

CPA:14

CORPORATE PROPERTY ASSOCIATES 14

2006 ANNUAL REPORT



GENERATING INCOME FOR INVESTORS SINCE 1997

A MEMBER OF THE

W. P. CAREY
GROUP

FINANCIAL HIGHLIGHTS

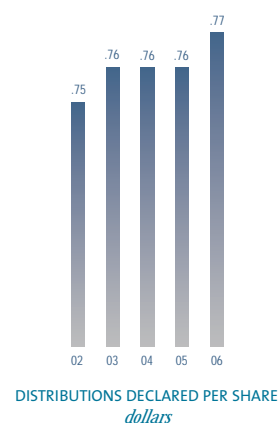
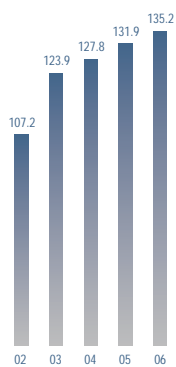
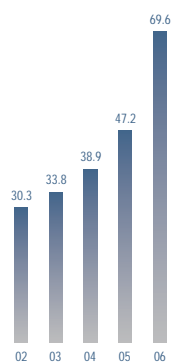
For the years ended December 31,

(In thousands except per share amounts)

	2002	2003	2004	2005	2006
OPERATING DATA					
Revenues ⁽¹⁾	\$ 107,153	\$ 123,924	\$ 127,771	\$ 131,910	\$ 135,192
Net income	30,266	33,820	38,940	47,249	69,618
Cash flows from operating activities	60,569	59,410	70,590	70,895	102,232
Cash distributions paid	48,581	50,173	50,973	51,905	83,633
PER SHARE DATA					
Distributions declared	.75	.76	.76	.76	.77
BALANCE SHEET DATA					
Total assets	\$ 1,319,897	\$ 1,345,747	\$ 1,346,355	\$ 1,295,036	\$ 1,675,323
Long-term obligations ⁽²⁾	689,910	724,705	723,383	679,522	826,459

(1) Represents revenues from continuing operations.

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



DEAR FELLOW SHAREHOLDERS

We are pleased to report that 2006 was another successful year for CPA®:14. We completed a merger with CPA®:12, we opportunistically sold several facilities, and we continued to provide increasing distributions to our investors. Revenues, net income and cash flows from operating activities all increased from 2005 to 2006. As of December 31, 2006, our portfolio consisted of 289 properties leased to 91 tenants and totaled approximately 29.9 million square feet with a 100% occupancy rate. Our properties are located throughout the United States and in Europe, enhancing the geographical diversification of the portfolio.

MERGER WITH CPA®:12

On December 1, 2006, CPA®:14 merged with an affiliate, CPA®:12. In connection with this merger, we issued approximately 18,470,000 shares of our common stock and used approximately \$102 million in cash to acquire 87 properties. These properties, whose tenants include Wal-Mart, 24 Hour-Fitness, and Carrefour, are located in 25 states and in France, total 6.6 million square feet, and have lease terms of greater than eight years. Thirty-two percent of CPA®:12 shareholders elected the cash option while the remaining 68% received shares of CPA®:14. The merger presented an attractive liquidation option for CPA®:12 shareholders and provided us with the opportunity to continue to grow and enhance our investment portfolio.

2006 PORTFOLIO ACTIVITY

CPA®:14 completed the sale of three major assets at attractive prices:

- The sale of a New York City office building for \$208 million, which we owned with an affiliate, CPA®:15. Based upon our 40% ownership interest in this property, our share of the sale proceeds after pre-payment of outstanding mortgage obligations was \$46.3 million and our share of the gain was \$16.4 million. Our gain on equity invested was 61%.
 - The sale of a building in Hayward, California for \$57.1 million, which we owned with an affiliate, CPA®:12. Based on our 49.99% interest, our share of the sale proceeds was \$17.4 million after payment of our outstanding mortgage obligations and our share of the gain was \$7.2 million. Our gain on equity invested was 49%.
 - The sale of a building in Rochester, Minnesota for \$36.8 million. Our sale proceeds after payment of outstanding mortgage obligations was \$22.3 million and our share of the gain was \$14.2 million. Our gain on equity invested was 145%.
- The sale proceeds from these transactions were used to pay a special distribution and fund a portion of our merger with CPA®:12.
- To assist Starmark Holdings LLC with a restructuring of its health club portfolio, we modified a lease covering 15 properties, resulting in a sale of four properties and



