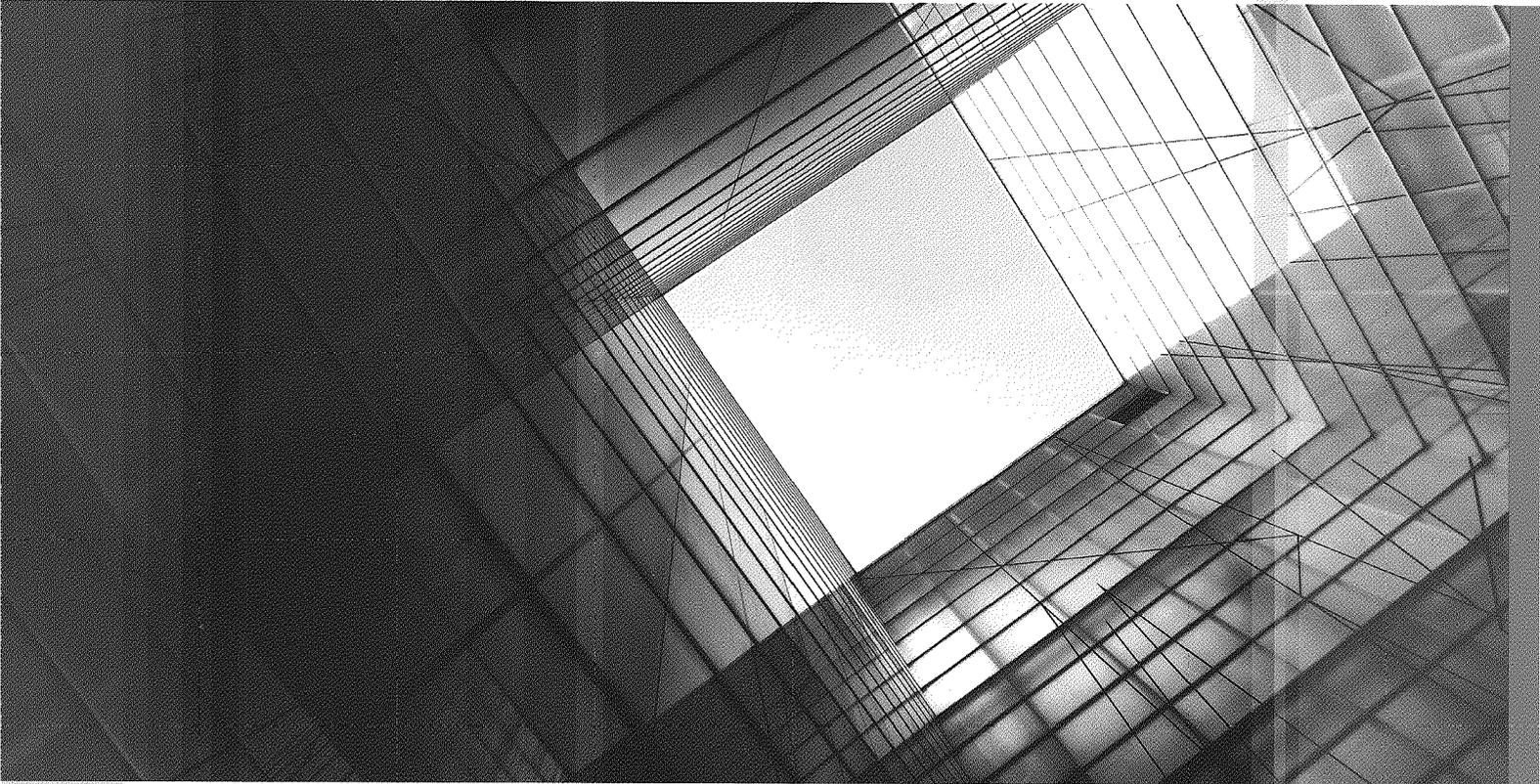


Investing for the long run™



09011240



**CPA:15**

2008 Annual Report  
Corporate Property Associates 15

Received SEC  
MAY 04 2008  
Washington, DC 20549

A MEMBER OF THE  
**W. P. CAREY**  
GROUP



CPA®:15 seeks to provide investors with increasing distributions and long-term investment growth by focusing primarily on tenant creditworthiness, acquiring critical operating assets and investing in a broadly diversified portfolio of real estate assets. Through this approach, we strive to protect investors in all market cycles.

# Financial Highlights

	FOR THE YEARS ENDED DECEMBER 31,				
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)	2004 <sup>1</sup>	2005	2006	2007	2008
<b>Operating Data<sup>2</sup></b>					
Revenues	\$132,535	\$202,922	\$280,611	\$293,286	\$306,461
Net income	38,886	43,809	66,635	87,190	28,694
Cash flows from operating activities	90,721	124,049	144,818	162,985	180,789
Cash distributions paid	67,797	80,475	82,850	85,327	98,153
<b>Per Share Data</b>					
Distributions declared <sup>3</sup>	.63	.64	.65	.67	.69
<b>Balance Sheet Data</b>					
Total assets	\$2,718,396	\$2,856,501	\$3,336,296	\$3,464,637	\$3,189,205
Long-term obligations <sup>4</sup>	1,350,764	1,510,933	1,873,841	1,943,724	1,819,443

1 Includes the impact of the merger with Carey Institutional Properties (CIP\*), an affiliate, in September 2004.

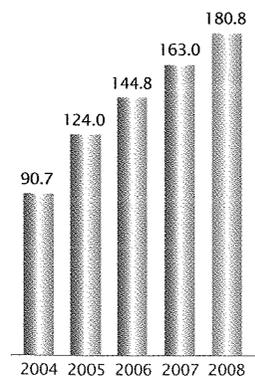
2 Certain prior-year amounts have been reclassified to discontinued operations.

3 Excludes a special cash distribution of \$.08 per share that was paid in January 2008 to shareholders of record as of December 31, 2007.

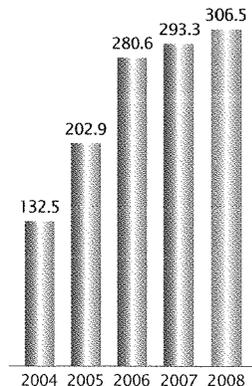
4 Represents mortgage obligations and deferred acquisition fee installments.

This Annual Report contains references to non-GAAP financial measures, including FFO and Adjusted Cash Flow from Operating Activities. • FFO – A non-GAAP financial measure that is commonly used in evaluating real estate companies. Although the National Association of Real Estate Investment Trusts (NAREIT) has published a definition of FFO, real estate companies often modify this definition as they seek to provide financial measures that meaningfully reflect their operations. • Adjusted Cash Flow from Operating Activities – Cash flow from operating activities on a GAAP basis adjusted for certain timing differences and deferrals. • We believe that these non-GAAP financial measures are useful supplemental measures which assist investors to better understand the underlying performance of our business segments. These non-GAAP financial measures do not represent net income or cash flow from operating activities that is computed in accordance with GAAP and should not be considered an alternative to net income or cash flows from operating activities as an indicator of our financial performance. These non-GAAP financial measures may not be comparable to similarly titled measures of other companies. Please reference the Form 8-K, which was filed on March 31, 2009, and is available on our website at [www.cpa15.com](http://www.cpa15.com), for a reconciliation of certain of these non-GAAP financial measures to our consolidated financial statements.

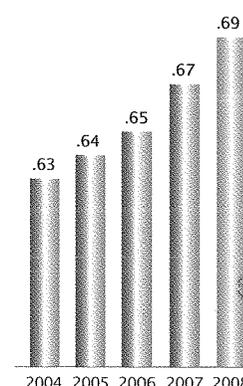
**Cash Flows from Operating Activities**  
(Dollars in millions)



**Revenues**  
(Dollars in millions)



**Distributions Declared Per Share**  
(Dollars in millions)

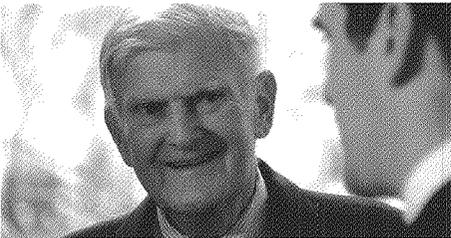


SEC Mail Processing  
Section

MAY 04 2009

Washington, DC

## Dear Fellow Shareholders



We founded the Corporate Property Associates programs in 1979 with the intention of creating an investment product that worked in good times and in bad. CPA<sup>®</sup>:15 follows that tradition and continues to perform well today. Despite volatile market conditions, CPA<sup>®</sup>:15 benefits from the conservative risk management strategy we and all the CPA<sup>®</sup> programs have implemented:

### **Long-Term Investment Strategy**

Through the sale and leaseback of corporate facilities, we have provided many companies with the capital to grow and enhance their businesses. In essence, we own long-term corporate obligations secured by long-term lease agreements. We believe that our focus on tenant creditworthiness in combination with our long-term investment approach enables us to be less affected by economic cycles than conventional real estate investors are. In today's market, we feel this is especially important, given investors' increasing demand for stable, income-generating investments.

### **In-House Risk Analysis**

We evaluate every transaction on four key components. We:

- Analyze the creditworthiness of the tenant
- Seek to identify and purchase strategically important facilities, which we also refer to as critical operating assets
- Assess the fundamental value of the underlying real estate
- Structure transactions with appropriate terms and pricing and stress test them under a range of economic and business scenarios

Our Independent Investment Committee, with its more than 200 years of combined experience through many economic cycles and unparalleled expertise, reviews and approves the investments we make. Our founder had the foresight to establish this committee of independent investment professionals from the beginning.

### **Diversification**

We diversify our portfolio by industry, tenant and geography in order to limit our exposure to any one tenant or region and because we believe industries tend to correlate in terms of how they perform in a down time. Our portfolio currently consists of 82 tenants in 24 industries located in 38 states and 8 countries. We remain cautious about corporate defaults and bankruptcies in the current environment and continue to monitor our portfolio closely; as of year-end 2008, we are pleased that our portfolio was 99% occupied. While we expect occupancy rates to fall, we are still in a very strong position at this point in the cycle.

### **Strong Financial Position**

Having invested cautiously in the past, we are in a strong financial position today. Our estimated net asset value (NAV) as of December 31, 2008 was \$11.50. Although this represents a decrease from our year-end 2007 NAV, we are pleased with our

relative performance and are proud that we have been able to continue providing you with rising income in the form of quarterly distribution payments. Our annualized dividend yield has increased 17.5% overall and was paid at an annualized rate of 7.05% for the first quarter of 2009. And we're proud to report that FFO and adjusted cash flow coverage of our dividend were 165% and 162%, respectively. We remain focused on increasing these metrics, which are vital components in maintaining and growing our dividend.

In addition, we have a relatively low amount of debt maturing in 2009–2010—approximately \$56 million (based on our proportionate share for non-wholly-owned debt obligations)—and cash on the balance sheet of \$112 million as of December 31, 2008. At a time when many funds are unable to cover their dividends or meet their near-term debt maturities, we believe we are in a strong capital position.

We look at 2009 as a year of both challenges and opportunities. As we continue to conservatively manage this broadly diversified portfolio, we will strive to capitalize upon those opportunities to create value for you—our investors—and continue providing an increasing source of income. We thank you for your continued confidence and support.

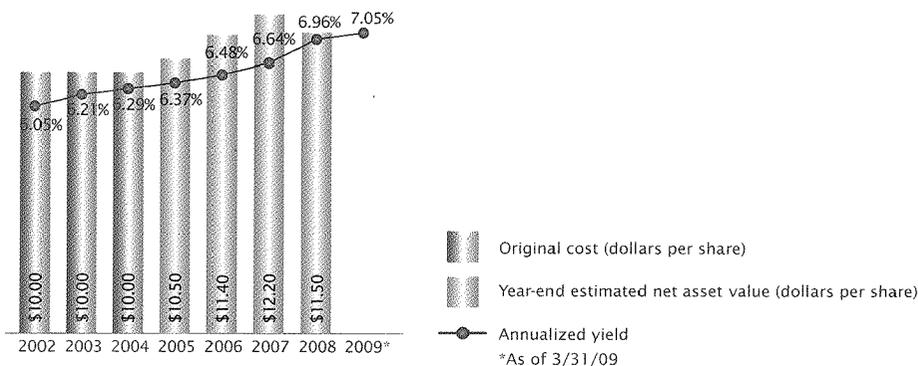
Sincerely,

Wm. Polk Carey  
Chairman

Benjamin P. Harris  
President

Gordon F. DuGan  
Chief Executive Officer

**Annualized Yield and Estimated Net Asset Values**





## Financial Highlights

### TABLE OF CONTENTS

---

6	Selected Financial Data
7	Management's Discussion and Analysis of Financial Condition and Results of Operations
30	Quantitative and Qualitative Disclosures About Market Risk
34	Report of Independent Registered Public Accounting Firm
35	Consolidated Balance Sheets
36	Consolidated Statements of Income
37	Consolidated Statements of Comprehensive (Loss) Income
38	Consolidated Statements of Shareholders' Equity
39	Consolidated Statements of Cash Flows
41	Notes to Consolidated Financial Statements
69	Report on Form 10-K
70	Corporate Information

## Selected Financial Data

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)	YEARS ENDED DECEMBER 31,				
	2008	2007	2006	2005	2004 <sup>(a)</sup>
<b>Operating Data<sup>(b)</sup></b>					
Total revenues	\$ 306,461	\$ 293,286	\$ 280,611	\$ 202,922	\$ 132,535
Income from continuing operations	32,669	69,464 <sup>(c)</sup>	37,505	39,678	38,438
Basic earnings from continuing operations per share	0.25	0.54	0.29	0.31	0.34
Net income	28,694	87,190	66,635	43,809	38,886
Earnings per share	0.22	0.68	0.52	0.35	0.34
Cash distributions paid	98,153	85,327	82,850	80,475	67,797
Cash distributions declared per share	0.6902	0.6691 <sup>(d)</sup>	0.6516	0.6386	0.6306
Payment of mortgage principal <sup>(e)</sup>	42,662	54,903	30,339	26,272	13,206
<b>Balance Sheet Data</b>					
Total assets	\$3,189,205	\$3,464,637	\$3,336,296	\$2,856,501	\$2,718,396
Long-term obligations <sup>(f)</sup>	1,819,443	1,943,724	1,873,841	1,510,933	1,350,764

(a) Includes the impact of the merger transaction in September 2004 ("the Merger"), in which CPA\*:15 acquired properties from Carey Institutional Properties ("CIP\*").

(b) Certain prior year balances have been retroactively adjusted as discontinued operations.

(c) Includes a net gain of \$12.4 million on the sale of a property by an equity investment in real estate.

(d) Excludes a special cash distribution of \$0.08 per share that was paid in January 2008 to shareholders of record as of December 31, 2007.

(e) Represents scheduled mortgage principal paid, excluding balloon payments.

(f) Represents mortgage obligations and deferred acquisition fee installments.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## EXECUTIVE OVERVIEW

### Business Overview

As described in more detail in Item 1 of our annual report on Form 10-K, we are a real estate investment trust ("REIT") that invests in commercial properties leased to companies domestically and internationally. We earn revenue principally by leasing real estate, primarily on a triple net lease basis, which requires the tenant to pay substantially all of the costs associated with operating and maintaining the property. Revenue is subject to fluctuation because of the timing of new lease transactions, lease terminations, lease expirations, contractual rent increases, tenant defaults and sales of properties. As of December 31, 2008, our portfolio consisted of our full or partial ownership interest in 367 properties leased to 82 tenants, totaling approximately 32 million square feet (on a pro rata basis) and an occupancy rate of approximately 99%. We were formed in 2001 and are managed by W. P. Carey & Co. LLC and its subsidiaries.

## HIGHLIGHTS

- Incurred impairment charges totaling \$42.1 million, inclusive of minority interest of \$7.6 million, on several properties to reduce the properties' carrying values to their estimated fair values. Included in total impairment charges is \$1.3 million related to two equity investments in real estate.
- Four tenants declared bankruptcy during 2008. These tenants contributed 2% of our annual lease revenue and income from equity investments in real estate as of December 31, 2008. We have not received indications from these tenants whether they will affirm their leases with us.
- Contributed \$19.3 million to a venture that purchased properties in Germany.
- Refinanced two existing non-recourse mortgage loans totaling \$76.7 million for \$68 million, inclusive of minority interest of \$39.9 million and \$28.7 million, respectively.
- In connection with the advisor's SEC Settlement, recognized income of \$9.1 million in March 2008 which is reflected as "Advisor settlement" in the consolidated financial statements. We received payment in cash of this amount from the advisor in April 2008.
- Sold four properties for total proceeds of \$12 million, net of selling costs, and realized a total net gain of \$0.7 million after recognition of an impairment charge. In connection with these sales, we prepaid or defeased existing non-recourse mortgage financing totaling \$12.3 million.
- Our estimated net asset value as of December 31, 2008 was adjusted downward to \$11.50 per share from \$12.20 per share based on the December 31, 2007 valuation.
- Our quarterly cash distribution increased to \$0.1743 per share for the fourth quarter of 2008, which annualizes to \$0.70 per share.

## Financial Highlights

(IN THOUSANDS)	YEARS ENDED DECEMBER 31,		
	2008	2007	2006
Total revenues	\$306,461	\$293,286	\$280,611
Net income <sup>(a)</sup>	28,694	87,190	66,635
Cash flow from operating activities	180,789	162,985	144,818

(a) Net income for 2008 reflects the recognition of impairment charges totaling \$42.1 million, inclusive of minority interest of \$7.6 million and impairment charges on equity investments in real estate of \$1.3 million, partially offset by income of \$9.1 million related to the advisor's settlement of an SEC investigation ("SEC Settlement"). Net income for 2007 included gains on sale totaling \$22.1 million, inclusive of minority interest of \$6.9 million, and our share of net gains recognized by an unconsolidated venture of \$12.4 million. Net income for 2006 included gains on sale totaling \$48.9 million, inclusive of minority interest of \$16.4 million, partially offset by impairment charges and prepayment penalties totaling \$44.9 million, inclusive of minority interest of \$22.3 million.

Management considers the performance metrics listed above as well as certain non-GAAP performance metrics to be important measures in the evaluation of our results of operations, liquidity and capital resources. Management evaluates our results of operations with a primary focus on the ability to generate cash flow necessary to meet our objectives of funding distributions to shareholders and increasing equity in our real estate.

## CURRENT DEVELOPMENTS AND TRENDS

While we have substantially invested the proceeds of our offerings, we expect to continue to participate in future investments with our affiliates to the extent we have funds available for investment.

The deterioration in the credit and real estate financing markets that began in the second half of 2007 continued and substantially worsened in 2008, resulting in a severe financial and economic crisis that persists at the date of our annual report on Form 10-K and is likely to continue for a significant period of time. The full magnitude, effects and duration of the current financial and economic crisis cannot be predicted. The primary effects of this crisis on our business through December 31, 2008 have been difficulty in obtaining financing or refinancing for our investments, increased levels of financial distress at our tenants, with several recently filing for bankruptcy and higher levels of redemption requests by shareholders than in the past. It is also more difficult to re-tenant or sell properties in the current environment due to the lack of available financing. The level of market volatility necessarily renders any discussion of current trends highly uncertain. Nevertheless, our view as of the date of our annual report on Form 10-K of current trends is presented below:

### Financing Conditions

The real estate financing markets continued to deteriorate during 2008, and we believe they are worse at the date of our annual report on Form 10-K than at any point during 2008. Current market conditions make it increasingly difficult to finance investments both domestically and internationally. We expect these conditions to continue in the near term and cannot predict when these markets will recover. Such conditions may affect our ability to obtain financing if we seek to obtain new financing on existing investments or make additional investments. At present, financing for larger transactions and for certain property types is not available. Such conditions may also affect our ability to sell assets.

The deterioration in the real estate financing markets has also made refinancing debt extremely difficult. All of our property level debt is non-recourse, which means that if we default on a mortgage obligation our exposure is generally limited to the equity we have invested in that property. Balloon payments totaling \$54.6 million (inclusive of minority interest of \$12.4 million) will be due during 2009. While we will look to refinance the majority of the scheduled balloon payments, we believe that we have sufficient cash resources to make these payments, if necessary.

## **Commercial Real Estate**

Over the last several years, commercial real estate values rose significantly as a result of the relatively low long-term interest rate environment and aggressive credit conditions. As a result of worsening credit conditions during 2008, we are seeing asset values decline across all asset types and also currently expect individual tenant credits to deteriorate as a result of current market conditions. In addition, falling asset values combined with difficult financing conditions will make it more difficult for us in situations where we need to re-tenant or sell properties. We generally enter into long-term leases with our tenants to mitigate the impact that fluctuations in interest rates have on the values of our real estate assets.

We calculate an estimated net asset value per share for our portfolio on an annual basis. This calculation is based in part on an estimate of the fair market value of our real estate provided by a third party, adjusted to give effect to the estimated fair value of mortgages encumbering our assets (also provided by a third party) as well as other adjustments (see "Financing Activities" below). As a result of market conditions worsening during 2008, our estimated net asset value per share as of December 31, 2008 decreased to \$11.50, a 5.7% decline from our December 31, 2007 value of \$12.20.

## **Corporate Defaults**

We expect that corporate defaults may increase during 2009, which will require more intensive management of the assets we own. We believe that our emphasis on ownership of assets that are critically important to a tenant's operations mitigates, to some extent, the risk of a tenant defaulting on its lease upon filing for bankruptcy protection. In addition, we have attempted to diversify our portfolio by tenant and tenant industry to mitigate the effect of tenant defaults. However, even where defaults do not occur, a tenant's credit profile may deteriorate, which in turn could affect the value of the lease asset and may require us to incur impairment charges on properties we own, even where the tenant is continuing to make the required lease payments. Furthermore, a tenant may reject our lease in bankruptcy, which could subject us to losses as the property may be worth less without the lease. Currently, four of our tenants, including two tenants that lease properties from unconsolidated ventures, are operating under bankruptcy protection. These tenants, who operate in the retail, cargo transportation and automotive industries, contributed a total of \$5.7 million, or 2%, of our annual lease revenue and income from equity investments in real estate for 2008 and have an aggregate carrying value of \$63.1 million as of December 31, 2008. We have not received indications from these tenants whether they will affirm their leases.

We closely monitor tenant performance for our portfolio through review of financial statements, meetings with management and review of financial covenant compliance where we have financial covenants. We have seen an increase in the level of stress of tenants in certain industries, including, among others, the automotive parts, home building materials and food industries. We have also seen that consumer-related industries are feeling the effects of the slowing economy, as well as businesses that have operated with relatively higher levels of leverage. We believe that our portfolio is reasonably well diversified and does not contain any unusual concentrations of individual tenant credit risk. Our portfolio does not have a significant concentration of tenants in the financial services industry.

We also closely monitor rent delinquencies as a precursor to a potential default. We have seen a small increase in rent delinquencies recently and have devoted additional resources to enhance tenant monitoring and rent collection activities. Nevertheless, we expect in the next year that there may be additional corporate defaults in our portfolio.

## **Redemptions**

We are experiencing higher levels of share redemptions, which consume cash. While we were able to satisfy all investor redemption requests in 2008, if investor redemption requests continue to increase in 2009, under the terms of our current redemption plan some redemption requests in 2009 may not be able to be fulfilled in the quarter in which they are received, if at all.

