CapLease, Inc.
Form 424B2
April 03, 2013

This preliminary prospectus supplement relates to an effective registration statement under the Securities Act of 1933, but the information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Filed pursuant to Rule 424(b)(2)
Registration No. 333-171408

SUBJECT TO COMPLETION, DATED APRIL 3, 2013

PROSPECTUS SUPPLEMENT
(To Prospectus dated February 14, 2011)

6,500,000 Shares
Common Stock

CapLease, Inc.

Common Stock

CapLease, Inc. is a real estate investment trust, or REIT, that primarily owns and manages a diversified portfolio of single tenant commercial real estate properties subject to long-term leases to high credit quality tenants. We focus on properties that are subject to a net lease, or a lease that requires the tenant to pay all or substantially all property operating expenses, such as utilities, real estate taxes, insurance and routine maintenance. As of December 31, 2012, we had an approximately $1.9 billion portfolio of owned properties by investment value.

We are offering 6,500,000 shares of our common stock in this offering. Our common stock is listed on the New York Stock Exchange under the symbol LSE. On April 2, 2013, the last reported sales price of our common stock was $6.21 per share.

Our common stock is subject to an ownership limit of 9.9% of the value or number, whichever is more restrictive, of the outstanding shares of our common stock and 9.9% of the value or number, whichever is more restrictive, of all the outstanding shares of our stock, which is designed to preserve our qualification as a REIT for federal income tax purposes. See Restrictions on Ownership on page 28 of the accompanying prospectus for more information about these restrictions.

See Risk Factors on page S-4 of this prospectus supplement and page 1 of the accompanying prospectus to read about certain risks you should consider before buying shares of our common stock.

	Per Share	Total
Initial price to public	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to us	$	$

Delivery of the common stock will be made by the underwriters on or about April , 2013.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement and the accompanying prospectus. Any representation to the contrary is a criminal offense.

We have granted to the underwriters the right to purchase up to an additional 975,000 shares of our common stock at the public offering price per share, less the underwriting discount, to cover over-allotments, exercisable at any time within 30 days after the date of this prospectus supplement.

Wells Fargo Securities

The date of this prospectus supplement is April , 2013.

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Prospectus Supplement

Prospectus

You should rely only on the information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus and in any written communication from us or the underwriters specifying the final terms of the offering. We have not, and the underwriters have not, authorized anyone else to provide you with additional or different information. If anyone provides you with additional or different information, you should not rely on it. An offer to sell these securities will not be made in any jurisdiction where the offer or sale

is not permitted. You should assume that the information appearing in this prospectus supplement and the accompanying prospectus, as well as information we previously filed with the Securities and Exchange Commission (SEC) and incorporated by reference, is only accurate as of the date of the front cover of this prospectus supplement or accompanying prospectus or as of the date given in the incorporated document, as applicable. Our business, financial condition, results of operations and prospects may have changed since that date.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the information incorporated by reference into this prospectus supplement and the accompanying prospectus contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by terms such as anticipate, believe, could, estimate, expect, intend, may, plan, potential, should, strategy, will and other w meaning. The forward-looking statements are based on our beliefs, assumptions and expectations of future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we are hereby identifying important factors that could cause actual results and outcomes to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to: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;
current 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;
access to capital markets and capital market conditions;
adverse changes in the financial condition of the tenants underlying our investments;
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;
the degree and nature of our competition; and
the other factors discussed in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus, including those described under the caption Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Any forward-looking statement speaks only as of its date. 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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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes certain terms of this offering and other matters relating to us. The second part, the accompanying prospectus, gives more general information about our company and securities we may offer from time to time, some of which does not apply to this offering. It is important for you to read and consider all information contained in this prospectus supplement and the accompanying prospectus, including the documents we have referred you to in Where You Can Find More Information. The information incorporated by reference is considered part of this prospectus supplement, and information we later file with the SEC, may automatically update and supersede this information.

To the extent any inconsistency or conflict exists between the information included or incorporated by reference in this prospectus supplement and the information included in the accompanying prospectus, the information included or incorporated by reference in this prospectus supplement updates and supersedes the information in the accompanying prospectus.

When used in this prospectus supplement, except where the context otherwise requires, the terms we, our, us and the Company refer to CapLease, Inc. and its majority-owned subsidiaries. All interests in our properties are held through special purpose entities which are separate and distinct legal entities.