NORTEL NETWORKS INC.
Richardson, Texas



AMTECH SYSTEMS CORPORATION
Albuquerque, NM



FEDERAL EXPRESS CORPORATION
Collierville, TN

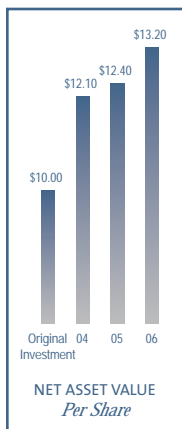
new leases with Lifetime Fitness and Town Sports. We own these properties together with our affiliate, CPA®:15, and had a 41% interest at the time of the restructuring. While this restructuring resulted in a pro rata impairment charge totaling \$10.1 million, we believe this transaction better positioned these properties and provided our portfolio with greater stability.

SPECIAL DISTRIBUTIONS

In connection with our disposition activity, our board of directors approved a special distribution of \$0.45 per share that was paid in July 2006 to shareholders of record as of June 30, 2006 and approved a second merger-related distribution of \$0.04 per share that was paid in January 2007 to shareholders of record as of November 30, 2006.

NET ASSET VALUE

CPA®:14 has done well since its inception a decade ago. As of December 31, 2006, CPA®:14's NAV was determined to be \$13.20, up 6.5% from year-end 2005



and 37% (with the inclusion of the special distribution) over the initial purchase price of \$10 a share. Our total annual return for 2006, including quarterly cash distributions and the special distribution, was 16.3%. CPA®:14 calculates its per share NAV annually, based on a third party appraisal firm's estimate of the fair market value of CPA®:14's real estate. For further information regarding the calculation of NAVs, please refer to the

Form 8-K filed on March 13, 2007 at www.cpa14.com. While we are extremely proud of this development, we understand there can be no assurance that the amount investors ultimately receive for their shares will equal the value determined by this process.

NEW DIRECTORS

In the last year, CPA®:14 was privileged to have both the former President of Penn Mutual Life Insurance Company, Mr. Richard J. Pinola, and the Wharton School's Director of Financial Research, Dr. Marshall E. Blume, join its board. Mr. Pinola, a Certified Public Accountant, joined all three CPA® boards in September of 2006 as independent director and as chairman of the audit committees. Dr. Blume joined as independent director in April 2007.

As we continue to manage this diversified portfolio, we will seek to provide you, our investors, with a consistent income stream. We thank you for your continued support.

Sincerely,

Wm. Polk Carey
Chairman of the Board (Left)

Edward V. LaPuma
President (Center)

Gordon F. DuGan
Chief Executive Officer (Right)



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This annual report, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, contains forward-looking statements that involve risks, uncertainties and assumptions. Forward-looking statements discuss matters that are not historical facts. Because they discuss future events or conditions, forward-looking statements may include words such as “anticipate,” “believe,” “expect,” “estimate,” “intend,” “could,” “should,” “would,” “may,” “seek,” “plan” or similar expressions. Do not unduly rely on forward-looking statements. They give our expectations about the future and are not guarantees, and speak only as of the date they are made. Such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievement to be materially different from the results of operations or plan expressed or implied by such forward-looking statements. While we cannot predict all of the risks and uncertainties, they include, but are not limited to, those described in Item 1A - Risk Factors in our annual report on Form 10-K. Accordingly, such information should not be regarded as representations that the results or conditions described in such statements or that our objectives and plans will be achieved.

As used in this annual report, the terms “the Company,” “we,” “us” and “our” include Corporate Property Associates 14 Incorporated, its consolidated subsidiaries and predecessors, unless otherwise indicated.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In thousands, except share and per share amounts

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. The primary source of our revenue is earned from leasing real estate, primarily on a triple-net lease basis. We were formed in 1997 and are managed by W. P. Carey & Co. LLC and its subsidiaries (collectively, the "advisor"). 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.

Current Developments and Trends

Significant business developments that occurred during 2006 are detailed in Item 1 — Significant Developments During 2006 of our annual report on Form 10-K.