### **Consumer Price Index (“CPI”)**

Our leases generally have rent increases based on formulas indexed to increases in the CPI or other similar indices for the jurisdiction in which the property is located. While inflation rates in the U.S. and the Euro zone have generally increased in recent history, these rates are currently declining rapidly, which we expect will result in a reduction in rent increases in our portfolio in the future.

### **Exchange Rate Movements**

We have foreign investments and as a result are subject to risk from the effects of exchange rate movements, primarily in the Euro, which accounted for approximately 37% of annualized lease revenue at December 31, 2008. Our results of foreign operations benefit from a weaker U.S. dollar and are adversely affected by a stronger U.S. dollar relative to foreign currencies. Despite the strengthening of the U.S. dollar in the fourth quarter of 2008, the average rate for the U.S. dollar in relation to the Euro weakened by approximately 7% in comparison to 2007, resulting in a positive impact on our results of operations for Euro-denominated investments. Significant continued deterioration in the value of the Euro, such as has occurred in early 2009, may have an adverse impact on our results of operations in the future.

## **HOW MANAGEMENT EVALUATES RESULTS OF OPERATIONS**

Management evaluates our results of operations with a primary focus on the ability to generate cash flow necessary to meet our objectives of funding distributions to shareholders and increase our equity in our real estate. As a result, management’s assessment of operating results gives less emphasis to the effect of unrealized gains and losses, which may cause fluctuations in net income for comparable periods but have no impact on cash flows, and to other non-cash charges, such as depreciation and impairment charges.

Management considers cash flows from operating activities, cash flows from investing activities and cash flows from financing activities and certain non-GAAP performance metrics to be important measures in the evaluation of our results of operations, liquidity and capital resources. Cash flows from operating activities are sourced primarily from long-term lease contracts. Such leases are generally triple net and mitigate, to an extent, our exposure to certain property operating expenses. Management’s evaluation of the amount and expected fluctuation of cash flows from operating activities is essential in assessing our ability to fund operating expenses, service debt and fund distributions to shareholders.

Management considers cash flows from operating activities plus cash distributions from equity investments in real estate in excess of equity income as a supplemental measure of liquidity in evaluating our ability to sustain distributions to shareholders. Management considers this measure useful as a supplemental measure to the extent the source of distributions in excess of equity income in real estate is the result of non-cash charges, such as depreciation and amortization, because it allows management to evaluate such cash flows from consolidated and unconsolidated investments in a comparable manner. In deriving this measure, cash distributions from equity investments in real estate that are sourced from the sales of the equity investee’s assets or refinancing of debt are excluded because they are deemed to be returns of investment.

Management focuses on measures of cash flows from investing activities and cash flows from financing activities in its evaluation of our capital resources. Investing activities typically consist of the acquisition or disposition of investments in real property and the funding of capital expenditures with respect to real properties. Financing activities primarily consist of the payment of distributions to shareholders, obtaining non-recourse mortgage financing, generally in connection with the acquisition or refinancing of properties, and making mortgage principal payments. Our financing strategy has been to purchase substantially all of our properties with a combination of equity and non-recourse mortgage debt. A lender on a non-recourse mortgage loan generally has recourse only to the property collateralizing such debt and not to any of our other assets. This strategy has allowed us to diversify our portfolio of properties and, thereby, limit our risk. However, because of current conditions in credit markets, obtaining

financing is at present very difficult and we may complete transactions without obtaining financing. In the event that a balloon payment comes due, we may seek to refinance the loan, restructure the debt with existing lenders, or evaluate our ability to pay the balloon payment from our cash reserves or sell the property and use the proceeds to satisfy the mortgage debt.

## RESULTS OF OPERATIONS

Management's evaluation of the sources of lease revenues is as follows (in thousands):

	2008	2007	2006
Rental income	\$ 251,513	\$237,964	\$ 224,008
Interest income from direct financing leases	45,610	46,089	41,515
	<b>\$297,123</b>	<b>\$284,053</b>	<b>\$265,523</b>

We earned net lease revenues (i.e., rental income and interest income from direct financing leases) from our direct ownership of real estate from the following lease obligations (in thousands):

LESSEE	2008	2007	2006
U-Haul Moving Partners, Inc. and Mercury Partners, LP <sup>(a)</sup>	\$ 28,541	\$ 28,541	\$ 28,541
Carrefour France, S.A. <sup>(a) (b) (c)</sup>	21,386	19,061	16,303
OBI A.G. <sup>(a) (b) (c) (d)</sup>	17,317	15,506	10,555
Hellweg Die Profi-Baumarkte GmbH & Co. KG <sup>(a) (b) (c)</sup>	15,155	14,115	12,657
True Value Company <sup>(a)</sup>	14,698	14,171	14,471
Thales S.A. <sup>(a) (b) (c)</sup>	14,240	12,990	11,213
Life Time Fitness, Inc. <sup>(a) (e)</sup>	14,208	14,144	8,860
Advanced Micro Devices <sup>(a)</sup>	9,933	9,210	9,210
Pohjola Non-Life Insurance Company <sup>(a) (b) (c)</sup>	9,343	8,454	7,646
TietoEnator plc. <sup>(a) (b) (c)</sup>	8,790	7,963	7,131
Universal Technical Institute	8,727	8,546	7,924
Police Prefecture, French Government <sup>(a) (b) (c)</sup>	8,109	7,109	6,245
Medica — France, S.A. <sup>(a) (b) (c)</sup>	7,168	6,348	5,527
Foster Wheeler, Inc.	5,900	5,699	5,708
Information Resources, Inc. <sup>(a)</sup>	4,972	4,972	4,972
Other <sup>(a) (b) (c) (f)</sup>	108,636	107,224	108,560
	<b>\$297,123</b>	<b>\$284,053</b>	<b>\$265,523</b>

(a) These revenues are generated in consolidated ventures with affiliates, and include lease revenues applicable to minority interests totaling \$70.8 million, \$68.1 million and \$62.6 million for 2008, 2007 and 2006, respectively.

(b) Amounts are subject to fluctuations in foreign currency exchange rates.

(c) Increase was due to CPI-based (or equivalent) rent increases.

(d) We acquired our initial investment during 2006 and made a further investment in 2007.

(e) In June 2006, we leased six additional properties to Life Time Fitness in connection with the Starmark transaction (Note 4).

(f) Includes aggregate revenue of \$6 million, \$6.6 million and \$6.2 million for 2008, 2007 and 2006, respectively, from two tenants that filed for bankruptcy in 2008.

We recognize income from equity investments in real estate, of which lease revenues are a significant component. Net lease revenues from these ventures (for the entire venture, not our proportionate share) are as follows (dollars in thousands):

LESSEE	OWNERSHIP INTEREST AT DECEMBER 31, 2008	YEARS ENDED DECEMBER 31,		
		2008	2007	2006
Hellweg Die Profi-Baumarkte GmbH & Co. KG <sup>(a) (b)</sup>	38%	\$37,219	\$ 25,536	\$ —
Marriott International, Inc. <sup>(c)</sup>	47%	17,791	18,781	18,872
PETsMART, Inc.	30%	8,215	8,303	8,395
The Talaria Company (Hinckley)	30%	4,984	4,998	5,025
Schuler A.G. <sup>(b) (f)</sup>	34%	4,623	184	—
Gortz & Schiele GmbH & Co. and Goertz & Schiele Corp. <sup>(b) (d) (e)</sup>	50%	3,653	3,400	349
Hologic, Inc.	64%	3,317	3,213	3,169
Del Monte Corporation <sup>(g)</sup>	50%	3,241	2,955	2,955
The Upper Deck Company	50%	3,194	3,194	3,121
Wagon Automotive GmbH and Wagon Automotive Nagold GmbH <sup>(b) (e) (h)</sup>	33%	1,695	—	—
Builders FirstSource, Inc.	40%	1,544	1,508	1,494
		<b>\$89,476</b>	<b>\$72,072</b>	<b>\$43,380</b>

(a) We acquired our interest in this investment in April 2007. In addition to lease revenues, the venture also earned interest income of \$28.1 million and \$19.5 million during 2008 and 2007, respectively, on a note receivable. Represents a follow-on transaction to our 2005 transaction with Hellweg.

(b) Revenue amounts are subject to fluctuations in foreign currency exchange rates.

(c) One of the properties owned by this venture was sold in August 2007. Audited financial information for this venture is included herein.

(d) We acquired our interest in this venture in December 2006.

(e) Gortz & Schiele GmbH and Wagon Automotive GmbH filed for bankruptcy in Germany in November 2008 and December 2008, respectively.

(f) We acquired our interest in this venture in September 2007. During the fourth quarter of 2007, we reclassified this investment as an equity investment in real estate following the advisor's purchase of a tenant-in-common interest in the property.

(g) Increase was due to CPI-based rent increase.

(h) We acquired our interest in this venture in August 2008.

## LEASE REVENUES

Our net leases generally have rent increases based on formulas indexed to increases in the CPI or other similar indices for the jurisdiction in which the property is located, sales overrides, or other periodic increases, which are designed to increase lease revenues in the future. We have several international investments and, therefore, lease revenues from these investments are subject to fluctuations in exchange rate movements in foreign currencies.

**2008 vs. 2007** — For the year ended December 31, 2008 as compared to 2007, lease revenues (rental income and interest income from direct financing leases) increased by \$13.1 million. Scheduled rent increases at several properties contributed \$6.6 million of the increase, while fluctuations in foreign currency exchange rates contributed \$6.2 million and lease revenue from an investment entered into in December 2007 contributed \$2.2 million. These increases were partially offset by a decrease in lease revenues of \$1.6 million as the result of the reclassification of a previously consolidated property in December 2007 to an equity investment in real estate following the advisor's purchase of a tenant-in-common interest in the property.

**2007 vs. 2006** — For the year ended December 31, 2007 as compared to 2006, lease revenues increased by \$18.5 million, primarily due to increases of \$7.9 million resulting from fluctuations in foreign currency exchange rates, \$7.2 million from investments acquired or placed into service during 2007 and 2006 and \$5.4 million from scheduled rent increases at several properties. These increases were partially offset by the effects of the Starmark lease restructuring in 2006 (Note 4).

#### **OTHER OPERATING INCOME**

Other operating income generally consists of costs reimbursable by tenants, lease termination payments and other non-rent related revenues including, but not limited to, settlements of claims against former lessees. We receive settlements in the ordinary course of business; however, the timing and amount of such settlements cannot always be estimated. Reimbursable tenant costs are recorded as both income and property expense and, therefore, have no impact on net income.

**2008 vs. 2007** — For the year ended December 31, 2008 as compared to 2007, other operating income increased by \$0.1 million.

**2007 vs. 2006** — For the year ended December 31, 2007 as compared to 2006, other operating income decreased by \$5.9 million, primarily due to the receipt of \$8.1 million of security deposits and prepaid rent from Starmark (inclusive of minority interest of \$4.6 million) in 2006, on completion of our obligations related to the restructuring of Starmark's master lease (Note 4). This decrease was partially offset by an increase in other income, including reimbursable tenant costs resulting from the continued growth in our portfolio.

#### **DEPRECIATION AND AMORTIZATION**

**2008 vs. 2007** — For the year ended December 31, 2008 as compared to 2007, depreciation and amortization expense increased by \$5.4 million, primarily due to a \$3.5 million write-off of intangible assets during 2008 in connection with a lease termination. The impact of fluctuations in foreign currency exchange rates also contributed \$1.8 million of the increase.

**2007 vs. 2006** — For the year ended December 31, 2007 as compared to 2006, depreciation and amortization increased by \$3.4 million, primarily due to \$1.9 million resulting from fluctuations in average foreign currency exchange rates as compared to 2006 as well as the impact of investments acquired during 2007 and 2006.

#### **PROPERTY EXPENSES**

**2008 vs. 2007** — For the year ended December 31, 2008 as compared to 2007, property expenses increased by \$4.3 million, primarily due to an increase in uncollected rent expense of \$1.8 million as a result of an increase in the number of tenants who are experiencing financial difficulties, an increase in asset management and performance fees of \$0.8 million, increases in legal and professional fees totaling \$0.6 million and increases in reimbursable costs of \$0.3 million. The increase in asset management and performance fees was attributable to an increase in our asset base as a result of investment activity in 2008 and 2007 and increases in property values as reflected in a third party valuation of our portfolio as of December 31, 2007. See "Current Developments and Trends" above for a discussion of our portfolio valuation as of December 31, 2008.

**2007 vs. 2006** — For the year ended December 31, 2007 as compared to 2006, property expenses increased by \$4.4 million, primarily due to an increase in asset management and performance fees of \$3.1 million as well as an increase in reimbursable tenant costs. The increase in asset management and performance fees is attributable to an increase in our asset base as a result of investment activity in 2007 and 2006 and increases in property values as reflected in a third party valuation of our portfolio as of December 31, 2006.

## GENERAL AND ADMINISTRATIVE

**2008 vs. 2007** — For the year ended December 31, 2008 as compared to 2007, general and administrative expenses decreased by \$1.3 million, primarily due to an decrease in business development expenses. During 2008, we incurred \$0.3 million of costs associated with potential investment opportunities that were ultimately not consummated, as compared with \$1.6 million in 2007.

**2007 vs. 2006** — For the year ended December 31, 2007 as compared to 2006, general and administrative expenses increased \$1.2 million, primarily due to an increase in business development expenses of \$1.6 million. This increase was partially offset by decreases in legal expenses and our share of expenses allocated by the advisor.

## IMPAIRMENT CHARGES

**2008** — We recognized impairment charges of \$36.7 million, inclusive of minority interest of \$7.6 million, to reduce the carrying values of several properties to their estimated fair values. Included in this amount are impairment charges totaling \$35.4 million, inclusive of minority interest of \$7.6 million, on two vacant French properties. See “Income from equity investments in real estate” and “Discontinued operations” below for additional impairment charges recognized during 2008.

**2007** — We did not recognize any impairment charges on consolidated investments in 2007. See “Income from equity investments in real estate” below for impairment charges incurred on our equity method investments.

**2006** — We recognized an impairment charge of \$12.9 million in connection with entering into a plan to restructure a master lease agreement with Starmark. In addition, we recognized impairment charges totaling \$0.7 million on two properties as a result of declines in the unguaranteed residual values of these properties. See “Discontinued operations” below for additional impairment charges recognized during 2006.

## ADVISOR SETTLEMENT

During 2008, we recognized income of \$9.1 million in connection with the advisor’s SEC Settlement (Note 14).

## INCOME FROM EQUITY INVESTMENTS IN REAL ESTATE

Income from equity investments in real estate represents our proportionate share of net income (revenue less expenses) from investments entered into with affiliates or third parties in which we have a non-controlling interest but exercise significant influence.

**2008 vs. 2007** — For the year ended December 31, 2008 as compared to 2007, income from equity investments in real estate decreased by \$8.9 million. A substantial portion of the decrease was due to a 2007 sale transaction, whereby we recognized a net gain of \$12.4 million as described below. We did not sell any of our equity interests during 2008. This decrease was partially offset by income earned from investments acquired during 2008 and 2007 totaling \$1.9 million and a \$1.1 million reduction in impairment charges. During 2007, we recognized other than temporary impairment charges totaling \$2.4 million as described below. During 2008, we recognized other than temporary impairment charges totaling \$1.3 million on two investments to reflect reductions in the fair value of the ventures’ net assets as compared with our carrying value.

**2007 vs. 2006** — For the year ended December 31, 2007 as compared to 2006, income from equity investments in real estate increased by \$13.5 million, primarily due to the recognition of a gain of \$12.4 million on the sale of a property in August 2007 (net of defeasance charges totaling \$2.4 million incurred upon the defeasance of the existing non-recourse mortgage loan). Equity investments in real estate acquired during 2007 and 2006 also contributed \$2.3 million of the increase. These increases were

partially offset by the recognition of \$2.4 million in other than temporary impairment charges in 2007 to reduce our carrying value to the ventures' estimated fair value.

#### **OTHER INTEREST INCOME**

**2008 vs. 2007** — For the year ended December 31, 2008 as compared to 2007, other interest income decreased by \$4.1 million, primarily due to lower average cash balances and lower interest rates earned on our cash and cash equivalents.

**2007 vs. 2006** — For the year ended December 31, 2007 as compared to 2006, other interest income increased \$2.6 million, primarily due to higher average cash balances during the first six months of 2007. The increase is also attributable to higher average interest rates and the impact of fluctuations in average foreign currency exchange rates in 2007 as compared to 2006. In addition, in 2007, we received special distributions of \$0.4 million from a tenant in which we held warrant and stock positions.

#### **MINORITY INTEREST IN INCOME**

We consolidate investments in which we are deemed to have a controlling interest. Minority interest in income represents the proportionate share of net income (revenue less expenses) from such investments that is attributable to the partner(s) holding the non-controlling interest.

**2008 vs. 2007** — For the year ended December 31, 2008 as compared to 2007, minority interest in income decreased by \$3.7 million, primarily due to the impact of our minority interest partner's share of impairment charges of \$7.6 million on two properties in France, as described above. This decrease was partially offset by the incremental full-year impact of our acquisition of controlling interests in two investments during 2007.

**2007 vs. 2006** — For the year ended December 31, 2007 as compared to 2006, minority interest in income increased by \$6.3 million, primarily due to the recognition of impairment charges and debt prepayment/defeasance charges on our Starmark investment during 2006, which reduced minority interest in income in 2006 (Note 4). The increase is also attributable to the impact of investment activity during 2007 and 2006 as well as fluctuations in average foreign currency exchange rates as compared to 2006.

#### **GAIN ON FOREIGN CURRENCY TRANSACTIONS, DERIVATIVE INSTRUMENTS AND OTHER, NET**

We have foreign investments in the European Union and as such are subject to the effects of exchange rate movements of the Euro and the British pound sterling. We are a net receiver of these foreign currencies and therefore benefit from a weaker U.S. dollar relative to the foreign currency. We recognize realized and unrealized foreign currency translation gains and losses upon the repatriation of cash from our foreign investments and due to changes in foreign currency exchange rates on accrued interest receivable on notes receivable from wholly-owned subsidiaries, respectively. In addition, from time to time, we may obtain equity enhancements in connection with transactions that may involve warrants exercisable at a future time to purchase stock of the tenant or borrower or their parent. These stock warrants are readily convertible to cash or provide for net settlement upon conversion, and as such, we recognize unrealized gains or losses on these common stock warrants and, if the warrants become exercisable and the value of the stock exceeds the exercise price of the warrant, we may exercise the warrants to obtain additional returns for our investors. The timing and amount of such gains and losses cannot always be estimated and are subject to fluctuation.

**2008 vs. 2007** — For the year ended December 31, 2008 as compared to 2007, gain on foreign currency transactions, derivative instruments and other, net, decreased by \$2.5 million, primarily due to a decrease in net gains on foreign currency transactions of \$4.6 million as a result of the prepayment of intercompany notes receivable by certain of our subsidiaries. This decrease was partially offset by the recognition of a realized gain of \$1.1 million as the result of the termination of a derivative instrument and gains on the sale of real estate totaling \$0.8 million.

**2007 vs. 2006** — For the year ended December 31, 2007 as compared to 2006, gain on foreign currency transactions, derivative instruments and other, net increased by \$1.4 million, primarily due to an increase in net gains on foreign currency transactions of \$2.9 million as a result of fluctuations in average foreign currency exchange rates as compared to 2006. This increase in gains was partially offset by the reversal, in 2007, of previously recorded unrealized gains on the exercise of common stock warrants of \$1.2 million (including the recognition of an out-of-period adjustment related to the valuation of these warrants of \$0.5 million — Note 2).

### INTEREST EXPENSE

**2008 vs. 2007** — For the year ended December 31, 2008 as compared to 2007, interest expense increased by \$1 million, primarily due to an increase of \$2.7 million from the impact of fluctuations in foreign currency exchange rates. This increase was partially offset by a reduction in interest expense as a result of making scheduled mortgage principal payments and paying our annual installment of deferred acquisition fees, both of which reduce the balances on which interest is incurred.

**2007 vs. 2006** — For the year ended December 31, 2007 as compared to 2006, interest expense decreased by \$9.1 million, primarily due to the recognition of prepayment penalties and debt defeasance costs of \$13.6 million in 2006, consisting of prepayment penalties and debt defeasance costs related to the Starmark lease restructuring transaction (\$10 million) and a mortgage refinancing (\$3.6 million). Interest expense also decreased by \$2.4 million in 2007 as a result of making scheduled mortgage principal payments. These decreases were partially offset by an increase in interest expense of \$5.1 million from mortgages obtained on properties acquired or refinanced in 2007 and 2006 and an increase of \$3 million due to the impact of fluctuations in foreign currency exchange rates.

### PROVISION FOR INCOME TAXES

**2008 vs. 2007** — For the year ended December 31, 2008 as compared to 2007, provision for income taxes increased by \$1 million, primarily due to income taxes payable in connection with our international investments. Income taxes on our foreign investments, primarily in France and Germany, comprise a substantial portion of our tax provision for both 2008 and 2007. Our investments generate taxable income in state, local and foreign jurisdictions primarily as a result of rent increases and scheduled amortization of mortgage principal payments, which reduce interest expense and increase income subject to local tax.

**2007 vs. 2006** — For the year ended December 31, 2007 as compared to 2006, the provision for income taxes increased \$5.5 million primarily due to investment activity in 2007 and 2006 as well as an accrual for foreign income taxes totaling \$0.6 million related to our 2005 and 2006 fiscal years (Note 2).

### DISCONTINUED OPERATIONS

**2008** — For the year ended December 31, 2008, we recognized a loss from the operations of discontinued properties of \$4 million, due to the recognition of impairment charges on two properties to write the properties' carrying values down to their selling price. These properties were sold during the fourth quarter of 2008.

**2007** — For the year ended December 31, 2007, we earned income from discontinued operations of \$17.7 million, primarily due to gains on the sale of several properties totaling \$22.1 million and income from the operations of discontinued properties of \$4 million. These amounts were inclusive of minority interest in income totaling \$8.4 million.

**2006** — For the year ended December 31, 2006, we earned income from discontinued operations of \$29 million, primarily due to gains from the sale of a property in New York of \$41.1 million and from other properties totaling \$7.8 million. These gains

were partially offset by an impairment charge of \$14.6 million related to the Starmark transaction and \$3 million in prepayment penalties and related costs in connection with the prepayment of debt on the New York property. These amounts are inclusive of minority interest in income totaling \$11.2 million.

## **NET INCOME**

**2008 vs. 2007** — For the year ended December 31, 2008 as compared to 2007, the resulting net income decreased by \$58.5 million.

**2007 vs. 2006** — For the year ended December 31, 2007 as compared to 2006, the resulting net income increased by \$20.6 million.

## **FINANCIAL CONDITION**

### **Sources and Uses of Cash During the Year**

Our cash flows fluctuate period to period due to a number of factors, which may include, among other things, the timing of purchases and sales of real estate, timing of proceeds from non-recourse mortgage loans and receipt of lease revenues, the advisor's election to receive fees in common stock or cash, the timing and characterization of distributions from equity investments in real estate and payment to the advisor of the annual installment of deferred acquisition fees and interest thereon in the first quarter.