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

References in this prospectus supplement to our Single Tenant Owned Property Portfolio include all of our owned property investments, in each case other than two properties we own in Omaha, Nebraska which are no longer leased primarily by a single tenant.

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PROSPECTUS SUMMARY

This summary highlights selected information about us and this offering. It may not contain all the information that may be important to you in deciding whether to invest in our common stock. You should read this entire prospectus supplement and the accompanying prospectus, including the financial data and related notes included or incorporated by reference herein, before making an investment decision. Unless otherwise specified, the information in this prospectus supplement assumes no exercise of the underwriters over-allotment option.

Overview

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

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

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

As of December 31, 2012, some of the highlights of our investment portfolio were as follows:

- approximately $1.9 billion owned property portfolio;
- own approximately 12.1 million square feet with 92.9% occupancy;
- 71 properties in 25 states and leases with 43 different tenants across the Single Tenant Owned Property Portfolio;
- nine of ten largest tenants all rated investment grade or implied investment grade with an average credit rating of A;
- 84% of our Single Tenant Owned Property Portfolio invested in properties leased to investment grade or implied investment grade tenants;
- weighted average tenant credit rating of A- across the Single Tenant Owned Property Portfolio;
- weighted average remaining lease term of approximately six years across the Single Tenant Owned Property Portfolio; and
- well diversified portfolio by property type, geography, tenant and tenant industry.

For further information regarding CapLease and our financial information, you should refer to our recent filings with the SEC. See Where You Can Find More Information.

Recent Events

Dividends

On March 7, 2013, our board of directors authorized and we declared a cash dividend of $0.0775 per share of common stock for the first quarter of 2013. Our board of directors also authorized and we declared a cash dividend of $0.5078125 per share of our 8.125% Series A Cumulative Redeemable Preferred Stock, par

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value $0.01 per share (the Series A Preferred Stock), a cash dividend of $0.5234375 per share of our 8.375% Series B Cumulative Redeemable Preferred Stock, par value $0.01 per share (the Series B Preferred Stock) and a cash dividend of $0.4027778 per share of our 7.25% Series C Cumulative Redeemable Preferred Stock (the Series C Preferred Stock), all for the first quarter of 2013. The first quarter 2013 common and preferred dividends are payable on April 15, 2013 to stockholders of record as of April 4, 2013. Investors who purchase common stock in this offering will not receive this first quarter 2013 dividend.

Stock Issuances

Since December 31, 2012, we have issued an aggregate of 6,392,031 shares of our common stock through our at the market offering program with Cantor Fitzgerald & Co., and raised net proceeds of approximately $37.2 million. We expect to use the net proceeds for general corporate purposes, including to fund future acquisitions and to reduce our outstanding debt obligations, including mortgage debt obligations scheduled to mature in May 2013.

In January 2013, our board of directors authorized a new series of preferred stock, the Series C Preferred Stock. During the quarter ended March 31, 2013, we closed on two public offerings of an aggregate of 1,700,000 shares of our Series C Preferred Stock for an average price (including accrued interest) of $24.24. We raised aggregate net proceeds of approximately $39.6 million, and expect to use the net proceeds for general corporate purposes, which are expected primarily to include repurchase or redemption of our Series A Preferred Stock.

During the quarter ended March 31, 2013, we also entered into an at the market offering program with MLV & Co. LLC for the offering of up to 2,800,000 shares of our Series C Preferred Stock. The net proceeds from any sales under the program are for general corporate purposes, which are expected primarily to include repurchase or redemption of our Series A Preferred Stock and our 7.50% convertible senior notes. As of the date hereof, no shares of the Series C Preferred Stock have been issued under this program.

Series A Preferred Stock Repurchase Program

During the quarter ended March 31, 2013, our board of directors approved a share repurchase program authorizing us to repurchase our outstanding Series A Preferred Stock. The program has no expiration date and permits us to purchase shares through a variety of methods, including in the open market or through privately negotiated transactions, in accordance with applicable securities laws. It does not obligate us to make any repurchases at any specific time or situation. The timing and extent to which we repurchase our Series A Preferred Stock will depend upon a variety of factors, including market conditions, our liquidity, and regulatory requirements. We redeemed 800,182 shares of our Series A Preferred Stock on February 21, 2013 and an additional 815,000 shares on April 3, 2013.

Investment and Financing Activities

During the quarter ended March 31, 2013, we completed the following investment and financing activities:

We obtained mortgage financing for the office building we purchased during December 2012, located in San Antonio, Texas, and leased primarily to Becton, Dickinson and Company. We financed the property with a $10 million non-recourse mortgage note, with a coupon of 3.95% and maturing in April 2023.