Current trends include:

Our current business plan is principally focused on managing our existing portfolio of properties, including those properties we acquired from CPA[®]:12 in December 2006, and we do not currently expect to make new significant investments in the future. However, we may make future acquisitions if attractive opportunities arise. Competition for triple-net leased real estate remains strong as capital continues to flow into real estate, in general, and net leased real estate, in particular. We believe that low long-term interest rates by historical standards have created greater investor demand for yield-based investments, such as triple-net leased real estate, thus creating increased capital flows and a more competitive investment environment. We currently expect these trends to continue in 2007 but currently believe that several factors may provide us with investment opportunities in 2007, both domestically and internationally. These factors include increased merger and acquisition activity, which may provide additional sale-leaseback opportunities as a source of funding, a continued desire of corporations to divest themselves of real estate holdings and increasing opportunities for sale-leaseback transactions in the international market.

Real estate valuations have risen significantly in recent years. To the extent that disposing of properties fits with our strategic plans, we may look to take advantage of increases in real estate prices by selectively disposing of properties. We may also seek to capitalize on the increased value of our real estate by obtaining new limited recourse mortgage financing on unencumbered assets or by refinancing mortgages on existing properties if we can obtain such financing on attractive terms. Our ability to do so will be affected by the interest rate environment. Increases in long-term interest rates would likely cause the value of our real estate assets to decrease and would compromise the amount and terms of financing we can obtain. We will attempt to mitigate the effect of potential increases in long-term interest rates by seeking mortgage financing with fixed annual interest rates. We constantly evaluate our debt exposure and to the extent we are able to refinance and lock in lower interest rates over a longer term, we may be able to reduce our exposure to short-term interest rate fluctuation.

Increases in interest rates may also have an impact on the credit profile of certain tenants. Rising interest rates would likely cause an increase in inflation and a corresponding increase in the Consumer Price Index ("CPI"). To

the extent that the CPI increases, additional rental income streams may be generated for leases with CPI adjustment triggers and partially offset the impact of declining property values.

Companies in automotive related industries (manufacturing, parts, services, etc.) are currently experiencing a challenging environment, which has resulted in several companies filing for bankruptcy protection. We currently have six tenants in automotive related industries, of which two are currently operating under bankruptcy protection. The tenants who have filed for bankruptcy protection, Collins & Aikman Corporation and Tower Automotive, Inc., have not indicated whether they will affirm their leases. In 2006, these six tenants accounted for annual lease revenues of approximately \$14,730 and income from equity investments in real estate of \$822 and have an aggregate carrying value of \$120,308 as of December 31, 2006. (We acquired the remaining interest in the equity investment in real estate in the merger.) Of these totals, the two tenants that are operating under bankruptcy protection account for approximately \$7,812 of lease revenues during 2006 and \$58,616 of carrying value at December 31, 2006. If conditions in this industry worsen, additional tenants may file for bankruptcy protection and may disaffirm their leases as part of their bankruptcy reorganization plans. The net result of these trends may have an adverse impact on our results of operations. In December 2006, Meridian Automotive Systems emerged from bankruptcy. Meridian accounted for lease revenue of \$1,254 in 2006 and had a carrying value of \$9,159 at December 31, 2006.

We have foreign operations and as such are subject to risk from the effects of exchange rate movements in the Euro and the British pound sterling, which account for approximately 13% and 1% of annualized contractual lease revenues, respectively. 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. During 2006, the average rate for the U.S. dollar in relation to both the Euro and the British pound sterling was moderately weaker than 2005, and as a result, we experienced a moderately positive impact on our results of foreign operations for the current year as compared to 2005.

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 stockholders 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 operations, cash flows from investing activities and cash flows from financing activities (as described in Financial Condition, below) to be important measures in the evaluation of our results of operations, liquidity and capital resources. Cash flows from operations 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 operations is essential in assessing our ability to fund operating expenses, service our debt and fund distributions to stockholders.

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 stockholders. 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 and not returns on 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. Cash flows from financing activities primarily consist of the payment of distributions to stockholders, obtaining limited recourse mortgage financing, generally in connection with the acquisition or refinancing of properties, and the payment of mortgage principal amortization. Our financing strategy has been to purchase substantially all of our properties with a combination of equity and limited recourse mortgage debt. A lender on a limited recourse mortgage loan 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. In the event that a balloon payment comes due, we may seek to refinance the loan, restructure the debt with existing lenders, and 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.