Although our cash flows may fluctuate period to period, we believe that we will generate sufficient cash from operations and from equity distributions in excess of equity income in real estate to meet our short-term and long-term liquidity needs. We may also use existing cash resources, the proceeds of non-recourse mortgage loans and the issuance of additional equity securities to meet such needs. We assess our ability to access capital on an ongoing basis. There has been no material change in our financial condition since December 31, 2007. Our sources and uses of cash during 2008 are described below.

### **Operating Activities**

One of our objectives is to use the cash flow from net leases to meet operating expenses, service debt and fund distributions to shareholders and minority partners. During 2008, we used cash flows from operating activities of \$180.8 million to fund distributions to shareholders of \$98.2 million, make scheduled mortgage principal payments of \$42.7 million and pay distributions to minority partners of \$51.7 million. Distributions paid to shareholders include a special cash distribution of \$10.2 million that was declared in December 2007 and paid in January 2008. The special distribution was funded with proceeds from certain asset sales in 2007. Distributions paid to minority partners include approximately \$25 million of cash repatriated from foreign accounts through the repayment of intercompany notes receivable from foreign subsidiaries. During 2008, we paid performance fees of \$15.9 million in restricted shares of our common stock rather than in cash as a result of the advisor's election to continue to receive performance fees in restricted stock. Cash flows from operating activities included the receipt of \$9.1 million in connection with the advisor's SEC Settlement (Note 14). These settlement proceeds were used to fund a portion of the distribution that was paid to unaffiliated shareholders in April 2008. For 2009, the advisor has elected to receive 80% of its performance fees from us in our restricted stock with the remaining 20% payable in cash. This change will have a negative impact on our operating cash flow in 2009.

### **Investing Activities**

Our investing activities are generally comprised of real estate transactions (purchases and sales), the payment of our annual installment of deferred acquisition fees and capitalized property-related costs. During 2008, we contributed \$26.6 million to unconsolidated ventures, including \$8.7 million to a venture in connection with its purchase of real estate. We also made a contribution to an unconsolidated venture of \$17.9 million that was subsequently redistributed to us, and that was applied to 2007 for the purposes of the venture's state tax reporting. We paid our annual installment of deferred acquisition fees to the advisor of

\$8.4 million in January 2008. The sale of several properties during 2008 generated proceeds of \$12 million. In addition, during the fourth quarter of 2007, we loaned \$7.6 million to the advisor in connection with its acquisition of an interest in one of our investments. The advisor repaid the loan with interest in the first quarter of 2008. The loan represented the advisor's share of funds from two ventures in which we and the advisor hold 54% and 46% interests, respectively, and which we consolidate.

### **Financing Activities**

In addition to making scheduled mortgage principal payments and paying distributions to shareholders and minority partners in 2008, we used \$88.9 million to prepay two non-recourse mortgage loans, including \$12.3 million of debt prepaid in connection with the sale of several properties. We replaced a portion of these loans with new financing totaling \$68 million. We funded these prepayments with proceeds from the sale transactions along with existing cash resources and a \$11.1 million contribution from a minority partner. We received \$19.7 million as a result of issuing shares through our dividend reinvestment and share purchase plan and used \$57.1 million to purchase treasury shares through a redemption plan that allows shareholders to sell shares back to us, subject to certain limitations.

We maintain a quarterly redemption program pursuant to which we may, at the discretion of our board of directors, redeem shares of our common stock from shareholders seeking liquidity. We currently limit the number of shares we may redeem so that the shares we redeem in any quarter, together with the aggregate number of shares redeemed in the preceding three fiscal quarters, does not exceed a maximum of 5% of our total shares outstanding as of the last day of the immediately preceding quarter. In addition, our ability to effect redemptions is subject to our having available cash to do so. We limit the cash we use for redemptions to the amount of proceeds we receive from the issuance of shares through our distribution reinvestment plan plus up to 1% of our operating cash flow from the prior fiscal year. If we have sufficient funds to purchase some but not all of the shares offered to us for redemption in a particular quarter, or the shares offered for redemption in a quarter would exceed the 5% limitation, requesting stockholders' shares will be redeemed on a pro rata basis (rounding to the nearest whole number of shares) up to the amount available for redemption, based upon the total number of shares for which redemption was requested in the relevant quarter and the total funds available for redemption in such quarter. Requests not fulfilled in a quarter will automatically be carried forward to the next quarter, unless the request is revoked by the stockholder. Redemption requests carried over from a prior quarter will receive priority over requests made in the relevant quarter.

At the beginning of our redemption program, we redeemed shares at a price of \$10.00 per share less a surrender charge. Once we began to obtain estimated annual net asset valuations of our portfolio, we redeemed shares at the most recently published estimated net asset value per share, as approved by our board of directors, less a surrender charge, which is currently fixed at 7%. We obtain estimated net asset valuations on an annual basis. Our estimated net asset value as of December 31, 2008 was adjusted downward to \$11.50 per share from \$12.20 per share based on the December 31, 2007 valuation (see "Current developments and trends" above). We calculate net asset value per share based in part on an estimate of the fair market value of our real estate provided by a third party, adjusted to give effect to the estimated fair value of the mortgages encumbering our assets (also provided by a third party), estimated disposition costs (including estimates of expenses, commissions and fees payable to the advisor), and an estimate of our other assets and liabilities as of the date of calculation. Our estimate of net asset value involves significant estimates and management judgments, and there can be no assurance that shareholders would realize \$11.50 per share if we were to be liquidated today.

As noted above, our ability to effect redemptions is subject to our having sufficient available cash. We have recently experienced an increase in redemption requests as compared to prior years, which we believe is in part due to shareholders having greater liquidity needs in the wake of the current credit crisis. As of the date of our annual report on Form 10-K, we have remaining availability to effect redemptions within the 5% limit; however, if redemption requests increase materially, we may not be able to satisfy all redemption requests. As of December 31, 2008, redemptions totaled approximately 3.7% of total shares outstanding on a rolling twelve-month period.

## SUMMARY OF FINANCING

The table below summarizes our non-recourse long-term debt as of December 31, 2008 and 2007, respectively (dollars in thousands).

	DECEMBER 31,	
	2008	2007
<b>Balance</b>		
Fixed-rate	\$ 1,412,288	\$ 1,541,301
Variable rate <sup>(a)</sup>	393,109	380,347
<b>TOTAL</b>	<b>\$1,805,397</b>	<b>\$1,921,648</b>
<b>Percent of total debt</b>		
Fixed-rate	78%	80%
Variable rate <sup>(a)</sup>	22%	20%
	<b>100%</b>	<b>100%</b>
<b>Weighted average interest rate at end of year</b>		
Fixed-rate	5.9%	6.0%
Variable rate <sup>(a)</sup>	4.8%	5.4%

(a) Included in variable rate debt at December 31, 2008 is (i) \$187.7 million in variable rate debt which has been effectively converted to fixed-rates through interest rate swap derivative instruments and (ii) \$162.4 million in mortgage obligations that bore interest at fixed-rates but that convert to variable rates during their term and (iii) \$43 million in variable rate debt that is subject to an interest rate cap, but for which the interest rate cap was not in effect at December 31, 2008. No interest rate resets or expirations of interest rate swaps or caps are scheduled to occur in 2009.

## CASH RESOURCES

As of December 31, 2008, our cash resources consisted of cash and cash equivalents of \$112 million. Of this amount, \$31.2 million, at then current exchange rates, was held in foreign bank accounts, and we could be subject to restrictions or significant costs should we decide to repatriate these amounts. We also have unleveraged properties that had an aggregate carrying value of \$39.6 million at December 31, 2008 however, given the current economic environment, there can be no assurance that we would be able to obtain financing for these properties. Our cash resources can be used to fund future investments, as well as to maintain sufficient working capital balances and meet other commitments. We intend to fund quarterly distributions from the cash generated from our real estate portfolio.

We currently have four tenants that are operating under bankruptcy protection. These tenants contributed 2% of our annual lease revenue and income from equity investments in real estate as of December 31, 2008. If additional tenants encounter financial difficulties as a result of the current economic environment, our cash flows could be negatively impacted.

## CASH REQUIREMENTS

During 2009, cash requirements will include making scheduled mortgage principal payments and paying distributions to shareholders and minority partners, as well as other normal recurring operating expenses. Balloon payments totaling \$54.6 million, inclusive of minority interest of \$12.4 million, will be due during 2009, comprised of \$8.1 million during the first quarter of 2009; \$18.6 million during the second quarter of 2009, inclusive of minority interest of \$12.4 million; \$15.2 million during the third quarter of 2009 and \$12.7 million during the fourth quarter of 2009. We and our minority interest partner are currently seeking to refinance certain of these loans but have existing cash resources that can be used to make these payments, if necessary. We may also seek to use our cash resources to make new investments if attractive opportunities arise, and expect to maintain cash balances sufficient to meet working capital needs.

## OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

The table below summarizes our off-balance sheet arrangements and contractual obligations as of December 31, 2008 and the effect that these arrangements and obligations are expected to have on our liquidity and cash flow in the specified future periods (in thousands).

	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Non-recourse debt — Principal	\$ 1,805,397	\$ 99,686	\$ 224,350	\$ 327,350	\$ 1,154,011
Deferred acquisition fees — Principal	14,046	6,903	5,721	1,422	—
Interest on borrowings and deferred acquisition fees <sup>(a)</sup>	635,413	103,024	187,287	147,620	197,482
Subordinated disposition fees <sup>(b)</sup>	6,041	—	—	6,041	—
Operating and other lease commitments <sup>(c)</sup>	26,740	1,942	3,856	3,926	17,016
	<b>\$2,487,637</b>	<b>\$211,555</b>	<b>\$421,214</b>	<b>\$486,359</b>	<b>\$1,368,509</b>

(a) Interest on variable rate debt obligations was calculated using the applicable annual variable interest rates and balances outstanding as of December 31, 2008.

(b) Payable to the advisor, subject to meeting contingencies, in connection with any liquidity event. There can be no assurance that any liquidity event will be achieved in this time frame.

(c) Operating and other lease commitments consist primarily of rent obligations under ground leases and our share of future minimum rents payable under an office cost-sharing agreement with certain affiliates for the purpose of leasing office space used for the administration of real estate entities. Amounts under the cost-sharing agreement are allocated among the entities based on gross revenues and are adjusted quarterly. Rental obligations under ground leases are inclusive of minority interest of approximately \$1.3 million. The table above excludes the rental obligations under ground leases of two ventures in which we own a combined interest of 38%. These obligations total approximately \$34.7 million over the lease terms, which extend through 2091. We account for these ventures under the equity method of accounting.

Amounts in the table above related to our foreign operations are based on the exchange rate of the local currencies as of December 31, 2008. As of December 31, 2008, we had no material capital lease obligations for which we are the lessee, either individually or in the aggregate.

We have investments in unconsolidated ventures that own single-tenant properties net leased to corporations. With the exception of the venture that leases properties to Marriott International, Inc., which is owned with an unaffiliated third party, all of the underlying investments are owned with affiliates. Summarized financial information for these ventures (for the entire venture, not our proportionate share) at December 31, 2008 is presented below (dollars in thousands):

LESSEE	OWNERSHIP INTEREST	TOTAL ASSETS	TOTAL THIRD PARTY DEBT	MATURITY DATE
The Upper Deck Company	50%	\$ 26,107	\$ 10,942	2/2011
Del Monte Corporation	50%	15,080	10,665	8/2011
PETsmART, Inc.	30%	70,822	40,151	12/2011
Wagon Automotive GmbH and Wagon Automotive Nagold GmbH <sup>(a) (b) (c)</sup>	33%	55,664	27,573	8/2015
Gortz & Schiele GmbH & Co. and Goertz & Schiele Corp. <sup>(a) (c)</sup>	50%	41,209	23,328	12/2016 & 1/2017
Builders FirstSource, Inc.	40%	11,234	6,752	3/2017
Hellweg Die Profi-Baumarkte GmbH & Co. KG (Hellweg 2) <sup>(a) (d)</sup>	38%	503,030	399,840	4/2017
Hologic, Inc.	64%	28,190	15,550	5/2023
The Talaria Company (Hinckley)	30%	58,105	31,684	6/2025
Marriott International, Inc.	47%	133,205	—	N/A
Schuler A.G. <sup>(a)</sup>	34%	73,268	—	N/A
		<b>\$1,015,914</b>	<b>\$566,485</b>	

(a) Dollar amounts shown are based on the exchange rate of the Euro as of December 31, 2008.

(b) We acquired our interest in this investment in August 2008.

(c) Wagon Automotive GmbH and Gortz & Schiele GmbH filed for bankruptcy in Germany in December 2008 and November 2008, respectively.

(d) Ownership interest represents our combined interest in two ventures. Total assets excludes a note receivable from an unaffiliated third party. Total third party debt excludes related minority interest that is redeemable by the unaffiliated third party. The note receivable and minority interest have a carrying value as of December 31, 2008 of \$331.8 million and \$377 million, respectively. In connection with one of these ventures, we have certain purchase options that, if exercised, would obligate the partners in the venture to pay an exercise price of approximately \$2.4 million, of which our share is approximately \$0.9 million (Note 7).

In connection with the purchase of many of our properties, we required the sellers to perform environmental reviews. We believe, based on the results of such reviews, that our properties were in substantial compliance with federal and state environmental statutes at the time the properties were acquired. However, portions of certain properties have been subject to some degree of contamination, principally in connection with leakage from underground storage tanks, surface spills or historical on-site activities. In most instances where contamination has been identified, tenants are actively engaged in the remediation process and addressing identified conditions. Tenants are generally subject to environmental statutes and regulations regarding the discharge of hazardous materials and any related remediation obligations. In addition, our leases generally require tenants to indemnify us from all liabilities and losses related to the leased properties with provisions of such indemnification specifically addressing environmental matters. The leases generally include provisions that allow for periodic environmental assessments, paid for by the tenant, and allow us to extend leases until such time as a tenant has satisfied its environmental obligations. Certain of our leases allow us to require financial assurances from tenants, such as performance bonds or letters of credit, if the costs of remediating

environmental conditions are, in our estimation, in excess of specified amounts. Accordingly, we believe that the ultimate resolution of any environmental matters should not have a material adverse effect on our financial condition, liquidity or results of operations.

### **Critical Accounting Estimates**

Our significant accounting policies are described in Note 2 to the consolidated financial statements. Many of these accounting policies require certain judgment and the use of certain estimates and assumptions when applying these policies in the preparation of our consolidated financial statements. On a quarterly basis, we evaluate these estimates and judgments based on historical experience as well as other factors that we believe to be reasonable under the circumstances. These estimates are subject to change in the future if underlying assumptions or factors change. Certain accounting policies, while significant, may not require the use of estimates. Those accounting policies that require significant estimation and/or judgment are listed below.

### **CLASSIFICATION OF REAL ESTATE ASSETS**

We classify our directly owned leased assets for financial reporting purposes at the inception of a lease or when significant lease terms are amended as either real estate leased under operating leases or net investment in direct financing leases. This classification is based on several criteria, including, but not limited to, estimates of the remaining economic life of the leased assets and the calculation of the present value of future minimum rents. In determining the classification of a lease, we use estimates of remaining economic life provided by third party appraisals of the leased assets. The calculation of the present value of future minimum rents includes determining a lease's implicit interest rate, which requires an estimate of the residual value of leased assets as of the end of the non-cancelable lease term. Estimates of residual values are based on third party appraisals. Different estimates of residual value result in different implicit interest rates and could possibly affect the financial reporting classification of leased assets. The contractual terms of our leases are not necessarily different for operating and direct financing leases; however, the classification is based on accounting pronouncements that are intended to indicate whether the risks and rewards of ownership are retained by the lessor or substantially transferred to the lessee. Management believes that it retains certain risks of ownership regardless of accounting classification. Assets classified as net investment in direct financing leases are not depreciated but are written down to expected residual value over the lease term. Therefore, the classification of assets may have a significant impact on net income even though it has no effect on cash flows.

### **IDENTIFICATION OF TANGIBLE AND INTANGIBLE ASSETS IN CONNECTION WITH REAL ESTATE ACQUISITIONS**

In connection with the acquisition of properties, purchase costs are allocated to tangible and intangible assets and liabilities acquired based on their estimated fair values. The value of tangible assets, consisting of land, buildings and tenant improvements, is determined as if vacant. Intangible assets including the above-market value of leases, the value of in-place leases and the value of tenant relationships are recorded at their relative fair values. The below-market values of leases are recorded at their relative fair values and are included in Prepaid and deferred rental income and security deposits in the consolidated financial statements.

The value attributed to tangible assets is determined in part using a discounted cash flow model which is intended to approximate what a third party would pay to purchase the property as vacant and rent at current "market" rates. In applying the model, we assume that the disinterested party would sell the property at the end of a market lease term. Assumptions used in the model are property-specific where such information is available; however, when certain necessary information is not available, we use available regional and property-type information. Assumptions and estimates include a discount rate or internal rate of return, marketing period necessary to put a lease in place, carrying costs during the marketing period, leasing commissions and tenant improvements allowances, market rents and growth factors of such rents, market lease term and a cap rate to be applied to an estimate of market rent at the end of the market lease term.

Above-market and below-market lease intangibles are based on the difference between the market rent and the contractual rents and are discounted to a present value using an interest rate reflecting our current assessment of the risk associated with the lease acquired. We acquire properties subject to net leases and consider the credit of the lessee in negotiating the initial rent.

The total amount of other intangibles is allocated to in-place lease values and tenant relationship intangible values based on our evaluation of the specific characteristics of each tenant's lease and our overall relationship with each tenant. Characteristics we consider in allocating these values include the expectation of lease renewals, nature and extent of the existing relationship with the tenant, prospects for developing new business with the tenant and the tenant's credit profile, among other factors. Intangibles for above-market and below-market leases, in-place lease intangibles and tenant relationships are amortized over their estimated useful lives. In the event that a lease is terminated, the unamortized portion of each intangible, including market rate adjustments, in-place lease values and tenant relationship values, is charged to expense.

Factors considered include the estimated carrying costs of the property during a hypothetical expected lease-up period, current market conditions and costs to execute similar leases. Estimated carrying costs include real estate taxes, insurance, other property operating costs, expectation of funding tenant improvements and estimates of lost rentals at market rates during the hypothetical expected lease-up periods, based on assessments of specific market conditions. Estimated costs to execute leases include commissions and legal costs to the extent that such costs are not already incurred with a new lease that has been negotiated in connection with the purchase of the property.

## **BASIS OF CONSOLIDATION**

The consolidated financial statements include all of our accounts and those of our majority-owned and/or controlled subsidiaries. The portion of these entities that we do not own is presented as minority interest as of and during the periods consolidated. All material inter-entity transactions have been eliminated.

When we obtain an economic interest in an entity, we evaluate the entity to determine if the entity is deemed a variable interest entity ("VIE") and if we are deemed to be the primary beneficiary, in accordance with FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities" ("FIN 46R"). We consolidate (i) entities that are VIEs and of which we are deemed to be the primary beneficiary and (ii) entities that are non-VIEs that we control. Entities that we account for under the equity method (i.e., at cost, increased or decreased by our share of earnings or losses, less distributions, plus fundings) include (i) entities that are VIEs and of which we are not deemed to be the primary beneficiary and (ii) entities that are non-VIEs that we do not control but over which we have the ability to exercise significant influence. We will reconsider our determination of whether an entity is a VIE and who the primary beneficiary is if certain events occur that are likely to cause a change in the original determinations.

In determining whether we control a non-VIE, our consideration includes using the Emerging Issues Task Force ("EITF") Consensus on Issue No. 04-05, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights" ("EITF 04-05"). The scope of EITF 04-05 is restricted to limited partnerships or similar entities that are not variable interest entities under FIN 46R. The EITF reached a consensus that the general partners in a limited partnership (or similar entity) are presumed to control the entity regardless of the level of their ownership and, accordingly, may be required to consolidate the entity. This presumption may be overcome if the agreements provide the limited partners with either (a) the substantive ability to dissolve (liquidate) the limited partnership or otherwise remove the general partners without cause or (b) substantive participating rights. If it is deemed that the limited partners' rights overcome the presumption of control by a general partner of the limited partnership, the general partner must account for its investment in the limited partnership using the equity method of accounting.

Investments in tenant-in-common interests consist of our interests in various domestic and international properties. Consolidation of these investments is not required as they do not qualify as VIEs as defined in FIN 46R and do not meet the control requirement required for consolidation under Statement of Position 78-9, "Accounting for Investments in Real Estate Ventures" ("SOP 78-9"), as amended by EITF 04-05. Accordingly, we account for these investments using the equity method of accounting. We use the equity method of accounting because the shared decision-making involved in a tenant-in-common interest investment creates an opportunity for us to have significant influence on the operating and financial decisions of these investments and thereby creates some responsibility by us for a return on our investment.

## **IMPAIRMENTS**

Impairment charges may be recognized on long-lived assets, including, but not limited to, real estate, direct financing leases, assets held for sale and equity investments in real estate. Estimates and judgments are used when evaluating whether these assets are impaired.

When events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, we perform projections of undiscounted cash flows, and if such cash flows are insufficient, the assets are adjusted (i.e., written down) to their estimated fair value. An analysis of whether a real estate asset has been impaired requires us to make our best estimate of market rents, residual values and holding periods. In our evaluations, we generally obtain market information from outside sources; however, such information requires us to determine whether the information received is appropriate to the circumstances. As our investment objective is to hold properties on a long-term basis, holding periods used in the analyses generally range from five to ten years. Depending on the assumptions made and estimates used, the future cash flow projected in the evaluation of long-lived assets can vary within a range of outcomes. We will consider the likelihood of possible outcomes in determining the best possible estimate of future cash flows. Because in most cases each of our properties is leased to one tenant, we are more likely to incur significant writedowns when circumstances change because of the possibility that a property will be vacated in its entirety and, therefore, our risks are different from the risks related to leasing and managing multi-tenant properties. Events or changes in circumstances can result in further non-cash writedowns and impact the gain or loss ultimately realized upon sale of the assets.

We perform a review of our estimate of residual value of our direct financing leases at least annually to determine whether there has been an other than temporary decline in the current estimate of residual value of the underlying real estate assets (i.e., the estimate of what we could realize upon sale of the property at the end of the lease term). If the review indicates a decline in residual value that is other than temporary, a loss is recognized and the accounting for the direct financing lease is revised to reflect the decrease in the expected yield using the changed estimate; that is, a portion of the future cash flow from the lessee is recognized as a return of principal rather than as revenue. While an evaluation of potential impairment of real estate subject to an operating lease is determined by a change in circumstances, the evaluation of a direct financing lease can be affected by changes in long-term market conditions even though the obligations of the lessee are being met. Changes in circumstances include, but are not limited to, vacancy of a property not subject to a lease and termination of a lease. We may also assess properties for impairment because a lessee is experiencing financial difficulty and because management expects that there is a reasonable probability that the lease will be terminated in a bankruptcy proceeding or a property remains vacant for a period that exceeds the period anticipated in a prior impairment evaluation.

