders of equity ownership units of the Company operating partnership required to complete the partnership merger.

Q: Who will solicit and pay the cost of soliciting proxies?

A: We will bear the cost of soliciting proxies for the special meeting. Our board of directors is soliciting your proxy on our behalf. Our directors, officers and employees may solicit proxies by telephone and facsimile, by mail, on the Internet or in person. They will not be paid any additional amounts for soliciting proxies. We have retained Innisfree M&A Incorporated, or Innisfree, to assist us in the solicitation of proxies, and will pay a fee of $20,000, plus reimbursement of out-of-pocket expenses, to Innisfree for its services. We will also request that banking institutions, brokerage firms, custodians, trustees, nominees, fiduciaries and other like parties forward the

solicitation materials to the beneficial owners of Company common stock held of record by such person, and we will, upon request of such record holders, reimburse forwarding charges and out-of-pocket expenses.

Q: Where can I find more information about the Company?

A: We file certain information with the SEC. You may read and copy this information at the SEC's public reference facilities. You may call the SEC at 1-800-SEC-0330 for information about these facilities. This information is also available on the SEC's website at www.sec.gov and on our website at www.caplease.com. Information contained on our website is not part of, or incorporated in, this document. You can also request copies of these documents from us. See "Where You Can Find More Information" on page 87 for additional information.

Q: Who can help answer my other questions?

A: If you have more questions about the special meeting or the mergers, you should contact our proxy solicitor:

Innisfree M&A Incorporated

501 Madison Avenue, 20th Floor

New York, New York 10022

Stockholders call toll free: (877) 456-3463

Banks and brokers call collect: (212) 750-5833

If your broker, bank or other nominee holds your shares, you should also call your broker, bank or other nominee for additional information.

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Information both included and incorporated by reference in this document may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements, which are based on various assumptions and describe our future plans, results of operations, strategies and expectations, are generally identified by our use of words such as “intend,” “plan,” “may,” “should,” “will,” “project,” “estimate,” “anticipate,” “ “expect,” “continue,” “potential,” “opportunity,” and similar expressions, whether in the negative or affirmative. You should read statements that include these words carefully. We cannot guarantee that we actually will achieve these plans, results of operations, strategies or expectations, including completing the mergers on the terms summarized in this document. All statements regarding our expected financial position, business and financing plans are forward-looking statements.

Except for historical information, matters discussed in this document are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. These risks and other factors include, but are not limited to:

the possibility that various conditions precedent to the consummation of the merger will not be satisfied or waived;

the occurrence of any effect, event, development, change or other circumstances that could result in the termination of the merger agreement;

the inability to complete the proposed merger due to the failure to obtain stockholder approval for the merger or the failure to satisfy other conditions to completion of the merger;

risks related to disruption of management’s attention from the Company’s ongoing business operations due to the transaction;

risks that the proposed transaction disrupts the Company’s current plans and operations, including potential difficulties in employee retention;

the effect of the announcement of the merger on the Company's relationships with its customers, developers, employees, tenants and lenders, and on the Company's operating results and business generally;

the outcome of any legal proceedings that have been, or may be, instituted against us and others relating to the mergers, the merger agreement or the transactions contemplated by the merger agreement;

risks to consummation of the mergers, including the risk that the mergers will not be consummated within the expected time period or at all;

unanticipated difficulties and/or expenditures relating to the mergers or the failure of the mergers to close for any other reason;

restrictions on our ability to operate the business imposed by the merger agreement;

our ability to renew leases as they expire or lease-up vacant space on favorable terms or at all;

our ability to close new investment transactions that we have in our pipeline;

our ability to make additional investments in a timely manner or on acceptable terms;

access to credit, credit market conditions and our ability to obtain long-term financing for our asset investments in a timely manner and on terms that are consistent with those we project when we invest in the asset;

adverse changes in the financial condition or credit ratings of the tenants underlying our investments;

access to capital markets and capital market conditions;

our ability to make scheduled payments on our debt obligations and to repay or refinance our debt obligations at maturity on favorable terms or at all;

increases in our financing costs (including as a result of LIBOR rate increases), our general and administrative costs and/or our property expenses;

changes in our industry, the industries of our tenants, interest rates or the general economy;

impairments in the value of the collateral underlying our investments; and

the degree and nature of our competition.

These risks and uncertainties should be considered in evaluating any forward-looking statement we may make from time to time. For a more detailed discussion of the risks affecting our business, any of which could cause our actual results to differ materially from those in the forward-looking statements, see our Annual Report on Form 10-K for the year ended December 31, 2012, including the section entitled “Risk Factors,” as it may be supplemented in our Form 10-Q filings and any other reports or documents we file with the SEC from time to time. Any forward-looking statement speaks only as of its date. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are qualified by the cautionary statements in this section. We undertake no obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date made.

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THE SPECIAL MEETING

Date, Time and Purpose of the Special Meeting

This document is being furnished to the Company's common stockholders in connection with the solicitation of proxies from the holders of Company common stock by the Company's board of directors to be exercised at a special meeting to be held on Tuesday, September 10, 2013 at 10:00 a.m., local time. The special meeting will take place at the offices of Hunton & Williams LLP, 200 Park Avenue, 52nd Floor, New York, New York 10166. The purpose of the special meeting is for you to consider and vote upon the merger proposal, the non-binding compensation proposal and the adjournment proposal. Our common stockholders must approve the merger proposal for the merger to occur. A copy of the merger agreement is attached as Annex A to this document and incorporated in this document by reference. We encourage you to read the merger agreement carefully and in its entirety, as it is the principal document governing the merger.

Record Date, Notice and Quorum

All holders of record of Company common stock and Company preferred stock as of the record date, which was the close of business on July 12, 2013, are entitled to receive notice of the special meeting or any postponements or adjournments of the special meeting. However, only our common stockholders on the record date are entitled to attend and to vote at the special meeting or any postponements or adjournments of the special meeting. On the record date, there were 88,845,604 shares of Company common stock outstanding and held by 632 holders of record.

The presence of common stockholders entitled to cast a majority of the votes of Company common stock at the special meeting, in person or by proxy, will constitute a quorum for purposes of the special meeting. A quorum is necessary to hold the special meeting. We are not entitled to cast any votes with respect to shares of Company common stock held by us or any of our subsidiaries (other than in a fiduciary capacity) and any such votes will not be considered to be votes entitled to be cast for purposes of determining a quorum. Abstentions will be counted in determining the presence of a quorum. A broker non-vote results as to a particular matter when a broker properly executes and returns a proxy without specific voting instructions from the beneficial owner. Under the rules of the NYSE, brokers are precluded from exercising their voting discretion with respect to the approval of "non-routine" matters. All proposals for the special meeting are non-routine and non-discretionary. As a result, your failure to give voting instructions to your broker with respect to any shares of Company common stock held in "street name" will result in those shares not being voted at the special meeting, and such uninstructed shares will not be deemed present for quorum purposes.

Attendance

Only stockholders of record of Company common stock or their duly authorized proxies have the right to attend the special meeting. To gain admittance, you must present valid photo identification, such as a driver's license or passport. If your shares of Company common stock are held through a broker, bank or other nominee, please bring to the special meeting a copy of your brokerage statement or similar documentation evidencing your beneficial ownership of such shares and valid photo identification. If you are the representative of a corporate or institutional stockholder, you must present valid photo identification along with proof that you are the representative of such stockholder. Please note that cameras, recording devices and other electronic devices will not be permitted at the special meeting.

Required Votes and Proxies

Approval of the merger proposal requires the affirmative vote of the holders of a majority of the outstanding shares of Company common stock. **The failure to vote in person or by proxy (including as a result of broker non-votes and abstentions) will have the same effect as voting against the merger proposal.**

Approval of the non-binding compensation proposal requires the affirmative vote of a majority of the votes cast by the holders of Company common stock present, in person or by proxy, at the special meeting. The failure to vote on the non-binding compensation proposal in person or by proxy (including as a result of broker non-votes and abstentions) will have no effect on the outcome of the non-binding compensation proposal.

Approval of the adjournment proposal requires the affirmative vote of a majority of the votes cast by the holders of Company common stock present, in person or by proxy, at the special meeting. The failure to vote on the adjournment proposal in person or by proxy (including as a result of broker non-votes and abstentions) will have no effect on the outcome of the adjournment proposal.

In order for your shares of Company common stock to be represented and voted at the special meeting, if you are a stockholder of record, you must either have your shares voted by returning the enclosed proxy card or voting in person at the special meeting. **The Company's preferred stockholders are not entitled to attend or vote at the special meeting, and no vote or proxy is being solicited from the Company's preferred stockholders.**

Record holders may vote or cause their shares of Company common stock to be voted by proxy using one of the following methods:

- mark, sign, date and return the enclosed proxy card by mail; or

- appear and vote in person at the special meeting.

Regardless of whether you plan to attend the special meeting, we request that you authorize a proxy for your shares of Company common stock as described above as promptly as possible. If you own shares of Company common stock through a broker, bank or other nominee (*i.e.*, in "street name"), you must provide voting instructions to your broker, bank or other nominee in accordance with the instructions on the voting instruction card that your broker, bank or other nominee provides to you. Your broker, bank or other nominee will not be able to vote your shares of Company common stock unless you have properly instructed your broker, bank or other nominee on how to vote. If you have not received such voting instructions or require further information regarding such voting instructions, contact your broker, bank or other nominee who can give you directions on how to vote your shares of Company common stock.

If your shares of Company common stock are held in "street name" and you wish to vote in person at the special meeting, you must obtain a legal proxy, executed in your favor, from the holder of record of your shares to be able to vote at the special meeting.

Each common stockholder is entitled to cast one vote on each matter presented at the special meeting for each share of Company common stock owned by such stockholder on the record date.

If you authorize a proxy, your shares of Company common stock will be voted at the special meeting as you indicate on your proxy. If no instructions are indicated when you authorize your proxy, your shares of Company common stock will be voted "FOR" the merger proposal, "FOR" the non-binding compensation proposal and "FOR" the adjournment proposal.

As of the record date, the Company's directors and executive officers owned and are entitled to vote an aggregate of approximately 3,418,748 shares of Company common stock, entitling them to exercise approximately 3.9% of the voting power of the Company common stock entitled to vote at the special meeting. Our directors and executive officers have informed us that they intend to vote their shares of Company common stock in favor of the merger proposal. In addition, certain of the Company's officers have entered into a voting agreement with ARCP pursuant to which those officers have agreed, among other things, to vote their shares of Company common stock in favor of the merger proposal. See "Voting Agreement" on page 83 for additional information. The full text of the voting agreement is attached to this document as Annex D and is incorporated in this document by reference.

Under Maryland law, notice of a special meeting of stockholders must state the purpose of the meeting. As a result, matters other than the merger proposal, the non-binding compensation proposal and the adjournment proposal will not be brought before the special meeting.

Revocation of Proxies

You may revoke your proxy at any time, but only before the proxy is voted at the special meeting, in any of three ways:

by delivering, prior to the date of the special meeting, a written revocation of your proxy dated after the date of the proxy that is being revoked to our Secretary at CapLease, Inc., 1065 Avenue of the Americas, New York, New York 10018; or

by delivering to our Corporate Secretary a later-dated, duly executed proxy relating to the same shares; or

by attending the special meeting and voting in person by ballot.

Attendance at the special meeting will not, in itself, constitute revocation of a previously granted proxy; you must vote in person at the special meeting. If you own shares of Company common stock in "street name," you may revoke or change previously granted voting instructions by following the instructions provided by the broker, bank or other nominee that is the registered owner of your shares of Company common stock.

Solicitation Costs

We will pay the costs of soliciting proxies for the special meeting. Our directors, officers and employees may solicit proxies by telephone and facsimile, by mail, on the Internet or in person. They will not be paid any additional amounts for soliciting proxies. We will also request that individuals and entities holding shares of Company common stock in their names, or in the names of their nominees, that are beneficially owned by others, send proxy materials to and obtain proxies from those beneficial owners, and, upon request, will reimburse those holders for their reasonable expenses in performing those services. We have retained Innisfree to assist us in the solicitation of proxies, and will pay a fee of $20,000, plus reimbursement of out-of-pocket expenses, to Innisfree for its services. Our arrangement with Innisfree includes provisions obligating us to indemnify it for certain liabilities that could arise in connection with its solicitation of proxies on our behalf.

Adjournments

Although it is not currently expected, the special meeting may be adjourned for the purpose of soliciting additional proxies if there are not sufficient votes present at the special meeting, in person or by proxy, to constitute a quorum or if we believe it is reasonably likely that the merger proposal will not be approved at the special meeting. Any adjournments may be made to a date not more than 120 days after the original record date without notice, other than by an announcement at the special meeting, by the affirmative vote of a majority of the votes cast on the proposal, whether or not a quorum exists, or by the chairperson of the special meeting for any reason. Any adjournment of the special meeting for the purpose of soliciting additional proxies will allow Company stockholders who have already sent in their proxies to revoke them at any time prior to their exercise.

Postponements

At any time prior to convening the special meeting, the Company's board of directors may postpone the special meeting for any reason without the approval of the Company stockholders. If postponed, we will provide notice of the new meeting date in accordance with Maryland law. Although it is not currently expected, the Company's board of directors may postpone the special meeting for the purpose of soliciting additional proxies if it concludes that by the date of the special meeting it is reasonably likely that we will not have received sufficient proxies to constitute a quorum or sufficient votes to approve the merger proposal. Similar to adjournments, any postponement of the special meeting for the purpose of soliciting additional proxies will allow Company stockholders who have already sent in their proxies to revoke them at any time prior to their use.

Questions and Additional Information

If you have questions about the special meeting, the merger or how to submit your proxy, or if you need additional copies of this document or the enclosed proxy card or voting instructions, please contact our proxy solicitor at:

Innisfree M&A Incorporated

501 Madison Avenue, 20th Floor

New York, New York 10022

Stockholders call toll free: (877) 456-3463

Banks and brokers call collect: (212) 750-5833

OR

CapLease, Inc.

1065 Avenue of the Americas

New York, New York 10018

(212) 217-6300

Attention: Corporate Secretary

You should not send your share certificates with your proxy card. A letter of transmittal with instructions for the surrender of certificates representing certificated shares or book-entry shares of Company common stock will be mailed to stockholders if the merger is completed.

PROPOSAL 1: APPROVAL OF THE MERGER PROPOSAL

We are asking our common stockholders to vote on a proposal to approve the merger of the Company with and into Merger Sub and the other transactions contemplated by the merger agreement.

For a summary and additional information regarding the merger proposal, see the information about the merger agreement and the mergers throughout this document, including the information set forth in the sections entitled "The Mergers" beginning on page 27 of this document and "The Merger Agreement" beginning on page 65 of this document. A copy of the merger agreement is attached to this document as Annex A and is incorporated in this document by reference.

The Company's board of directors recommends that you vote "FOR" the proposal to approve the merger and the other transactions contemplated by the merger agreement. See "The Mergers—Reasons for the Mergers" beginning on page 34 and "The Mergers—Recommendation of the Company's Board of Directors" beginning on page 37 for more information.

Approval of the merger proposal requires the affirmative vote of holders of a majority of the outstanding shares of Company common stock. The failure to vote in person or by proxy (including as a result of broker non-votes and abstentions) will have the same effect as voting against the merger proposal.

PROPOSAL 2: APPROVAL OF THE NON-BINDING COMPENSATION PROPOSAL

Section 14A of the Exchange Act, which was enacted as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, requires that the Company provide its common stockholders with the opportunity to vote to approve, on an advisory, non-binding basis, the compensation arrangements for the Company's named executive officers that are based on or related to the merger, as disclosed in the section entitled "The Mergers—Change of Control and Termination Benefits—Quantification of Change of Control and Termination Payments and Benefits of Named Executive Officers" beginning on page 57.

Accordingly, we are asking our common stockholders to cast a non-binding, advisory vote regarding the compensation that may be paid or become payable to the Company's named executive officers that is based on or otherwise relates to the merger.

The Company’s board of directors requests that you vote **“FOR”** the following resolution:

“RESOLVED, that, on a non-binding, advisory basis, the compensation that may be paid or become payable to CapLease, Inc.’s named executive officers in connection with the merger is hereby approved.”

Stockholders should note that this non-binding proposal regarding certain merger-related executive compensation arrangements is merely an advisory vote that will not be binding on the Company, the Company’s board of directors or any committee thereof, ARCP, Merger Sub or any of their respective affiliates. Further, the underlying arrangements are contractual in nature and not, by their terms, subject to stockholder approval. Accordingly, regardless of the outcome of the advisory vote, if the merger is completed, our named executive officers will be eligible to receive the various change of control payments in accordance with the terms and conditions applicable to those payments.