Our operations consist of the investment in and the leasing of commercial real estate. Management's evaluation of the sources of lease revenues for the years ended December 31, 2006, 2005 and 2004 is as follows:

	2006	2005	2004
Rental income	\$ 116,963	\$ 113,391	\$ 110,774
Interest income from direct financing leases	14,353	14,112	13,430
	<u>\$ 131,316</u>	<u>\$ 127,503</u>	<u>\$ 124,204</u>

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:

	2006	2005	2004
Carrefour France, SAS ^(a) ^(b)	\$ 15,161	\$ 14,460	\$ 13,696
Petsmart, Inc. ^(c)	8,395	8,303	8,303
Federal Express Corporation ^(c)	6,816	6,742	6,669
Nortel Networks Limited	6,014	6,001	6,001
Atrium Companies, Inc.	4,922	4,787	4,574
Caremark Rx, Inc.	4,300	4,300	4,300
Tower Automotive, Inc. ^(d)	4,218	4,099	3,895
Katun Corporation ^(b)	4,000	3,815	3,815
Metaldyne Company LLC ^(d)	3,673	3,553	3,307
McLane Company Food Service Inc.	3,662	3,601	3,560
Collins & Aikman Corporation ^(d)	3,594	3,473	3,373
Perkin Elmer, Inc. ^(b)	3,430	3,370	3,394
APW North America Inc.	3,084	3,027	2,954
Amerix Corp.	2,928	2,569	2,497
Dick's Sporting Goods, Inc. ^(e) ^(f)	2,706	3,697	3,811
Builders FirstSource, Inc.	2,598	2,521	2,497
Gibson Guitar Corp.	2,460	2,566	2,529
Gerber Scientific, Inc.	2,445	2,361	2,276
Waddington North America, Inc.	2,331	2,321	2,280
Buffets, Inc.	2,290	2,280	2,272
Institutional Jobbers Company	2,271	2,271	2,271
Nexpak Corporation ^(b)	2,182	2,176	2,121
Best Buy Co.	2,152	2,131	2,004
Career Education Corp.	2,079	2,018	1,967
Other ^(b) ^(c) ^(d) ^(e)	33,605	31,061	29,838
	<u>\$ 131,316</u>	<u>\$ 127,503</u>	<u>\$ 124,204</u>

(a) An expansion at this property was completed in July 2005.

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

(c) Includes lease revenues applicable to minority interests. Minority interests included in the consolidated amounts above total \$6,654, \$8,040 and \$7,975 for the years ended December 31, 2006, 2005 and 2004, respectively.

(d) Tenant operates in the automotive industry. Tower Automotive and Collins & Aikman both filed for Chapter 11 bankruptcy protection in 2005. Included in "Other" are lease revenues from American Tire Distributors, Inc. of \$1,807, \$1,715 and \$1,693 for the years ended December 31, 2006, 2005 and 2004, respectively and lease revenues from Meridian Automotive Systems, Inc. of \$1,254, \$1,216 and \$1,180 for the years ended December 31, 2006, 2005 and 2004, respectively.

(e) Includes lease revenues from properties acquired in the merger.

(f) Investment reclassified to an equity investment in November 2005 as a result of a transaction with CPA®:16 — Global, an affiliate.

We recognize income from equity investments in real estate of which lease revenues are a significant component. Our ownership interests range from 11.54% to 66.67%. Our share of net lease revenues in the following lease obligations is as follows:

	2006	2005	2004
True Value Company	\$ 5,246	\$ 5,065	\$ 5,065
Starmark Camhood, L.L.C. ^(a)	4,699	6,668	6,651
Advanced Micro Devices, Inc. ^(c)	3,774	3,484	3,259
Mercury Partners and U-Haul Moving Partners ^(b)	3,294	3,294	2,215
CheckFree Holdings, Inc.	2,302	2,247	2,180
Special Devices, Inc. ^(d)	1,976	2,088	2,039
Life Time Fitness, Inc. ^(a)	1,725	—	—
Compucom Systems, Inc. ^(c)	1,642	1,489	1,408
Textron, Inc. ^(d)	1,238	1,333	1,240
Dick's Sporting Goods, Inc. ^(e)	606	113	—
Other ^(f)	625	—	—
	<u>\$ 27,127</u>	<u>\$ 25,781</u>	<u>\$ 24,057</u>

(a) In 2006, the advisor approved a restructuring plan with Starmark. Amounts for Starmark exclude the operations of four properties that were transferred to a third party and reclassified as discontinued operations. Six properties were re-leased to Life Time Fitness, Inc. in June 2006. See Item 1 — Significant Developments During 2006 of our annual report on Form 10-K.

(b) Interest in this equity investment in real estate was acquired in April 2004.

(c) Additional interest in this equity investment in real estate acquired in the merger.

(d) Property is consolidated effective December 1, 2006 following acquisition of the remaining interest in the property in the merger.