When we identify assets as held for sale, we discontinue depreciating the assets and estimate the sales price, net of selling costs, of such assets. If in our opinion, the net sales price of the assets that have been identified for sale is less than the net book value of the assets, an impairment charge is recognized and the carrying value of the property is reduced. To the extent that a purchase and sale agreement has been entered into, the impairment charge is based on the negotiated sales price. To the extent that we have adopted a plan to sell an asset but have not entered into a sales agreement, we will make judgments of the net sales price based on

current market information. We will continue to review the initial impairment for subsequent changes in the fair value less cost to sell and may recognize an additional impairment charge or a gain (not to exceed the cumulative loss previously recognized) if warranted. If circumstances arise that previously were considered unlikely and, as a result, we decide not to sell a property previously classified as held for sale, the property is reclassified as held and used. A property that is reclassified is measured and recorded individually at the lower of (a) its carrying amount before the property was classified as held for sale, adjusted for any depreciation expense that would have been recognized had the property been continuously classified as held and used or (b) the fair value at the date of the subsequent decision not to sell.

Investments in unconsolidated ventures are accounted for under the equity method and are recorded initially at cost as equity investments in real estate and subsequently adjusted for our proportionate share of earnings and cash contributions and distributions. On a periodic basis, we assess whether there are any indicators that the value of equity investments in real estate may be impaired and whether or not that impairment is other than temporary. To the extent an other than temporary impairment has occurred, the charge is measured as the excess of the carrying amount of the investment over the fair value of the investment.

We evaluate our marketable securities for impairment as of each reporting period. For the securities in our portfolio with unrealized losses, we review the underlying cause of the decline in value and the estimated recovery period, as well as the severity and duration of the decline. In our evaluation, we consider our ability and intent to hold these investments for a reasonable period of time sufficient for us to recover our cost basis. We also evaluate the near-term prospects for each of these investments in relation to the severity and duration of the decline.

#### **PROVISION FOR UNCOLLECTED AMOUNTS FROM LESSEES**

On an ongoing basis, we assess our ability to collect rent and other tenant-based receivables and determine an appropriate allowance for uncollected amounts. Because we have a limited number of lessees (15 lessees represented 63% of annual lease revenues during 2008), we believe that it is necessary to evaluate the collectibility of these receivables based on the facts and circumstances of each situation rather than solely using statistical methods. We generally recognize a provision for uncollected rents and other tenant receivables and measure our allowance against actual arrearages. For amounts in arrears, we make subjective judgments based on our knowledge of a lessee's circumstances and may reserve for the entire receivable amount from a lessee because there has been significant or continuing deterioration in the lessee's ability to meet its lease obligations.

#### **FAIR VALUE OF DERIVATIVE INSTRUMENTS AND MARKETABLE SECURITIES**

We have a subordinated interest in a mortgage trust that consists of non-recourse loans on 62 properties that we own or two of our affiliates own. The fair value of the interests in the trust is determined using a discounted cash flow model with assumptions of market rates and the credit quality of the underlying lessees. If there are adverse changes in either market rates or the credit quality of the lessees, the model and, therefore, the income recognized from the subordinated interests and the fair value would be adjusted.

We measure derivative instruments, including certain derivative instruments embedded in other contracts, if any, at fair value and record them as an asset or liability, depending on our right or obligations under the applicable derivative contract. For derivatives designated as fair value hedges, the changes in the fair value of both the derivative instrument and the hedged item are recorded in earnings (i.e., the forecasted event occurs). For derivatives designated as cash flow hedges, the effective portions of the derivatives are reported in other comprehensive income and are subsequently reclassified into earnings when the hedged item affects earnings. Changes in the fair value of derivative instruments not designated as hedging and ineffective portions of hedges are recognized in earnings in the affected period. To determine the value of warrants for common stock which are classified as derivatives, various estimates are included in the options pricing model used to determine the value of a warrant.

## **INTEREST CAPITALIZED IN CONNECTION WITH REAL ESTATE UNDER CONSTRUCTION**

Operating real estate is stated at cost less accumulated depreciation. Costs directly related to build-to-suit projects, primarily interest, if applicable, are capitalized. We consider a build-to-suit project as substantially completed upon the completion of improvements. If portions of a project are substantially completed and occupied and other portions have not yet reached that stage, the substantially completed portions are accounted for separately. We allocate costs incurred between the portions under construction and the portions substantially completed and only capitalize those costs associated with the portion under construction. We do not have a credit facility and determine an interest rate to be applied for capitalizing interest based on an average rate on our outstanding non-recourse debt.

## **INCOME TAXES**

We have elected to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"). In order to maintain our qualification as a REIT, we are required to, among other things, distribute at least 90% of our REIT net taxable income to our shareholders (excluding net capital gains) and meet certain tests regarding the nature of our income and assets. As a REIT, we are not subject to U.S. federal income tax with respect to the portion of our income that meets certain criteria and is distributed annually to shareholders. Accordingly, no provision for U.S. federal income taxes is included in the consolidated financial statements with respect to these operations. We believe we have operated, and we intend to continue to operate, in a manner that allows us to continue to meet the requirements for taxation as a REIT. Many of these requirements, however, are highly technical and complex. If we were to fail to meet these requirements, we would be subject to U.S. federal income tax.

We conduct business in various states and municipalities within the U.S. and the European Union and, as a result, we or one or more of our subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and certain foreign jurisdictions. As a result, we are subject to certain state, local and foreign taxes and a provision for such taxes is included in the consolidated financial statements.

Significant judgment is required in determining our tax provision and in evaluating our tax positions. We establish tax reserves in accordance with FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" ("FIN 48"), which we adopted at the beginning of 2007. FIN 48 is based on a benefit recognition model, which we believe could result in a greater amount of benefit (and a lower amount of reserve) being initially recognized in certain circumstances. Provided that the tax position is deemed more likely than not of being sustained, FIN 48 permits a company to recognize the largest amount of tax benefit that is greater than 50 percent likely of being ultimately realized upon settlement. The tax position must be derecognized when it is no longer more likely than not of being sustained. Prior to the adoption of FIN 48, our policy was to establish reserves that reflected the probable outcome of known tax contingencies. Favorable resolution was recognized as a reduction to our effective tax rate in the period of resolution. The initial application of FIN 48 resulted in a net increase to our reserves for uncertain tax positions of \$0.2 million, with an offsetting decrease to retained earnings.

## **Adoption of New Accounting Pronouncements**

### *SFAS 155*

FASB Statement No. 155, "Accounting for Certain Hybrid Financial Instruments — an Amendment of SFAS No. 133 and 140" ("SFAS 155") was issued to simplify the accounting for certain hybrid financial instruments by permitting fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS 155 also eliminates the restriction on passive derivative instruments that a qualifying special-purpose entity may hold. We adopted SFAS 155 as required on January 1, 2007 and the initial application of this statement did not have a material impact on our financial position or results of operations.

### *SFAS 157*

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 provides guidance for using fair value to measure assets and liabilities. SFAS 157 clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability and applies whenever other standards require assets or liabilities to be measured at fair value. SFAS 157 also provides for certain disclosure requirements, including, but not limited to, the valuation techniques used to measure fair value and a discussion of changes in valuation techniques, if any, during the period. We adopted SFAS 157 as required on January 1, 2008 (Note 2), with the exception of nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value on a recurring basis, for which the effective date is our 2009 fiscal year. The initial application of SFAS 157 did not have a material effect on our financial position and results of operations and we believe that the remaining application of SFAS 157 will not have a material effect on our financial position and results of operations.

### *SFAS 159*

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"), which gives entities the option to measure at fair value, on an instrument-by-instrument basis, certain financial assets, financial liabilities and firm commitments that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes (i.e., unrealized gains and losses) in fair value must be recorded in earnings. Additionally, SFAS 159 allows for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning retained earnings. We adopted SFAS 159 as required on January 1, 2008 and the initial application did not have a material effect on our financial position and results of operations as we did not elect to measure any additional financial assets or liabilities at fair value.

## **Recent Accounting Pronouncements**

### *SFAS 141R*

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"), which establishes principles and requirements for how an acquirer shall recognize and measure in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree, and goodwill acquired in a business combination. Additionally, SFAS 141R requires that an acquiring entity must immediately expense all acquisition costs and fees associated with an acquisition. SFAS 141R is effective for our 2009 fiscal year. We expect the adoption of SFAS 141R may have an impact on our results of operations to the extent we enter into new acquisitions that are considered business combinations in 2009 and beyond as acquisition costs and fees, which are currently capitalized and allocated to the cost basis of acquisitions, will instead be expensed immediately as incurred, while post acquisition there will be a subsequent positive impact on net income through a reduction in depreciation expense over the estimated life of the properties. We are currently assessing the potential impact that the adoption of SFAS 141R will have on our financial position and results of operations.

### *SFAS 160*

In December 2007, the FASB issued SFAS No. 160, "Nocontrolling Interests in Consolidated Financial Statements — an Amendment of ARB No. 51" ("SFAS 160"), which establishes and expands accounting and reporting standards for minority interests in a subsidiary, which will be recharacterized as non-controlling interests, and the deconsolidation of a subsidiary. This standard could affect the presentation and disclosure of our non-controlling interests in consolidated subsidiaries. SFAS 160 is effective for our 2009 fiscal year. We are currently assessing the potential impact that the adoption of SFAS 160 will have on our financial position and results of operations.

### *SFAS 161*

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"), which is intended to help investors better understand how derivative instruments and hedging activities affect an entity's financial position, financial performance and cash flows through enhanced disclosure requirements. The enhanced disclosures primarily surround disclosing the objectives and strategies for using derivative instruments by their underlying risk as well as a tabular format of the fair values of the derivative instruments and their gains and losses. SFAS 161 is effective for our 2009 fiscal year.

### *FSP 142-3*

In April 2008, the FASB issued Staff Position 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3"), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). FSP 142-3 is intended to improve the consistency between the useful life of an intangible asset determined under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R and other U.S. GAAP. The guidance for determining the useful life of a recognized intangible asset in FSP 142-3 must be applied prospectively to intangible assets acquired after the effective date. The disclosure requirements in FSP 142-3 must be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. FSP 142-3 is effective for our 2009 fiscal year. We are currently assessing the potential impact that the adoption of FSP 142-3 will have on our financial position and results of operations.

### *EITF 03-6-1*

In June 2008, the FASB issued Staff Position No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities" ("FSP EITF 03-6-1"). FSP EITF 03-6-1 requires that all unvested share-based payment awards that contain non-forfeitable rights to dividends be considered participating securities and therefore shall be included in the computation of earnings per share pursuant to the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common shares and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. The guidance for determining earnings per share under FSP EITF 03-6-1 must be applied retrospectively to all prior periods presented after the effective date. FSP EITF 03-6-1 is effective for our 2009 fiscal year. We are currently assessing the potential impact that the adoption of FSP EITF 03-6-1 will have on our financial position and results of operations.

## Quantitative and Qualitative Disclosures About Market Risk

### MARKET RISKS

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates and equity prices. The primary risks to which we are exposed are interest rate risk and foreign currency exchange risk. We are also exposed to market risk as a result of concentrations in certain tenant industries (see “Current Developments and Trends”).

We do not generally use derivative financial instruments to manage foreign currency exchange risk exposure and do not use derivative instruments to hedge credit/market risks or for speculative purposes. We account for our derivative instruments in accordance with SFAS No. 133 “Accounting for Derivative Instruments and Hedging Activities,” as amended (“SFAS 133”).

### INTEREST RATE RISK

The value of our real estate and related fixed-rate debt obligations are subject to fluctuations based on changes in interest rates. The value of our real estate is also subject to fluctuations based on local and regional economic conditions and changes in the creditworthiness of lessees, all of which may affect our ability to refinance property-level mortgage debt when balloon payments are scheduled.

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions, and other factors beyond our control. An increase in interest rates would likely cause the value of our assets to decrease. Increases in interest rates may also have an impact on the credit profile of certain tenants.

Although we have not experienced any credit losses on investments in loan participations, in the event of a significant rising interest rate environment and given the current economic downturn, loan defaults could occur and result in our recognition of credit losses, which could adversely affect our liquidity and operating results. Further, such defaults could have an adverse effect on the spreads between interest earning assets and interest bearing liabilities.

We are exposed to the impact of interest rate changes primarily through our borrowing activities. To limit this exposure, we attempt to obtain mortgage financing on a long-term, fixed-rate basis. In addition, from time to time, we or our venture partners may obtain variable rate mortgage loans and may enter into interest rate swap or interest rate cap agreements with lenders that effectively convert the variable rate debt service obligations of the loan to a fixed-rate. The notional amount on which the swaps are based is not exchanged. Interest rate caps limit the borrowing rate of variable rate debt obligations while allowing participants to share in downward shifts in interest rates. Our objective in using such derivatives is to limit our exposure to interest rate movements. At December 31, 2008, the net fair value of our interest rate swaps and interest rate caps, which are included in “Other assets, net” and “Accounts

payable, accrued expenses and other liabilities” in the consolidated financial statements, was a liability of \$5.5 million, inclusive of minority interest of \$1 million (Note 11).

Certain of our unconsolidated ventures, in which we have interests ranging from 33% to 40%, have obtained participation rights in interest rate swaps obtained by the lenders of non-recourse mortgage financing to the ventures. The participation rights are deemed to be embedded credit derivatives. These derivatives generated a total unrealized loss (not our proportionate share) of \$4.8 million during 2008, including an unrealized loss of \$1.4 million to write down the value of one of these derivatives. Because of current market volatility, we are experiencing significant fluctuation in the unrealized gains and losses generated from these derivatives and expect this trend to continue until market conditions stabilize.

We hold a participation in Carey Commercial Mortgage Trust (“CCMT”), a mortgage pool consisting of \$172.3 million of mortgage debt collateralized by properties and lease assignments on properties owned by us and two affiliates. With our affiliates, we also purchased subordinated interests totaling \$24.1 million, in which we own a 44% interest. The subordinated interests are payable only after all other classes of ownership receive their stated interest and related principal payments. The subordinated interests, therefore, could be affected by any defaults or nonpayment by lessees. As of December 31, 2008, there have been no defaults. We account for the CCMT as a marketable security that we expect to hold on a long-term basis. The value of the CCMT is subject to fluctuation based on changes in interest rates, economic conditions and the creditworthiness of lessees at the mortgaged properties. At December 31, 2008, our total interest in CCMT had a fair value of \$9.1 million, a reduction of \$2 million from the fair value at December 31, 2007. The decrease was primarily due to the deterioration in the credit markets in 2008.

At December 31, 2008, substantially all of our non-recourse debt bore interest at fixed rates, was swapped to a fixed-rate or bore interest at a fixed rate but was scheduled to convert to variable rates during the term. The fair value of these instruments is affected by changes in market interest rates. The annual interest rates on our fixed-rate debt at December 31, 2008 ranged from 4.3% to 10%. The annual interest rates on our variable rate debt at December 31, 2008 ranged from 5% to 6.9%. Our debt obligations are more fully described in “Financial Condition” above. The following table presents principal cash flows based upon expected maturity dates of our debt obligations outstanding at December 31, 2008 (in thousands).

	2009	2010	2011	2012	2013	THEREAFTER	TOTAL	FAIR VALUE
Fixed-rate debt	\$88,536	\$59,320	\$139,618	\$127,711	\$135,978	\$861,125	\$1,412,288	\$1,298,534
Variable rate debt	\$11,150	\$12,243	\$ 13,169	\$ 50,534	\$ 13,127	\$292,886	\$ 393,109	\$ 387,286

The fair value of our fixed-rate debt and our variable rate debt that currently bears interest at fixed-rates or has effectively been converted to a fixed-rate through the use of interest rate swap agreements is affected by changes in interest rates. A change in interest rates of 1% would increase or decrease the fair value of such debt by an aggregate of \$74.1 million or of \$69.3 million, respectively. A decrease or increase in interest rates of 1% would decrease or increase our interest expense by \$0.4 million or \$0.1 million, respectively. The majority of the debt classified as variable rate debt in the tables above has been converted to fixed-rates through the use of interest rate swap agreements or bore interest at fixed-rates as of December 31, 2008 but has interest rate reset features that will change the fixed interest rates to variable rates at certain points in their term. Such debt is generally not subject to short-term fluctuations in interest rates.

## FOREIGN CURRENCY EXCHANGE RATE RISK

We own investments in the European Union and as a result are subject to risk from the effects of exchange rate movements of foreign currencies, primarily the Euro and British Pound Sterling, which may affect future costs and cash flows. We manage foreign currency exchange rate movements by generally placing both our debt obligation to the lender and the tenant's rental obligation to us in the same currency. We are currently a net receiver of these currencies (we receive more cash than we pay out), and therefore our foreign operations benefit from a weaker U.S. dollar and are adversely affected by a stronger U.S. dollar relative to the foreign currency. For 2008, we recognized net realized foreign currency gains of \$6.4 million and net unrealized foreign currency losses of \$5.2 million.

Such gains or losses are included in the consolidated financial statements and were primarily due to changes in the value of the foreign currency on accrued interest receivable on notes receivable from wholly-owned subsidiaries.

To date, we have not entered into any foreign currency forward exchange contracts to hedge the effects of adverse fluctuations in foreign currency exchange rates. We have obtained non-recourse mortgage financing at fixed-rates of interest in the local currency. To the extent that currency fluctuations increase or decrease rental revenues as translated to dollars, the change in debt service, as translated to dollars, will partially offset the effect of fluctuations in revenue, and, to some extent, mitigate the risk from changes in foreign currency rates.

Scheduled future minimum rents, exclusive of renewals, under non-cancelable leases, for our foreign operations during each of the next five years and thereafter, are as follows (in thousands):

LEASE REVENUES <sup>(a)</sup>	2009	2010	2011	2012	2013	THEREAFTER	TOTAL
Euro	\$ 103,750	\$ 103,750	\$ 90,089	\$ 65,948	\$ 63,432	\$ 560,518	\$ 987,487
British pound sterling	6,414	6,414	6,518	6,571	6,793	130,490	163,200
	<b>\$110,164</b>	<b>\$110,164</b>	<b>\$96,607</b>	<b>\$72,519</b>	<b>\$70,225</b>	<b>\$691,008</b>	<b>\$1,150,687</b>

Scheduled debt service payments (principal and interest) for the mortgage notes payable for our foreign operations during each of the next five years and thereafter are as follows (in thousands):

DEBT SERVICE <sup>(a) (b)</sup>	2009	2010	2011	2012	2013	THEREAFTER	TOTAL
Euro	\$ 61,127	\$ 62,489	\$ 127,058	\$ 56,230	\$ 56,127	\$ 720,036	\$ 1,083,067
British pound sterling	3,536	6,321	3,149	3,138	3,122	44,327	63,593
	<b>\$64,663</b>	<b>\$68,810</b>	<b>\$130,207</b>	<b>\$59,368</b>	<b>\$59,249</b>	<b>\$764,363</b>	<b>\$1,146,660</b>

(a) Based on the applicable December 31, 2008 exchange rate. Contractual rents and debt obligations are denominated in the functional currency of the country of each property.

(b) Interest on variable rate debt obligations was calculated using the applicable annual interest rates and balances outstanding as of December 31, 2008.

As a result of scheduled balloon payments on non-recourse mortgage loans, projected debt service obligations exceed projected lease revenues in 2011. In 2011, balloon payments totaling \$66.8 million are due on two non-recourse mortgage loans that are collateralized by properties that we own with affiliates. We anticipate that in 2011, we and our minority interest partners (as applicable) will seek to refinance certain of these loans or will use existing cash resources to make these payments, if necessary.

## **OTHER**

We own stock warrants that were granted to us by lessees in connection with structuring the initial lease transaction, which are defined as derivative instruments because these stock warrants are readily convertible to cash or provide for net settlement upon conversion. Pursuant to SFAS 133, changes in the fair value of these derivative instruments are determined using an option pricing model and are recognized currently in earnings as gains or losses. As of December 31, 2008, warrants issued to us were classified as derivative instruments and had an aggregate fair value of \$1.3 million.