The Company’s board of directors recommends that you vote “FOR” the proposal to approve, on a non-binding, advisory basis, the compensation that may be paid or become payable to the Company’s named executive officers that is based on or otherwise relates to the merger.

Approval of the non-binding compensation proposal requires the affirmative vote of a majority of votes cast by the holders of Company common stock represented in person or by proxy at the special meeting. The failure to vote on the non-binding compensation proposal in person or by proxy (including as a result of broker non-votes and abstentions) will have no effect on the outcome of the non-binding compensation proposal.

PROPOSAL 3: APPROVAL OF THE ADJOURNMENT PROPOSAL

We are asking our common stockholders to vote on a proposal to approve any adjournments of the special meeting for the purpose of soliciting additional proxies if there are not sufficient votes at the special meeting to approve the merger proposal. If our common stockholders approve the adjournment proposal, the Company could adjourn the special meeting and any adjourned session of the special meeting, and use the additional time to solicit additional proxies, including the solicitation of proxies from stockholders who have previously voted.

If, at the special meeting, the number of shares of Company common stock present in person or by proxy and voting in favor of the merger proposal is not sufficient to approve the merger proposal, we may move to adjourn the special meeting in order to enable the Company's board of directors to solicit additional proxies for the approval of the merger proposal. In that event, the Company will ask its stockholders to vote only upon the adjournment proposal, and not the merger proposal or the non-binding compensation proposal.

The Company's board of directors recommends that you vote "FOR" the proposal to approve any adjournments of the special meeting for the purpose of soliciting additional proxies if there are not sufficient votes at the special meeting to approve the merger and the other transactions contemplated by the merger agreement.

Approval of the adjournment proposal requires the affirmative vote of a majority of votes cast by the holders of Company common stock represented in person or by proxy at the special meeting. The failure to vote on the adjournment proposal in person or by proxy (including as a result of broker non-votes and abstentions) will have no effect on the outcome of the adjournment proposal.

THE PARTIES TO THE MERGERS

CapLease, Inc.
1065 Avenue of the Americas

New York, New York 10018
(212) 217-6300

CapLease, Inc., which we refer to as “we,” “us,” “our,” “the Company,” or “CapLease,” is a publicly traded Maryland corporation listed on the New York Stock Exchange, or NYSE, that qualified as a real estate investment trust, or REIT, for U.S. federal income tax purposes commencing with its taxable year ended December 31, 2004. The Company, operating through its various subsidiaries and affiliates, owns and manages a diversified portfolio of single-tenant commercial real estate properties subject to long-term leases to high-credit-quality tenants. As of March 31, 2013, our single-tenant owned property portfolio consisted of 71 properties in 25 states and leases with 43 different tenants. 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.

Caplease, LP
1065 Avenue of the Americas

New York, New York 10018
(212) 217-6300

Caplease, LP, which we refer to as the Company operating partnership, is a Delaware limited partnership through which we own, either directly or indirectly through subsidiaries, most of our assets. The Company owns approximately 99.8% of the common equity ownership units of the Company operating partnership.

CLF OP General Partner LLC
1065 Avenue of the Americas

New York, New York 10018
(212) 217-6300

CLF OP General Partner LLC, which we refer to as the general partner of the Company operating partnership, is a Delaware limited liability company and wholly owned subsidiary of the Company that serves as the sole general partner of the Company operating partnership.

American Realty Capital Properties, Inc. and Safari Acquisition, LLC
405 Park Avenue

New York, New York 10022

(212) 415-6500

American Realty Capital Properties, Inc., which we refer to as ARCP, is a publicly traded Maryland corporation listed on The NASDAQ Global Select Market that qualified as a REIT for U.S. federal income tax purposes commencing with its taxable year ended December 31, 2011, focused on acquiring and owning single-tenant freestanding commercial properties subject to net leases with high-credit-quality tenants. Additional information about ARCP can be found on its website at www.arcpreit.com.

Safari Acquisition, LLC, which we refer to as Merger Sub, is a Delaware limited liability company and a direct wholly owned subsidiary of ARCP that was formed for the purpose of entering into the merger agreement.

ARC Properties Operating Partnership, L.P.

405 Park Avenue

New York, New York 10022

(212) 415-6500

ARC Properties Operating Partnership, L.P., which we refer to as the ARCP operating partnership, is a Delaware limited partnership through which ARCP conducts substantially all of its business. ARCP is the sole general partner of the ARCP operating partnership.

THE MERGERS

General Description of the Mergers

Under the terms of the merger agreement, ARCP will acquire us and our subsidiaries, including the Company operating partnership. At the effective time of the merger, we will merge with and into Merger Sub with Merger Sub continuing as the surviving entity and a wholly owned subsidiary of ARCP. Immediately after the effective time of the merger, the Company operating partnership will merge with and into the ARCP operating partnership with the ARCP operating partnership continuing as the surviving partnership.

Background of the Mergers

The Company's board of directors and management from time to time review and, when advisable, revise our long-term strategy and objectives in light of developments in the markets in which we operate and the Company's business and capabilities. Over the past several years, we have considered various potential strategic alternatives with a view to enhancing stockholder value, including potential strategic business combination transactions and the possible sale of the Company, and have engaged in preliminary discussions with third parties about a potential sale of the Company or other business combinations. Except for discussions with ARCP, none of those discussions progressed beyond initial stages.

On February 11, 2013, Mr. Nicholas S. Schorsch, Chairman and Chief Executive Officer of ARCP, informed Wells Fargo Securities, which ARCP was aware had an investment banking relationship with the Company, of ARCP's potential interest in a transaction with the Company. A representative of Wells Fargo Securities subsequently informed Mr. Paul H. McDowell, the Chairman and Chief Executive Officer of the Company, of ARCP's potential interest.

On February 27, 2013, representatives of ARCP and the Company attended an annual real estate securities conference. At the conference, Mr. Schorsch informed Mr. McDowell and Mr. Shawn P. Seale, the Company's Senior Vice President, Chief Financial Officer and Treasurer, that ARCP was interested in exploring a potential transaction in which it might consider acquiring the Company at a possible valuation of $6.80 to $7.00 for each outstanding share of Company common stock payable in a combination of cash and ARCP common stock. Mr. Schorsch explained that this range was based on ARCP's preliminary review of publicly available information and that ARCP would like to enter into a confidentiality agreement to conduct a due diligence review of non-public information. Mr. McDowell responded that, although the Company was confident in executing its long-term strategy, it was always open to discussions about how to enhance stockholder value and, therefore, he would discuss ARCP's request with the Company's board of directors.

On March 7, 2013, the Company's board of directors held its regularly scheduled first quarter meeting at which it discussed ARCP's preliminary expression of interest with members of the Company's senior management. The Company's board of directors concluded that, while it was not interested in pursuing a transaction within the preliminary range indicated by ARCP, it was willing to explore the possibility of a transaction with ARCP on more attractive terms. As a result, the Company's board of directors authorized the Company to enter into a confidentiality agreement and hold preliminary discussions with ARCP.

On March 12, 2013, the Company and ARCP entered into a confidentiality agreement (which included standstill provisions). Beginning on March 13, 2013, the Company provided ARCP with certain property and financial due diligence information.

On March 20, 2013, ARCP announced an unsolicited acquisition proposal to acquire another commercial real estate REIT. Mr. McDowell subsequently sent an email to the Company's board of directors informing the directors of ARCP's announcement and noting how it might adversely affect a potential transaction between ARCP and the Company. He also indicated that he would see representatives of ARCP at an industry conference the following day. Also on March 20, Mr. Howard A. Silver, the lead independent director on the Company's board of directors, telephoned Mr. McDowell to discuss various matters, including ARCP's interest in the Company, and requested that Mr. McDowell keep the Company's board of directors informed if ARCP made any overtures regarding the potential employment of the Company's management in connection with any transaction.

On March 21, 2013, Mr. McDowell had a conversation with Mr. William M. Kahane, the co-founder of American Realty Capital, which is the sponsor of ARCP's external advisor, at an industry conference. On March 24, 2013, Mr. McDowell held a telephone conference with Mr. Schorsch. During both conversations, Messrs. Kahane and Schorsch, with the approval of ARCP's board of directors, each confirmed ARCP's interest in continuing to explore a potential transaction with the Company. They also indicated that, because ARCP viewed the acquisition of the Company as a new strategic platform, ARCP would be interested in retaining the Company's senior management in connection with such a transaction. Mr. McDowell responded that the Company was not for sale and was focused on executing its long-term strategy. As determined by the Company's board of directors at its March 7, 2013 meeting, however, Mr. McDowell further stated that the Company was willing to continue preliminary discussions to explore the possibility of a transaction with ARCP on more attractive terms.

On March 27, 2013, Mr. Brian D. Jones, Chief Operating Officer of ARCP, held a telephone conference with Mr. McDowell in which he indicated that ARCP was willing to pay $7.10 for each outstanding share of Company common stock. He explained that up to 20% of the purchase price would be payable in cash, with the balance payable in shares of ARCP common stock. Mr. McDowell responded that he would convey the revised proposal to the Company's board of directors but did not believe the Company's board of directors would find it compelling. He also expressed concern about ARCP's unsolicited acquisition proposal to acquire the other commercial real estate REIT. Following this conversation, the Company's management discussed financial aspects of ARCP's revised proposal with Wells Fargo Securities and authorized Wells Fargo Securities to discuss such proposal with ARCP.

On March 28, 2013, following discussions between ARCP and representatives of Wells Fargo Securities regarding ARCP's revised proposal, Mr. Jones informed Wells Fargo Securities that ARCP was willing to consider increasing the price in its proposal. Mr. Jones described two potential scenarios for increasing the price, one in which ARCP might moderately increase the price while maintaining a fixed exchange ratio with respect to the ARCP common stock that would be paid in the transaction, and a second in which ARCP might provide a smaller price increase along with a "collar" that would provide the Company's stockholders with some protection against a decline in the value of such ARCP common stock prior to completion of the transaction.

On March 29, 2013, Mr. McDowell sent an email to the Company's board of directors informing the directors of ARCP's revised proposal.

On April 1, 2013, the Company's board of directors held a meeting at which representatives of the Company's senior management were present. During this meeting, the Company's board of directors discussed ARCP's revised proposal. During this discussion, Mr. McDowell advised that ARCP had indicated it was interested in potentially retaining the Company's senior management in connection with the transaction but that no specific discussions had taken place. Following this discussion, the Company's board of directors concluded that ARCP's proposed price of $7.10 per share was not compelling. The Company's board of directors also expressed concern about a transaction in which the Company's stockholders would receive shares of ARCP common stock because, among other reasons, ARCP recently had completed a significant transaction with an affiliated entity and, therefore, ARCP's common stock had limited trading history following such transaction. The Company's board of directors expressed its commitment to the Company's long-term strategy, including proceeding with a then-planned offering of Company common stock primarily to fund real property acquisitions in the Company's pipeline.

On April 2, 2013, at the instruction of the Company's management, a representative of Wells Fargo Securities informed Mr. Schorsch of the decision made by the Company's board of directors. Mr. Schorsch responded that ARCP might be willing to increase its proposal further and to structure the transaction as an all-cash merger provided that the Company indicate the price at which it would be willing to pursue such a transaction.

On April 12, 2013, Mr. McDowell sent an email to the Company's board of directors indicating that ARCP appeared to have a strong desire to continue negotiations and had requested that the Company indicate the price at which it was willing to pursue an all-cash transaction. He also noted that, on April 11, 2013, ARCP withdrew its previously announced unsolicited proposal to acquire the other commercial real estate REIT.

On April 17, 2013, the Company's board of directors held a meeting at which representatives of the Company's senior management and Wells Fargo Securities were present. Among other things, the Company's board of directors discussed with the Company's management and Wells Fargo Securities the Company's prospects and long-term strategy, including the potential risks inherent in executing the Company's long-term strategy. As part of this discussion, the Company's board of directors considered, among other things, standalone financial projections prepared by the Company's management and also discussed with Wells Fargo Securities preliminary financial matters relating to the Company and a potential sale transaction. In addition, the Company's board of directors discussed with Wells Fargo Securities various considerations relating to whether to conduct a broad sale process in the event a decision was made to pursue a sale of the Company, including the possibility of including a "go shop" provision in any definitive merger agreement with ARCP. The Company's board of directors also discussed how to respond to ARCP's willingness to pursue an all-cash transaction, including ARCP's request that the Company indicate a price at which it was willing to continue discussions. At the conclusion of the meeting, the Company's board of directors requested that the Company's management consult with Wells Fargo Securities regarding a potential response to ARCP. Thereafter, and following consultation with Wells Fargo Securities regarding, among other things, management's forecasts with respect to the Company, Mr. McDowell emailed the directors suggesting that the Company communicate to ARCP a preliminary valuation range of $8.00 to $9.00 per outstanding share of Company common stock. Later that day, the Company's directors authorized the Company's management and Wells Fargo Securities to convey this valuation range to ARCP.

On April 18 and 19, 2013, Mr. McDowell discussed the potential transaction with Mr. Schorsch, who indicated that ARCP was preparing a revised proposal.

Also on April 19, 2013, ARCP sent the Company a non-binding term sheet, which was authorized by ARCP's board of directors, in which ARCP proposed to acquire all outstanding shares of Company common stock for $7.91 per share in cash, which price was subject to certain valuation contingencies that might adversely affect the price. The proposal was conditioned on the Company entering into an exclusivity agreement with ARCP with respect to the proposed transaction. On April 20, 2013, Mr. McDowell sent an email to the Company's board of directors transmitting ARCP's non-binding term sheet.

On April 24, 2013, the Company's board of directors held a meeting to discuss ARCP's further revised proposal at which representatives of the Company's senior management, Venable LLP, the Company's outside Maryland legal counsel, which we refer to as Venable, and Wells Fargo Securities were present. A representative of Venable reviewed with the directors their legal duties under Maryland law in evaluating a potential sale of the Company and responding to ARCP's proposal. Representatives of Wells Fargo Securities discussed financial aspects of ARCP's proposal. The Company's board of directors also discussed ARCP's revised proposal relative to the Company's long-term strategy and prospects. The Company's board of directors concluded that ARCP should be informed that the Company was not interested in pursuing a transaction at $7.91 per share or entering into an exclusivity agreement. During this discussion, the Company's board of directors decided that an all-cash transaction without any material contingencies that provided $8.50 per share or more for the Company common stock, which was the midpoint of the range previously communicated to ARCP, would be compelling. It further decided that, in an effort to induce ARCP to increase its price, ARCP should be informed that a transaction should reflect a price in the range of $8.50 to $9.00 per share for all outstanding shares of Company common stock and be payable in cash, without any material contingencies. After the meeting, the Company's representatives conveyed the Company's board of directors' position to ARCP.

On April 26, 2013, ARCP submitted a revised non-binding term sheet, which was authorized by ARCP's board of directors, in which ARCP proposed to acquire all outstanding shares of Company common stock for $8.50 per share in cash and permit the Company to continue to pay dividends through the closing date of the merger. The proposal was conditioned on the Company entering into an exclusivity agreement with ARCP with respect to the proposed transaction. The proposal also indicated that it was subject to ARCP reaching employment arrangements with the Company's management. On the same day, the Company's management sent an email to the Company's board of directors transmitting ARCP's revised non-binding term sheet.

On April 29, 2013, the Company's board of directors held a meeting to discuss ARCP's revised non-binding term sheet at which representatives of the Company's senior management, Venable, Hunton & Williams LLP, outside legal counsel to the Company, which we refer to as Hunton & Williams, and Wells Fargo Securities were present. During this meeting, representatives of Wells Fargo Securities reviewed financial aspects of ARCP's revised proposal, including the Company's ability to continue to pay dividends through the closing date of the merger. Following discussion, the Company's board of directors agreed that $8.50 per share for all outstanding shares of Company

common stock (with the ability to continue to pay dividends through the closing) was a compelling offer and that the Company should pursue a transaction on such terms. The Company's board of directors also discussed with the Company's legal and financial advisors different potential sale processes to solicit interest from third parties, including a "go shop" process that would allow the Company to actively solicit alternative transactions for a specified period after entering into a definitive merger agreement with ARCP. As part of this discussion, the Company's board of directors discussed the potential length of the go shop period and size of the termination fee that might be payable to ARCP if the Company accepted a third party's superior proposal. The Company's board of directors also considered the delays associated with initiating a sale process to solicit interest from third parties and potential adverse effects on the Company and its securities that might result if such sale process became publicly known before the Company entered into a definitive transaction agreement. The Company's board of directors also expressed concern that if the Company initiated a sale process that failed to result in an acquisition proposal in excess of $8.50 per share, the Company could lose leverage in its negotiations with ARCP or ARCP might withdraw its proposal or reduce its proposed price. After further discussion, the Company's board of directors determined that a go shop provision would be in the best interests of the Company's stockholders. The Company's board of directors also authorized the Company to negotiate a transaction based on ARCP's revised proposal, but instructed the Company's representatives to inform ARCP that the Company would not enter into an exclusivity agreement unless ARCP agreed that any definitive merger agreement would contain a go shop provision. Also during the meeting and in light of its decision to pursue a potential transaction and negotiate a definitive merger agreement, the Company's board of directors discussed possible conflicts of interest relating to management's potential employment by ARCP following completion of the merger. In addition, the Company's board of directors considered Wells Fargo Securities' qualifications, reputation and experience and its familiarity with the Company and its business. The Company's board of directors also considered that Wells Fargo Securities had informed it that Wells Fargo Securities and its affiliates had an existing commercial banking relationship with ARCP and had provided administrative agent and related loan arranging syndication services to ARCP, but that Wells Fargo Securities and its affiliates had not during the past two years been engaged to provide M&A financial advisory or similar investment banking services to ARCP.