We added two of the office buildings we purchased in December 2012, located in Englewood, Colorado (leased to Comcast Corporation and Pulte Mortgage LLC), to the collateral pledged to our revolving credit agreement with Wells Fargo Bank, N.A., thereby increasing our borrowing capacity under the agreement. As of March 31, 2013, our available borrowing capacity under the agreement was approximately $40 million.

Bob s Stores, LLC, the sole tenant at our 88,420 square foot retail property located in Randolph, Massachusetts, exercised its right to extend the lease for five additional years, until January 31, 2019. The lease extension commences February 1, 2014 and the rental rate is $9.76 per square foot. The tenant s obligations under the foregoing lease are guaranteed by various subsidiaries of CVS Caremark Corporation.

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The Offering

Common stock offered by us	6,500,000 shares(1)
Common stock to be outstanding after this offering	86,678,244 shares(2)
Listing	Our common stock is listed for trading on the New York Stock Exchange (NYSE) under the symbol LSE.
Use of proceeds	We intend to use the net proceeds from the sale of the common stock for general corporate purposes, which we expect will primarily include funding real property acquisitions in our pipeline.
Risk factors	See Risk Factors on page S-4 of this prospectus supplement and page 1 of the accompanying prospectus to read about certain risks you should consider before buying shares of our common stock.

(1) Excludes up to 975,000 shares of our common stock that we may issue and sell upon exercise of the underwriters over-allotment option.

(2) Excludes up to 975,000 shares of our common stock that we may issue and sell upon exercise of the underwriters over-allotment option. Also excludes an aggregate of 564,995 shares of common stock reserved for issuance from time to time pursuant to our 2004 stock incentive plan, an aggregate of 156,026 shares of common stock reserved for issuance upon conversion of units of limited partnership of our operating partnership, an aggregate of 2,693,900 shares of common stock reserved for issuance through our at the market offering program (as defined in Rule 415 of the Securities Act) with Brinson Patrick Securities Corporation, an aggregate of 8,982,700 shares of common stock reserved for issuance through our at the market offering program with Merrill Lynch, Pierce, Fenner & Smith Incorporated, and an aggregate of 5,716,889 shares of common stock reserved for issuance through our at the market offering program with Cantor Fitzgerald & Co.

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RISK FACTORS

An investment in our common stock involves certain risks, including those described in the section entitled Risk Factors on page 1 of the accompanying prospectus. Before you invest in our common stock, you should carefully consider these risks, together with the other information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus.

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USE OF PROCEEDS

We expect to receive approximately $ million from this offering (or approximately $ million if the underwriters exercise their over-allotment option in full), after deducting the underwriting discount and estimated offering expenses. We intend to use the net proceeds for general corporate purposes, which we expect will primarily include funding real property acquisitions in our pipeline.

We may use all or a portion of the proceeds of this offering to repay indebtedness under our revolving credit agreement with Wells Fargo Bank, N.A., on an interim basis pending the closing of property acquisitions in our pipeline or our identification of other uses for the proceeds. Borrowings under our credit agreement with Wells Fargo Bank, N.A. bear interest at prevailing short-term interest rates (currently one month LIBOR) plus a pricing spread of 275 basis points. As of December 31, 2012, we had $58.1 million of borrowings outstanding our under our credit agreement with Wells Fargo Bank, N.A. Our credit agreement with Wells Fargo Bank, N.A. is scheduled to mature on June 28, 2015.

Wells Fargo Bank, N.A. is an affiliate of Wells Fargo Securities, LLC, the sole book-running manager of this offering. If we determine to use all or a portion of the proceeds of this offering to repay principal outstanding under the revolving credit agreement, Wells Fargo Bank, N.A. will receive those proceeds. See Underwriting.

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THE COMPANY

Overview

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

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

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

We have invested in certain owned properties that are leased primarily but not exclusively by one tenant. We have also invested in certain owned properties which were previously leased by one tenant but as a result of lease non-renewals have now become multi-tenant properties. We expect these types of properties will continue to comprise a portion of our portfolio for the foreseeable future.