(e) Investment reclassified to an equity investment in real estate in November 2005 as a result of a transaction with CPA®:16 — Global, an affiliate.

(f) Consists of our share of net lease revenues from equity investments in real estate acquired in the merger.

RESULTS OF OPERATIONS

On December 1, 2006, we acquired \$540,500 in real estate and equity investments in real estate in connection with the merger. In the merger, we acquired the remaining interests in two investments which had previously been classified as equity investments in real estate and now consolidate them on our financial statements. The results of operations for the year ended December 31, 2006 reflect the results of the properties acquired in the merger and the consolidation of these two investments for the period from December 1, 2006 through December 31, 2006 and are not necessarily indicative of future operating results.

Lease Revenues

2006 vs. 2005 — For the years ended December 31, 2006 and 2005, lease revenues (rental income and interest income from direct financing leases) increased by \$3,813. Rent increases at several properties and a new lease at an existing property contributed additional lease revenues of \$3,225. Lease revenues increased by \$2,331 as a result of the merger, including \$526 of lease revenues generated by two investments that we now consolidate following the merger. Lease revenues also benefited as a result of the moderately positive impact of fluctuations in average foreign currency exchange rates as compared to 2005. These increases were partially offset by reductions

of \$1,237 from the reclassification of a property leased to Dick's Sporting Goods to an equity investment in real estate and \$493 from a lease restructuring. We reclassified the Dick's Sporting Goods property as an equity investment in real estate in December 2005 in connection with an expansion transaction wherein CPA®:16 — Global, an affiliate, acquired a 55.1% interest in the property.

During 2006, our tenant Meridian Automotive Systems, which contributed \$1,254 in lease revenues during 2006, affirmed its lease with us and emerged from bankruptcy protection. Two additional tenants in automotive related industries, Tower Automotive and Collins and Aikman, which contributed a total of \$7,812 in lease revenues during 2006, continue to operate under bankruptcy protection. We cannot predict whether either company will affirm or terminate its lease in connection with its bankruptcy reorganization.

2005 vs. 2004 — For the years ended December 31, 2005 and 2004, lease revenues increased by \$3,299 primarily as a result of \$2,925 from rent increases at several properties. Rent from new leases and renewals at existing properties also contributed to the increase.

Revenue is subject to fluctuation because of lease expirations, lease terminations, the timing of new lease transactions and sales of property.

Depreciation and Amortization

2006 vs. 2005 — For the years ended December 31, 2006 and 2005, depreciation and amortization expense increased by \$4,729, primarily due to a \$3,730 depreciation charge incurred in the second quarter of 2006 related to the acceleration of depreciation upon the demolition of a Pennsylvania property in connection with its re-development. Depreciation and amortization expense also increased by \$984 as a result of the merger, including \$234 from two investments that we now consolidate following the merger.

2005 vs. 2004 — For the years ended December 31, 2005 and 2004, depreciation and amortization expense remained relatively unchanged with an increase of \$102.

Property Expense

2006 vs. 2005 — For the years ended December 31, 2006 and 2005, property expense decreased by \$1,566 primarily due to a decrease in property related expenses totaling \$767, reductions in asset management and performance fees of \$624, and to a lesser extent, reductions in reimbursable tenant costs. The decrease in property related expenses resulted primarily from leasing activity during 2006 at several properties which were partially vacant in 2005.

Asset management and performance fees declined as a result of an overall reduction in our 2005 portfolio valuation, primarily due to our automotive industry tenants who filed voluntary petitions of bankruptcy in 2005. The amount of asset management and performance fees payable to the advisor is based on the annual third party valuation of our portfolio. We expect that the 2006 valuation, and the amount of asset management and performance fees payable to the advisor, will increase as a result of the acquisition of properties in the merger and the emergence of one of the automotive tenants from bankruptcy during 2006.

2005 vs. 2004 — For the years ended December 31, 2005 and 2004, property expense increased by \$2,190 primarily due to an increase in asset management and performance fees of \$1,030, an increase in reimbursable tenant costs of \$948, professional fees and other costs totaling \$185 related to two underperforming properties and a \$188 repair expenditure at a property in California. Actual recoveries of reimbursable tenant costs are recorded as both revenue and expense and therefore have no impact on net income.

The increase in the asset management and performance fees paid to the advisor are a result of increases in property values pursuant to the annual third party valuation of our portfolio as of December 31, 2004. We

incurred legal and other costs in 2005 related to properties leased to Collins & Aikman and Tower Automotive as both tenants filed for bankruptcy protection in 2005.