On May 1, 2013, the independent directors on the Company's board of directors, who we refer to as the independent directors, held a meeting with a representative of Hunton & Williams to discuss the proposed transaction. The independent directors discussed the possible conflict of interest with respect to Mr. McDowell, Mr. William R. Pollert, a director and the Company's President, and the other members of the Company's senior management relating to their potential employment by ARCP in connection with the completion of the merger. Notwithstanding this possible conflict, the independent directors believed that, in light of Mr. McDowell's experience and knowledge of the Company and the fact that no substantive employment discussions had taken place, he was in the best position to advance the interests of the Company's stockholders by continuing discussions with respect to the proposed transaction under the supervision of the Company's board of directors and the independent directors. The independent directors determined, however, that discussions regarding the employment by ARCP of the Company's management should be deferred until after a definitive merger agreement was signed or, if ARCP insisted on having such discussions prior to signing a definitive merger agreement, until all material issues in the proposed transaction had been negotiated. The independent directors also considered the fact that, as previously disclosed by Wells Fargo Securities, Wells Fargo Securities and its affiliates had an existing commercial banking relationship with ARCP and had provided administrative agent and related loan arranging and syndication services to ARCP, but that Wells Fargo Securities had not during the past two years been engaged to provide M&A financial advisory or similar investment banking services to ARCP. The independent directors also noted Wells Fargo Securities' knowledge and familiarity with the Company and its business as well as its experience in the REIT industry. The independent directors concluded that the Company should explore engaging an additional financial advisor for purposes of rendering a fairness opinion if the Company entered into a definitive merger agreement with ARCP. After this meeting, Mr. Silver informed the Company's management that they should not have any discussions with respect to the terms of their potential employment with ARCP without the prior approval of the Company's board of directors. He also conveyed the independent directors' request that the Company's management explore engaging an additional financial advisor.

Between April 29 and May 6, 2013, representatives of the Company and ARCP negotiated the material terms of the go shop process. During these negotiations, ARCP initially proposed that any definitive merger agreement would include a 30-day go shop period. ARCP also indicated that it was unwilling to negotiate the length of the go shop period without an understanding of the termination fees that would be payable in connection with the Company's decision to pursue a superior proposal. The Company responded by proposing a 40-day go shop period and indicated that the Company expected termination fees to be tiered, with a lower termination fee payable with respect to a superior proposal made during the go shop process. The parties also negotiated the potential termination fee amounts.

On May 6, 2013, the Company's board of directors held a meeting to discuss ARCP's request for exclusivity in exchange for a 40-day go shop period that would be included in any definitive merger agreement between the Company and ARCP. Representatives of the Company's senior management and Hunton & Williams were present. Following discussion, the Company's board of directors authorized the Company to enter into the exclusivity agreement. The Company's board of directors also decided that, in approving the terms of Wells Fargo Securities' compensation in connection with the potential transaction, Wells Fargo Securities should be given a financial incentive such that Wells Fargo Securities would receive an additional payment if a price in excess of $8.50 per share was obtained in the go shop process or otherwise. The independent directors also met in executive session with a representative of Hunton & Williams. Later on May 6, representatives of the Company, including Hunton & Williams and Wells Fargo Securities, held a conference call with ARCP and its outside legal counsel, Proskauer Rose LLP, which we refer to as Proskauer, to discuss the potential transaction and a preliminary timeline for the completion of ARCP's due diligence review. ARCP and its representatives were also given access to an online data room with due diligence information.

On May 7, 2013, representatives of the Company and ARCP held in-person due diligence meetings at the Company's offices.

On May 8, 2013, the Company and ARCP entered into an exclusivity agreement that provided for exclusive negotiations for a period of 21 days. Later on May 8, ARCP sent the Company a revised non-binding term sheet reflecting the 40-day go shop period, a termination fee of $11,000,000 (1.5% of equity value and 0.5% of enterprise value) payable in connection with a third-party proposal during the go shop period, a termination fee of $21,000,000 (2.8% of equity value and 1.0% of enterprise value) payable after the go shop period, and an expense reimbursement of $4,000,000.

On May 9, 2013, Proskauer sent an initial draft of the merger agreement to the Company and its representatives.

On May 13, 2013, Mr. McDowell discussed with Mr. Silver the retention of Houlihan Lokey as an additional financial advisor to render an opinion as to the fairness, from a financial point of view, of the common merger consideration to be received by holders of Company common stock in a transaction with ARCP.

On May 14, 2013, the Company's board of directors held a meeting to discuss the initial draft of the merger agreement at which representatives of the Company's senior management, Hunton & Williams and Wells Fargo Securities were present. A representative of Hunton & Williams reminded the Company's board of directors of its fiduciary duties. The Company's board of directors then discussed material issues relating to the draft merger agreement that raised concerns, including (i) a "force the vote" provision that prohibited the Company from terminating the merger agreement after the expiration of the go shop period to enter into an alternative transaction with respect to a superior proposal; (ii) the length of ARCP's initial "matching right," which was proposed to be five business days, and the unlimited number of ARCP's "matching rights;" (iii) the Company's inability to continue negotiations after the expiration of the go

shop period with a third party (a "go shop bidder") that submitted an acquisition proposal during the go shop period; (iv) the lower termination fee being payable only if the Company terminated the merger agreement to enter into an alternative transaction with respect to a superior proposal before the expiration of the go shop period and after giving effect to ARCP's unlimited matching rights; (v) a requirement that obtaining consents from some of the Company's and its subsidiaries' lenders would be a condition to the completion of the merger; and (vi) a requirement that the Company reimburse ARCP for its expenses if the Company's stockholders did not approve the merger. Following discussion, the Company's board of directors instructed Hunton & Williams to proceed with negotiating the merger agreement. The Company's board of directors also agreed that the Company should engage Houlihan Lokey based on Houlihan Lokey's experience and reputation as well as, based on information provided by Houlihan Lokey, Houlihan Lokey's ability to provide the Company's board of directors with objective advice. The independent directors also met in executive session with representatives of Hunton & Williams.

On May 15, 2013, Hunton & Williams sent Proskauer a revised draft of the merger agreement.

On May 17, 2013, representatives of ARCP and Proskauer held a conference call with representatives of the Company, including Hunton & Williams and Wells Fargo Securities, to discuss various issues in the merger agreement, including provisions relating to the go shop process. Also on May 17, representatives of Houlihan Lokey were given access to a data room in connection with its financial analysis of the Company and the proposed transaction.

On May 18, 2013, Proskauer sent Hunton & Williams a revised draft of the merger agreement. Between May 18 and May 22, 2013, representatives of ARCP and Proskauer engaged in negotiations with representatives of the Company, including Hunton & Williams and Wells Fargo Securities, with respect to various issues relating to the merger agreement, including the "force the vote" provision, the Company's ability to continue discussions with a go shop bidder after the expiration of the go shop period, the length of ARCP's "matching right" and the number of "matching rights" to which ARCP was entitled. During these negotiations, ARCP agreed to delete the "force the vote" provision; provide the Company with a limited exception to engage in discussions with certain go shop bidders after the expiration of the go shop period; reduce ARCP's initial matching right to four business days; and limit ARCP's matching rights to two occasions but only with respect to a superior proposal submitted by a go shop bidder. ARCP also indicated that it would agree to a limited exception in which the lower termination fee would be payable after the expiration of the go shop period but, in any event, only if the applicable superior proposal was submitted by a go shop bidder and ARCP failed to match it. ARCP continued to insist, however, that the completion of the merger be conditioned on obtaining consents of certain of the Company's and its subsidiaries' lenders.

On May 21, 2013, the Company's board of directors held a meeting to discuss the status of the transaction and negotiations relating to the merger agreement, including the terms relating to the go shop process, which representatives of the Company's senior management, Hunton & Williams, Venable and Wells Fargo Securities attended. Following discussion, the Company's board of directors instructed Hunton & Williams to proceed with negotiating the merger agreement. The independent directors also met in executive session with representatives of Venable and Hunton & Williams. During the executive session, the independent directors discussed whether to request an increase in the merger price from ARCP as well as ARCP's requests to meet with the Company's senior management to discuss their potential employment following completion of the merger. The independent directors decided to defer a decision on these matters until the meeting of the Company's board of directors scheduled for the following day. Also on May 21, Proskauer sent Hunton & Williams a draft voting agreement to be entered into by certain of the Company's management in connection with the execution of the merger agreement.

On May 22, 2013, the Company's board of directors held a meeting at which representatives of the Company's senior management, Hunton & Williams and Wells Fargo Securities were present. During the meeting, Wells Fargo Securities reviewed with the Company's board of directors financial aspects of the proposed transaction and a preliminary financial analysis of the Company. Also discussed at this meeting was a proposed marketing strategy for the go shop process and potential buyers to be contacted during the go shop period. During this meeting, the Company's board of directors considered whether to request that ARCP increase its proposed purchase price. During this discussion, the Company's board of directors considered the recent increase in the trading price of Company common stock and the risk that the trading price could decline due to economic uncertainty with respect to, among other things, interest rates. After discussion, the Company's board of directors concluded that the purchase price of $8.50 per share, which represented an increase of 25% over the lower end of the price range in ARCP's initial proposal to acquire the Company on February 27, 2013, was compelling and that a request for ARCP to increase its price further could cause ARCP to withdraw from the negotiations. The Company's board of directors also discussed ARCP's requests to meet with the Company's senior management to discuss their potential employment following completion of the merger. Wells Fargo Securities informed the Company's board of directors that ARCP had indicated on several occasions that it was not willing to enter into the merger agreement until those discussions took place. The Company's board of directors also considered the fact that the price and other important terms in the merger agreement generally had been agreed upon by the parties and that the issue of employment discussions was an impediment to entering into a definitive agreement. Following discussion, the Company's board of directors determined that permitting the

Company's senior management to hold preliminary employment discussions with ARCP was in the best interests of the Company's stockholders. The Company's senior management confirmed to the Company's board of directors that they would cooperate with all potential bidders during the go shop process and would be willing to discuss their potential employment with any such potential bidder that might be interested in retaining the Company's management. The independent directors also met in executive session with representatives of Hunton & Williams. Also on May 22, Hunton & Williams sent Proskauer a revised draft of the merger agreement.

On May 23, 2013, Proskauer sent Hunton & Williams a revised draft of the merger agreement. Also on May 23, Mr. McDowell met with Mr. Schorsch to discuss at a high level where the Company and its senior management might fit in the strategic platform of ARCP or one or more of its affiliates.

On May 24, 2013, the Company's board of directors held a meeting at which representatives of Hunton & Williams attended. Representatives of Houlihan Lokey and Wells Fargo Securities also attended portions of the meeting. At the request of the Company's board of directors, representatives of Houlihan Lokey reviewed their financial analyses with the Company's board of directors with respect to the Company and the proposed merger. Also at this meeting, representatives of Hunton & Williams reminded the directors of their legal duties in connection with the proposed transaction and reviewed in detail the terms of the merger agreement (including the go shop, no-solicitation and termination provisions). During this discussion, the Company's board of directors discussed the remaining open issues relating to the merger agreement, including ARCP's position that the completion of the merger would be conditioned on obtaining the consents of certain of the Company's and its subsidiaries' lenders. The Company's board of directors expressed concern over this condition and instructed the Company's representatives to negotiate with ARCP to remove it. The independent directors also met in executive session with representatives of Hunton & Williams.

Between May 24 and May 27, 2013, representatives of ARCP, Proskauer, the Company's senior management, Hunton & Williams and Wells Fargo Securities negotiated various issues relating to the merger agreement, including whether the completion of the merger would be conditioned on obtaining consents from certain of the Company's and its subsidiaries' lenders.

On May 26, 2013, ARCP requested that certain members of the Company's management enter into an agreement, which we refer to as the letter agreement, with ARCP in which they would agree to waive certain rights to gross-up payments under their existing employment agreements with the Company for amounts that constitute "parachute payments" within the meaning of Section 280G of the Code. ARCP indicated that it would not enter into the merger agreement until this issue was resolved.

On May 27, 2013, ARCP informed the Company that it would remove the requirement that certain consents of the Company's and its subsidiaries' lenders be obtained as a condition to the completion of the merger if ARCP could delay completion of the merger until a date not later than December 2, 2013, in order to obtain those consents. Also on May 27, the Company's board of directors held a meeting at which representatives of the Company's senior management, Hunton & Williams and Wells Fargo Securities were present. A representative of Hunton & Williams provided an update on the status of the merger agreement. Mr. McDowell also explained ARCP's request that the Company's senior management waive certain of their rights under their existing employment agreements by entering into the letter agreement. The Company's senior management indicated that they were willing to enter into the letter agreement pursuant to which they would be responsible for one-half of any excise tax liability relating to the gross-up payments under their existing employment agreements with the Company if they did not enter into satisfactory employment agreements with ARCP in connection with the completion of the merger. After the meeting, Hunton & Williams and Proskauer finalized the merger agreement.

On May 28, 2013, the Company's board of directors held a meeting at which representatives of Hunton & Williams were present. Representatives of the Company's senior management, Wells Fargo Securities and Houlihan Lokey were also present for portions of the meeting. A representative of Hunton & Williams discussed the resolution of the final issues in the merger agreement, including with respect to the delay of the closing if related to obtaining certain

consents of the Company's and its subsidiaries' lenders. Mr. McDowell also confirmed that he and other members of the Company's senior management were willing to enter into the letter agreement on the terms previously described to the Company's board of directors. Mr. McDowell also provided management's assessment of the proposed transaction, indicating that they all believed the common merger consideration was compelling and the merger agreement should be approved. At the request of the Company's board of directors, Wells Fargo Securities reviewed with the Company's board of directors its financial analysis of the common merger consideration and rendered to the Company's board of directors an oral opinion, confirmed by delivery of a written opinion dated May 28, 2013, to the effect that, as of such date and based on and subject to various qualifications, limitations and assumptions stated in its opinion, the common merger consideration to be received in the merger pursuant to the merger agreement by holders of Company common stock (other than ARCP and its affiliates) was fair, from a financial point of view, to such holders. Also, at the request of the Company's board of directors, a representative of Houlihan Lokey rendered Houlihan Lokey's oral opinion to the Company's board of directors (which was confirmed in writing by delivery of Houlihan Lokey's written opinion dated May 28, 2013), as to, as of May 28, 2013, the fairness, from a financial point of view, to the holders of Company common stock (other than ARCP and its affiliates) of the common merger consideration to be received by the holders of Company common stock (other than ARCP and its affiliates) in the merger pursuant to the merger agreement.
Based upon its deliberations and taking into account, among other things, the factors described under "The Mergers—Reasons for the Mergers," the Company's board of directors unanimously adopted and approved the merger agreement and the merger and resolved to recommend to the Company's stockholders that they approve the merger and the other transactions contemplated by the merger agreement. In addition, because the Company's senior management had held preliminary discussions with ARCP with respect to their potential employment, the Company's board of directors also formed a special committee consisting only of the independent directors to oversee the go shop process.
Following the meeting, the Company, the Company operating partnership and the general partner of the Company operating partnership entered into the merger agreement. Also following the meeting, certain of the Company's management entered into the voting agreement and the letter agreement, which are described in more detail under "Voting Agreement" and "The Mergers—Change of Control and Termination Benefits—Potential Employment with ARCP," respectively, and the Company and ARCP issued a joint press release announcing the merger agreement.

Following execution of the merger agreement, pursuant to the “go shop” provisions of the merger agreement, beginning on May 28, 2013, in accordance with the directives of the special committee, Wells Fargo Securities contacted 44 prospective buyers that might have a strategic or financial interest in a transaction with the Company. As a result of those contacts, the Company entered into confidentiality agreements and granted data room access to 10 prospective buyers. None of the prospective buyers submitted a proposal to acquire the Company prior to the expiration of the “go shop” period at 11:59 p.m. (New York City time) on July 7, 2013, and no other person made an unsolicited inquiry or proposal.