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

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

	Investment[(1)] (in thousands)	Percentage	
Owned properties	$ 1,853,967	95.3	%
Debt investments			
Loans			
Long-term mortgage loans	24,318	1.3	
Corporate credit notes	3,214	0.2	

Commercial mortgage loan securitizations	14,419	0.7
Certificated mortgage loan investments	47,899	2.5
Other	175	0.0
Total	$ 1,943,991	100.0 %

(1) Here and elsewhere in this prospectus supplement, references to our Investment represent our carry value for financial reporting purposes before depreciation and amortization. With respect to our loan portfolio, we have adjusted our carry value to exclude a $0.5 million general loss reserve.

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

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Recent Events

Dividends

On March 7, 2013, our board of directors authorized and we declared a cash dividend of $0.0775 per share of common stock for the first quarter of 2013. Our board of directors also authorized and we declared a cash dividend of $0.5078125 per share of our 8.125% Series A Cumulative Redeemable Preferred Stock, par value $0.01 per share (the Series A Preferred Stock), a cash dividend of $0.5234375 per share of our 8.375% Series B Cumulative Redeemable Preferred Stock, par value $0.01 per share (the Series B Preferred Stock) and a cash dividend of $0.4027778 per share of 7.25% Series C Cumulative Redeemable Preferred Stock (the Series C Preferred Stock), all for the first quarter of 2013. The first quarter 2013 common and preferred dividends are payable on April 15, 2013 to stockholders of record as of April 4, 2013. Investors who purchase common stock in this offering will not receive this first quarter 2013 dividend.

Stock Issuances

Since December 31, 2012, we have issued an aggregate of 6,392,031 shares of our common stock through our at the market offering program with Cantor Fitzgerald & Co., and raised net proceeds of approximately $37.2 million. We expect to use the net proceeds for general corporate purposes, including to fund future acquisitions and to reduce our outstanding debt obligations, including mortgage debt obligations scheduled to mature in May 2013.

In January 2013, our board of directors authorized a new series of preferred stock, the Series C Preferred Stock. During the quarter ended March 31, 2013, we closed on two public offerings of an aggregate of 1,700,000 shares of our Series C Preferred Stock for an average price (including accrued interest) of $24.24. We raised aggregate net proceeds of approximately $39.6 million, and expect to use the net proceeds for general corporate purposes, which are expected primarily to include repurchase or redemption of our Series A Preferred Stock.

During the quarter ended March 31, 2013, we also entered into an at the market offering program with MLV & Co. LLC for the offering of up to 2,800,000 shares of our Series C Preferred Stock. The net proceeds from any sales under the program are for general corporate purposes, which are expected primarily to include repurchase or redemption of our Series A Preferred Stock and our 7.50% convertible senior notes. As of the date hereof, no shares of the Series C Preferred Stock have been issued under this program.

Series A Preferred Stock Repurchase Program

During the quarter ended March 31, 2013, our board of directors approved a share repurchase program authorizing us to repurchase our outstanding Series A Preferred Stock. The program has no expiration date and permits us to purchase shares through a variety of methods, including in the open market or through privately negotiated transactions, in accordance with applicable securities laws. It does not obligate us to make any repurchases at any specific time or situation. The timing and extent to which we repurchase our Series A Preferred Stock will depend upon a variety of factors, including market conditions, our liquidity, and regulatory requirements. We redeemed 800,182 shares of our Series A Preferred Stock on February 21, 2013 and an additional 815,000 shares on April 3, 2013.

Investment and Financing Activities

During the quarter ended March 31, 2013, we completed the following investment and financing activities:

We obtained mortgage financing for the office building we purchased during December 2012, located in San Antonio, Texas, and leased primarily to Becton, Dickinson and Company. We financed the property with a $10 million non-recourse mortgage note, with a coupon of 3.95% and maturing in April 2023.
We added two of the office buildings we purchased in December 2012, located in Englewood, Colorado (leased to Comcast Corporation and Pulte Mortgage LLC), to the collateral pledged to our revolving credit agreement with Wells Fargo Bank, N.A., thereby increasing our borrowing capacity under the agreement. As of March 31, 2013, our available borrowing capacity under the agreement was approximately $40 million.

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Bob s Stores, LLC, the sole tenant at our 88,420 square foot retail property located in Randolph, Massachusetts, exercised its right to extend the lease for five additional years, until January 31, 2019. The lease extension commences February 1, 2014 and the rental rate is $9.76 per square foot. The tenant s obligations under the foregoing lease are guaranteed by various subsidiaries of CVS Caremark Corporation.