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Corporate Property Associates 15  
Incorporated:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Corporate Property Associates 15 Incorporated and its subsidiaries at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

New York, New York  
March 25, 2009

## Consolidated Balance Sheets

(IN THOUSANDS, EXCEPT SHARE AMOUNTS)	DECEMBER 31,	
	2008	2007
<b>Assets</b>		
Real estate, net	\$ 2,067,658	\$ 2,146,169
Net investment in direct financing leases	448,635	522,126
Equity investments in real estate	199,124	202,112
Real estate under construction	—	11,950
Cash and cash equivalents	112,032	166,851
Intangible assets, net	241,083	272,496
Other assets, net	120,673	142,933
<b>TOTAL ASSETS</b>	<b>\$3,189,205</b>	<b>\$3,464,637</b>
<b>Liabilities and Shareholders' Equity</b>		
Liabilities:		
Non-recourse debt	\$1,805,397	\$1,921,648
Accounts payable, accrued expenses and other liabilities	34,214	33,288
Prepaid and deferred rental income and security deposits	81,064	80,006
Due to affiliates	28,327	35,712
Distributions payable	22,055	32,055
<b>TOTAL LIABILITIES</b>	<b>1,971,057</b>	<b>2,102,709</b>
Minority interest in consolidated entities	271,905	300,031
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Common stock, \$0.001 par value; 240,000,000 shares authorized; 138,840,480 and 135,798,189 shares issued, respectively	139	136
Additional paid-in capital	1,282,826	1,247,241
Distributions in excess of accumulated earnings	(207,949)	(148,490)
Accumulated other comprehensive income	460	35,164
	<b>1,075,476</b>	<b>1,134,051</b>
Less, treasury stock at cost, 12,308,293 and 7,277,509 shares, respectively	(129,233)	(72,154)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>946,243</b>	<b>1,061,897</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$3,189,205</b>	<b>\$3,464,637</b>

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated Statements of Income

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	YEARS ENDED DECEMBER 31,		
	2008	2007	2006
<b>Revenues</b>			
Rental income	\$ 251,513	\$ 237,964	\$ 224,008
Interest income from direct financing leases	45,610	46,089	41,515
Other operating income	9,338	9,233	15,088
	<u>306,461</u>	<u>293,286</u>	<u>280,611</u>
<b>Operating Expenses</b>			
Depreciation and amortization	(68,297)	(62,861)	(59,414)
Property expenses	(45,721)	(41,414)	(37,001)
General and administrative	(10,317)	(11,570)	(10,321)
Impairment charges	(36,722)	—	(13,646)
	<u>(161,057)</u>	<u>(115,845)</u>	<u>(120,382)</u>
<b>Other Income and Expenses</b>			
Advisor settlement (Note 14)	9,111	—	—
Income from equity investments in real estate	12,460	21,328	7,849
Other interest income	5,477	9,623	7,042
Minority interest in income	(22,256)	(25,910)	(19,635)
Gain on foreign currency transactions, derivative instruments and other, net	3,066	5,548	4,191
Interest expense	(113,683)	(112,676)	(121,798)
	<u>(105,825)</u>	<u>(102,087)</u>	<u>(122,351)</u>
Income from continuing operations before income taxes	39,579	75,354	37,878
Provision for income taxes	(6,910)	(5,890)	(373)
<b>INCOME FROM CONTINUING OPERATIONS</b>	<u>32,669</u>	<u>69,464</u>	<u>37,505</u>
<b>Discontinued Operations</b>			
Income from operations of discontinued properties	111	4,031	6,082
Impairment charges	(4,019)	—	(14,646)
(Loss) gain on sale of real estate, net	(67)	22,087	48,870
Minority interest in income	—	(8,392)	(11,176)
<b>(LOSS) INCOME FROM DISCONTINUED OPERATIONS</b>	<u>(3,975)</u>	<u>17,726</u>	<u>29,130</u>
<b>NET INCOME</b>	<u>\$ 28,694</u>	<u>\$ 87,190</u>	<u>\$ 66,635</u>
<b>Earnings Per Share</b>			
Income from continuing operations	\$0.25	\$0.54	\$0.29
(Loss) income from discontinued operations	(0.03)	0.14	0.23
<b>NET INCOME</b>	<u>\$0.22</u>	<u>\$0.68</u>	<u>\$0.52</u>
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>	<u>128,588,054</u>	<u>128,918,790</u>	<u>128,478,526</u>

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated Statements of Comprehensive (Loss) Income

(IN THOUSANDS)	YEARS ENDED DECEMBER 31,		
	2008	2007	2006
<b>NET INCOME</b>	<b>\$ 28,694</b>	<b>\$ 87,190</b>	<b>\$ 66,635</b>
<b>Other Comprehensive (Loss) Income</b>			
Change in foreign currency translation adjustment	(21,233)	17,116	14,967
Change in unrealized (loss) gain on marketable securities	(1,672)	360	190
Change in unrealized (loss) gain on derivative instruments	(11,799)	4,443	3,685
	<b>(34,704)</b>	<b>21,919</b>	<b>18,842</b>
<b>COMPREHENSIVE (LOSS) INCOME</b>	<b>\$ (6,010)</b>	<b>\$109,109</b>	<b>\$85,477</b>

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated Statements of Shareholders' Equity

FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)	SHARES	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	DISTRIBUTIONS IN EXCESS OF ACCUMULATED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME	TREASURY STOCK	TOTAL
<b>BALANCE AT JANUARY 1, 2006</b>	127,558,825	\$129	\$1,178,700	\$ (122,369)	\$ (5,597)	\$ (15,663)	\$1,035,200
Shares issued \$.001 par, at \$10 and \$10.50 per share, net of offering costs	1,972,415	2	19,486				19,488
Shares, \$.001 par, issued to advisor at \$10 and \$10.50 per share	1,279,967	2	13,438				13,440
Distributions declared (\$0.6516 per share)				(83,489)			(83,489)
Net income				66,635			66,635
Change in other comprehensive (loss) income					18,842		18,842
Repurchase of shares	(2,427,020)					(24,180)	(24,180)
<b>BALANCE AT DECEMBER 31, 2006</b>	<b>128,384,187</b>	<b>133</b>	<b>1,211,624</b>	<b>(139,223)</b>	<b>13,245</b>	<b>(39,843)</b>	<b>1,045,936</b>
Cumulative effect adjustment from adoption of FIN 48 (Note 16)				(174)			(174)
<b>BALANCE AT JANUARY 1, 2007</b>	<b>128,384,187</b>	<b>133</b>	<b>1,211,624</b>	<b>(139,397)</b>	<b>13,245</b>	<b>(39,843)</b>	<b>1,045,762</b>
Shares issued \$.001 par, at \$10.50 and \$11.40 per share, net of offering costs	1,923,280	2	20,661				20,663
Shares, \$.001 par, issued to advisor at \$10.50 and \$11.40 per share	1,312,012	1	14,956				14,957
Distributions declared (\$0.6691 <sup>(a)</sup> per share)				(96,283)			(96,283)
Net income				87,190			87,190
Change in other comprehensive (loss) income					21,919		21,919
Repurchase of shares	(3,098,799)					(32,311)	(32,311)
<b>BALANCE AT DECEMBER 31, 2007</b>	<b>128,520,680</b>	<b>136</b>	<b>1,247,241</b>	<b>(148,490)</b>	<b>35,164</b>	<b>(72,154)</b>	<b>1,061,897</b>
Shares issued \$.001 par, at \$11.40 and \$12.20 per share, net of offering costs	1,735,987	2	19,649				19,651
Shares, \$.001 par, issued to advisor at \$12.20 per share	1,306,304	1	15,936				15,937
Distributions declared (\$0.6902 per share)				(88,153)			(88,153)
Net income				28,694			28,694
Change in other comprehensive (loss) income					(34,704)		(34,704)
Repurchase of shares	(5,030,784)					(57,079)	(57,079)
<b>BALANCE AT DECEMBER 31, 2008</b>	<b>126,532,187</b>	<b>\$139</b>	<b>\$1,282,826</b>	<b>\$(207,949)</b>	<b>\$ 460</b>	<b>\$(129,233)</b>	<b>\$ 946,243</b>

(a) Per share amount excludes a special cash distribution of \$0.08 per share declared in December 2007 (Note 15).

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated Statements of Cash Flows

(IN THOUSANDS)	YEARS ENDED DECEMBER 31,		
	2008	2007	2006
<b>Cash Flows — Operating Activities</b>			
Net income	\$ 28,694	\$ 87,190	\$ 66,635
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization including intangible assets and deferred financing costs	68,815	64,835	62,142
Straight-line rent adjustments	5,817	5,465	1,220
Income from equity investments in real estate in excess of distributions received	2,594	(16,988)	(1,891)
Minority interest in income	22,256	34,302	30,811
Issuance of shares to affiliate in satisfaction of fees due	15,937	14,957	13,440
Impairment charges	40,741	—	28,292
Realized gain on foreign currency transactions, derivative instruments and other, net	(7,521)	(4,825)	(824)
Unrealized loss (gain) on foreign currency transactions, derivative instruments and other, net	5,437	(2,037)	(3,299)
Reversal of unrealized gain on warrants	—	1,290	—
Gains on sale of real estate, net	(718)	(22,087)	(48,870)
Funds released from escrow and restricted cash	—	—	11,770
Settlement proceeds assigned to tenant / lender	—	—	(7,678)
Changes in operating assets and liabilities	(1,263)	883	(6,930)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>180,798</b>	<b>162,985</b>	<b>144,818</b>
<b>Cash Flows — Investing Activities</b>			
Distributions from equity investments in real estate in excess of equity income	23,130	12,030	1,184
Contributions to equity investments in real estate	(26,633)	(95,369)	(13,641)
Capital expenditures and acquisitions of real estate	(269)	(44,110)	(189,249)
VAT taxes paid in connection with acquisition of real estate	—	(2,336)	—
VAT taxes recovered in connection with acquisition of real estate	—	2,336	—
Proceeds from sale of real estate and interests in real estate	11,966	76,489	237,985
Payment to exercise common stock warrants	—	(499)	—
Proceeds from exercise of common stock warrants	85	1,580	—
Repayment (issuance) of loan to affiliate	7,569	(7,569)	—
Deposit of escrow from proceeds from sale of real estate	—	4,754	(4,754)
Increase in cash due to consolidation of certain ventures	—	—	8,181
Payment of deferred acquisition fees to an affiliate	(8,413)	(10,802)	(9,455)
<b>NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES</b>	<b>7,435</b>	<b>(63,496)</b>	<b>30,251</b>

## Consolidated Statement of Cash Flows (Continued)

(IN THOUSANDS)	YEARS ENDED DECEMBER 31,		
	2008	2007	2006
<b>Cash Flows — Financing Activities</b>			
Distributions paid	\$ (98,153)	\$ (85,327)	\$ (82,850)
Distributions paid to minority interest partners	(51,733)	(32,185)	(122,745)
Contributions from minority interest partners	11,128	30,780	67,101
Proceeds from mortgages	68,000	42,334	243,842
Scheduled payments of mortgage principal	(42,662)	(54,903)	(30,339)
Prepayment of mortgage principal	(88,941)	(4,099)	(205,883)
Loan from affiliate	—	—	84,000
Repayment of loan from affiliate	—	—	(84,000)
Deferred financing costs and mortgage deposits, net of deposits refunded	(1,409)	136	(399)
Proceeds from issuance of shares, net of costs	19,651	20,663	19,488
Purchase of treasury stock	(57,079)	(32,311)	(24,180)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(241,198)</b>	<b>(114,912)</b>	<b>(135,965)</b>
<b>Change in Cash and Cash Equivalents During the Year</b>			
Effect of exchange rate changes on cash	(1,845)	7,899	3,823
Net (decrease) increase in cash and cash equivalents	(54,819)	(7,524)	42,927
Cash and cash equivalents, beginning of year	166,851	174,375	131,448
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 112,032</b>	<b>\$ 166,851</b>	<b>\$ 174,375</b>

### SUPPLEMENTAL CASH FLOW INFORMATION

Interest paid, net of de minimis amounts capitalized, was \$115 million, \$112.4 million and \$107.6 million in 2008, 2007 and 2006, respectively.

Income taxes paid were \$6 million, \$2.9 million and \$0.4 million in 2008, 2007 and 2006, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

# Notes to Consolidated Financial Statements

## 1 | BUSINESS AND ORGANIZATION

Corporate Property Associates 15 Incorporated is a real estate investment trust (“REIT”) that invests in commercial properties leased to companies domestically and internationally. As a REIT, we are not subject to U.S. federal income taxation as long as we satisfy certain requirements relating to the nature of our income, the level of our distributions and other factors. We earn revenue principally by leasing real estate, primarily on a triple net lease basis, which requires the tenant to pay substantially all of the costs associated with operating and maintaining the property. Revenue is subject to fluctuation because of the timing of new lease transactions, lease terminations, lease expirations, contractual rent increases, tenant defaults and sales of properties. As of December 31, 2008, our portfolio consisted of our full or partial ownership interest in 367 properties leased to 82 tenants, totaling approximately 32 million square feet (on a pro rata basis) and an occupancy rate of approximately 99%. We were formed in 2001 and are managed by W. P. Carey & Co. LLC (“WPC”) and its subsidiaries (collectively, the “advisor”).

## 2 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Consolidation

The consolidated financial statements include all of our accounts and those of our majority-owned and/or controlled subsidiaries. The portion of these entities that we do not own is presented as minority interest as of and during the periods consolidated. All material inter-entity transactions have been eliminated.

When we obtain an economic interest in an entity, we evaluate the entity to determine if the entity is deemed a variable interest entity (“VIE”) and if we are deemed to be the primary beneficiary, in accordance with Financial Accounting Standards Board (“FASB”) Interpretation No. 46R, “Consolidation of Variable Interest Entities” (“FIN 46R”). We consolidate (i) entities that are VIEs and of which we are deemed to be the primary beneficiary and (ii) entities that are non-VIEs that we control. Entities that we account for under the equity method (i.e., at cost, increased or decreased by our share of earnings or losses, less distributions, plus fundings) include (i) entities that are VIEs and of which we are not deemed to be the primary beneficiary and (ii) entities that are non-VIEs that we do not control but over which we have the ability to exercise significant influence. We will reconsider our determination of whether an entity is a VIE and who the primary beneficiary is if certain events occur that are likely to cause a change in the original determinations.

In determining whether we control a non-VIE, our consideration includes using the Emerging Issues Task Force (“EITF”) Consensus on Issue No. 04-05, “Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights” (“EITF 04-05”). The scope of EITF 04-05 is restricted to limited partnerships or similar entities that are not variable interest entities under FIN 46R. The EITF reached

a consensus that the general partners in a limited partnership (or similar entity) are presumed to control the entity regardless of the level of their ownership and, accordingly, may be required to consolidate the entity. This presumption may be overcome if the agreements provide the limited partners with either (a) the substantive ability to dissolve (liquidate) the limited partnership or otherwise remove the general partners without cause or (b) substantive participating rights. If it is deemed that the limited partners' rights overcome the presumption of control by a general partner of the limited partnership, the general partner must account for its investment in the limited partnership using the equity method of accounting.

We have several interests in ventures that are consolidated and have minority interests that have finite lives and were considered mandatorily redeemable non-controlling interests prior to the issuance of Staff Position No. 150-3 ("FSP 150-3"). As a result of the deferral provisions of FSP 150-3, these minority interests have not been reflected as liabilities. The carrying value of these minority interests was \$31.2 million and \$31.7 million at December 31, 2008 and 2007, respectively. The fair value of these minority interests at December 31, 2008 and 2007 was \$27 million and \$45.3 million, respectively.

Investments in tenant-in-common interests consist of our interests in various domestic and international properties. Consolidation of these investments is not required as they do not qualify as VIEs as defined in FIN 46R and do not meet the control requirement required for consolidation under Statement of Position 78-9, "Accounting for Investments in Real Estate Ventures" ("SOP 78-9"), as amended by EITF 04-05. Accordingly, we account for these investments using the equity method of accounting. We use the equity method of accounting because the shared decision-making involved in a tenant-in-common interest investment creates an opportunity for us to have significant influence on the operating and financial decisions of these investments and thereby creates some responsibility by us for a return on our investment.

#### **Out-of-Period Adjustments**

During the first quarter of 2007, we identified errors in the consolidated financial statements for the years ended December 31, 2005 and 2006. These errors related to accounting for foreign income taxes (aggregating \$0.6 million over the period from 2005-2006) and valuation of stock warrants (aggregating \$0.5 million in the fourth quarter of 2006) that are accounted for as derivative instruments pursuant to Statement of Financial Accounting Standards ("SFAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities," as amended ("SFAS 133"), because of net cash settlement features. As a result of these errors, net income was overstated by approximately \$0.1 million in 2005 and \$1 million in 2006. We concluded that these adjustments were not material to any prior period's consolidated financial statements. We also concluded that the cumulative charge for the accrual for foreign income taxes and valuation of stock warrants of \$1.1 million was not material to the year ended December 31, 2007. As such, this cumulative charge was recorded in the statement of income for the year ended December 31, 2007, rather than restating prior periods.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Reclassifications and Revisions**

Certain prior year amounts have been reclassified to conform to the current year's financial statement presentation. The consolidated financial statements included in our annual report on Form 10-K have been retrospectively adjusted to reflect the disposition of certain properties as discontinued operations for all periods presented.

#### **Purchase Price Allocation**

In connection with our acquisition of properties, purchase costs are allocated to the tangible and intangible assets and liabilities acquired based on their estimated fair values. The value of the tangible assets, consisting of land, buildings and tenant improvements,

is determined as if vacant. Intangible assets, including the above-market value of leases, the value of in-place leases and the value of tenant relationships, are recorded at their relative fair values. The below-market value of leases is also recorded at their relative fair values and is included in Prepaid and deferred rental income and security deposits in the consolidated financial statements.

Above-market and below-market in-place lease values for owned properties are recorded based on the present value (using an interest rate reflecting the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the leases negotiated and in place at the time of acquisition of the properties and (ii) management's estimate of fair market lease rates for the property or equivalent property, measured over a period equal to the remaining non-cancelable term of the lease. The capitalized above-market lease value is amortized as a reduction of rental income over the remaining non-cancelable term of each lease. The capitalized below-market lease value is amortized as an increase to rental income over the initial term and any fixed-rate renewal periods in the respective leases.

The total amount of other intangibles is allocated to in-place lease values and tenant relationship intangible values based on management's evaluation of the specific characteristics of each tenant's lease and our overall relationship with each tenant. Characteristics that are considered in allocating these values include the nature and extent of the existing relationship with the tenant, the tenant's credit quality and the expectation of lease renewals among other factors. Third party appraisals or management's estimates are used to determine these values. Intangibles for above-market and below-market leases, in-place lease intangibles and tenant relationships are amortized over their estimated useful lives. If a lease is terminated, the unamortized portion of each intangible, including market rate adjustments, in-place lease values and tenant relationship values, is charged to expense.

Factors considered in the analysis include the estimated carrying costs of the property during a hypothetical expected lease-up period, current market conditions and costs to execute similar leases. Management also considers information obtained about a property in connection with its pre-acquisition due diligence. Estimated carrying costs include real estate taxes, insurance, other property operating costs and estimates of lost rentals at market rates during the hypothetical expected lease-up periods, based on management's assessment of specific market conditions. Management also considers estimated costs to execute leases, including commissions and legal costs, to the extent that such costs are not already incurred with a new lease that has been negotiated in connection with the purchase of the property.

The value of in-place leases is amortized to expense over the remaining initial term of each lease. The value of tenant relationships are amortized to expense over the initial and expected renewal terms of the lease. However, no amortization periods for intangibles will exceed the remaining depreciable life of the building.

#### **Real Estate Under Construction and Redevelopment**

For properties under construction, operating expenses including interest charges and other property expenses, including real estate taxes, are capitalized rather than expensed and incidental revenue is recorded as a reduction of capitalized project (i.e., construction) costs. Interest is capitalized by applying the interest rate applicable to outstanding borrowings to the average amount of accumulated expenditures for properties under construction during the period.

#### **Cash and Cash Equivalents**

We consider all short-term, highly liquid investments that are both readily convertible to cash and have a maturity of three months or less at the time of purchase to be cash equivalents. Items classified as cash equivalents include commercial paper and money-market funds. At December 31, 2008 and 2007, our cash and cash equivalents were held in the custody of several financial institutions, and these balances, at times, exceed federally insurable limits. We seek to mitigate this risk by depositing funds only with major financial institutions.

### **Marketable Securities**

Marketable securities, which consist of an interest in collateralized mortgage obligations (Note 9), are classified as available for sale securities and reported at fair value, with our interest in unrealized gains and losses on these securities reported as a component of other comprehensive income until realized.

### **Other Assets and Other Liabilities**

Included in Other assets, net are escrow balances and tenant security deposits held by lenders, restricted cash balances, accrued rents and interest receivable, common stock warrants and derivative instruments, marketable securities and deferred charges. Included in other liabilities are deferred rental income, derivative instruments and miscellaneous amounts held on behalf of tenants. Deferred charges are costs incurred in connection with mortgage financings and refinancings and are amortized over the terms of the mortgages and included in Interest expense in the consolidated financial statements. Deferred rental income is the aggregate cumulative difference for operating leases between scheduled rents that vary during the lease term, and rent recognized on a straight-line basis.

### **Deferred Acquisition Fees Payable to Affiliate**

Fees are payable for services provided to us by the advisor, an affiliate, relating to the identification, evaluation, negotiation, financing and purchase of properties. A portion of such fees is deferred and is payable in annual installments totaling 2% of the purchase price of the properties over no less than four years following the first anniversary of the date a property was purchased. Payment of such fees is subject to the performance criterion (Note 3).

### **Treasury Stock**

Treasury stock is recorded at cost.

### **Real Estate Leased to Others**

Real estate is leased to others on a net lease basis whereby the tenant is generally responsible for all operating expenses relating to the property, including property taxes, insurance, maintenance, repairs, renewals and improvements. Expenditures for maintenance and repairs including routine betterments are charged to operations as incurred. Significant renovations that increase the useful life of the properties are capitalized. For the year ended December 31, 2008, lessees were responsible for the direct payment of real estate taxes of approximately \$28.9 million.

We diversify our real estate investments among various corporate tenants engaged in different industries, by property type and by geographic area (Note 11). Two tenants, Mercury Partners, LP and U-Haul Moving Partners, Inc., jointly represented 10% of total lease revenue, inclusive of minority interest, during 2008. Substantially all of our leases provide for either scheduled rent increases, periodic rent increases based on formulas indexed to increases in the Consumer Price Index ("CPI") or percentage rents. CPI increases are contingent on future events and are therefore not included in straight-line rent calculations. Rents from percentage rents are recognized as reported by the lessees, that is, after the level of sales requiring a rental payment to us is reached.

The leases are accounted for as operating or direct financing leases. Such methods are described below:

**Operating leases** — Real estate is recorded at cost less accumulated depreciation; future minimum rental revenue is recognized on a straight-line basis over the term of the related leases and expenses (including depreciation) are charged to operations as incurred (Note 4).

**Direct financing method** — Leases accounted for under the direct financing method are recorded at their net investment (Note 5). Unearned income is deferred and amortized to income over the lease terms so as to produce a constant periodic rate of return on our net investment in the lease.

On an ongoing basis, we assess our ability to collect rent and other tenant-based receivables and determine an appropriate allowance for uncollected amounts. Because we have a limited number of lessees (15 lessees represented approximately 63% of annual lease revenues during 2008), we believe that it is necessary to evaluate the collectibility of these receivables based on the facts and circumstances of each situation in addition to solely using statistical methods. We generally recognize a provision for uncollected rents and other tenant receivables and measure our allowance against actual arrearages. For amounts in arrears, we make subjective judgments based on our knowledge of a lessee's circumstances and may reserve for the entire receivable amount from a lessee because there has been significant or continuing deterioration in the lessee's ability to meet its lease obligations.

### **Depreciation**

Depreciation of building and related improvements is computed using the straight-line method over the estimated useful lives of the properties — generally ranging from 30 to 40 years. Depreciation of tenant improvements is computed using the straight-line method over the lesser of the remaining term of the lease or the estimated useful life.

### **Impairments**

When events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, we assess the recoverability of our long-lived assets and certain intangible assets based on projections of undiscounted cash flows, without interest charges, over the life of such assets. In the event that such cash flows are insufficient, the assets are adjusted to their estimated fair value. We perform a review of our estimate of the residual value of our direct financing leases at least annually to determine whether there has been an other than temporary decline in our current estimate of residual value of the underlying real estate assets (i.e., the estimate of what we could realize upon sale of the property at the end of the lease term). If the review indicates a decline in residual value that is other than temporary, a loss is recognized and the accounting for the direct financing lease will be revised to reflect the decrease in the expected yield using the changed estimate, that is, a portion of the future cash flow from the lessee will be recognized as a return of principal rather than as revenue.

When we identify assets as held for sale, we discontinue depreciating the assets and estimate the sales price, net of selling costs, of such assets. If in our opinion, the net sales price of the assets which have been identified for sale is less than the net book value of the assets, an impairment charge is recognized and the carrying value of the property is reduced. To the extent that a purchase and sale agreement has been entered into, the impairment charge is based on the negotiated sales price. To the extent that we have adopted a plan to sell an asset but have not entered into a sales agreement, we will make judgments of the net sales price based on current market information. We will continue to review the initial impairment for subsequent changes in the fair value less costs to sell and may recognize an additional impairment charge if warranted.

If circumstances arise that previously were considered unlikely and, as a result, we decide not to sell a property previously classified as held for sale, the property is reclassified as held and used. A property that is reclassified is measured and recorded individually at the lower of (a) its carrying amount before the property was classified as held for sale, adjusted for any depreciation expense that would have been recognized had the property been continuously classified as held and used or (b) the fair value at the date of the subsequent decision not to sell.

Investments in unconsolidated ventures are accounted for under the equity method and are recorded initially at cost as equity investments in real estate, and subsequently adjusted for our proportionate share of earnings and cash contributions and distributions. On a periodic basis, we assess whether there are any indicators that the value of equity investments in real estate may be impaired and whether or not that impairment is other than temporary. To the extent an other than temporary impairment has occurred, the charge is measured as the excess of the carrying amount of the investment over the fair value of the investment.

We evaluate our marketable securities for impairment as of each reporting period. For any securities in our portfolio with unrealized losses, we review the underlying cause of the decline in value and the estimated recovery period, as well as the severity and duration of the decline. In our evaluation, we consider our ability and intent to hold these investments for a reasonable period of

time sufficient for us to recover our cost basis. We also evaluate the near-term prospects for each of these investments in relation to the severity and duration of the decline.