Reasons for the Mergers

In evaluating the merger, the merger agreement and the other transactions contemplated by the merger agreement, the Company’s board of directors consulted with our senior management and outside legal and financial advisors. The Company’s board of directors considered a number of factors, including the following material factors which the Company’s board of directors viewed as supporting its decision to approve the merger, the merger agreement and the other transactions contemplated by the merger agreement and to recommend approval of the merger proposal to our common stockholders:

The Company’s Business, Financial Condition and Prospects

The familiarity of the Company’s board of directors with the business, operations, prospects, business strategy and financial condition of the Company, and the certainty of realizing in cash a compelling value for the Company common stock compared to the risks and challenges associated with the continued operation of the Company’s business (including the risk factors set forth in the Company’s Annual Report on Form 10-K for the year ending on December 31, 2012, and Quarterly Report on Form 10-Q for the quarter ending on March 31, 2013).

Negotiations with ARCP

The fact that $8.50 in cash per share of Company common stock and the other terms of the merger agreement resulted from arm’s-length negotiations between the Company and ARCP, with the assistance of their respective advisors.

Premium to Market Price

The common merger consideration represents a premium over the recent trading price of the Company common stock, including a 19.7% premium over the closing price of $7.10 per share on May 24, 2013, the last trading day prior to the public announcement of the merger agreement, a 20.6% premium over its 30-day average trading price prior to May 24, 2013 and a 120.8% premium over its 52-week low trading price prior to May 24, 2013.

Interim Dividend

The fact that the Company is permitted under the merger agreement to declare and pay regular quarterly cash dividends to its stockholders for full quarterly periods in accordance with past practice and for any interim period through the closing date at an annual rate not to exceed $0.31 per share of Company common stock.

Cash Consideration

The common merger consideration paid to holders of Company common stock in the merger is cash, giving the holders of such shares an opportunity to immediately realize value for their investment in the Company and providing liquidity and certainty of value.

Opinions of the Company's Financial Advisors

The separate opinions, each dated May 28, 2013, of Wells Fargo Securities and Houlihan Lokey to the Company's board of directors as to the fairness, from a financial point of view and as of such date, of the common merger consideration to be received pursuant to the merger agreement by holders of Company common stock (other than ARCP and its affiliates), which opinions were based on and subject to the assumptions made, procedures followed, factors considered and limitations on the review undertaken as further described in the "The Mergers—Opinions of the Company's Financial Advisors" beginning on page 40.

Likelihood of Completion

The belief of the Company's board of directors that the merger is reasonably likely to be completed on a timely basis, based on, among other things, the business reputation and capabilities of ARCP, the absence of a financing contingency, ARCP's representation that it will have sufficient financial resources to pay the aggregate merger consideration and consummate the merger at the time of closing, and the other closing conditions in the merger agreement.

Terms of the Merger Agreement

The ability of the Company, under the merger agreement, during the "go shop" period beginning on the date of the merger agreement and continuing until 11:59 p.m., New York time, on July 7, 2013, to initiate, solicit and encourage alternative acquisition proposals from third parties and to terminate the merger agreement to accept a "superior proposal" (as defined in the merger agreement) prior to the time the stockholders approve the merger, subject to payment of a termination fee of $11 million if terminated in some cases and a fee of $21 million if terminated in other cases plus, in each case, an expense reimbursement of $4 million. For more information, see "The Merger Agreement—Covenants and Agreements—Go Shop Period and No Solicitation of Transactions by the Company" beginning on page 73.

The ability of the Company, after the expiration of the "go shop" period on July 7, 2013, and prior to the time the stockholders approve the merger to (i) consider and respond to a written Company acquisition proposal from, (ii) provide non-public information to and (iii) engage in discussions or negotiations with any third party making such Company acquisition proposal if the Company's board of directors (or any committee of the Company's board of directors), prior to taking any such actions, determines in good faith, after consultation with outside legal counsel, that failure to take such actions could be inconsistent with the directors' duties under applicable law and, after consultation with outside counsel and financial advisors, that such Company acquisition proposal either constitutes, or could reasonably be expected to result in, a superior proposal. For more information, see "The Merger Agreement—Covenants

and Agreements—Go Shop Period and No Solicitation of Transactions by the Company” beginning on page 73.

Ability to Withdraw or Change Recommendation

The ability of the Company’s board of directors to withdraw or modify its recommendation in favor of the merger under certain circumstances, including the ability to terminate the merger agreement in connection with a superior proposal (as defined in the merger agreement), subject to payment of a termination fee of $11 million if terminated in certain cases and a fee of $21 million if terminated in other cases plus, in each case, an expense reimbursement of $4 million.

Specific Performance

The Company’s right under the merger agreement to seek to specifically enforce the terms of the merger agreement, including the completion of the mergers.

The Company’s board of directors also considered in its deliberations a variety of uncertainties and risks concerning the merger, including the following:

No Stockholder Participation in Future Growth or Earnings

The nature of the merger as a cash transaction will prevent the Company's stockholders from being able to participate in any future earnings or growth of the Company, and stockholders will not benefit from any potential future appreciation in the value of the Company common stock, including any value that could be achieved if the Company engages in future strategic or other transactions or as a result of the improvements to the Company's operations.

Taxable Consideration

Receipt of the merger consideration will be taxable to the Company's stockholders for U.S. tax purposes.

Effect of Public Announcement

The effect of a public announcement of the merger agreement on the Company's operations, stock price, tenants, lenders and employees and the Company's ability to attract and retain key personnel.

Effect of Failure to Complete Transaction

If the merger is not completed, the trading price of the shares of Company common stock could be adversely affected, the Company will have incurred significant transaction and opportunity costs attempting to complete the mergers, the Company's business may be subject to disruption, the market's perceptions of the Company's prospects could be adversely affected, and the Company's directors, officers and other employees will have expended considerable time and effort to complete the mergers.

Interim Restrictions on Business

The restrictions in the merger agreement on the conduct of the Company's business prior to the completion of the mergers, requiring the Company to operate its business in the ordinary course of business and subject to other restrictions, may adversely affect the Company's ability to undertake business opportunities that could arise or take

other action the Company might otherwise take with respect to the business of the Company prior to the completion of the mergers.

Restrictions on Soliciting Proposals; Termination Fee

The restrictions in the merger agreement on the solicitation of competing proposals after the “go shop” period and the requirement, under the merger agreement, that the Company pay ARCP a termination fee of either $11 million or $21 million depending on the circumstances and, in each case, reimburse ARCP for its expenses in the amount of $4 million which fees and expense reimbursement may deter third parties from making a competing offer for the Company prior to the completion of the merger and could impact the Company’s ability to engage in another transaction for up to eleven months if the merger agreement is terminated in certain circumstances. For more information, see “The Merger Agreement—Termination Fee and Expenses Payable by the Company to ARCP” beginning on page 81.

Potential Employment of Management with ARCP or its Affiliates

The Company’s board of directors considered the possibility that, while the Company’s board of directors had required management not to engage in material discussions relating to management’s potential employment with ARCP or its affiliates until the principal terms of the merger agreement, including the merger consideration to be received by holders of Company common stock, were finalized and agreed, and although to the knowledge of the Company’s board of directors no such material discussions had in fact taken place before the merger agreement was approved by the Company’s board of directors, some or all of the Company’s management may become employees of ARCP or its affiliates after completion of the merger (including pursuant to employment agreements that certain executives may enter into with ARCP or one of its affiliates under the terms of the letter agreement) and may therefore have interests in the merger that are different from, or in addition to, those of the Company’s stockholders.

Potential for Litigation

The Company's board of directors considered the possible effects of the pendency or consummation of the transactions contemplated by the merger agreement, including any suit, action or proceeding initiated in respect of the merger.

Potential Conflicts of Interest

The directors and executive officers of the Company may have interests in the merger that are different from, or in addition to, those of the Company's stockholders, including vesting of, and payment of the merger consideration for, performance shares and restricted stock, payment of severance and other benefits upon termination of employment with the Company in connection with the merger, rights to indemnification, advancement of expenses and insurance coverage and potential employment with ARCP or its affiliates of the Company's officers following completion of the merger, as described above.

The foregoing discussion of the factors considered by the Company's board of directors is not intended to be exhaustive, but rather includes the material factors considered by the Company's board of directors. In reaching its decision to approve the merger, the merger agreement and the other transactions contemplated by the merger agreement, the Company's board of directors did not quantify or assign any relative weights to the factors considered and individual directors may have given different weights to different factors. In the event the merger is not completed for any reason, we expect to continue to pursue our strategic plan with the intention of delivering further improvement in our financial results and enhanced stockholder value.

Recommendation of the Company's Board of Directors

The Company's board of directors, by unanimous vote, has approved the merger, the merger agreement and the other transactions contemplated by the merger agreement and has declared the merger, the merger agreement and the other transactions contemplated by the merger agreement advisable and in the best interests of the Company and our stockholders. The Company's board of directors recommends that you vote "FOR" the merger proposal, "FOR" the non-binding compensation proposal and "FOR" the adjournment proposal.

Certain Prospective Financial Information

The Company does not as a matter of course make public projections as to future performance, earnings or other results beyond the current fiscal year due to the unpredictability of the underlying assumptions and estimates. However, the Company provided to ARCP, in connection with its review of information regarding the Company, certain standalone financial projections for the fiscal years 2013 through 2015 that had been prepared by management of the Company for internal planning purposes and that are subjective in many respects. The Company also provided standalone financial projections for the fiscal years 2013 through 2018 to the Company's board of directors and the Company's financial advisors, as updated by the Company's management to reflect actual results or conditions. The prospective financial information reflected in the standalone financial projections is set forth in the table below in a manner consistent with the Company's historical financial reporting and referred to in this document as the projections. The Company believes that the projections reflect the current long-term business plan for the Company on a go-forward, standalone basis.

The projections have been prepared by, and are the responsibility of, the Company's management. The projections were not prepared with a view toward public disclosure and, accordingly, do not necessarily comply with published guidelines of the SEC, the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of financial forecasts, or generally accepted accounting principles, or GAAP. Neither the Company's independent registered public accounting firm nor any other independent accountants have audited, compiled or performed any procedures with respect to the projections or expressed an opinion or any form of assurance related thereto. The projections are included in this document solely because they were made available to ARCP, the Company's board of directors and the Company's financial advisors in connection with the merger, and are not being included in this document to influence a stockholder's decision whether to approve the merger proposal, make any investment decision or for any other purpose.

The projections, while presented with numerical specificity, necessarily were based on numerous variables and assumptions that are inherently uncertain and many of which are beyond the control of the Company’s management. Because the projections cover multiple years, by their nature, they become subject to greater uncertainty with each successive year. The assumptions upon which the projections were based necessarily involve subjective judgments with respect to, among other things, future economic, industry, competitive and financial market conditions, including interest rates, the Company’s ability to refinance or satisfy its indebtedness when due, the Company’s ability to acquire new properties and finance such acquisitions, the Company’s ability to raise capital by selling shares of its capital stock and the Company’s ability to lease its properties, all of which are difficult or impossible to predict accurately and many of which are beyond the Company’s control. The projections also reflect assumptions as to certain business decisions that are subject to change. In addition, the projections may be affected by the Company’s ability to successfully implement a number of initiatives to improve its operations and financial performance. The projections also may be affected by the Company’s ability to achieve strategic goals, objectives and targets over the applicable periods. In addition, the projections do not take into account the transactions contemplated by the merger agreement or the effect of any failure of the mergers to occur, and should not be viewed as necessarily indicative of actual or continuing results in that context.

Accordingly, there can be no assurance that the projections will be realized, and actual results may vary materially from those shown, including because of the risks and other factors described in “Cautionary Statement Concerning Forward-Looking Statements” beginning on page 17. The inclusion of the projections in this document should not be regarded as an indication that the Company or any of its affiliates, advisors, officers, directors, employees, agents or representatives considered or consider the projections to be predictive of actual future events, and the projections should not be relied upon as such. Neither the Company nor any of its affiliates, advisors, officers, directors, employees, agents or representatives can give any assurance that actual results will not differ from the projections, and none of them undertakes any obligation to update or otherwise revise or reconcile the projections to reflect circumstances existing after the date the projections were generated or to reflect the occurrence of future events even in the event that any or all of the assumptions underlying the projections are shown to be in error. The Company does not intend to make publicly available any update or other revision to the projections, except as otherwise required by law. Neither the Company nor any of its affiliates, advisors, officers, directors, employees, agents or representatives has made or makes any representation or warranty to any stockholder of the Company or other person regarding the ultimate performance of the Company compared to the information contained in the projections or that the projections will be achieved. The Company has made no representation or warranty to ARCP, the ARCP operating partnership or Merger Sub or their affiliates, in the merger agreement or otherwise, concerning the projections.

Certain of the prospective financial information in the projections, including funds from operations (FFO) and cash available for distribution (CAD), may be considered non-GAAP financial measures. The Company believes FFO and CAD are useful measures of the Company’s financial performance, as these measures are commonly used by the investment community in evaluating the performance of an equity REIT. The Company also believes that these measures are useful because they adjust for a variety of non-cash items (like depreciation and amortization, in the case of FFO, and depreciation and amortization, stock-based compensation and straight-line rent adjustments, in the case of CAD). FFO and CAD should not be considered as alternatives to net income or earnings per share determined in accordance with GAAP as an indicator of the Company’s operating performance or as an alternative to cash flow as a measure of liquidity. Since all companies and analysts do not calculate FFO and CAD in a similar fashion, the Company’s calculation of FFO and CAD may not be comparable to similarly titled measures reported by other companies.

The Company calculates FFO consistent with the definition of the National Association of Real Estate Investment Trusts, or NAREIT, or net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property and impairment losses on depreciable real estate, plus real estate-related depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Real estate-related depreciation includes amortization of capitalized leasing expenses, tenant allowances or improvements, and excludes amortization of deferred financing costs.

The Company also evaluates FFO as adjusted for items that affect comparability, as it believes this measure is a useful proxy for existing portfolio performance and, therefore, provides a meaningful presentation of operating performance. Items that affect comparability may include gains or losses on the Company's debt investments that, unlike gains or losses on owned properties, are not excluded from FFO under the NAREIT definition, gain or loss on debt extinguishment, debt modification costs and property acquisition costs. FFO as adjusted for items that affect comparability should not be considered as an alternative to net income or earnings per share determined in accordance with GAAP as an indicator of our operating performance or as an alternative to cash flow as a measure of liquidity. It also differs from the NAREIT's definition of FFO and may not be comparable to similarly titled measures reported by other companies.

The Company calculates CAD by further adjusting FFO as adjusted for comparability to exclude straight-line rent adjustments, stock-based compensation, above or below market rent amortization and non-cash interest income and expense, and to include routine capital expenditures on investments in real property and capitalized interest expense (if any).

The Company included these non-GAAP financial measures in the projections because the Company believed they could be useful in evaluating, on a prospective basis, the Company's potential operating performance. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP, and non-GAAP financial measures as used by the Company may not be comparable to similarly titled amounts used by other companies.

In light of the foregoing factors and the uncertainties inherent in the projections, the Company's stockholders are cautioned not to place undue, if any, reliance on the projections.

The projections are forward-looking statements. For more information on factors that may cause the Company's future financial results to vary materially, see "Cautionary Statement Concerning Forward-Looking Statements" beginning on page 17.