Investment Strategy

We focus on the following core business strategies:

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

Credit Rating[(1)(2)]	Investment (in thousands)	Percentage
Investment grade rating of A- or A3 and above	$ 781,422	42.4 %
Investment grade rating of below A- or A3	432,131	23.4
Implied investment grade rating	319,305	17.3
Non-investment grade rating	309,462	16.8
Unrated	935	0.1
	$ 1,843,255	100.0 %

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

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

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

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

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

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Our Competitive Strengths

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

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

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

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

Our Portfolio

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

approximately $1.9 billion owned property portfolio;

own approximately 12.1 million square feet with 92.9% occupancy;

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

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

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

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

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

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

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Owned Properties

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

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

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

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

Property Type Diversification. The following pie chart summarizes the property types comprising our owned property portfolio as of December 31, 2012.

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

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

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

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

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

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

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

Year of Lease Expiration	Square Feet Subject to Expiring Lease	Current Annualized Base Rent (in thousands)	Percent of Annual Rent(1)	
2013	602,407	$ 15,553	11.6	%
2014	90,870	863	0.6	
2015	760,075	11,239	8.3	
2016	1,207,558	16,140	12.0	
2017	2,937,650	24,423	18.1	
2018	256,423	4,643	3.4	
2019	362,722	9,412	7.0	
2020	878,085	13,164	9.8	
2021	2,384,675	15,662	11.6	

2022	819,489	7,522	5.6
Thereafter	958,304	15,996	11.9

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

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The primary scheduled lease maturities in 2013 are: (i) 174,235 square feet leased to Choice Hotels International, Inc. in Silver Spring, MD scheduled to mature in May 2013, (ii) 101,120 square feet leased to Omnicom Group, Inc. in Irving, TX scheduled to mature in May 2013 and (iii) 191,278 square feet leased to the United States Government (NIH) in Bethesda, MD scheduled to mature in November 2013. We do not expect the Choice Hotels or Omnicom leases to be renewed or extended and are actively marketing those properties for re-let upon conclusion of the tenant s lease term. We lease approximately 22% of the space at the Choice building to three other tenants. We are not aware at this time of the United States Government (NIH) s plans with respect to the Bethesda, MD property beyond the scheduled lease expiration in November 2013. We cannot make any assurance regarding the timing or expected outcomes of our leasing efforts at these properties, including as to when and on what terms we will be able to lease any property which we may need to re-tenant.

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

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

Bunge North America, Inc.	6700 Snowden Road, Fort Worth, TX	Industrial	107,520	4/2007	4/2026	Fee	685	10,100	10
Cadbury Holdings Limited	945 Route 10, Whippany, NJ	Office	149,475	1/2005	3/2021	Fee	3,740	48,000	50
Capital One Financial Corporation	3905 N. Dallas Parkway, Plano, TX	Office	159,000	6/2005	2/2015	Fee	2,419	27,900	31
Choice Hotels International, Inc.(6)	10720, 10750 & 10770 Columbia Pike, Silver Spring, MD	Office	223,912	11/2004	5/2013	Fee	2,510	43,500	47
Cimarex Energy Company (Development Property)(7)	206 S. Cheyenne, Tulsa, OK	Office	N/A	7/2011	N/A	Joint Venture/ Fee		41,691	41
Comcast Corporation	7475 S Joliet St, Englewood, CO	Office	61,436	12/2012	12/2020	Fee	553	7,000	7,(
Cooper Tire & Rubber Company	500 Bartram Parkway, Franklin, IN	Warehouse	807,042	12/2010	5/2021	Fee	2,674	32,500	32
County of Yolo, California	25 North Cottonwood Street, Woodland, CA	Office	63,000	1/2007	6/2023	Fee	1,125	16,400	16
Crozer-Keystone Health System	8 and 10 Morton Avenue, Ridley Park, PA	Medical Office	22,708	8/2004	4/2019	Ground Lease	469	4,477	5,8
CVS Corporation	100 Mazzeo Drive, Randolph, MA	Retail	88,420	9/2004	1/2014	Fee	771	10,450	14
Del Monte Corporation	2 Nestle Way, Lathrop, CA	Warehouse	751,021	4/2007	12/2017	Estate for Years	2,491	52,357	64
Exelis, Inc. (formerly ITT Corporation)	12975 Worldgate Drive, Herndon, VA	Office	167,285	5/2005	3/2019	Fee	5,657	46,081	56
Farmers Group, Inc.	3039 3041 Cochran Street, Simi Valley, CA	Office	271,000	1/2007	1/2017	Fee	3,288	41,812	41
		Office	155,200	12/2005	12/2020	Fee	2,815	39,550	39