### **Assets Held for Sale**

Assets held for sale are accounted for at the lower of carrying value or fair value less costs to dispose. Assets are classified as held for sale when we have committed to a plan to actively market a property for sale and expect that a sale will be completed within one year. The results of operations and the related gain or loss on sale of properties classified as held for sale are included in discontinued operations (Note 17).

If circumstances arise that previously were considered unlikely and, as a result, we decide not to sell a property previously classified as held for sale, the property is reclassified as held and used. A property that is reclassified is measured and recorded individually at the lower of (a) its carrying amount before the property was classified as held for sale, adjusted for any depreciation expense that would have been recognized had the property been continuously classified as held and used or (b) the fair value at the date of the subsequent decision not to sell.

We recognize gains and losses on the sale of properties when, among other criteria, the parties are bound by the terms of the contract, all consideration has been exchanged and all conditions precedent to closing have been performed. At the time the sale is consummated, a gain or loss is recognized as the difference between the sale price less any closing costs and the carrying value of the property.

### **Foreign Currency Translation**

We consolidate real estate investments in the European Union and own interests in properties in the European Union. The functional currencies for these investments are primarily the Euro and the British pound sterling. The translation from these local currencies to the U.S. dollar is performed for assets and liabilities using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted average exchange rate during the period. The gains and losses resulting from such translation are reported as a component of other comprehensive income as part of shareholders' equity. As of December 31, 2008 and 2007, the cumulative foreign currency translation adjustment gain was \$6.3 million and \$27.5 million, respectively.

Foreign currency transactions may produce receivables or payables that are fixed in terms of the amount of foreign currency that will be received or paid. A change in the exchange rates between the functional currency and the currency in which a transaction is denominated increases or decreases the expected amount of functional currency cash flows upon settlement of that transaction. That increase or decrease in the expected functional currency cash flows is an unrealized foreign currency transaction gain or loss that generally will be included in determining net income for the period in which the exchange rate changes. Likewise, a transaction gain or loss (measured from the transaction date or the most recent intervening balance sheet date, whichever is later), realized upon settlement of a foreign currency transaction generally will be included in net income for the period in which the transaction is settled. Foreign currency transactions that are (i) designated as, and are effective as, economic hedges of a net investment and (ii) intercompany foreign currency transactions that are of a long-term nature (that is, settlement is not planned or anticipated in the foreseeable future), when the entities to the transactions are consolidated or accounted for by the equity method in our financial statements are not included in determining net income are accounted for in the same manner as foreign currency translation adjustments and reported as a component of other comprehensive income as part of shareholder's equity. Investments in international equity investments in real estate are funded in part through subordinated intercompany debt.

Foreign currency intercompany transactions that are scheduled for settlement, consisting primarily of accrued interest and the translation to the reporting currency of intercompany subordinated debt with scheduled principal repayments, are included in the determination of net income. We recognized unrealized losses from such transactions of \$5.2 million for the year ended

December 31, 2008 and unrealized gains of \$2 million for each of the years ended December 31, 2007 and 2006. For the years ended December 31, 2008, 2007 and 2006, we recognized realized gains of \$6.4 million, \$3.8 million and \$0.8 million, respectively, on foreign currency transactions in connection with the transfer of cash from foreign operations of subsidiaries to the parent company.

### **Derivative Instruments**

We account for derivative instruments in accordance with SFAS No. 133 “Accounting for Derivative Instruments and Hedging Activities,” as amended (“SFAS 133”). We measure derivative instruments at fair value and record them as an asset or liability, depending on our right or obligations under the applicable derivative contract. The accounting for changes in the fair value of derivative instruments depends on the intended use of the derivative and the resulting designation. Derivative instruments used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. For fair value hedges, changes in the fair value of both the derivative instrument and the hedged item are recorded in earnings. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. For cash flow hedges, the effective portions of the derivative instruments are reported in Other comprehensive income and are subsequently reclassified into earnings when the hedged item affects earnings. Changes in the fair value of derivative instruments not designated as hedging and ineffective portions of hedges are recognized in earnings in the affected period.

We use derivative instruments to reduce our exposure to fluctuations in interest rates and market fluctuations on equity securities. We have not entered, and do not plan to enter, into financial instruments for trading or speculative purposes, and have a policy of only entering into derivative contracts with major financial institutions. In addition to derivative instruments that we enter into on our own behalf, we may also be a party to derivative instruments that are embedded in other contracts. Lessees may also grant us common stock warrants in connection with structuring the initial lease transactions that are defined as derivative instruments because they are readily convertible to cash or provide for net settlement upon conversion. We have established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. Our principal derivative instruments consist of interest rate swaps, interest rate caps, embedded credit derivatives and common stock warrants (Note 11).

### **Income Taxes**

We have elected to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the “Code”). In order to maintain our qualification as a REIT, we are required, among other things, to distribute at least 90% of our REIT net taxable income to our shareholders and meet certain tests regarding the nature of our income and assets. As a REIT, we are not subject to federal income tax with respect to the portion of our income that meets certain criteria and is distributed annually to shareholders. Accordingly, no provision for federal income taxes is included in the consolidated financial statements with respect to these operations. We believe we have operated, and we intend to continue to operate, in a manner that allows us to continue to meet the requirements for taxation as a REIT. Many of these requirements, however, are highly technical and complex. If we were to fail to meet these requirements, we would be subject to federal income tax.

We conduct business in various states and municipalities within the United States and the European Union and, as a result, we or one or more of our subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and certain foreign jurisdictions. As a result, we are subject to certain foreign, state and local taxes and a provision for such taxes is included in the consolidated financial statements. The tax provision for 2007 included \$0.6 million in expenses that related to the years ended December 31, 2005 and 2006 that had not previously been accrued (see Out-of-Period Adjustments above).

Significant judgment is required in determining our tax provision and in evaluating our tax positions. We establish tax reserves in accordance with FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109” (“FIN 48”), which we adopted at the beginning of 2007 (Note 16). FIN 48 clarifies the accounting for uncertainty in income

tax positions. This Interpretation requires that we not recognize in our consolidated financial statements the impact of a tax position that fails to meet the more likely than not recognition threshold based on the technical merits of the position. We adopted FIN 48 as required on January 1, 2007. FIN 48 is based on a benefit recognition model, which we believe could result in a greater amount of benefit (and a lower amount of reserve) being initially recognized in certain circumstances. Provided that the tax position is deemed more likely than not of being sustained, FIN 48 permits a company to recognize the largest amount of tax benefit that is greater than 50 percent likely of being ultimately realized upon settlement. The tax position must be derecognized when it is no longer more likely than not of being sustained. Prior to the adoption of FIN 48, our policy was to establish reserves that reflected the probable outcome of known tax contingencies. Favorable resolution was recognized as a reduction to our effective tax rate in the period of resolution. The initial application of FIN 48 resulted in a net increase to our reserves for uncertain tax positions of \$0.2 million, with an offsetting decrease to retained earnings.

### **Earnings Per Share**

We have a simple equity capital structure with only common stock outstanding. As a result, earnings per share, as presented, represents both basic and dilutive per-share amounts for all periods presented in the consolidated financial statements.

### **Adoption of New Accounting Pronouncements**

#### *SFAS 155*

FASB Statement No. 155, "Accounting for Certain Hybrid Financial Instruments — an Amendment of SFAS No. 133 and 140" ("SFAS 155") was issued to simplify the accounting for certain hybrid financial instruments by permitting fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS 155 also eliminates the restriction on passive derivative instruments that a qualifying special-purpose entity may hold. We adopted SFAS 155 as required on January 1, 2007 and the initial application of this statement did not have a material impact on our financial position or results of operations.

#### *SFAS 157*

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 provides guidance for using fair value to measure assets and liabilities. SFAS 157 clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability and applies whenever other standards require assets or liabilities to be measured at fair value. SFAS 157 also provides for certain disclosure requirements, including, but not limited to, the valuation techniques used to measure fair value and a discussion of changes in valuation techniques, if any, during the period. We adopted SFAS 157 as required on January 1, 2008, with the exception of nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value on a recurring basis, for which the effective date is our 2009 fiscal year. The initial application of SFAS 157 did not have a material effect on our financial position and results of operations, and we believe that the remaining application of SFAS 157 will not have a material effect on our financial position and results of operations.

SFAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The following table sets forth our financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2008 (in thousands):

DESCRIPTION	DECEMBER 31, 2008	FAIR VALUE MEASUREMENTS AT REPORTING DATE USING:		
		QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	UNOBSERVABLE INPUTS (LEVEL 3)
<b>Assets:</b>				
Marketable securities	\$ 9,188	\$ —	\$ —	\$ 9,188
Derivative assets	1,305	—	5	1,300
	<b>\$10,493</b>	<b>\$ —</b>	<b>\$ 5</b>	<b>\$10,488</b>
<b>Liabilities:</b>				
Derivative liabilities	\$ (5,551)	\$ —	\$(5,551)	\$ —

Cash and cash equivalents balances totaling \$73.2 million at December 31, 2008 were held in money market funds and approximated their fair value. Financial assets and liabilities presented above exclude financial assets and liabilities owned by unconsolidated ventures.

	FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3 ONLY)		
	MARKETABLE SECURITIES	DERIVATIVE ASSETS	TOTAL ASSETS
Balance at January 1, 2008	\$ 11,212	\$ 1,379	\$ 12,591
Total gains or losses (realized and unrealized):			
Included in earnings	(4)	(79)	(83)
Included in other comprehensive income	(1,672)	—	(1,672)
Amortization and accretion	(348)	—	(348)
<b>BALANCE AT DECEMBER 31, 2008</b>	<b>\$ 9,188</b>	<b>\$1,300</b>	<b>\$10,488</b>
The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	\$ (4)	\$ (79)	\$ (83)

Gains and losses (realized and unrealized) included in earnings are included in Gain on foreign currency transactions, derivative instruments and other, net in the consolidated financial statements.

At December 31, 2008, we assessed the value of certain of our unconsolidated ventures in accordance with SFAS 157. The valuation of these assets was determined using widely accepted valuation techniques, including discounted cash flow on the expected cash flows of each asset as well as the income capitalization approach, which considers prevailing market capitalization rates. We reviewed each investment based on the highest and best use of the investment and market participation assumptions. For unconsolidated ventures in operational real estate assets, the significant assumptions included the capitalization rate used in the income capitalization valuation, as well as projected property net operating income and the valuation of venture debt. We determined that the significant inputs used to value our unconsolidated ventures fall within Level 3. Based on this valuation, we estimated that our interests in unconsolidated ventures had an aggregate fair value of \$237.7 million at December 31, 2008. In connection with this valuation, we recorded a valuation adjustment for other than temporary impairments on specific ventures totaling \$1.3 million, calculated based on market conditions and assumptions at December 31, 2008. Actual results may differ materially if market conditions or the underlying assumptions change.

#### *SFAS 159*

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS 159”), which gives entities the option to measure at fair value, on an instrument-by-instrument basis, certain financial assets, financial liabilities and firm commitments that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes (i.e., unrealized gains and losses) in fair value must be recorded in earnings. Additionally, SFAS 159 allows for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning retained earnings. We adopted SFAS 159 as required on January 1, 2008 and the initial application did not have a material effect on our financial position and results of operations as we did not elect to measure any additional financial assets or liabilities at fair value.

#### **Recent Accounting Pronouncements**

##### *SFAS 141R*

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS 141R”), which establishes principles and requirements for how an acquirer shall recognize and measure in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree, and goodwill acquired in a business combination. Additionally, SFAS 141R requires that an acquiring entity must immediately expense all acquisition costs and fees associated with an acquisition. SFAS 141R is effective for our 2009 fiscal year. We expect the adoption of SFAS 141R may have an impact on our results of operations to the extent we enter into new acquisitions that are considered business combinations in 2009 and beyond as acquisition costs and fees, which are currently capitalized and allocated to the cost basis of acquisitions, will instead be expensed immediately as incurred, while post acquisition there will be a subsequent positive impact on net income through a reduction in depreciation expense over the estimated life of the properties. We are currently assessing the potential impact that the adoption of SFAS 141R will have on our financial position and results of operations.

##### *SFAS 160*

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements — an Amendment of ARB No. 51” (“SFAS 160”), which establishes and expands accounting and reporting standards for minority interests in a subsidiary, which will be recharacterized as non-controlling interests, and the deconsolidation of a subsidiary. This standard could affect the presentation and disclosure of our non-controlling interests in consolidated subsidiaries. SFAS 160 is effective for our 2009 fiscal year. We are currently assessing the potential impact that the adoption of SFAS 160 will have on our financial position and results of operations.

### *SFAS 161*

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities” (“SFAS 161”), which is intended to help investors better understand how derivative instruments and hedging activities affect an entity’s financial position, financial performance and cash flows through enhanced disclosure requirements. The enhanced disclosures primarily surround disclosing the objectives and strategies for using derivative instruments by their underlying risk as well as a tabular format of the fair values of the derivative instruments and their gains and losses. SFAS 161 is effective for our 2009 fiscal year.

### *FSP 142-3*

In April 2008, the FASB issued Staff Position 142-3, “Determination of the Useful Life of Intangible Assets” (“FSP 142-3”), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, “Goodwill and Other Intangible Assets” (“SFAS 142”). FSP 142-3 is intended to improve the consistency between the useful life of an intangible asset determined under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R and other U.S. GAAP. The guidance for determining the useful life of a recognized intangible asset in FSP 142-3 must be applied prospectively to intangible assets acquired after the effective date. The disclosure requirements in FSP 142-3 must be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. FSP 142-3 is effective for our 2009 fiscal year. We are currently assessing the potential impact that the adoption of FSP 142-3 will have on our financial position and results of operations.

### *EITF 03-6-1*

In June 2008, the FASB issued Staff Position No. EITF 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities” (“FSP EITF 03-6-1”). FSP EITF 03-6-1 requires that all unvested share-based payment awards that contain non-forfeitable rights to dividends be considered participating securities and therefore shall be included in the computation of earnings per share pursuant to the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common shares and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. The guidance for determining earnings per share under FSP EITF 03-6-1 must be applied retrospectively to all prior periods presented after the effective date. FSP EITF 03-6-1 is effective for our 2009 fiscal year. We are currently assessing the potential impact that the adoption of FSP EITF 03-6-1 will have on our financial position and results of operations.

## **3 | AGREEMENTS AND TRANSACTIONS WITH RELATED PARTIES**

Pursuant to an advisory agreement between the advisor and us, the advisor performs certain services for us including the identification, evaluation, negotiation, financing, purchase and disposition of investments, our day-to-day management and the performance of certain administrative duties. The advisory agreement between the advisor and us provides that the advisor receive asset management and performance fees, each of which are  $\frac{1}{2}$  of 1% per annum of average invested assets as defined in the advisory agreement. The performance fees are subordinated to the performance criterion, a non-compounded cumulative distribution return of 6% per annum. The asset management and performance fees are payable in cash or restricted shares of our common stock at the option of the advisor. If the advisor elects to receive all or a portion of its fees in restricted shares, the number of restricted shares issued is determined by dividing the dollar amount of fees by our most recently published net asset value per share as approved by our board of directors. For 2008, 2007 and 2006, the advisor elected to receive its performance fees in restricted shares of our common stock. We incurred base asset management fees of \$15.9 million, \$15.5 million and \$14 million in 2008, 2007 and 2006, respectively, with performance fees in like amounts, both of which are included in Property expenses in the consolidated financial statements. As of December 31, 2008, the advisor owned 7,146,756 shares (5.6%) of our common stock.

In connection with structuring and negotiating investments and related mortgage financing on our behalf, the advisory agreement provides for the advisor to earn acquisition fees averaging not more than 4.5%, based on the aggregate cost of investments acquired, of which 2% is deferred and payable in equal annual installments each January over no less than four years following the first anniversary of the date a property was purchased. Unpaid installments bear interest at an annual rate of 6%. Current acquisition fees were \$0.5 million, \$6.2 million and \$4.3 million for investments that were acquired during 2008, 2007 and 2006, respectively. Deferred acquisition fees were \$0.4 million, \$4.9 million and \$3.5 million for investments that were acquired during 2008, 2007 and 2006, respectively, and were payable to the advisor. Unpaid installments totaled \$14.1 million and \$22.1 million as of December 31, 2008 and 2007, respectively and are included in Due to affiliates in the consolidated financial statements. Annual installments of \$8.4 million, \$10.8 million and \$9.5 million in deferred fees were paid in cash to the advisor in January 2008, 2007 and 2006, respectively.

We also reimburse the advisor for various expenses incurred in connection with its provision of services to us. In addition to reimbursement of third party expenses paid by the advisor on our behalf (including property-specific costs, professional fees, office expenses and business development expenses), we reimburse the advisor for the allocated costs of personnel and overhead in providing management of our day-to-day operations, including accounting services, shareholder services, corporate management, and property management and operations, except that we do not reimburse the advisor for the cost of personnel to the extent such personnel are used in transactions (acquisitions, dispositions and refinancings) for which the advisor receives a transaction fee. We incurred personnel reimbursements of \$3.3 million, \$4 million and \$3.9 million during 2008, 2007 and 2006, respectively, which are included in General and administrative expenses in the consolidated financial statements.

The advisor is obligated to reimburse us for the amount by which our operating expenses exceed the 2%/25% guidelines (the greater of 2% of average invested assets or 25% of net income) as defined in the advisory agreement for any twelve-month period. If in any year our operating expenses exceed the 2%/25% guidelines, the advisor will have an obligation to reimburse us for such excess, subject to certain conditions. If our independent directors find that such excess expenses were justified based on any unusual and nonrecurring factors that they deem sufficient, the advisor may be paid in future years for the full amount or any portion of such excess expenses, but only to the extent that such reimbursement would not cause our operating expenses to exceed this limit in any such year. We will record any reimbursement of operating expenses as a liability until any contingencies are resolved and will record the reimbursement as a reduction of asset management and performance fees at such time that a reimbursement is fixed, determinable and irrevocable. Our operating expenses have not exceeded the amount that would require the advisor to reimburse us.

The advisor will be entitled to receive subordinated disposition fees based upon the cumulative proceeds arising from the sale of our assets since our inception, subject to certain conditions. Pursuant to the subordination provisions of the advisory agreement, the disposition fees may be paid only after the shareholders receive 100% of their initial investment from the proceeds of asset sales and a cumulative annual distribution return of 6% (based on an initial share price of \$10) since our inception. The advisor's interest in such disposition fees amounted to \$6 million at both December 31, 2008 and 2007. Payment of such amount, however, cannot be made until the subordination provisions are met. We have concluded that payment of such disposition fees is probable and all fees from completed property sales have been accrued. Subordinated disposition fees are included in the determination of realized gain or loss on the sale of properties. The obligation for disposition fees is included in Due to affiliates in the consolidated financial statements.

We own interests in entities which ranging from 30% to 75% as well as jointly-controlled tenant-in-common interests in properties, with the remaining interests generally held by affiliates. We consolidate certain of these investments (Note 2) and account for the remainder under the equity method of accounting (Note 6).

We are a participant in an entity with certain affiliates for the purpose of leasing office space used for the administration of real estate entities and sharing the associated costs. Pursuant to the terms of an agreement, rental, occupancy and leasehold improvement costs are allocated among the participants in the entity based on gross revenues and are adjusted quarterly. Our share of expenses incurred was \$0.9 million during 2008 and 2007 and \$1.1 million during 2006. Based on current gross revenues, our current share of future annual minimum lease payments would be \$0.7 million through 2016.

In December 2007, we loaned \$7.6 million to our advisor to fund the advisor's acquisition of certain tenant-in-common interests in Europe. The loan represented the advisor's share of funds from two ventures in which we and the advisor hold 54% and 46% interests, respectively, which we consolidate. The loan was repaid with interest in March 2008. We recognized interest income of \$0.1 million during 2008 in connection with this loan. Interest income recognized during 2007 in connection with this loan was de minimis.

In August 2007, a venture in which we hold a 47% interest borrowed \$8.7 million from the advisor in order to facilitate the defeasance of its existing non-recourse mortgage obligation (Note 6). The loan was repaid with de minimis interest in September 2007.

In connection with the sale of a domestic property in June 2006, we borrowed \$84 million from the advisor to defease the outstanding mortgage on the property. Proceeds from the sale were used to repay the borrowing. We incurred de minimis interest expense in connection with this borrowing.

#### 4 | REAL ESTATE

Real estate, which consists of land and buildings leased to others, at cost, and accounted for as operating leases, is summarized as follows (in thousands):

	DECEMBER 31,	
	2008	2007
Land	\$ 543,027	\$ 548,367
Building <sup>(a)</sup>	1,762,991	1,791,375
Less: Accumulated depreciation	(238,360)	(193,573)
	<b>\$2,067,658</b>	<b>\$2,146,169</b>

(a) During 2008, we incurred impairment charges totaling \$35.4 million, inclusive of minority interest of \$7.6 million, on two vacant French properties to reduce the properties' carrying values to their estimated fair values.

Together with an affiliate, we own an interest in a venture that owned fifteen properties formerly leased to Starmark Holdings LLC ("Starmark") under a master lease agreement. We own a 44% interest and are the managing member in the venture which owns these properties and, therefore, consolidate the investment on our financial statements under the provisions of EITF 04-05. Until November 2007, we also leased two wholly-owned properties to Starmark under a separate master lease agreement.

In June 2006, the advisor entered into a lease restructuring agreement with Starmark under which six properties under the master lease agreement were re-leased to Life Time Fitness, Inc., a new tenant unaffiliated with Starmark. Life Time agreed to provide a total of \$20 million of improvements to these six properties, comprised of a rent abatement to Life Time of \$2.3 million, security deposits and prepaid rent released by Starmark totaling \$7.7 million and a commitment by Life Time to fund \$10 million of improvements in exchange for the transfer to Life Time of four properties formerly leased to Starmark. The \$10 million commitment by Life Time is secured by letters of credit totaling \$10 million. The venture transferred title of these four properties to Life

Time and the venture has no continuing involvement in the transferred properties. No gain or loss was recorded on the transfer of the four properties as the venture had previously written down the four transferred properties to their estimated fair values, as described below. The \$20 million of improvements are for the benefit of the venture and will be retained by the venture upon expiration of the lease. An additional property was re-leased to Town Sports International Holdings, Inc., a second new tenant unaffiliated with Starmark, on terms similar to the original lease with Starmark. In 2006, upon entering into new leases for the venture's four remaining properties, the venture terminated the agreement with Starmark and recognized lease termination income of \$8.1 million, comprised of security deposits and prepaid rent from Starmark totaling \$7.7 million and the release of real estate tax escrows of \$0.4 million. During 2007, these four properties and the two wholly-owned properties were sold for \$75.3 million, net of selling costs. We recognized a gain on the sales of \$22.1 million (inclusive of minority interest of \$7 million) which is included in Income from discontinued operations in the consolidated financial statements.

In connection with the 2006 lease restructuring, the venture recognized impairment charges on this investment during 2006 totaling \$27.6 million, comprised of a charge of \$21.3 million to write off intangible assets on properties leased to Starmark, of which \$13 million is included in Income from continuing operations and \$8.3 million is included in Income from discontinued operations, and an impairment charge of \$6.3 million included in Income from discontinued operations to reduce the carrying value of the four transferred properties to their estimated fair values.