The following table sets forth the projections:

Income Statement

(amounts in thousands, except per share amounts)

	2013	**2014**	**2015**	**2016**	**2017**	**2018**
Revenues:						
Rental revenue	$150,205	$170,574	$194,466	$207,099	$219,429	$242,101
Interest income from loans and securities	6,998	6,382	6,150	5,919	5,418	5,010
Tenant reimbursements	20,342	19,477	23,450	24,717	26,319	29,666
Other revenue	754	831	855	875	598	483
Total revenues	**178,299**	**197,265**	**224,921**	**238,611**	**251,765**	**277,260**
Expenses:						
Interest expense	67,362	68,545	71,240	70,137	69,589	73,297
Property expenses	35,107	35,350	39,647	43,759	46,473	48,168
General and administrative expenses	12,076	11,920	11,920	11,920	11,920	11,920
General and administrative expenses-stock based compensation	3,759	3,092	3,229	3,613	4,038	4,463

Depreciation and amortization expense on real property	47,835	46,777	45,962	44,436	39,742	38,913
Other expenses	90	120	120	120	120	120
Total expenses	**166,230**	**165,803**	**172,118**	**173,984**	**171,881**	**176,881**
Income (loss) on investments, net	–	(5,918)	–	897	(5,417)	–
Income (loss) from operations	12,069	25,543	52,803	65,524	74,466	100,379
Dividends allocable to preferred shares	(13,281)	(12,960)	(12,960)	(12,960)	(12,960)	(12,960)
Net Income (Loss) applicable to common shareholders	$(1,212)	$12,583	$39,843	$52,563	$61,506	$87,418
Net Income Per Share	$(0.014)	$0.119	$0.330	$0.388	$0.412	$0.532
Depreciation and amortization expense on real property	47,835	46,777	45,962	44,436	39,742	38,913
FFO	**$46,623**	**$59,360**	**$85,805**	**$96,999**	**$101,247**	**$126,332**
FFO Per Share	**$0.539**	**$0.560**	**$0.712**	**$0.716**	**$0.678**	**$0.768**
Property acquisition costs	408	408	408	408	408	408
FFO, as adjusted for comparability	**47,031**	**65,686**	**86,213**	**96,510**	**107,073**	**126,740**
FFO Per Share (Adjusted for Comparability)	**0.544**	**0.620**	**0.715**	**0.712**	**0.717**	**0.771**
Straight-lining of rents	(991)	(1,548)	(2,425)	(1,390)	(3,479)	(4,329)
General and administrative expenses-stock based compensation	3,759	3,092	3,229	3,613	4,038	4,463
Amortization of above and below market leases	(1,741)	(1,644)	(1,368)	(1,364)	(1,323)	(1,286)
Non-cash interest income and expenses	1,632	1,201	369	(150)	(309)	50
Routine capital expenditures on real estate investments	(600)	(391)	(304)	(333)	(21)	(18)
CAD	**$49,089**	**$66,395**	**$85,714**	**$96,886**	**$105,978**	**$125,619**
CAD Per Share	**$0.567**	**$0.626**	**$0.711**	**$0.715**	**$0.710**	**$0.764**
Total Shares of Common Stock Outstanding	93,509	113,098	128,139	142,064	155,776	172,985
Weighted Average Shares of Common Stock	86,347	105,831	120,437	135,341	149,171	164,278
OP Units Outstanding	156	156	156	156	156	156

The projections should be evaluated, if at all, in conjunction with the historical financial statements and other information regarding the Company contained elsewhere in this document and the Company's public filings with the SEC.

Opinions of the Company's Financial Advisors

Opinion of Wells Fargo Securities

The Company retained Wells Fargo Securities to act as the Company's financial advisor in connection with the merger. As part of Wells Fargo Securities' engagement, the Company's board of directors requested that Wells Fargo Securities evaluate the fairness, from a financial point of view, of the common merger consideration to be received pursuant to the merger agreement by holders of Company common stock (other than ARCP and its affiliates). On May 28, 2013, at a meeting of the Company's board of directors held to evaluate the merger, Wells Fargo Securities rendered to the Company's board of directors an oral opinion, confirmed by delivery of a written opinion dated May 28, 2013, to the effect that, as of such date and based on and subject to various qualifications, limitations and assumptions stated in its opinion, the common merger consideration to be received pursuant to the merger agreement by holders of Company common stock (other than ARCP and its affiliates) was fair, from a financial point of view, to such holders.

The full text of Wells Fargo Securities' written opinion, dated May 28, 2013, to the Company's board of directors is attached as Annex B to this document and is incorporated in this document by reference. The written opinion sets forth, among other things, the assumptions made, procedures followed, factors considered and limitations on the review undertaken by Wells Fargo Securities in rendering its opinion. The following summary is qualified in its entirety by reference to the full text of the opinion. The opinion was addressed to the Company's board of directors (in its capacity as such) for its information and use in connection with its evaluation of the common merger consideration from a financial point of view, and did not address any other terms, aspects or implications of the merger or any related transactions. Wells Fargo Securities' opinion did not address the merits of the underlying decision by the Company to enter into the merger agreement or the relative merits of the merger or any related transactions compared with other business strategies or transactions available or that have been or might be considered by the Company's management or the Company's board of directors or in which the Company might engage. The opinion should not be construed as creating any fiduciary duty on the part of Wells Fargo Securities to any party and the opinion does not constitute a recommendation to the Company's board of directors or any other person or entity in respect of the merger or any related transactions, including as to how any holder of any of the Company's securities should vote or act in connection with the merger, any related transactions or any other matters.

The terms of the merger and related transactions were determined through negotiations between the Company and ARCP, rather than by any financial advisor, and the decision to enter into the merger agreement was solely that of the Company's board of directors. Wells Fargo Securities did not recommend any specific form of consideration to the

Company's board of directors or that any specific form of consideration constituted the only appropriate consideration for the merger. The opinion was only one of many factors considered by the Company's board of directors in its evaluation of the merger and should not be viewed as determinative of the views of the Company's board of directors, the Company's management or any other party with respect to the merger or the consideration payable in the merger.

In arriving at its opinion, Wells Fargo Securities, among other things:

reviewed an execution version, dated as of May 28, 2013, of the merger agreement, including the financial terms of the merger;

reviewed certain publicly available business, financial and other information regarding the Company, including information set forth in the Company's annual reports to stockholders and annual reports on Form 10-K for the fiscal years ended December 31, 2010, December 31, 2011 and December 31, 2012 and quarterly report on Form 10-Q for the period ended March 31, 2013;

reviewed certain other business and financial information regarding the Company furnished to Wells Fargo Securities by and discussed with the Company's management, including financial forecasts and estimates prepared by the Company's management for fiscal years ending December 31, 2013 through December 31, 2016;

discussed with the Company's management the operations and prospects of the Company, including the historical financial performance and trends in the results of operations of the Company;

participated in discussions among representatives of the Company, ARCP and their respective advisors regarding the proposed merger;

reviewed reported prices and trading activity for Company common stock;

analyzed the estimated net asset value of the Company's real estate portfolio based upon the financial forecasts and estimates referred to above and related assumptions discussed with and confirmed as reasonable by the Company's management;

compared certain financial data of the Company with similar data of certain other publicly traded companies that Wells Fargo Securities deemed relevant in evaluating the Company;

analyzed the estimated present value of the future dividends per share of the Company based upon financial forecasts and estimates referred to above and related assumptions discussed with and confirmed as reasonable by the Company's management; and

considered other information, such as financial studies, analyses and investigations, as well as financial, economic and market criteria, that Wells Fargo Securities deemed relevant.

In connection with its review, Wells Fargo Securities assumed and relied upon the accuracy and completeness of the financial and other information provided, discussed with or otherwise made available to Wells Fargo Securities, including all accounting, tax, regulatory and legal information, and Wells Fargo Securities did not make (and assumed no responsibility for) any independent verification of such information. Wells Fargo Securities relied upon assurances of the Company's management that it was not aware of any facts or circumstances that would make such information inaccurate or misleading. With respect to the financial forecasts, estimates and other information utilized in Wells Fargo Securities' analyses, Wells Fargo Securities was advised by the Company's management and, at the Company's direction, Wells Fargo Securities assumed that they were reasonably prepared and reflected the best currently available estimates, judgments and assumptions of the Company's management as to the future financial performance of the Company. Wells Fargo Securities assumed no responsibility for, and expressed no view as to, such forecasts, estimates or other information utilized in Wells Fargo Securities' analyses or the judgments or assumptions upon which they were based. Wells Fargo Securities also assumed that there were no material changes in the condition (financial or otherwise), results of operations, business or prospects of the Company since the respective dates of the most recent financial statements and other information provided to Wells Fargo Securities. In arriving at its opinion, Wells Fargo Securities did not conduct physical inspections of the properties or assets of the Company or any other entity and it did not make, and was not provided with, any evaluations or appraisals of the properties, assets or liabilities (contingent or otherwise) of the Company or any other entity. In connection with Wells Fargo Securities' engagement, Wells Fargo Securities was not requested to, and it did not, solicit third-party indications of interest in the possible acquisition of the Company; however, Wells Fargo Securities was requested to solicit such third-party indications of interest for a specified period after the date of the merger agreement as permitted under the provisions of the merger agreement.

In rendering its opinion, Wells Fargo Securities assumed, at the Company's direction, that the final form of the merger agreement, when signed by the parties thereto, would not differ from the execution version of the merger agreement reviewed by Wells Fargo Securities in any respect meaningful to its analyses or opinion, that the merger and any related transactions would be consummated in accordance with the terms described in the merger agreement and in compliance with all applicable laws and other requirements, without amendment or waiver of any material terms or conditions, that, in the course of obtaining any necessary legal, regulatory or third party consents, approvals or agreements for the merger and any related transactions, no delay, limitation or restriction, including any divestiture or other requirements, would be imposed or action would be taken that would have an adverse effect on the Company, the merger or related transactions. Wells Fargo Securities was advised by representatives of the Company that the Company has operated in conformity with the requirements for qualification as a REIT for federal income tax purposes since its formation as a REIT. Wells Fargo Securities' opinion was necessarily based on economic, market, financial and other conditions existing, and information made available to Wells Fargo Securities, as of the date of its opinion. The credit, financial and stock markets have been experiencing unusual volatility and Wells Fargo Securities expressed no opinion or view as to any potential effects of such volatility on the Company, the merger or related transactions. Although subsequent developments may affect the matters set forth in its opinion, Wells Fargo Securities does not have any obligation to update, revise, reaffirm or withdraw its opinion or otherwise comment on or consider any such events occurring or coming to Wells Fargo Securities' attention after the date of its opinion.

Wells Fargo Securities' opinion only addressed the fairness, from a financial point of view and as of the date of its opinion, of the common merger consideration to be received pursuant to the merger agreement by holders of Company common stock (other than ARCP and its affiliates) to the extent expressly specified in its opinion and no opinion or view was expressed with respect to any other securities of the Company or any other party, including the consideration to be received or other amounts payable in the merger or any related transactions in respect of Company preferred stock, Company operating partnership units or membership interests in Merger Sub or upon redemption of any other securities of the Company in connection with the merger or any related transactions. Wells Fargo Securities' opinion did not address any other terms, aspects or implications of the merger or any related transactions or any voting agreement or other agreement, arrangement or understanding entered into in connection with or contemplated by the merger, any related transactions or otherwise, including, without limitation, the form or structure of the merger or any related transactions. In addition, Wells Fargo Securities' opinion did not address the fairness of the amount or nature of, or any other aspects relating to, any compensation to be received by any officers, directors, managers or employees of any parties to the merger or any related transactions, or class of such persons, relative to the common merger consideration or otherwise. Wells Fargo Securities also did not express any view or opinion with respect to, and with the Company's consent relied upon the assessments of the Company's representatives regarding, accounting, tax, regulatory, legal or similar matters and Wells Fargo Securities understood that the Company obtained such advice as it deemed necessary from qualified professionals. Except as described in this summary, the Company imposed no other instructions or limitations on Wells Fargo Securities with respect to the investigations made or procedures followed by Wells Fargo Securities in rendering its opinion.

In connection with rendering its opinion, Wells Fargo Securities performed certain financial, comparative and other analyses as summarized below. This summary is not a complete description of the financial analyses performed and factors considered in connection with such opinion. In arriving at its opinion, Wells Fargo Securities did not ascribe a specific value to Company common stock but rather made its determinations as to the fairness, from a financial point of view, of the common merger consideration on the basis of various financial and comparative analyses taken as a whole. The preparation of a financial opinion is a complex process and involves various determinations as to the most

appropriate and relevant methods of financial and comparative analyses and the application of those methods to the particular circumstances. Therefore, a financial opinion is not readily susceptible to summary description.

In arriving at its opinion, Wells Fargo Securities did not attribute any particular weight to any single analysis or factor considered but rather made qualitative judgments as to the significance and relevance of each analysis and factor relative to all other analyses and factors performed and considered and in the context of the circumstances of this particular transaction. Accordingly, the analyses must be considered as a whole, as considering any portion of such analyses and factors, without considering all analyses and factors as a whole, could create a misleading or incomplete view of the process underlying such opinion. The fact that any specific analysis has been referred to in the summary below is not meant to indicate that such analysis was given greater weight than any other analysis referred to in the summary. No company or transaction is identical to the Company or the merger and an evaluation of Wells Fargo Securities' analyses is not entirely mathematical; rather, such analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the public trading or other values of the companies reviewed.

In performing its analyses, Wells Fargo Securities considered industry performance, general business and economic conditions and other matters existing as of the date of its opinion, many of which are beyond the control of the Company or any other parties to the merger. None of the Company, Wells Fargo Securities or any other person assumes responsibility if future results are different from those discussed whether or not any such difference is material. Any estimates contained in these analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than as set forth below. In addition, analyses relating to the value of properties, businesses or securities do not purport to be appraisals or necessarily reflect the prices at which properties, businesses or securities may actually be sold or acquired. Accordingly, the assumptions and estimates used in, and the results derived from, the following analyses are inherently subject to substantial uncertainty.

The following is a summary of the material financial analyses provided on May 28, 2013 to the Company's board of directors by Wells Fargo Securities in connection with its opinion. **Certain financial analyses summarized below include information presented in tabular format. In order to fully understand the financial analyses, the tables must be read together with the text of each summary, as the tables alone do not constitute a complete description of the financial analyses. Considering the data in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of such financial analyses.**

Net Asset Value Analysis. Wells Fargo Securities performed a net asset value analysis of the Company as of March 31, 2013 based on the Company's public filings and internal estimates of the Company's management. Estimated financial data for the Company utilized in such analysis gave effect to certain items or events occurring during the second quarter of 2013, including the issuance by the Company of shares of Company common stock, the repurchase by the Company of shares of its Series A preferred stock, the paydown of amounts under certain of the Company's outstanding mortgages, the payment by the Company of dividends on Company common stock and Company preferred stock and certain acquisitions consummated by the Company. An estimated net asset value range for the Company's office, industrial and retail income-producing properties on an asset-by-asset basis was calculated by applying, depending on property type, tenant credit quality and remaining lease term, weighted average capitalization rates for all assets collectively of 7.1% to 7.5% to the calendar year 2013 estimated cash net operating income of such property. Wells Fargo Securities also took into account for purposes of such analysis (i) the estimated net asset value of the Company's non-stabilized properties and non-real estate assets and other investments as per the Company's public filings or internal estimates of the Company's management and (ii) the Company's cash and liabilities as reflected on its balance sheet as of March 31, 2013 after giving effect to the items or events described above occurring in the second quarter of 2013, including the Company's outstanding indebtedness (valued, depending upon the type of indebtedness, at the estimated fair value of such debt per the Company's public filings or mark-to-market utilizing estimated market rates for similar types of indebtedness), re-tenanting costs associated with certain of the Company's properties as estimated by the Company's management, accrued dividend payments and preferred stock (valued at its market value as of May 17, 2013) and excluding intangibles and other non-cash GAAP-specific balance sheet items. An implied per share equity value reference range for the Company was then calculated based on the Company's implied net asset value derived from such analysis divided by the number of fully diluted shares of Company common stock and Company operating partnership Class B units per the Company's management. This analysis indicated the following approximate implied per share equity value reference range for Company common stock, as compared to the common merger consideration:

Implied Per Share Equity Value Reference Range	Common Merger Consideration
$6.45 - $7.58	$8.50

Selected Publicly Traded Companies Analysis. Wells Fargo Securities reviewed and compared financial and operating data relating to the Company and the following three selected publicly traded net lease REITs that Wells Fargo Securities deemed generally relevant for comparative purposes taking into account, among other things, real estate portfolio and financial and operational characteristics, referred to as the primary selected companies:

- Select Income REIT
- Lexington Realty Trust
- Spirit Realty Capital, Inc.

Wells Fargo Securities reviewed closing stock prices of the primary selected companies on May 24, 2013 as multiples of calendar years 2013 and 2014 estimated funds from operations, referred to as FFO per share, and FFO as adjusted for certain items, including primarily straight-line rent revenues, recurring capital expenditures, above market and below market lease amortization and non-cash employee compensation, referred to as AFFO per share. The overall low to high calendar year 2013 estimated FFO per share and AFFO per share multiples observed for the primary selected companies were 9.3x to 15.5x (with a mean multiple of 12.4x) and 10.7x to 16.0x (with a mean multiple of 13.8x), respectively, and overall low to high calendar year 2014 estimated FFO per share and AFFO per share multiples observed for the primary selected companies were 9.0x to 14.7x (with a mean multiple of 11.8x) and 10.1x to 14.4x (with a mean multiple of 12.9x), respectively.

For informational purposes, Wells Fargo Securities also reviewed financial and operating data relating to the following five selected publicly traded net lease REITs, referred to as the secondary selected companies:

- ARCP
- EPR Properties
- National Retail Properties, Inc.
- WP Carey Inc.
- Realty Income Corporation

The overall observed low to high calendar year 2013 estimated FFO per share and AFFO per share multiples for the secondary selected companies were 14.3x to 21.2x (with a mean multiple of 19.0x) and 15.0x to 21.2x (with a mean multiple of 18.5x), respectively, and overall observed calendar year 2014 estimated FFO per share and AFFO per share multiples for the secondary selected companies were 13.5x to 20.5x (with a mean multiple of 17.6x) and 14.1x

to 20.1x (with a mean multiple of 17.1x), respectively.