Farmers New World Life Insurance Company	3003 77th Avenue Southeast, Mercer Island, WA									
General Motors Financial Company, Inc.	4001 Embarcadero Drive, Arlington, TX	Office	246,060	12/2006	8/2017	Fee	3,339	43,000	43
Invesco Holding Co. Ltd.	4340, 4346 & 4350 South Monaco St., Denver, CO	Office	263,770	3/2006	10/2016	Fee	5,475	69,300	70
Johnson Controls, Inc.	6750 Bryan Dairy Road, Pinellas Park, FL	Warehouse	307,275	12/2006	8/2016	Fee	2,223	27,000	27
Koninklijke Ahold, N.V.	4001 New Falls Road, Levittown, PA	Retail	70,020	6/2006	4/2026	Fee	1,439	18,575	21
Lowes Companies, Inc.(8)	26501 Aliso Creek Rd., Aliso Viejo, CA	Retail	181,160	5/2005	8/2024	Fee	3,470	52,860	53
Lowes Companies, Inc.	2401/2501 Elysian Fields Ave., New Orleans, LA	Retail	133,841	11/2011	5/2030	Fee	2,314	28,474	29
MetroPCS Communications, Inc.	2250 Lakeside Blvd, Richardson, TX	Office	115,583	5/2012	11/2018	Fee	2,592	16,676	16
Michelin North America, Inc.	5600 Cane Run Rd, Louisville, KY	Warehouse	150,000	9/2010	5/2021	Fee	804	8,071	8,(
Multi-tenant (Dodge building)	9394 West Dodge Road, Omaha, NE	Office	133,685	4/2007	Various	Ground Lease	2,338	10,785	18

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							(in thousands)		
Tenant or Guarantor	Location	Property Type	Square Feet	Purchase Date	Lease Maturity[1]	Form of Ownership	2013 Estimated Annual Rent[2]	Purchase Price	Invest
Multi-tenant (Landmark building)	1299 Farnam Street, Omaha, NE	Office	292,714	4/2007	Various	Ground Lease	2,896	30,097	33,98
Nestle Holdings, Inc.	555 Nestle Way, Breinigsville, PA	Warehouse	1,045,153	4/2007	12/2017	Estate for Years	4,599	74,215	87,68
Omnicom Group, Inc.	1660 North Westridge Circle, Irving, TX	Office	101,120	6/2005	5/2013	Fee	560	18,100	18,33
Pearson Plc.	3833 Greenway Drive and 2201 Noria Road, Lawrence, KS	Office	194,665	4/2006	4/2021	Fee	1,567	20,750	20,83
Praxair, Inc.[9]	1585 Sawdust Rd., The Woodlands, TX	Office	175,035	6/2012	5/2022	Fee	3,028	40,450	40,56
Pulte Mortgage LLC	7390 S. Iola St, Englewood, CO	Office	95,265	12/2012	3/2020	Fee	1,604	19,100	19,10
The Kroger Co.	136 W. Belmont Drive, Calhoun, GA	Retail	65,849	4/2007	1/2022	Estate for Years	465	5,334	7,320
The Kroger Co.	302 Brighton Park Blvd, Frankfort, KY	Retail	53,886	4/2007	1/2022	Estate for Years	422	4,495	6,169
The Kroger Co.	2020 Mallory Lane, Franklin, TN	Retail	62,348	4/2007	1/2022	Estate for Years	564	6,461	8,867
The Kroger Co.	1002 S. Broadway, Georgetown, KY	Retail	62,363	4/2007	1/2022	Estate for Years	491	6,192	8,498
The Kroger Co.		Retail	62,348	4/2007	1/2022		554	6,596	9,053

	9501 Northshore Drive, Knoxville, TN					Estate for Years			
The Kroger Co.	6678 Covington Hwy., Lithonia, GA	Retail	57,032	4/2007	1/2022	Estate for Years	535	5,834	8,006
The Kroger Co.	540 Island Fort Road, Madisonville, KY	Retail	61,503	4/2007	1/2022	Estate for Years	419	4,265	5,853
The Kroger Co.	808 N. 12th Street, Murray, KY	Retail	56,162	4/2007	1/2022	Estate for Years	449	4,406	6,046
The Kroger Co.	1670 Starlite Drive, Owensboro, KY	Retail	62,360	4/2007	1/2022				