In April 2006, the venture prepaid/defeased the existing debt of \$100.9 million and incurred prepayment penalties and debt defeasance costs totaling \$10.1 million. In November 2006, the venture obtained new non-recourse mortgage financing of \$80 million on the Life Time properties at a fixed annual interest rate of 5.8% with a 10-year term. In 2007, the venture obtained new non-recourse mortgage financing of \$8 million on the Town Sports property at a fixed annual interest rate of 5.6% and with a 10-year term. In connection with the sale of the two wholly-owned properties in 2007, we assigned the existing non-recourse mortgage on the properties of \$14.9 million to the purchaser.

The amounts above are inclusive of minority interest. The minority venture partners were allocated their share of the net income effects of the termination revenue, impairment charges and the defeasance/repayment costs of the existing debt in the periods described.

Scheduled future minimum rents, exclusive of renewals and expenses paid by tenants, percentage of sales rents and future CPI-based increases, under non-cancelable operating leases are as follows (in thousands):

**YEAR ENDING DECEMBER 31,**

2009	\$ 249,787
2010	250,099
2011	237,382
2012	213,866
2013	209,846
Thereafter through 2033	1,485,396

There was no percentage rent revenue for operating leases in 2008, 2007 and 2006, respectively.

## 5 | NET INVESTMENT IN DIRECT FINANCING LEASES

Net investment in direct financing leases is summarized as follows (in thousands):

	DECEMBER 31,	
	2008	2007
Minimum lease payments receivable	\$ 737,431	\$ 922,303
Unguaranteed residual value	354,502	426,005
	<u>1,091,933</u>	<u>1,348,308</u>
Less: unearned income	(643,298)	(826,182)
	<u>\$ 448,635</u>	<u>\$ 522,126</u>

In September 2008, we agreed to terminate a master net lease at two properties that were accounted for as net investments in direct financing leases and sold the properties to a third party in December 2008 for \$6.8 million, net of selling costs. We recognized a loss of \$0.2 million on the sale, excluding an impairment charge of \$4 million. In connection with the sale, we used a significant portion of the sale proceeds to prepay the existing \$7.5 million non-recourse mortgage debt and incurred prepayment penalties of \$0.3 million. As a result of the lease termination, these properties were reclassified as Real estate, net in 2008 and their results of operations for the period from the date of the lease termination through the date of disposition are included in (Loss) income from discontinued operations.

In October 2008, we sold our net investment in a direct financing lease for \$4.1 million, net of selling costs, for a gain of \$0.8 million. In connection with the sale, we used the sale proceeds to prepay an existing \$4.1 million non-recourse mortgage loan that was collateralized by the sold property and a property that we retained. We incurred prepayment penalties of \$0.3 million as a result of this prepayment.

We perform a review of our estimate of the residual value of our direct financing leases at least annually in order to determine if there has been an other than temporary decline in the current estimate of residual value of the underlying real estate assets. In connection with this review, we recognized impairment charges totaling \$1.3 million in 2008 on four properties to reflect the declines in the unguaranteed residual values of these properties. No such impairment charges were recognized during 2007.

Scheduled future minimum rents, exclusive of renewals and expenses paid by tenants, percentage of sales rents and future CPI-based increases, under non-cancelable direct financing leases are as follows (in thousands):

YEAR ENDING DECEMBER 31,	
2009	\$ 43,774
2010	43,985
2011	44,205
2012	44,232
2013	42,462
Thereafter through 2033	518,773

Percentage rent revenue for direct financing leases was \$0.4 million in each of 2008, 2007 and 2006.

## 6 | EQUITY INVESTMENTS IN REAL ESTATE

We own interests in single-tenant net leased properties leased to corporations through non-controlling interests in (i) partnerships and limited liability companies in which our ownership interests are 50% or less and we exercise significant influence, and (ii) as tenant-in-common interests subject to common control (Note 2). We hold interests in two ventures that we account for under the equity method of accounting pursuant to the provisions of EITF 04-05 where we share control. The underlying investments are generally owned with affiliates.

Our ownership interests in our equity investments in real estate and their respective carrying values are presented below (dollars in thousands):

LESSEE	OWNERSHIP INTEREST AT DECEMBER 31, 2008	CARRYING VALUE AT DECEMBER 31, 2008	2007
Marriott International, Inc. <sup>(a)</sup>	47%	\$ 68,933	\$ 71,086
Schuler A.G. <sup>(b) (c)</sup>	34%	45,607	45,978
Hellweg Die Profi-Baumarkte GmbH & Co. KG <sup>(b) (d)</sup>	38%	23,126	28,524
The Upper Deck Company <sup>(e)</sup>	50%	11,668	13,114
PETsMART, Inc.	30%	8,920	9,001
Wagon Automotive GmbH and Wagon Automotive Nagold GmbH <sup>(b) (f) (g)</sup>	33%	8,592	—
Hologic, Inc.	64%	8,523	8,611
The Talaria Company (Hinckley)	30%	7,731	7,330
Gortz & Schiele GmbH & Co. and Goertz & Schiele Corp. <sup>(b) (f) (h)</sup>	50%	7,263	8,503
Del Monte Corporation	50%	7,024	8,193
Builders FirstSource, Inc.	40%	1,737	1,772
		<b>\$199,124</b>	<b>\$202,112</b>

(a) In August 2007, this venture, which owned 13 properties at that date and in which we and an unaffiliated third party hold 47% and 53% interests, respectively, sold a property for \$43.3 million, net of selling costs and recorded a gain on the sale of \$31.3 million. Concurrent with the sale, the venture defeased the existing non-recourse mortgage obligation of \$46.9 million collateralized by all 13 properties and incurred a charge for prepayment penalties and related costs totaling \$5.1 million. In order to facilitate the defeasance, this venture borrowed \$8.7 million from the advisor in August 2007 which it repaid in September 2007. In addition, the venture's existing lease was restructured to, among other things, extend the term and increase the rent payable under the lease. Separate financial statements for this venture are included herein.

(b) Carrying value of investment is affected by the impact of fluctuations in the exchange rate of the Euro.

(c) We acquired a 67% interest and an affiliate acquired a 33% interest in this venture in September 2007 for \$73.8 million and we consolidated the operations of the venture. As a result of the advisor's purchase of a tenant-in-common interest in the property in December 2007, we subsequently reclassified this investment as an equity investment in real estate.

(d) We acquired our interest in this investment during 2007 (Note 7).

(e) We recognized an other than temporary impairment charge related to this investment of \$0.9 million during 2008 to reduce the carrying amount of our investment to reflect the fair value of our share of the venture's net assets.

(f) Wagon Automotive GmbH filed for bankruptcy in Germany in December 2008 (Note 7). Gortz & Schiele GmbH & Co. filed for bankruptcy in Germany in November 2008.

(g) We acquired our interest in this investment during 2008 (Note 7).

(h) We recognized other than temporary impairment charges related to this investment of \$0.4 million and \$2.4 million during 2008 and 2007, respectively, to reduce the carrying amount of our investment to reflect the fair value of our share of the venture's net assets.

Combined summarized financial information of our interests in venture properties (for the entire entities, not our proportionate share) is presented below (in thousands):

	DECEMBER 31,		
	2008	2007	
Assets	\$1,347,755	\$1,406,266	
Liabilities	(621,078)	(670,714)	
<b>PARTNERS' AND MEMBERS' EQUITY</b>	<b>\$ 726,677</b>	<b>\$ 735,552</b>	

	YEARS ENDED DECEMBER 31,		
	2008	2007	2006
Revenue	\$116,064	\$ 96,765	\$ 43,390
Expenses	(56,847)	(48,202)	(18,371)
Gain on sale of real estate <sup>(a)</sup>	—	31,317	—
<b>NET INCOME</b>	<b>59,217</b>	<b>79,880</b>	<b>25,019</b>
<b>OUR SHARE OF INCOME FROM EQUITY INVESTMENTS IN REAL ESTATE<sup>(b)</sup></b>	<b>\$ 12,460</b>	<b>\$21,328</b>	<b>\$ 7,849</b>

(a) Reflects gain on sale of a property in August 2007 as described above.

(b) Inclusive of (i) amortization of differences between the fair value of investments acquired and the carrying value of the ventures' net assets as of the date of acquisition and (ii) impairment charges as described above.

## 7 | ACQUISITIONS OF REAL ESTATE-RELATED INVESTMENTS

Amounts are based on the exchange rate of the Euro as of the date of acquisition or financing, as applicable.

### Real Estate Acquired

We did not acquire any consolidated real estate investments during 2008. During 2007, we and an affiliate acquired three international investments at a total cost of \$115.6 million, inclusive of minority interest of \$37.6 million. During 2007, we reclassified one of these previously consolidated investments to an equity investment in real estate as a result of the advisor's purchase of a tenant-in-common interest in the investment for \$26 million (see below). In connection with the two remaining investments that we consolidate, we obtained non-recourse mortgage financing of \$20.9 million, inclusive of minority interest of \$6.3 million, with a weighted averaged annual rate and term of 5.8% and 9.7 years, respectively. The variable annual interest rate on a portion of this financing has been effectively converted to a fixed rate through an interest rate swap agreement that matures in July 2016.

### Equity Investments in Real Estate Acquired

**2008** — In August 2008, a venture in which we and an affiliate hold 33% and 67% interests, respectively, acquired an equity investment in Germany at a total cost (not our proportionate share) of \$57.8 million. The venture leases properties to two tenants, Wagon Automotive GmbH and Wagon Automotive Nagold GmbH, under net leases that are guaranteed by the tenants' parent company, Wagon PLC. The venture obtained non-recourse mortgage financing of \$29.3 million at a fixed annual interest rate of 6.2% and a term of seven years. We account for this investment under the equity method of accounting as we do not have a controlling interest but exercise significant influence.

In December 2008, Wagon PLC filed for bankruptcy in the United Kingdom for itself and certain of its subsidiaries based in the United Kingdom and Wagon Automotive GmbH filed for bankruptcy in Germany. To date, Wagon Automotive Nagold GmbH has not filed for bankruptcy. The bankruptcy filings by Wagon PLC and Wagon Automotive GmbH each constitute an “event of default” under the leases and the financing agreement, and as a result, among other things, the lender of the mortgage financing has the right to retain all payments under the leases, if any (which it has exercised), as well as to take further actions, including accelerating the debt and foreclosure (which it has not done at this time).

**2007** — We acquired two related investments in 2007 (Hellweg Die Profi-Baumarkte GmbH & Co. KG) that are accounted for under the equity method of accounting as we do not have a controlling interest but exercise significant influence. The remaining ownership of these entities is held by our advisor and certain of our affiliates. The primary purpose of these investments was to ultimately acquire an interest in the underlying properties and as such was structured to effectively transfer the economics of ownership to the CPA® REITs while still monetizing the sales value by transferring the legal ownership in the underlying properties over time. In April 2007, we acquired an interest in a venture (the “property venture”) that in turn acquired a 24.7% ownership interest in a limited partnership owning 37 properties throughout Germany. Concurrently, we also acquired an interest in a second venture (the “lending venture”), which made a loan (the “note receivable”) to the holder of the remaining 75.3% interests in the limited partnership (the “partner”). Under the terms of the note receivable, the lending venture will receive interest that approximates 75% of all income earned by the limited partnership, less adjustments. Our total effective ownership interest in the ventures is 38%. The total cost of the interests in these ventures, which are owned with affiliates, is \$446.4 million. In connection with these transactions, the ventures obtained combined non-recourse financing of \$378.6 million, having a fixed annual interest rate of 5.5% and a term of 10 years.

In connection with the acquisition, the property venture agreed to an option agreement which gives the property venture the right to purchase, from the partner, an additional 75% interest in the limited partnership no later than December 2010 at a price equal the principal amount of the note receivable at the time of purchase. Upon exercise of this purchase option, the property venture would own 99.7% of the limited partnership. The property venture has also agreed to a second assignable option agreement to acquire the remaining 0.3% interest in the limited partnership by December 2012. If the property venture does not exercise its option agreements, the partner has option agreements to put its remaining interests in the limited partnership to the property venture during 2014 at a price equal the principal amount of the note receivable at the time of purchase.

Upon exercise of the purchase option or the put, in order to avoid circular transfers of cash, the seller and the lending venture and the property venture agreed that the lending venture or the seller may elect upon exercise of the respective purchase option or put option to have the loan from the lending venture to the seller repaid by a deemed transfer of cash in amounts necessary to fully satisfy the seller’s obligations to the lending venture and the lending venture shall be deemed to have transferred such funds up to the CPA® REITs as if they had recontributed them down into the property venture based on their pro rata ownership. Accordingly, at December 31, 2008 (based on the exchange rate of the Euro), the only additional cash required by us to fund the exercise of the purchase option or the put would be the pro rata amounts necessary to redeem the advisor’s interest — the aggregate of which would be approximately \$2.4 million with our share approximating \$0.9 million. In addition, our maximum exposure to loss on these ventures was approximately \$24.1 million (inclusive of both our existing investment and the amount to fund our future commitment).

#### **Other**

In addition, as described above, we reclassified a previously consolidated real estate investment as an equity investment in real estate following the advisor’s purchase of a tenant-in-common interest in the property in the fourth quarter of 2007. We currently hold a 34% interest in the venture.

### Real Estate Under Construction

Costs incurred through December 31, 2007 of \$12 million related to the Starmark restructuring transaction (Note 4) were placed into service in April 2008. There was no real estate under construction during 2008.

### 8 | INTANGIBLES

In connection with our acquisition of properties, we have recorded net lease intangibles of \$317.7 million, which are being amortized over periods ranging from six years and five months to 40 years. Amortization of below-market and above-market rent intangibles is recorded as an adjustment to revenue. Below-market rent intangibles are included in Prepaid and deferred rental income and security deposits in the consolidated financial statements.

Intangibles are summarized as follows (in thousands):

	2008	DECEMBER 31, 2007
Lease intangibles		
In-place lease	\$205,175	\$ 211,788
Tenant relationship	36,653	38,106
Above-market rent	101,449	102,046
Less: accumulated amortization	(102,194)	(79,444)
	<u>\$241,083</u>	<u>\$272,496</u>
Below-market rent	\$ (25,616)	\$ (26,108)
Less: accumulated amortization	5,641	4,455
	<u>\$ (19,975)</u>	<u>\$ (21,653)</u>

Net amortization of intangibles, including the effect of foreign currency translation, was \$23.1 million, \$23.2 million and \$22.7 million for 2008, 2007 and 2006, respectively. Based on the intangibles recorded as of December 31, 2008, scheduled annual net amortization of intangibles for each of the next five years is expected to be \$24.3 million in 2009 and 2010, \$22.3 million in 2011 and \$21.1 million in 2012 and 2013.

During 2008, we wrote off intangible assets totaling \$3.5 million in connection with a lease termination at a property.

During 2006, in connection with the restructuring of a master lease agreement with Starmark, we wrote off intangible assets totaling \$21.3 million, inclusive of minority interest of \$10.5 million (Note 4).

### 9 | INTEREST IN MORTGAGE LOAN SECURITIZATION

We are accounting for our subordinated interest in the Carey Commercial Mortgage Trust ("CCMT") mortgage securitization as an available-for-sale marketable security, which is measured at fair value with all gains and losses from changes in fair value reported as a component of accumulated other comprehensive income as part of shareholders' equity. Our interest in CCMT consists of Class IO and Class E certificates. Our interest in the Class IO certificates, which are rated Aaa/AAA by Moody's Investors Service, Inc. and Fitch, Inc., respectively, had a fair value of \$1.3 million and \$1.9 million at December 31, 2008 and 2007, respectively. Our interest in the Class E certificates, which are rated between Baa3/BBB— and Caa/CCC by Moody's and Fitch, respectively, had a

fair value of \$7.8 million and \$9.2 million at December 31, 2008 and 2007, respectively. As of December 31, 2008 and 2007, the total fair value of our interest of \$9.1 million and \$11.1 million, respectively, reflected an aggregate unrealized loss of \$1.3 million and an aggregate unrealized gain of \$0.4 million, respectively, and cumulative net amortization of \$1.6 million and \$1.3 million at December 31, 2008 and 2007, respectively. The fair value of our interest in CCMT is determined using a discounted cash flow model with assumptions of market credit spreads and the credit quality of the underlying lessees.

One of the key variables in determining the fair value of the subordinated interest is current interest rates. As required by SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," a sensitivity analysis of our interest at December 31, 2008 based on adverse changes in market interest rates of 1% and 2% is as follows (in thousands):

	FAIR VALUE AS OF DECEMBER 31, 2008	1% ADVERSE CHANGE	2% ADVERSE CHANGE
Fair value of our interest in CCMT	<b>\$9,100</b>	\$8,850	\$8,608

The above sensitivity analysis is hypothetical and changes in fair value, based on a 1% or 2% variation, should not be extrapolated because the relationship of the change in assumption to the change in fair value may not always be linear.

## 10 | DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Our debt had a carrying value of \$1.8 billion and \$1.9 billion and a fair value of \$1.7 billion and \$1.9 billion at December 31, 2008 and 2007, respectively. Our marketable securities, including the interest in CCMT, had a cost basis of \$10.4 million and \$10.7 million and a fair value of \$9.1 million and \$11.1 million at December 31, 2008 and 2007, respectively. The fair value of debt instruments was evaluated using a discounted cash flow model with rates that take into account the credit of the tenants and interest rate risk. Our other financial assets and liabilities (excluding net investments in direct financing leases) had fair values that approximated their carrying values at December 31, 2008 and 2007.

## 11 | RISK MANAGEMENT AND USE OF DERIVATIVE FINANCIAL INSTRUMENTS

### Risk Management

In the normal course of our on-going business operations, we encounter economic risk. There are three main components of economic risk: interest rate risk, credit risk and market risk. We are subject to interest rate risk on our interest-bearing liabilities. Credit risk is the risk of default on our operations and tenants' inability or unwillingness to make contractually required payments. Market risk includes changes in the value of the properties and related loans as well as marketable securities we hold due to changes in interest rates or other market factors. In addition, we own investments in the European Union and are also subject to the risks associated with changing foreign currency exchange rates.

### Use of Derivative Financial Instruments

We do not generally use derivative financial instruments to manage foreign currency rate risk exposure and generally do not use derivative instruments to hedge credit/market risks or for speculative purposes.

The primary risk related to our use of derivative instruments is the risk that a counterparty to a hedging arrangement could default on its obligation. We seek to mitigate this risk by entering into hedging arrangements with counterparties that are large financial institutions that we deem to be credit worthy. If we terminate a hedging arrangement, we may be obligated to pay certain costs, such as transaction or breakage fees.

### Interest Rate Swaps and Interest Rate Caps

We are exposed to the impact of interest rate changes primarily through our borrowing activities. To limit this exposure, we attempt to obtain mortgage financing on a long-term, fixed-rate basis. However, from time to time, we or our venture partners may obtain variable rate mortgage loans and may enter into interest rate swap or interest rate cap agreements with counterparties. Interest rate swap agreements, which effectively convert the variable rate debt service obligations of the loan to a fixed rate, are agreements in which a series of interest rate flows are exchanged over a specific period. The notional amount on which the swaps are based is not exchanged. Interest rate caps limit the borrowing rate of variable rate debt obligations while allowing participants to share in downward shifts in interest rates. Our objective in using such derivatives is to limit our exposure to interest rate movements. Interest rate swaps and caps may be designated as cash flow hedges, with changes in fair value included as a component of other comprehensive income in shareholders' equity, or as fair value hedges, with changes in fair value reflected in earnings.

Our interest rate swap and interest rate cap derivative financial instruments outstanding at December 31, 2008 are designated as cash flow hedges and are summarized as follows (dollars in thousands):

	TYPE	NOTIONAL AMOUNT <sup>(a)</sup>	EFFECTIVE INTEREST RATE <sup>(b)</sup>	EXPIRATION DATE	FAIR VALUE <sup>(a)</sup>
Included in Other assets, net					
1-Month LIBOR	Interest rate cap	\$ 43,000	5.0% <sup>(c)</sup>	12/2010	\$ 5
					5
Included in Accounts payable, accrued expenses and other liabilities					
3-Month Euribor <sup>(d)</sup>	"Pay-fixed" swap	142,455	5.0%	7/2016	(2,881)
3-Month Euribor <sup>(d)</sup>	"Pay-fixed" swap	8,355	5.6%	7/2016	(438)
3-Month Euribor <sup>(d) (e)</sup>	"Pay-fixed" swap	20,517	5.6%	10/2015	(848)
3-Month LIBOR	"Pay-fixed" swap	16,331	6.9%	2/2014	(1,384)
					(5,551)
					<b>\$(5,546)</b>

(a) Amounts are based upon the applicable exchange rate at December 31, 2008, where applicable.

(b) Effective interest rate represents the rate at which interest is capped for the interest rate cap and the total of the swapped rate and the contractual margin for "pay-fixed" swaps.

(c) The applicable interest rate of the related debt was 4.8% at December 31, 2008 and, therefore, the interest rate cap was not in effect at that date.

(d) Inclusive of minority interest in the notional amount and fair value of the derivatives totaling \$42.8 million and \$1 million, respectively.

(e) In April 2008, we unwound a swap with a notional value of \$31.6 million as of the date of termination, inclusive of minority interest of \$7.9 million, and obtained a new interest rate swap with a notional value of \$26.5 million at that date, inclusive of minority interest of \$6.6 million. This new swap, which was designated as a cash flow hedge, effectively fixed the annual interest rate for this portion of the debt at 5.6% and expires in October 2015. In connection with the interest rate swap termination, we received a settlement payment of \$1.1 million, inclusive of minority interest of \$0.3 million, and realized a gain of \$1.1 million, inclusive of minority interest of \$0.3 million, which is included in Gain on foreign currency transactions, derivative instruments and other, net in the consolidated financial statements.

Changes in the fair value of interest rate swaps included in Accumulated other comprehensive income, net of minority interest, reflected unrealized losses of \$11.8 million in 2008 and unrealized gains of \$4.4 million and \$3.7 million in 2007 and 2006, respectively.

### *Embedded Credit Derivatives*

In April 2007 and August 2008, we acquired interests in certain unconsolidated ventures that obtained non-recourse mortgage financing for which the interest rate has both fixed and variable components. We account for these ventures under the equity method of accounting. In connection with providing the financing, the lenders entered into interest rate swap agreements on their own behalf through which the fixed interest rate component on the financing was converted into a variable interest rate instrument. The ventures have the right, at their sole discretion, to prepay the debt at any time and to participate in any realized gain or loss on the interest rate swap at that time. These participation rights are deemed to be embedded credit derivatives. Based on valuations obtained at December 31, 2008 and 2007, the embedded credit derivatives had a total fair value (not our proportionate share) of \$2.1 million and \$5.6 million as of December 31, 2008 and 2007, respectively, and generated a total unrealized loss (not our proportionate share) of \$4.8 million for 2008 and a total unrealized gain (not our proportionate share) of \$2.7 million for 2007. The unrealized loss for 2008 included an unrealized loss of \$1.4 million to write down the value of one of these derivatives pursuant to the valuation obtained at December 31, 2008. Changes in the fair value of the embedded credit derivatives are recognized in the ventures' earnings.