Wells Fargo Securities then applied selected ranges of calendar year 2013 estimated FFO per share and AFFO per share multiples of 11.5x to 13.5x and 12.5x to 14.5x, respectively, and selected ranges of calendar year 2014 estimated FFO per share and AFFO per share multiples of 11.0x to 13.0x and 12.0x to 14.0x, respectively, derived from the primary selected companies to corresponding data of the Company. Estimated financial data of the primary selected companies and the secondary selected companies were based on publicly available research analysts' estimates, public filings and other publicly available information. Estimated financial data of the Company were based on Wall Street consensus estimates. This analysis indicated the following approximate implied per share equity value reference ranges for the Company, as compared to the common merger consideration:

Implied Per Share Equity Value Reference Range Based on:		
2013 FFO/AFFO	2014 FFO/AFFO	Common Merger Consideration
$6.56 - $8.36	$7.24 - $9.05	$8.50

Dividend Discount Analysis. Wells Fargo Securities performed a dividend discount analysis of the Company to calculate a range of implied present values of the distributable cash flows that the Company was forecasted to generate during the six months ending December 31, 2013 through the full fiscal year ending December 31, 2015 utilizing internal estimates of the Company's management. Wells Fargo Securities then derived implied terminal values by applying to the Company's estimated forward-year FFO for the fiscal year ending December 31, 2016 a range of terminal FFO multiples of 11.0x to 13.0x. Present values (as of March 31, 2013) of distributable cash flows and terminal values were then calculated by Wells Fargo Securities using a discount rate range of 8.5% to 9.5%, based on a cost of equity calculation. This analysis indicated the following approximate implied per share equity value reference range for the Company, as compared to the common merger consideration:

Implied Per Share Equity Value Reference Range	Common Merger Consideration
$6.96 - $8.26	$8.50

Other Information. Wells Fargo Securities observed certain additional factors that were not considered part of Wells Fargo Securities' financial analyses with respect to its opinion but were noted and discussed with the Company's board of directors for informational purposes, including the following:

historical trading performance of Company common stock during the 52-week period ended May 24, 2013, which reflected low and high trading prices for Company common stock during such period of approximately $3.85 to $7.74 per share; and

purchase prices paid as multiples of latest 12 months FFO per share and AFFO per share in the following four selected precedent transactions involving net lease REITs announced from February 21, 2012 to January 22, 2013, noting that sufficient reliable financial data generally were not publicly available with respect to the target companies involved in such transactions given, among other things, that such target companies were either recently formed or had no or limited research analyst coverage: (i) Cole Credit Property Trust II, Inc. and Spirit Realty Capital, (ii) American Realty Capital Trust III, Inc. and American Realty Capital Properties, Inc., (iii) Realty Income Corp. and American Realty Capital Trust Inc. and (iv) W.P. Carey & Co. LLC and Corporate Property Associates 15 Incorporated, which indicated ranges of implied latest 12 months normalized (to adjust for non-recurring items) FFO per share and AFFO per share multiples of 13.9x to 16.5x and 12.3x to 16.5x, respectively, as compared to the latest 12 months (as of March 31, 2013) normalized FFO per share and AFFO per share multiples implied for the Company based on the common merger consideration of 13.7x and 15.5x, respectively.

Miscellaneous

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Securities, LLC. Wells Fargo Securities is an internationally recognized investment banking firm which is regularly engaged in providing financial advisory services in connection with mergers and acquisitions. The Company selected Wells Fargo Securities to act as its financial advisor because of its qualifications, reputation and experience and its familiarity with the Company and its business. The issuance of Wells Fargo Securities' opinion was approved by an authorized committee of Wells Fargo Securities.

In connection with its engagement, the Company has agreed to pay Wells Fargo Securities an aggregate fee of $9.0 million, $1.0 million of which was payable upon delivery of its opinion and $8.0 million of which is contingent upon consummation of the merger. The Company also has agreed to pay Wells Fargo Securities an additional fee in the event that the consideration payable in respect of Company common stock exceeds $8.50 per share in connection with any transaction resulting from the go shop process or otherwise, subject to a maximum aggregate fee (inclusive of such additional fee) payable to Wells Fargo Securities of $12.56 million. The Company also has agreed to reimburse certain of Wells Fargo Securities' expenses, including fees and disbursements of Wells Fargo Securities' counsel, and to indemnify Wells Fargo Securities and certain related parties against certain liabilities, including liabilities under the U.S. federal securities laws, that may arise out of Wells Fargo Securities' engagement. Wells Fargo Securities and its affiliates provide a full range of investment banking and financial advisory, securities trading, brokerage and lending services in the ordinary course of business, for which Wells Fargo Securities and such affiliates receive customary fees. In connection with unrelated matters, Wells Fargo Securities and its affiliates in the past have provided, currently are providing and in the future may provide commercial, corporate and investment banking services to the Company, ARCP and certain of their respective affiliates, for which Wells Fargo Securities and its affiliates have received and expect to receive fees, including having acted or acting (i) as administrative agent, lead arranger and/or lender under certain credit facilities, mortgage financings or other lending arrangements of each of the Company and ARCP or their respective affiliates and (ii) as sole or joint bookrunning manager for certain equity offerings of the Company. For the period beginning January 1, 2011 through the first quarter of 2013, the corporate banking and investment banking divisions of Wells Fargo Securities and its affiliates received or are entitled to receive aggregate fees of less than $11 million from ARCP and of less than $5 million from the Company for certain services unrelated to the merger. In the ordinary course of business, Wells Fargo Securities and its affiliates may actively trade, hold or otherwise effect transactions in the securities or financial instruments (including bank loans or other obligations) of the Company, ARCP and their respective affiliates for Wells Fargo Securities' and its affiliates' own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities or financial instruments.

Opinion of Houlihan Lokey

On May 28, 2013, Houlihan Lokey rendered its oral opinion to the Company's board of directors (which was confirmed in writing by delivery of Houlihan Lokey's written opinion dated May 28, 2013), as to, as of May 28, 2013, the fairness, from a financial point of view, to the holders of Company common stock (other than ARCP and its affiliates) of the common merger consideration to be received by the holders of Company common stock (other than ARCP and its affiliates) in the merger pursuant to the merger agreement.

Houlihan Lokey's opinion was directed to the Company's board of directors (in its capacity as such) and only addressed the fairness, from a financial point of view, to the holders of Company common stock (other than ARCP and its affiliates) of the common merger consideration to be received by the holders of Company common stock (other than ARCP and its affiliates) in the merger pursuant to the merger agreement and does not address any other aspect or implication of the merger, the merger agreement or the transactions contemplated by the merger agreement. The summary of Houlihan Lokey's opinion in this document is qualified in its entirety by reference to the full text of its written opinion, which is attached as Annex C to this document and sets forth the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Houlihan Lokey in preparing its opinion. However, neither Houlihan Lokey's opinion nor the summary of its opinion and the related analyses set forth in this document are intended to be, and do not constitute advice or a recommendation to the Company's board of directors or any holder of Company common stock as to how to act or vote with respect to the merger or the transactions contemplated by the merger agreement.

For purposes of its analysis and opinion, Houlihan Lokey was advised and, at the Company's board of directors' direction, assumed that, pursuant to the limited partnership agreement of the Company operating partnership, the company may not engage in the mergers, unless each Company operating partnership Class B equity ownership unit is converted into the right to receive an amount in cash equal to the common merger consideration. The Company's board of directors further advised Houlihan Lokey that pursuant to the merger agreement, each Company operating partnership Class B equity ownership unit not owned by the Company will be converted into the right to receive an amount in cash equal to the common merger consideration. Accordingly, for purposes of its analyses and opinion, Houlihan Lokey treated each Company operating partnership Class B equity ownership unit not owned by the Company as if it had been converted into a share of Company common stock on a one-for-one basis.

In arriving at its opinion, Houlihan Lokey, among other things:

reviewed a draft, dated May 27, 2013, of the merger agreement, and reviewed the limited partnership agreement of the Company operating partnership;

reviewed certain publicly available business and financial information relating to the Company that Houlihan Lokey deemed to be relevant;

reviewed certain information relating to the historical, current and future operations, financial condition and prospects of the Company made available to Houlihan Lokey by the Company, including financial projections (and adjustments thereto) prepared by the Company's management relating to the Company for the fiscal years ending December 31, 2013 through December 31, 2018;

spoke with certain members of the Company’s management and certain of the Company’s representatives and advisors regarding the business, operations, financial condition and prospects of the Company, the mergers, and related matters;

compared the financial and operating performance of the Company with that of other public companies that Houlihan Lokey deemed to be relevant;

reviewed the current and historical market prices and trading volume for certain of the Company’s publicly traded securities, and the current and historical market prices and trading volume of the publicly traded securities of certain other companies that Houlihan Lokey deemed to be relevant; and

conducted such other financial studies, analyses and inquiries and considered such other information and factors as Houlihan Lokey deemed appropriate.

Houlihan Lokey relied upon and assumed, without independent verification, the accuracy and completeness of all data, material and other information furnished, or otherwise made available, to it, discussed with or reviewed by it, or publicly available, and did not assume any responsibility with respect to such data, material and other information. In addition, the Company’s management has advised Houlihan Lokey, and Houlihan Lokey assumed, that the financial projections (and adjustments thereto) reviewed by Houlihan Lokey, which have been summarized by the Company in “The Mergers—Certain Prospective Financial Information” on page 37, were reasonably prepared in good faith on bases reflecting the best currently available estimates and judgments of the Company’s management as to the future financial results and condition of the Company and Houlihan Lokey expressed no opinion with respect to such projections or the assumptions on which they were based. Houlihan Lokey relied upon and assumed, without independent verification, that there had been no change of the business, assets, liabilities, financial condition, results of operations, cash flows or prospects of the Company since the respective dates of the most recent financial statements and other information, financial or otherwise, provided to Houlihan Lokey that would have been material to its analyses or opinion and that there was no information or any facts that would have made any of the information reviewed by Houlihan Lokey incomplete or misleading.

Houlihan Lokey relied upon and assumed, without independent verification, that (a) the representations and warranties of all parties to the merger agreement and all other related documents and instruments that are referred to therein were true and correct, (b) each party to the merger agreement and such other related documents and instruments including, without limitation, the limited partnership agreement of the Company operating partnership, would fully and timely perform all of the covenants and agreements required to be performed by such party, (c) all conditions to the consummation of the mergers would be satisfied without waiver thereof and (d) the mergers would be consummated in a timely manner in accordance with the terms described in the merger agreement and such other related documents and instruments, without any amendments or modifications thereto. Houlihan Lokey relied upon and assumed, without independent verification, that (i) the mergers would be consummated in a manner that complies in all respects with all

applicable federal and state statutes, rules and regulations and (ii) all governmental, regulatory and other consents and approvals necessary for the consummation of the mergers would be obtained and that no delay, limitations, restrictions or conditions would be imposed or amendments, modifications or waivers made that would have an effect on the mergers or the Company that would be material to Houlihan Lokey's analyses or opinion. In addition, Houlihan Lokey relied upon and assumed, without independent verification, that the final form of the merger agreement would not differ in any respect from the draft of the merger agreement identified above.

Furthermore, in connection with its opinion, Houlihan Lokey was not requested to, and did not, make any physical inspection or independent appraisal or evaluation of any of the assets, properties or liabilities (fixed, contingent, derivative, off-balance-sheet or otherwise) of the Company, the Company operating partnership, ARCP, the ARCP operating partnership or any other party, nor was Houlihan Lokey provided with any such appraisal or evaluation. Houlihan Lokey did not estimate, and expressed no opinion regarding, the liquidation value of any entity or business. Houlihan Lokey undertook no independent analysis of any potential or actual litigation, regulatory action, possible unasserted claims or other contingent liabilities, to which the Company or the Company operating partnership was or may have been a party or was or may have been subject, or of any governmental investigation of any possible unasserted claims or other contingent liabilities to which the Company or the Company operating partnership was or may have been a party or was or may have been subject.

Houlihan Lokey was not requested to, and did not, (a) initiate or participate in any discussions or negotiations with, or solicit any indications of interest from, third parties with respect to the mergers, the securities, assets, businesses or operations of the Company, the Company operating partnership, ARCP, the ARCP operating partnership or any other party, or any alternatives to the mergers, (b) negotiate the terms of the mergers or (c) advise the Company's board of directors or any other party with respect to alternatives to the mergers. Houlihan Lokey's opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to Houlihan Lokey as of, the date of its opinion. Houlihan Lokey did not undertake, and is under no obligation, to update, revise, reaffirm or withdraw its opinion, or otherwise comment on or consider events occurring or coming to its attention after the date of its opinion. Houlihan Lokey expressed no opinion as to what the price or range of prices at which the shares of Company common stock or Company operating partnership Class B units may be purchased or sold, or otherwise be transferable, at any time.

Houlihan Lokey's opinion was furnished for the use of the Company's board of directors (in its capacity as such) in connection with its evaluation of the merger, and may not be used for any other purpose without Houlihan Lokey's prior written consent. Houlihan Lokey's opinion should not be construed as creating any fiduciary duty on Houlihan Lokey's part to any party. The opinion is not intended to be, and does not constitute, a recommendation to the Company's board of directors, any security holder or any other party as to how to act or vote with respect to any matter relating to the merger or otherwise.

Houlihan Lokey's opinion only addressed whether the common merger consideration to be received by the holders of Company common stock (other than ARCP and its affiliates) in the merger pursuant to the merger agreement was fair to the holders of Company common stock (other than ARCP and its affiliates) from a financial point of view, and, other than assuming the consummation of the partnership merger, did not address any other aspect or implication of the mergers or any agreement, arrangement or understanding entered into in connection therewith or otherwise. Houlihan Lokey was not requested to opine as to, and its opinion did not express an opinion as to or otherwise address, among other things: (i) the underlying business decision of the Company's board of directors, the Company, the Company operating partnership, ARCP, the ARCP operating partnership, their respective security holders or any other party to proceed with or effect the mergers, (ii) the terms of any arrangements, understandings, agreements or documents related to, or the form, structure or any other portion or aspect of, the mergers or otherwise (other than the common merger consideration to the extent expressly specified in the opinion), (iii) the fairness of any portion or aspect of the mergers to the holders of any class of Company securities, creditors or other constituencies of the Company, the Company operating partnership, ARCP, the ARCP operating partnership or to any other party, except if and only to the extent expressly set forth in the last sentence of its opinion, (iv) the relative merits of the mergers as compared to any alternative business strategies or transactions that might be available to the Company, the Company operating partnership, ARCP, the ARCP operating partnership or any other party, (v) the fairness of any portion or aspect of the mergers to any one class or group of the Company's or any other party's security holders or other constituents vis-à-vis any other class or group of the Company's or such other party's security holders or other constituents, (vi) whether or not the Company, the Company operating partnership, ARCP, the ARCP operating partnership, their respective security holders or any other party is receiving or paying reasonably equivalent value in the mergers, (vii) the solvency, creditworthiness or fair value of the Company, the Company operating partnership, ARCP, the ARCP operating partnership or any other participant in the mergers, or any of their respective assets, under any applicable laws relating to bankruptcy, insolvency, fraudulent conveyance or similar matters or (viii) the fairness, financial or otherwise, of the amount, nature or any other aspect of any compensation or consideration payable to or received by any officers, directors or employees of any party to the mergers, any class of such persons or any other

party, relative to the common merger consideration or otherwise. Furthermore, no opinion, counsel or interpretation was intended in matters that require legal, regulatory, accounting, insurance, tax or other similar professional advice. Houlihan Lokey assumed that such opinions, counsel or interpretations had been or would be obtained from the appropriate professional sources. Furthermore, Houlihan Lokey relied, with the consent of the Company's board of directors, on the assessments by the Company's board of directors, the Company, the Company operating partnership and their respective advisors as to all legal, regulatory, accounting, insurance and tax matters with respect to the Company, the Company operating partnership, ARCP, the ARCP operating partnership, the mergers or otherwise.

In preparing its opinion to the Company's board of directors, Houlihan Lokey performed a variety of analyses, including those described below. The summary of Houlihan Lokey's analyses described below is not a complete description of the analyses underlying Houlihan Lokey's opinion. The preparation of such an opinion is a complex process involving various quantitative and qualitative judgments and determinations with respect to the financial, comparative and other analytical methods employed and the adaptation and application of these methods to the unique facts and circumstances presented. As a consequence, neither Houlihan Lokey's opinion nor its underlying analyses is readily susceptible to summary description. Houlihan Lokey arrived at its opinion based on the results of all analyses undertaken by it and assessed as a whole and did not draw, in isolation, conclusions from or with regard to any individual analysis, methodology or factor. Accordingly, Houlihan Lokey believes that its analyses and the following summary must be considered as a whole and that selecting portions of its analyses, methodologies and factors, without considering all analyses, methodologies and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying Houlihan Lokey's analyses and opinion.

In performing its analyses, Houlihan Lokey considered general business, economic, industry and market conditions, financial and otherwise, and other matters as they existed on, and could be evaluated as of, the date of its opinion. Houlihan Lokey's analyses involved judgments and assumptions with regard to industry performance, general business, economic, regulatory, market and financial conditions and other matters, many of which are beyond the control of the Company. No company, transaction or business used in Houlihan Lokey's analyses for comparative purposes is identical to the Company or the proposed mergers and an evaluation of the results of those analyses is not entirely mathematical. The estimates contained in the financial forecasts prepared by the Company's management and the implied valuation reference ranges indicated by Houlihan Lokey's financial analyses are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by the analyses. In addition, such analyses do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold, which may depend on a variety of factors, many of which are beyond the control of the Company. Much of the information used in, and, accordingly, the results of, Houlihan Lokey's analyses are inherently subject to substantial uncertainty.

Houlihan Lokey's opinion was only one of many factors considered by the Company's board of directors in evaluating the proposed merger, the merger agreement and the transactions contemplated by the merger agreement. Neither Houlihan Lokey's opinion nor its analyses were determinative of the common merger consideration or of the views of the Company's board of directors or the Company's management with respect to the merger, the merger agreement, the transactions contemplated by the merger agreement or the common merger consideration. The type and amount of consideration payable in the merger were determined through negotiation between the Company and ARCP, and the decision to enter into the merger agreement was solely that of the Company's board of directors.

The following is a summary of the material analyses reviewed by Houlihan Lokey with the Company's board of directors in connection with the rendering of Houlihan Lokey's opinion to the Company's board of directors on May 28, 2013. The order of the analyses does not represent relative importance or weight given to those analyses by Houlihan Lokey. The analyses summarized below include information presented in tabular format. The tables alone do not constitute a complete description of the analyses. Considering the data in the tables below without considering the full narrative description of the analyses, as well as the methodologies underlying, and the assumptions, qualifications and limitations affecting, each analysis, could create an incomplete view of Houlihan Lokey's analyses.

For purposes of its analyses, Houlihan Lokey reviewed a number of financial and operating metrics, including:

Enterprise Value – generally the value of the relevant company's outstanding equity securities (taking into account its outstanding warrants and other convertible securities) based on the relevant company's closing stock price, plus net debt (calculated as outstanding indebtedness, preferred stock and capital lease obligations less the amount of cash on its balance sheet), as of a specified date;

Adjusted EBITDA – generally the amount of the relevant company's earnings before interest, taxes, depreciation and amortization, as adjusted for certain non-recurring items for a specified period;

Adjusted FFO – generally the amount of the relevant company's net income (loss) excluding gains (or losses) from sales of property and impairment losses on depreciable real estate, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures, comparability and certain non-recurring items for a specified period; and

NOI – net operating income.

Selected Companies Analysis. Houlihan Lokey considered certain financial data for the Company and selected companies with publicly traded equity securities that Houlihan Lokey deemed relevant. Unless the context indicates otherwise, enterprise values and equity values derived from the selected companies analysis described below were calculated using the closing price of Company common stock and the common stock of the selected companies listed below as of May 23, 2013. Accordingly, this information may not reflect current or future market conditions. Estimates of Next Fiscal Year of 2013, or NFY, Adjusted EBITDA, Adjusted FFO and NOI for the Company were based on estimates provided by the Company's management. Estimates of NFY and Adjusted EBITDA, Adjusted FFO and NOI for the selected companies listed below were based on publicly available consensus research analyst estimates for the selected companies.

The financial data reviewed included:

Enterprise value as a multiple of estimated latest twelve months, or LTM, Adjusted EBITDA;

Enterprise value as a multiple of estimated NFY Adjusted EBITDA;

Estimated LTM NOI as a percentage of enterprise value;

Equity value as a multiple of estimated LTM Adjusted FFO; and

Equity value as a multiple of estimated NFY Adjusted FFO.

The selected companies and resulting data were:

Realty Income Corporation

Spirit Realty Capital Inc.

National Retail Properties, Inc.

Agree Realty Corporation

Excel Trust, Inc.

Lexington Realty Trust

Winthrop Realty Trust

American Realty Capital Properties Inc.

W. P. Carey Inc.

	Enterprise Value/ LTM Adjusted EBITDA	Enterprise Value/ NFY Adjusted EBITDA	LTM NOI/Enterprise Value	Equity Value/ LTM Adjusted FFO	Equity Value/ NFY Adjusted FFO
Low	12.9x	11.9x	3.7%	8.9x	10.7x
High	30.0x	20.9x	9.2%	31.9x	21.3x
Median	20.5x	18.8x	6.0%	20.2x	17.5x
Mean	20.7x	17.9x	5.9%	19.9x	17.0x

Taking into account the results of the selected companies analysis, Houlihan Lokey applied multiple ranges of 16.5x to 17.5x LTM adjusted EBITDA, 15.5x to 16.5x NFY Adjusted EBITDA, 6.50% to 6.00% LTM NOI, 15.0x to 17.0x LTM adjusted FFO and 14.0x to 16.0x NFY adjusted FFO to corresponding financial data for the Company. The selected companies analysis indicated implied per share value reference ranges of $6.66 to $7.95 based on the selected range of LTM adjusted EBITDA multiples, $7.02 to $8.42 based on the selected range of NFY Adjusted EBITDA multiples, $6.47 to $8.23 based on the selected range of LTM NOI, $7.18 to $8.14 based on the selected range of LTM adjusted FFO multiples and $7.39 to $8.44 based on the selected range of NFY adjusted FFO multiples, respectively, as compared to the common merger consideration of $8.50 per share of company common stock.

Discounted Cash Flow Analysis. Houlihan Lokey performed a discounted cash flow analysis of the Company by calculating the estimated net present value of the unlevered, after-tax free cash flows that the Company was forecasted to generate through December 31, 2018 based on the standalone financial projections provided by the Company's management. Houlihan Lokey then applied a range of terminal value EBITDA multiples of 16.0x to 17.0x to the Company's fiscal year 2018 estimated EBITDA. The present values of the Company's projected future cash flows and terminal value were then calculated using discount rates ranging from 8.0% to 9.0% taking into account Houlihan Lokey's estimates of the Company's weighted average cost of capital. For purposes of the discounted cash flow analysis, Houlihan Lokey treated projected future stock based compensation as a cash expense. The discounted cash flow analysis indicated the following implied per share reference range of $5.47 to $8.11, as compared to the proposed common merger consideration of $8.50 per share of company common stock.

Other Considerations. Houlihan Lokey also noted the Enterprise Value as a multiple of LTM Adjusted EBITDA of approximately 17.4x implied by the transaction information publicly disclosed in connection with the recently announced merger involving Cole Credit Property Trust II, Inc.

Other Matters. Houlihan Lokey was engaged by the Company to provide an opinion to the Company's board of directors (in its capacity as such) regarding the fairness, from a financial point of view, to the holders of Company common stock (other than ARCP and its affiliates) of the common merger consideration to be received by the holders of Company common stock (other than ARCP and its affiliates) in the merger pursuant to the merger agreement. The Company engaged Houlihan Lokey based on Houlihan Lokey's experience and reputation. Houlihan Lokey is regularly engaged to render financial opinions in connection with mergers, acquisitions, divestitures, leveraged

buyouts, recapitalizations and for other purposes. Houlihan Lokey is entitled to a fee of $425,000 for its services, a portion of which became payable upon the execution of Houlihan Lokey's engagement letter and the balance of which became payable upon the delivery of Houlihan Lokey's opinion, regardless of the conclusion reached therein. No portion of Houlihan Lokey's fee is contingent upon the successful completion of the mergers. The Company has also agreed to reimburse Houlihan Lokey for certain expenses and to indemnify Houlihan Lokey, its affiliates and certain related parties against certain potential liabilities and expenses, including certain liabilities under the federal securities laws arising out of or relating to Houlihan Lokey's engagement.

In the ordinary course of business, certain of Houlihan Lokey's employees and affiliates, as well as investment funds in which they may have financial interests or with which they may co-invest, may acquire, hold or sell, long or short positions, or trade, in debt, equity and other securities and financial instruments (including loans and other obligations) of, or investments in, the Company, ARCP, or any other party that may be involved in the mergers and their respective affiliates or any currency or commodity that may be involved in the mergers. Houlihan Lokey and certain of its affiliates may have in the past provided, may currently be providing and may in the future provide, investment banking, financial advisory and other financial services to the Company, ARCP, other participants in the mergers or certain groups or entities affiliated or associated therewith (including, without limitation, formal and informal committees or groups of creditors) for which Houlihan Lokey and such affiliates have received and may receive compensation.

Convertible Notes and Trust Preferred Securities Redemption

The Company has agreed to, among other things, (i) use its commercially reasonable efforts to redeem all outstanding convertible notes and trust preferred securities pursuant to the terms of their respective indentures, (ii) timely deliver notices and take all actions necessary in connection with the redemptions and as may be required by the mergers and the transactions contemplated by the merger agreement, and (iii) take all actions required to be taken by the indentures to cause the indentures to terminate. The Company is not required to effect such redemptions prior to the effective time of the merger and unless ARCP provides funds to the Company in an amount sufficient to satisfy the respective redemption. The parties agreed that the completion of such redemptions are not conditions precedent to the completion of the mergers. The parties have agreed that should the Company be unable to effect the redemptions, the parties will negotiate in good faith to cause the surviving entity to assume the applicable obligations in accordance with each respective indenture.

Financing

The merger agreement does not contain a financing condition to the completion of the mergers. ARCP has represented in the merger agreement that it will have sufficient financing available to complete the mergers and other transactions contemplated by the merger agreement at the effective time of the merger. ARCP has informed us that it intends to fund the cash consideration payable under the merger agreement using a combination of the following resources:

ARCP’s available cash on hand;

A portion of the $896.0 million in net proceeds from the sale of shares of ARCP common stock and convertible preferred stock in separate, previously disclosed private placement transactions, which transactions were completed on June 7, 2013;

A portion of the $289.2 million in net proceeds (or $318.2 if the underwriters exercise their overallotment option in full) from the sale of ARCP’s 3.00% convertible senior notes due 2018, which issuance closed on July 29, 2013. On July 29, 2013, the underwriters delivered notice to ARCP electing to partially exercise their overallotment option to purchase $10.0 million aggregate principal amount of such convertible senior notes, which is expected to close on or about August 1, 2013;

An expected issuance of approximately $500 million of ARCP common stock;

Approximately $400.0 million of financing under ARCP's credit facility. ARCP has commitments on its unsecured credit facility (including revolving and term loans) for total borrowings of $1.45 billion with an "accordion" feature of up to $2.5 billion, subject to borrowing base availability, among other conditions; and

Additional alternative financing arrangements, as needed, from the issuance of additional ARCP common stock, preferred securities or other debt, equity or equity-linked financings.

The commitments under ARCP's credit facility are subject to customary conditions for these types of financings, including (a) the bring-down of ARCP's representations and warranties, (b) no default existing, (c) timely notice by ARCP and (d) borrowing base availability. If additional commitments are obtained in connection with ARCP's exercise of the "accordion" feature under the credit facility, such commitments likely will be subject to customary conditions, which may include, without limitation, (1) the completion of due diligence review of the assets, liabilities and properties of ARCP and its subsidiaries, (2) the absence of any change, occurrence or development that has had, or could reasonably be expected to result in, (x) a material adverse change in, or a material adverse effect on, the operations, business, assets, properties or liabilities of ARCP and its subsidiaries, or (y) a material impairment of the rights and remedies of the credit facility lenders and agents under the credit agreement for the credit facility and (3) the absence of any material adverse change or material disruption in the loan syndication, financial, banking or capital markets that has impaired or could reasonably be expected to impair the syndication of the credit facility.

Although the merger agreement does not contain a financing condition to the completion of the mergers, there can be no assurance that ARCP will receive the fundings under the credit facility described above, that ARCP will be successful in obtaining alternative financing from subsequent issuances of ARCP common stock, preferred securities or other debt, equity or equity-linked financing arrangements, or that ARCP will finance the transactions contemplated by the merger agreement as anticipated to fund all or a portion of the cash consideration and other costs of the transactions contemplated by the merger agreement. In that event, ARCP would have to fund the transactions contemplated by the merger agreement by other means.

Interests of the Company's Directors and Executive Officers in the Merger

In considering the recommendations of the Company's board of directors to approve the merger proposal, the non-binding compensation proposal and the adjournment proposal, the Company's stockholders should be aware that the executive officers and directors of the Company have certain interests in the merger that may be different from, or in addition to, the interests of the Company's stockholders generally. These interests may create potential conflicts of interest. The Company's board of directions was aware of those interests and considered them, among other matters, in reaching its decision to approve the merger, the merger agreement and the other transactions contemplated by the merger agreement. These interests include the following:

Treatment of Company Restricted Stock

Under the merger agreement, immediately prior to the effective time of the merger, each then-outstanding share of Company restricted stock granted under the Company's equity compensation plans, including those granted to the Company's executive officers and non-employee directors, will vest and become free of restrictions. Each such share of Company restricted stock, reduced by the number of shares of Company common stock that is cancelled and surrendered to the Company in satisfaction of tax withholding obligations, will be converted into the right to receive the common merger consideration.

Treatment of Company Performance Shares

On March 24, 2013, the Company granted performance shares to each executive officer other than Mr. Pollert pursuant to the Company's equity compensation plan. The performance share awards provided that they would be earned and become vested based on the Company's total stockholder return relative to the total stockholder return of a peer group of companies, in each case measured over calendar years 2013 through 2015. The executive officers could earn a threshold, target or maximum number of performance shares, depending on the performance goals that are achieved.

Under the merger agreement, the Company's executive officers will vest in the target number of performance shares upon completion of the merger. Each performance share that is earned will be settled by the issuance of one share of Company common stock. Each such share of Company common stock, reduced by the number of shares of Company common stock that is cancelled and surrendered to the Company in satisfaction of tax withholding obligations, will be converted at the effective time of the merger into the right to receive the common merger consideration.

The agreements evidencing the performance share awards also provide for the payment of dividend equivalents. The dividend equivalents represent the right of a holder of a performance share to receive a cash payment equal to the dividends paid on one share of Company common stock beginning on the date of grant of the performance share and ending on the date each performance share is earned and becomes vested. Under the merger agreement, the Company will pay each executive officer a single cash payment in settlement of the dividend equivalents payable for the target number of performance shares. The payment will equal the amount of dividends paid on an equal number of shares of Company common stock during the period beginning on the date the performance shares were granted and the closing date of the merger.

None of the Company's non-employee directors holds any performance shares.

The following tables set forth the merger consideration and dividend equivalent payments that will be received by the Company's executive officers and non-employee directors in respect of their restricted stock and performance share awards upon completion of the merger.

Executive Officers

Executive Officer	**Accelerated Company Restricted Stock ($)**		**Accelerated Company Performance Shares ($)**		**Dividend Equivalents ($)**		**Total ($)**
Paul H. McDowell	1,488,274	(1)	308,975	(2)	8,451	(3)	1,805,700
Shawn P. Seale	1,466,599	(4)	287,300	(5)	7,859	(6)	1,761,758
William R. Pollert	1,190,969	(7)	-		-		1,190,969
Robert C. Blanz	1,403,750	(8)	283,900	(9)	7,766	(10)	1,695,416
Paul C. Hughes	869,253	(11)	215,475	(12)	5,894	(13)	1,090,622

(1) Represents 108,230 shares of restricted stock scheduled to vest on March 24, 2014; 54,744 shares of restricted stock scheduled to vest on March 24, 2015; and 12,117 shares of restricted stock scheduled to vest on March 24, 2016; in each case subject to continued employment on the vesting date or the attainment of performance goals and continued employment on the vesting date. The amount shown is prior to reduction for tax withholding.

(2) Represents 36,350 "target" performance shares scheduled to vest on December 31, 2015, subject to achievement of total shareholder return goals and continued employment on the vesting date. The amount shown is prior to

reduction for tax withholding.

(3) Represents accumulated dividend equivalents on the “target” performance shares. The amount assumes continued payment of cash dividends on Company common stock at an annual rate of $0.31 per share through the closing date of the merger and a merger closing date of September 30, 2013. The amount shown is prior to reduction for tax withholding.

(4) Represents 107,380 shares of restricted stock scheduled to vest on March 24, 2014; 53,894 shares of restricted stock scheduled to vest on March 24, 2015; and 11,267 shares of restricted stock scheduled to vest on March 24, 2016; in each case subject to continued employment on the vesting date or the attainment of performance goals and continued employment on the vesting date. The amount shown is prior to reduction for tax withholding.