### *Stock Warrants*

We own stock warrants that were generally granted to us by lessees in connection with structuring the initial lease transactions. These warrants are defined as derivative instruments because they are readily convertible to cash or provide for net cash settlement upon conversion. As of December 31, 2008 and 2007, warrants issued to us have an aggregate fair value of \$1.3 million and \$1.4 million, respectively, and are included in Other assets, net in the consolidated financial statements.

Included in Gain on foreign currency transactions, derivative instruments and other, net in the consolidated financial statements are unrealized losses on stock warrants of \$0.1 million and \$1.3 million for 2008 and 2007, respectively, and unrealized gains of \$1.3 million for 2006. The unrealized losses for 2007 represent the reversal of unrealized gains recognized in prior periods, including an out-of-period adjustment of \$0.5 million recognized during the first quarter of 2007 (Note 2). We reversed these unrealized gains in connection with a tenant's merger transaction during 2007, prior to which it redeemed its outstanding warrants, including ours. In connection with the sale of securities related to this warrant exercise, we received net cash proceeds of \$0.1 million and \$1.1 million in 2008 and 2007, respectively, and realized a gain of \$0.1 million and \$1 million in 2008 and 2007, respectively, which are included in Gain on foreign currency transactions, derivative instruments and other, net in the consolidated financial statements.

### **Foreign Currency Exchange**

We are exposed to foreign currency exchange rate movements, primarily in the Euro and British Pound Sterling. We manage foreign currency exchange rate movements by generally placing both our debt obligation to the lender and the tenant's rental obligation to us in the same currency but are subject to such movements to the extent of the difference between the rental obligation and the debt service. We also face challenges with repatriating cash from our foreign investments. We may encounter instances where it is difficult to repatriate cash due to jurisdictional restrictions. We may also encounter instances where repatriating cash will result in current or future tax liabilities.

### **Concentration of Credit Risk**

Concentrations of credit risk arise when a number of tenants are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations, including those to us, to be similarly affected by changes in economic conditions. We regularly monitor our portfolio to assess potential concentrations of credit risk. We believe our portfolio is reasonably well diversified and does not contain any unusual concentration of credit risks.

Our directly owned real estate properties and related loans are located in the United States (63%) and Europe (37%), with France (17%) representing the only significant concentration (10% or more of current annualized lease revenue). In addition, Mercury

Partners, LP and U-Haul Moving Partners, Inc. jointly represented 10% of lease revenue in 2008, inclusive of minority interest. As of December 31, 2008, our directly owned real estate properties contain significant concentrations in the following asset types: office (27%), industrial (19%), warehouse/distribution (16%), retail (15%) and self-storage (10%); and the following tenant industries: retail trade (23%) and electronics (13%).

## 12 | DEBT

Non-recourse debt consists of mortgage notes payable collateralized by an assignment of real property and direct financing leases with a carrying value of \$2.5 billion as of December 31, 2008. Our mortgage notes payable had fixed annual interest rates ranging from 4.3% to 10% and variable annual interest rates ranging from 5% to 6.9% and maturity dates ranging from 2009 to 2026 as of December 31, 2008.

Scheduled debt principal payments during each of the next five years following December 31, 2008 and thereafter are as follows (in thousands):

YEAR ENDING DECEMBER 31,	TOTAL DEBT
2009	\$ 99,686
2010	71,563
2011	152,787
2012	178,245
2013	149,105
Thereafter through 2026	1,154,011
<b>TOTAL</b>	<b>\$1,805,397</b>

We consolidate a venture that had \$113.8 million of non-recourse mortgage debt at December 31, 2008, inclusive of minority interest of \$28.4 million, that matures in 2015. Under the loan agreement, the tenant has an obligation to meet certain loan covenants, which were not met as of December 31, 2007. As a result, the lender had retained rental receipts of \$8.5 million, inclusive of minority interest of \$2.1 million, which it released to us in May 2008 as a result of the tenant's renewed and continued compliance with these loan covenants.

## 13 | COMMITMENTS AND CONTINGENCIES

As of December 31, 2008, we were not involved in any material litigation. We note the following:

### State Securities Matters

The Maryland Securities Commission, the Arkansas Securities Department and the Alabama Securities Commission have each sought information from Carey Financial LLC ("Carey Financial"), the advisor's wholly-owned broker-dealer subsidiary, and/or us relating to a previously settled Securities and Exchange Commission ("SEC") investigation described in Note 14. While it is possible that Maryland, Arkansas, Alabama, or another state could commence proceedings against Carey Financial relating to the SEC investigation, WPC has announced that it does not currently expect that any such proceeding, if commenced, would have a material effect on WPC incremental to that caused by the SEC settlement described in Note 14.

## 14. | ADVISOR SETTLEMENT OF SEC INVESTIGATION

### SEC Investigation

In 2004, following a broker-dealer examination of Carey Financial, the staff of the SEC commenced an investigation into compliance with the registration requirements of the Securities Act of 1933 (the "Securities Act") in connection with the public offerings of our shares during 2002 and 2003. The matters investigated by the staff of the SEC principally included whether, in connection with a public offering of our shares, Carey Financial and its retail distributors sold certain securities without an effective registration statement; specifically, whether the delivery of the investor funds into escrow after completion of the first phase of the offering, completed in the fourth quarter of 2002, but before a registration statement with respect to the second phase of the offering became effective in the first quarter of 2003, constituted sales of securities in violation of Section 5 of the Securities Act of 1933.

The investigation was later expanded to include matters relating to compensation arrangements with broker-dealers in connection with other CPA<sup>®</sup> REITs including us. The compensation arrangements principally involved payments, aggregating in excess of \$9.6 million, made to a broker-dealer which distributed our shares and the shares of other CPA<sup>®</sup> REITs, the disclosure of such arrangements and compliance with applicable Financial Industry Regulatory Authority, Inc. (FINRA) requirements. The costs associated with these payments, which were made during the period from early 2000 through the end of 2003, were borne by and accounted for on the books and records of the CPA<sup>®</sup> REITs.

In March 2008, WPC and Carey Financial entered into a settlement with the SEC with respect to all matters relating to them in connection with the above-described investigations. In connection with the settlement, the SEC filed a complaint in the United States District Court for the Southern District of New York alleging violations of certain provisions of the federal securities laws, and seeking to enjoin WPC from violating those laws in the future. In its complaint the SEC alleged violations of Section 5 of the Securities Act of 1933, in connection with the offering of shares of CPA<sup>®</sup>:15, and Section 17(a) of the Securities Act of 1933 and Sections 10(b), 13(a), 13(b)(2)(A) and 14(a) of the Securities Exchange Act of 1934, and Rules 10b-5, 12b-20, 13a-1, 13a-13 and 14a-9 thereunder, among others, in connection with the above-described payments to broker-dealers and related disclosures by the CPA<sup>®</sup> REITs. With respect to Carey Financial, the complaint alleged violations of, and sought to enjoin Carey Financial from violating, Section 5 of the Securities Act of 1933. Without admitting or denying the allegations in the SEC's complaint, WPC and Carey Financial consented to the entry of the injunction, which was entered by the court in a final judgment in March 2008. Pursuant to the final judgment, WPC agreed to make payments of \$20 million, including interest, to us and another affected CPA<sup>®</sup> REIT. Our portion of these payments is approximately \$9.1 million and is reflected in our results of operations for 2008. Payment of this amount was received from the advisor in April 2008. WPC also paid a \$10 million civil penalty, no portion of which we received.

The SEC's complaint also alleged violations of certain provisions of the federal securities laws by our advisor's employees John Park, who was formerly WPC's and our chief financial officer, and Claude Fernandez, who was formerly WPC's and our chief accounting officer. Messrs. Park and Fernandez have separately settled the charges against them.

## 15 | SHAREHOLDERS' EQUITY

### Distributions

Distributions paid to shareholders consist of ordinary income, capital gains, return of capital or a combination thereof for income tax purposes. For the three years ended December 31, 2008, distributions per share reported for tax purposes were as follows:

	2008	2007 <sup>(a)</sup>	2006
Ordinary income	\$0.58	\$ 0.45	\$ 0.38
Capital gains	—	0.22	0.27
Return of capital	0.11	—	—
	<b>\$0.69</b>	<b>\$0.67</b>	<b>\$0.65</b>

(a) Excludes a special cash distribution of \$0.08 per share in December 2007, which was paid in January 2008 to shareholders of record as of December 31, 2007. The special distribution was approved by our board of directors in connection with the sale of two properties. The special distribution was reported for tax purposes as follows: Ordinary income \$0.05; Capital gains \$0.03.

We declared a quarterly distribution of \$0.1743 per share in December 2008, which was paid in January 2009 to shareholders of record as of December 31, 2008.

### Accumulated Other Comprehensive Income

As of December 31, 2008 and 2007, Accumulated other comprehensive income reflected in shareholders' equity is comprised of the following (in thousands):

	2008	2007
Unrealized (loss) gain on marketable securities	\$ (1,269)	\$ 403
Unrealized (loss) gain on derivative instruments	(4,574)	7,225
Foreign currency translation adjustment	6,303	27,536
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>	<b>\$ 460</b>	<b>\$35,164</b>

## 16 | INCOME TAXES

We have elected to be treated as a REIT under Sections 856 through 860 of the Code. In order to maintain our qualification as a REIT, we are required, among other things, to distribute at least 90% of our REIT net taxable income to our shareholders and meet certain tests regarding the nature of our income and assets. As a REIT, we are not subject to federal income tax with respect to the portion of our income that meets certain criteria and is distributed annually to shareholders. Accordingly, no provision for federal income taxes is included in the consolidated financial statements with respect to these operations. We believe we have operated, and we intend to continue to operate, in a manner that allows us to continue to meet the requirements for taxation as a REIT. Many of these requirements, however, are highly technical and complex. If we were to fail to meet these requirements, we would be subject to federal income tax.

We conduct business in the various states and municipalities within the U.S. and the European Union and, as a result, we or one or more of our subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and certain foreign jurisdictions. As a result, we are subject to certain foreign, state and local taxes. The tax provision for 2007 included \$0.6 million in expenses that related to the years ended December 31, 2005 and 2006 that had not previously been accrued (Note 2).

We adopted FIN 48 on January 1, 2007. As a result of the implementation, we recognized a \$0.2 million increase to reserves for uncertain tax positions. This increase in reserves was accounted for as an adjustment to the beginning balance of retained earnings on the balance sheet. Including the cumulative effect increase, at the beginning of 2007, we had \$0.2 million of total gross unrecognized tax benefits. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	2008	2007
Balance at January 1,	\$ 687	\$160
Additions based on tax positions related to the current year	203	215
Additions for tax positions of prior years	—	312
Reductions for tax positions of prior years	—	—
Settlements	—	—
Reductions for expiration of statute of limitations	(193)	—
<b>BALANCE AT DECEMBER 31,</b>	<b>\$ 697</b>	<b>\$687</b>

At December 31, 2008, we had unrecognized tax benefits as presented in the table above that, if recognized, would have a favorable impact on the effective income tax rate in future periods. We recognize interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2008 and 2007, we had less than \$0.1 million of accrued interest related to uncertain tax positions.

During the next year, we currently expect the liability for uncertain taxes to increase on a similar basis to the additions that occurred in 2008. We or our subsidiaries file income tax returns in state and foreign jurisdictions. Our tax returns are subject to audit by taxing authorities. Such audits can often take years to complete and settle. The tax years 2005-2008 remain open to examination by the major taxing jurisdictions to which we are subject.

## 17 | DISCONTINUED OPERATIONS

Tenants from time to time may vacate space due to lease buy-outs, elections not to renew, company insolvencies or lease rejections in the bankruptcy process. In such cases, we assess whether the highest value is obtained from re-leasing or selling the property. In addition, in certain cases, we may elect to sell a property that is occupied if it is considered advantageous to do so. When it is determined that the relevant criteria are met in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), the asset is reclassified as an asset held for sale.

**2008** — During 2008, we sold a property for proceeds of \$1.1 million, net of selling costs, for a gain of \$0.1 million. Concurrent with the sale, we used \$0.8 million to partially defease the existing non-recourse mortgage obligation of \$16.8 million that was collateralized by five properties (including the property sold). All costs associated with the partial defeasance were incurred by the buyer.

As described in Note 5, we sold three domestic properties in 2008 that were accounted for as direct financing leases. As a result of a lease termination, two of these properties were reclassified as Real estate, net in September 2008. Therefore, their results of operations for the period from the date of the lease termination through the date of disposition in December 2008, including an impairment charge of \$4 million and a loss on the sale of \$0.2 million, are included in Income from discontinued operations.

**2007** — We sold six properties for total proceeds of \$75.3 million, net of selling costs and inclusive of minority interest of \$23.2 million, for a net gain of \$22.1 million, inclusive of minority interest of \$6.9 million. The outstanding non-recourse mortgage financing for two of these properties of \$14.9 million was assigned to the purchaser.

**2006** — A consolidated venture in which we and an affiliate held 60% and 40% interests, respectively, sold a property for \$200 million, net of selling costs and inclusive of minority interest of \$80 million. In connection with the sale, the venture recognized a gain on the sale of \$41.1 million, net of a \$10.3 million writeoff of unrecoverable receivables related to future stated rent increases (inclusive of minority interest of \$16.4 million and \$4.1 million, respectively). In addition, the venture repaid the existing non-recourse mortgage obligation of \$81.2 million and incurred a charge for prepayment penalties and related costs totaling \$3 million (inclusive of minority interest of \$32.5 million and \$1.2 million, respectively).

We also sold three properties for combined proceeds of \$38 million, net of selling costs, and recognized a net gain on sale of \$7.8 million. In addition, we have accounted for the transfer of four properties to Life Time (Note 4) as a sale, as title was transferred to the new tenant and we have no continuing involvement in the transferred properties. No gain or loss was recorded on the sale of the four properties as we recognized impairment charges totaling \$8.6 million (inclusive of minority interest of \$4.8 million) during 2006 to reduce the carrying value of the four transferred properties to their estimated fair values.

In accordance with SFAS 144, the results of operations for properties held for sale or disposed of are reflected in the consolidated financial statements as discontinued operations for all periods presented and are summarized as follows (in thousands):

	YEARS ENDED DECEMBER 31,		
	2008	2007	2006
Revenues	\$ 786	\$ 6,968	\$ 17,025
Expenses	(675)	(2,937)	(10,943)
(Loss) gain on sale of real estate, net	(67)	22,087	48,870
Impairment charges	(4,019)	—	(14,646)
Minority interest in income	—	(8,392)	(11,176)
<b>(LOSS) INCOME FROM DISCONTINUED OPERATIONS</b>	<b>\$(3,975)</b>	<b>\$ 17,726</b>	<b>\$ 29,130</b>

## 18 | SEGMENT INFORMATION

We have determined that we operate in one business segment, real estate ownership, with domestic and foreign investments.

Geographic information for the real estate ownership segment is as follows (in thousands):

2008	DOMESTIC	FOREIGN <sup>(a)</sup>	TOTAL COMPANY
Revenues	\$ 182,178	\$ 124,283	\$ 306,461
Total long-lived assets <sup>(b)</sup>	1,604,710	1,110,707	2,715,417
2007	DOMESTIC	FOREIGN <sup>(a)</sup>	TOTAL COMPANY
Revenues	\$ 178,491	\$ 114,795	\$ 293,286
Total long-lived assets <sup>(b)</sup>	1,643,580	1,238,777	2,882,357

2006	DOMESTIC	FOREIGN <sup>(a)</sup>	TOTAL COMPANY
Revenues	\$ 186,004	\$ 94,607	\$ 280,611
Total long-lived assets <sup>(b)</sup>	1,694,943	1,042,996	2,737,939

(a) Consists of operations in the European Union.

(b) Consists of real estate, net; net investment in direct financing leases; equity investments in real estate and real estate under construction.

## 19 | SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	MARCH 31, 2008	THREE MONTHS ENDED		DECEMBER 31, 2008 <sup>(c)</sup>
		JUNE 30, 2008	SEPTEMBER 30, 2008	
Revenues <sup>(a)</sup>	\$ 76,300	\$ 77,189	\$ 76,474	\$ 76,498
Operating expenses <sup>(a)</sup>	(29,745)	(32,147)	(43,453)	(55,712)
Net income	25,759	14,028	1,195	(12,288)
Earnings per share	0.20	0.11	0.01	(0.10)
Distributions declared per share	0.1704	0.1719	0.1736	0.1743

	MARCH 31, 2007	THREE MONTHS ENDED		DECEMBER 31, 2007 <sup>(d)</sup>
		JUNE 30, 2007	SEPTEMBER 30, 2007	
Revenues <sup>(a)</sup>	\$ 69,672	\$ 72,388	\$ 74,427	\$ 76,799
Operating expenses <sup>(a)</sup>	(26,708)	(27,755)	(30,378)	(31,004)
Net income <sup>(b)</sup>	13,581	15,736	30,904	26,969
Earnings per share	0.11	0.12	0.24	0.21
Distributions declared per share	0.1654	0.1664	0.1679	0.1694 <sup>(e)</sup>

(a) Certain amounts from previous quarters have been retrospectively adjusted as discontinued operations (Note 17).

(b) Includes impact of out of period adjustments in the quarter ended March 31, 2007 (Note 2).

(c) Net income for the fourth quarter of 2008 includes impairment charges totaling \$24.4 million in connection with several properties and an equity investment in real estate (Notes 4, 5 and 6).

(d) Net income for the fourth quarter of 2007 includes impairment charges of \$2.4 million in connection with two equity investments in real estate (Note 6).

(e) Excludes a special cash distribution of \$0.08 per share paid in January 2008 to shareholders of record as of December 31, 2007.

## Report on Form 10-K

The advisor will supply without charge to any shareholder, upon written request to Ms. Susan C. Hyde, Director of Investor Relations, Corporate Property Associates 15, Inc., 50 Rockefeller Plaza, New York, NY 10020, a copy of the annual report on Form 10-K for the year ended December 31, 2008, including the financial statements and schedules.

## Corporate Information

### MANAGEMENT

Wm. Polk Carey  
*Chairman of the Board*

Gordon F. DuGan  
*Chief Executive Officer*

Benjamin P. Harris  
*President*

Mark J. DeCesaris  
*Managing Director, Acting Chief  
Financial Officer and Chief  
Administrative Officer*

Susan C. Hyde  
*Managing Director and Secretary*

Jan F. Kärst  
*Managing Director – Investments*

Edward V. LaPuma  
*Managing Director – Investments*

John D. Miller  
*Chief Investment Officer*

Gino M. Sabatini  
*Managing Director – Investments*

Anne Coolidge Taylor  
*Managing Director – Investments*

Thomas E. Zacharias  
*Managing Director and  
Chief Operating Officer*

Jason E. Fox  
*Executive Director – Investments*

Jeffrey S. Lefleur  
*Executive Director – Investments*

Thomas Ridings  
*Executive Director and  
Chief Accounting Officer*

Kristin Chung  
*Senior Vice President  
and Controller*

Christopher E. Franklin  
*Senior Vice President*

Paul Marcotrigiano  
*Senior Vice President and  
Associate General Counsel*

Donna M. Neiley  
*Senior Vice President –  
Asset Management*

Richard J. Paley  
*Senior Vice President and  
Associate General Counsel*

Gagan S. Singh  
*Senior Vice President – Finance*

Jiwei Yuan  
*Senior Vice President – Finance*

Kathleen M. Barthmaier  
*Director – Investments*

Greg Butchart  
*Director – International  
Asset Management*

Chad Edmonson  
*Director – Investments*

Holly Mauro  
*Director – Asset Management*

Darren Postel  
*Director – Asset Management*

### INVESTMENT COMMITTEE OF CAREY ASSET MANAGEMENT CORP.

Nathaniel S. Coolidge  
*Chairman; Former Head of Bond  
and Corporate Finance Department,  
John Hancock Mutual Life Insurance  
Company*

Trevor P. Bond  
*Member; Managing Member of  
Maidstone Investment Co., LLC*

Axel K.A. Hansing  
*Member; Senior Partner  
Coller Capital, Ltd.*

Frank J. Hoenemeyer  
*Member; Former Vice Chairman  
and Chief Investment Officer,  
The Prudential Insurance  
Company of America*

Dr. Lawrence R. Klein  
*Member; Nobel Laureate in Economics,  
Benjamin Franklin Professor Economics  
(Emeritus), University of Pennsylvania*

Nick J.M. van Ommen  
*Member; former Chief Executive Officer,  
European Public Real Estate Association*

Dr. Karsten von Köller  
*Member; Chairman, Loan Star  
Germany GmbH*

### DIRECTORS

Wm. Polk Carey  
*Chairman of the Board*

Gordon F. DuGan  
*Chief Executive Officer*

James D. Price  
*Lead Director, Chairman of the  
Audit Committee; President,  
Price & Marshall, Inc.*

Dr. Marshall E. Blume  
*Director, Rodney L. White Center  
for Financial Research, University  
of Pennsylvania*

Elizabeth P. Munson  
*President, The Rockefeller Trust Company*

Richard J. Pinola  
*Chairman of the Audit Committee;  
former Chief Executive Officer and  
Chairman, Right Management  
Consultants*

### AUDITORS

PricewaterhouseCoopers LLP

### EXECUTIVE OFFICES

Corporate Property Associates 15 Inc.  
50 Rockefeller Plaza  
New York, NY 10020  
212-492-1100  
1-800-WP CAREY

### TRANSFER AGENT

Phoenix American Financial Services, Inc.  
2401 Kerner Boulevard  
San Rafael, CA 94901  
1-888-241-3737  
[www.wpcarey.com/shareholderaccess](http://www.wpcarey.com/shareholderaccess)

### ANNUAL MEETING

June 10, 2009 at 4:00 p.m.  
at the Executive Offices

### FORM 10-K

A Copy of The Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission may be obtained at [www.sec.gov](http://www.sec.gov) or without charge by writing the Executive Offices at the above address.

### E-DELIVERY

To receive future investor-related correspondence electronically go to [www.wpcarey.com/shareholderaccess](http://www.wpcarey.com/shareholderaccess)

### WEBSITE

[www.CPA15.com](http://www.CPA15.com)

### E-MAIL

[CPA15@wpcarey.com](mailto:CPA15@wpcarey.com)

Note: Management services are provided by officers of W. P. Carey & Co. LLC, the company's advisor, and its subsidiaries.

[ This Page Intentionally Left Blank ]

**[This Page Intentionally Left Blank]**





Corporate Property Associates 15  
50 Rockefeller Plaza  
New York, NY 10020  
1-800-WP CAREY  
cpa15@wpcarey.com  
www.cpa15.com

The paper and printer used in the production of the CPA:15 2008 Annual Report are all certified to Forest Stewardship Council (FSC) standards, which provide environmentally appropriate, socially beneficial and economically viable management of the world's forests. This report was printed on paper containing 10% postconsumer waste material.

By using postconsumer recycled fiber in lieu of virgin fiber:



12 trees were preserved for the future



35 lbs of waterborne waste were not created



5,102 gallons of wastewater flow were saved



564 lbs of solid waste were not generated



1,111 lbs net of greenhouse gases were prevented



8,506,000 BTUs of energy were not consumed