(5) Represents 33,800 “target” performance shares scheduled to vest on December 31, 2015, subject to achievement of total shareholder return goals and continued employment on the vesting date. The amount shown is prior to reduction for tax withholding.

(6) Represents accumulated dividend equivalents on the “target” performance shares. The amount assumes continued payment of cash dividends on Company common stock at an annual rate of $0.31 per share through the closing date of the merger and a merger closing date of September 30, 2013. The amount shown is prior to reduction for tax withholding.

(7) Represents 83,674 shares of restricted stock scheduled to vest on March 24, 2014; 44,040 shares of restricted stock scheduled to vest on March 24, 2015; and 12,400 shares of restricted stock scheduled to vest on March 24, 2016; in each case subject to continued employment on the vesting date or the attainment of performance goals and continued employment on the vesting date. The amount shown is prior to reduction for tax withholding.

(8) Represents 102,366 shares of restricted stock scheduled to vest on March 24, 2014; 51,647 shares of restricted stock scheduled to vest on March 24, 2015; and 11,134 shares of restricted stock scheduled to vest on March 24, 2016; in each case subject to continued employment on the vesting date or the attainment of performance goals and continued employment on the vesting date. The amount shown is prior to reduction for tax withholding.

(9) Represents 33,400 “target” performance shares scheduled to vest on December 31, 2015, subject to achievement of total shareholder return goals and continued employment on the vesting date. The amount shown is prior to reduction for tax withholding.

(10) Represents accumulated dividend equivalents on the “target” performance shares. The amount assumes continued payment of cash dividends on Company common stock at an annual rate of $0.31 per share through the closing date of the merger and a merger closing date of September 30, 2013. The amount shown is prior to reduction for tax withholding.

(11) Represents 61,705 shares of restricted stock scheduled to vest on March 24, 2014; 32,110 shares of restricted stock scheduled to vest on March 24, 2015; and 8,450 shares of restricted stock scheduled to vest on March 24, 2016; in each case subject to continued employment on the vesting date or the attainment of performance goals and continued employment on the vesting date. The amount shown is prior to reduction for tax withholding.

(12) Represents 25,350 “target” performance shares scheduled to vest on December 31, 2015, subject to achievement of total shareholder return goals and continued employment on the vesting date. The amount shown is prior to reduction for tax withholding.

(13) Represents accumulated dividend equivalents on the “target” performance shares. The amount assumes continued payment of cash dividends on Company common stock at an annual rate of $0.31 per share through the closing date of the merger and a merger closing date of September 30, 2013. The amount shown is prior to reduction for tax withholding.

Non-Employee Directors

Non-Employee Director	**Accelerated Company Restricted Stock ($)**		**Accelerated Company Performance Shares ($)**	**Dividend Equivalents ($)**	**Total ($)**
Catherine F. Long	134,300	(1)	-	-	134,300
Howard A. Silver	145,920	(2)	-	-	145,920
Jeffrey F. Rogatz	134,300	(3)	-	-	134,300
Michael E. Gagliardi	134,300	(4)	-	-	134,300

(1) Represents 7,433 shares of restricted stock scheduled to vest on March 24, 2014; 5,533 shares of restricted stock scheduled to vest on March 24, 2015; and 2,834 shares of restricted stock scheduled to vest on March 24, 2016; in each case subject to continued service as a director on the vesting date. The amount shown is prior to reduction for tax withholding.

(2) Represents 8,300 shares of restricted stock scheduled to vest on March 24, 2014; 6,033 shares of restricted stock scheduled to vest on March 24, 2015; and 2,834 shares of restricted stock scheduled to vest on March 24, 2016; in each case subject to continued service as a director on the vesting date. The amount shown is prior to reduction for tax withholding.

(3) Represents 7,433 shares of restricted stock scheduled to vest on March 24, 2014; 5,533 shares of restricted stock scheduled to vest on March 24, 2015; and 2,834 shares of restricted stock scheduled to vest on March 24, 2016; in each case subject to continued service as a director on the vesting date. The amount shown is prior to reduction for tax withholding.

(4) Represents 7,433 shares of restricted stock scheduled to vest on March 24, 2014; 5,533 shares of restricted stock scheduled to vest on March 24, 2015; and 2,834 shares of restricted stock scheduled to vest on March 24, 2016; in each case subject to continued service as a director on the vesting date. The amount shown is prior to reduction for tax withholding.

Section 16 Matters

Pursuant to the merger agreement, the Company has agreed to take all steps as may be required to cause to be exempt under Rule 16b-3 under the Exchange Act any dispositions of shares of Company common stock (including derivative securities with respect to such shares) that are treated as dispositions under Rule 16b-3 and result from the transactions contemplated under the merger agreement by each officer or director of the Company who is or will be subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to the Company.

Indemnification and Insurance

Subject to certain limitations, the Company's and its subsidiaries' directors and officers are entitled to continued indemnification, advancement of expenses and insurance coverage under the merger agreement for a period of six years after the merger is completed. For a more complete description, please see "The Merger Agreement—Covenants and Agreements—Indemnification of Directors and Officers; Insurance" beginning on page 77.

The Company's board of directors was aware of the interests described in this section and in the section "Change of Control and Termination Benefits" below, and considered them, among other matters, in approving the merger agreement and making its recommendation that the Company's stockholders approve the merger and the other transactions contemplated by the merger agreement. See "The Mergers—Reasons for the Mergers" on page 34 and "The Mergers—Recommendation of the Company's Board of Directors" on page 37.

Change of Control and Termination Benefits

Employment Agreements

The Company has entered into employment agreements with each of Messrs. McDowell, Seale, Pollert, Blanz and Hughes, which we refer to collectively as the employment agreements. The employment agreements with Messrs. McDowell, Seale, Pollert and Blanz were entered into in 2004. In 2007, the Company entered into an employment agreement with Mr. Hughes and amended the employment agreement with Mr. Blanz.

Each employment agreement provides that upon a termination of employment, for any reason, the executive is entitled to receive any accrued but unpaid compensation and benefits through the date of termination. Each employment

agreement also provides for the payment of additional compensation, contingent upon the effectiveness of the executive's release of all claims for the benefit of the Company and its affiliates. The amount of the additional compensation depends on the circumstances of the executive's termination, as described below:

Nonrenewal. If the Company elects not to renew the term of an employment agreement, the executive will be entitled to receive his base salary for the remainder of the term plus a lump sum payment equal to his current annual base salary.

Death or Disability. If the executive's employment ends on account of death or disability, he (or his estate) will be entitled to a lump sum payment equal to his highest annual bonus for the prior three calendar years, pro-rated for the period of the executive's service during the final calendar year of employment. In addition, outstanding equity awards granted under the Company's equity compensation plans will be governed by the applicable award agreements.

Without Cause or with Good Reason. If the executive's employment is terminated without cause (as defined below) or the executive resigns with good reason (as defined below) (other than in connection with his death or disability or non-renewal of the employment agreement), the executive will be entitled to receive the following severance benefits:

A lump sum payment equal to three times (in the case of Messrs. McDowell, Seale and Blanz) or two times (in the case of Messrs. Pollert and Hughes) the executive's current annual base salary;

A lump sum payment equal to three times (in the case of Messrs. McDowell, Seale and Blanz) or two times (in the case of Messrs. Pollert and Hughes) the executive's average annual bonus of the past three years;

A lump sum payment equal to the executive's highest bonus for the prior three calendar years, pro-rated for the period of the executive's service during the final calendar year of employment;

Continuation of the executive's life, health and disability coverage for a period of twenty-four months or a cash payment, equal to the Company's monthly premium, for each month that such coverage cannot be provided.

Outstanding equity awards granted under the Company's equity compensation plans, including Company restricted stock and performance shares, will be governed by the applicable award agreements.

Each employment agreement also provides that the Company will indemnify the executive for any liability that the executive incurs for the parachute payment excise tax under Section 4999 of the Code, which we refer to as the parachute indemnity, on account of the executive's receipt of the severance benefits or any other "parachute payments" (under Section 280G of the Code).

The employment agreements generally define "cause" as (i) the executive's conviction of, or plea of guilty or *nolo contendere* to, a felony, (ii) the executive's intentional failure to substantially perform reasonably assigned material duties, (iii) the executive's willful misconduct in the performance of the executive's duties or (iv) the executive's material breach of any non-competition or non-disclosure agreement with the Company.

The employment agreements define "good reason" as (i) any reduction in the executive's base salary, (ii) a material reduction in the executive's duties, titles and responsibilities, or the assignment to the executive of any duties materially inconsistent with his position with the Company without his consent, (iii) a requirement that the executive relocate outside the New York, New York metropolitan area or (iv) a material breach of the employment agreement by the Company. In addition, with respect to clause (ii) and clause (iv), a resignation will not be with good reason unless the Company fails to cure any such grounds within thirty days after receipt of the notice.

The completion of the merger will constitute a change of control under the employment agreements. It is currently contemplated that at the effective time of the merger, the employment of Messrs. McDowell, Seale, Pollert, Blanz and Hughes will terminate, although as described below, they may become employees of ARCP or one of its affiliates upon completion of the merger. Whether or not they become employees of ARCP or one of its affiliates, it is anticipated that the executives' termination will be without cause under the employment agreements and that they will

become entitled to the severance payments described above and shown in the table under “Quantification of Change of Control and Termination Payments and Benefits of Named Executive Officers.” However, as described below, the executives may not become entitled to receive all of the severance benefits described above or may not be entitled to receive all of the parachute indemnity.

Potential Employment with ARCP

ARCP has informed the Company’s board of directors that it desires to discuss entering into employment agreements with the Company’s executive officers to be effective upon completion of the merger. Concurrently with the execution of the merger agreement, Messrs. McDowell, Seale, Pollert, Blanz and Hughes entered into a letter agreement with ARCP, which we refer to as the letter agreement. The full text of the letter agreement is attached to this document as Annex E and is incorporated in this document by reference.

Under the letter agreement, each executive has agreed to use his good faith efforts to negotiate and enter into (i) an amendment to the executive’s existing employment agreement (to be effective immediately prior to the effective time of the merger) that reduces the severance benefits payable thereunder such that the severance payments and other “parachute payments” will not exceed the amount that can be paid without triggering liability for the parachute payment excise tax (thereby eliminating a requirement for the Company to pay the parachute indemnity) and (ii) a new employment agreement with ARCP or an affiliate of ARCP (effective as of the date following the date on which the effective time of the merger occurs) that provides for the payment of compensation that does not constitute “parachute payments” with regard to the merger and that provides for compensation for services in an amount that exceeds the executive’s current compensation by the amount equal to at least the amount of the reduced severance payments. The letter agreement further provides that if the executive does not enter into the agreements described in the preceding sentence, then the executive’s existing employment agreement will be amended to reduce the parachute indemnity such that the executive will pay one-half of his excise tax liability and the Company will pay the remainder of the excise tax (and indemnify the executive for the Company’s payment of that portion of the excise tax).

Other than as described above, as of the date of this document, none of the Company's directors or executive officers have entered into any amendments to their existing employment agreements with the Company in connection with the mergers or any new employment agreements with the Company, ARCP or any of ARCP's affiliates. It is possible that some or all of the Company's executive officers will enter into employment agreements or similar arrangements with the Company, ARCP or any of ARCP's affiliates.

Quantification of Change of Control and Termination Payments and Benefits of Named Executive Officers

The following table sets forth the amount of payments and benefits that each named executive officer of the Company would receive in connection with the merger, assuming the merger occurs on September 30, 2013, that completion of the merger constitutes a "change of control" for purposes of the applicable plan or agreement and that the employment of the applicable named executive officer is terminated other than for cause or the named executive officer resigns with good reason, in each case on such date.

The payments and benefits set forth below are the subject of a nonbinding advisory vote of the Company's stockholders, as described in "Proposal 2: Approval of the Non-Binding Compensation Proposal" on page 23. For additional details regarding the terms of the payments quantified below, see "The Mergers—Change of Control and Termination Benefits—Employment Agreements" on page 55.

Golden Parachute Compensation

Named Executive Officers	Cash ($)[1]	Equity ($)[2]	Pension/ NQDC ($)	Perquisites/ Benefits ($)[3]	Tax Reimbursements ($)[4]	Other ($)	Total ($)
Paul H. McDowell	2,921,250	1,805,700	-	120,330	1,118,533	-	5,965,813
Shawn P. Seale	2,223,000	1,761,758	-	91,768	838,388	-	4,914,914
William R. Pollert	1,016,667	1,190,969	-	113,675	-	-	2,321,311
Robert C. Blanz	2,168,000	1,695,416	-	91,406	838,412	-	4,793,234
Paul C. Hughes	1,178,333	1,090,622	-	60,332	-	-	2,329,287

(1) The named executive officers are entitled to lump sum severance payments upon a termination without cause or a resignation with good reason without regard to whether a change of control has occurred, as described in "The Mergers—Change of Control and Termination Benefits—Employment Agreements" on page 55. The severance payment is equal to (i) a multiple of the named executive officer's current annual base salary, (ii) a multiple of the named executive officer's average annual bonus for the past three years and (iii) a *pro rata* portion of the named executive

officer's highest annual bonus for the prior three calendar years. The severance multiple is three for Messrs. McDowell, Seale and Blanz and the severance multiple for Messrs. Pollert and Hughes is two. Payment of the severance benefit is conditioned upon the named executive officer's execution (and non-revocation) of a general release of claims against the Company and certain affiliated parties. Generally, the named executive officers are subject to covenants of noncompetition and non-solicitation of Company employees and customers during employment and for one year thereafter, and to perpetual duties of confidentiality. The severance payments disclosed in this column consist of the following components for each named executive officer:

Named Executive Officers	Multiple of Annual Salary ($)	Multiple of Cash Bonus ($)	Prorated 2013 Cash Bonus ($)	Total ($)
Paul H. McDowell	1,485,000	1,125,000	311,250	2,921,250
Shawn P. Seale	1,053,000	915,000	255,000	2,223,000
William R. Pollert	510,000	356,667	150,000	1,016,667
Robert C. Blanz	975,000	938,000	255,000	2,168,000
Paul C. Hughes	510,000	443,333	225,000	1,178,333

With respect to Messrs. McDowell, Seale and Blanz, the severance payments disclosed in this column assume that such named executive officers do not enter into new employment agreements with ARCP or an affiliate of ARCP. If any such individual enters into a new employment agreement, then, as provided in the letter agreement, the aggregate severance payments to such named executive officer will be reduced to not more than the maximum amount that can be paid without triggering liability for parachute payment excise tax under Section 4999 of the Code. If new employment agreements are entered into, the Company estimates that the reduced cash severance benefit for such named executive officer who enters into such new employment agreement would be $1,772,103 for Mr. McDowell; $1,432,854 for Mr. Seale; and $1,166,949 for Mr. Blanz. With respect to Messrs. Pollert and Hughes, it is not anticipated that the severance payments disclosed in this column will vary depending upon whether such named executive officer enters into a new employment agreement with ARCP or an affiliate of ARCP, as the excise tax imposed by Section 4999 of the Code will only apply to the Company's three highest paid executive officers.

(2) In accordance with the merger agreement, outstanding equity awards held by the Company's named executive officers will vest on a "single trigger" basis upon completion of the merger. The amounts disclosed in this column reflect the value of the acceleration of unvested shares of Company restricted stock as of the effective time of the merger, the value of the acceleration of Company performance shares that will become fully earned and settled for 100% of the target number of shares of Company common stock under such awards and the payment of dividend equivalents on 100% of the target number of performance shares as of the effective time of the merger. The amounts disclosed in this column consist of the following types of payment for each named executive officer:

Named Executive Officers	Accelerated Company Restricted Stock ($)	Accelerated Company Performance Shares ($)	Dividend Equivalents ($)	Total ($)
Paul H. McDowell	1,488,274	308,975	8,451	1,805,700
Shawn P. Seale	1,466,599	287,300	7,859	1,761,758
William R. Pollert	1,190,969	–	–	1,190,969
Robert C. Blanz	1,403,750	283,900	7,766	1,695,416
Paul C. Hughes	869,253	215,475	5,894	1,090,622

(3) The amounts disclosed in this column represent two times the Company's annual premium for each named executive officer's life, disability and health insurance coverage. The perquisites/benefits severance payment portion is payable on a double-trigger basis. The amounts disclosed in this column consist of the following components for each named executive officer:

Named Executive Officers	**Life Insurance ($)**	**Disability Insurance ($)**	**Health Insurance ($)**	**Total ($)**
Paul H. McDowell	68,640	17,032	34,658	120,330
Shawn P. Seale	44,430	12,680	34,658	91,768
William R. Pollert	69,141	18,698	25,836	113,675
Robert C. Blanz	39,960	18,544	32,902	91,406
Paul C. Hughes				