Income from Equity Investments in Real Estate

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

2006 vs. 2005 — For the years ended December 31, 2006 and 2005, income from equity investments in real estate increased by \$11,612, primarily due to the net positive impact of two property sales, which was partially offset by the impact of the Starmark transaction. Income from equity investments in real estate benefited from the recognition of our pro rata share of gains on the sale of properties in New York and California totaling \$23,620 and lease termination income related to the Starmark transaction of \$4,561. New equity investments in real estate acquired in the merger also contributed \$955 of the increase. These increases were partially offset by the impact of recognition of our pro rata share of the impairment charges related to the Starmark properties of \$10,241, by prepayment costs and defeasance penalties totaling \$6,216 incurred in connection with the repayment/defeasance of the mortgages on the Starmark properties and the New York and California property sales and a reduction of \$1,387 as a result of the Starmark transaction and property sales.

2005 vs. 2004 — For the years ended December 31, 2005 and 2004, income from equity investments in real estate increased by \$1,494 primarily due to \$743 from rent increases at several properties, \$456 from the full-year effect of an acquisition in April 2004 of an 11.54% interest in a limited partnership which purchased 78 self-storage and truck leasing facilities leased under the U-Haul brand name and \$92 from the reclassification of our investment in Dick's Sporting Goods.

Gain (Loss) on Derivative Instruments and Other Gains, Net

From time to time, we may obtain equity enhancements in connection with transactions which may involve warrants exercisable at a future time to purchase stock of the tenant or borrower or their parent. 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.

2006 vs. 2005 — For the years ended December 31, 2006 and 2005, gain on derivative instruments and other gains, net decreased by \$3,196 primarily as a result of a decrease in realized and unrealized gains on common stock warrants. During 2006, we recognized an unrealized gain on common stock warrants in Compucom Systems, Inc. of \$2,076 due to Compucom's improved financial results, as compared with unrealized gains of \$2,548 and realized gains of \$2,192 on common stock warrants in PW Eagle, Inc. and American Tire Distributors, Inc., respectively, recognized in 2005 (see below).

2005 vs. 2004 — For the years ended December 31, 2005 and 2004, gain on derivative instruments and other gains, net increased by \$6,259 primarily as a result of realized and unrealized gains on common stock warrants and a change in the value of an interest rate swap. In April 2005, we recognized a realized gain of \$2,192 on common stock warrants as a result of the completion of a redemption transaction by American Tire Distributors. We recognized an unrealized gain of \$2,548 in 2005 on common stock warrants in PW Eagle as the result of increases in PW Eagle's stock price. In December 2005 we exercised our option to convert the PW Eagle warrants into

common stock. During 2005, we recognized an unrealized gain of \$426 on an interest rate swap contract that does not qualify as a hedge for financial accounting purposes, as compared with a \$655 unrealized loss in 2004.

Gain (Loss) on Foreign Currency Transactions, Net

We have foreign operations in Europe and the United Kingdom which are subject to the effects of exchange rate movements of the Euro and the British pound sterling. For these currencies we are a net receiver of the foreign currency (we receive more cash than we pay out) and therefore our foreign investments benefit from a weaker U.S. dollar and are adversely affected by a stronger U.S. dollar relative to the foreign currency. We recognize realized foreign currency translation gains (losses) upon the repatriation of cash from our foreign investments and recognize unrealized foreign currency translation gains (losses) due to changes in foreign currency on accrued interest receivable on notes receivable from wholly-owned subsidiaries.

2006 vs. 2005 — For the year ended December 31, 2006 and 2005, we recognized a gain on foreign currency transactions, net, of \$930 as compared with a loss of \$446 in 2005. This change is primarily due to increases in unrealized gains on foreign currency as the result of the moderate weakening of the U.S. dollar since December 31, 2005, as compared with its strengthening during the comparable 2005 period.

2005 vs. 2004 — For the year ended December 31, 2005, we recognized a net loss on foreign currency transactions of \$446 as compared with a gain of \$1,438 for the year ended December 31, 2004. The loss was primarily due to the strengthening of the U.S. dollar during 2005 and was partially offset by realized gains on the transfer of cash from foreign subsidiaries.

Interest Expense

2006 vs. 2005 — For the years ended December 31, 2006 and 2005, interest expense decreased by \$1,162. The payoff of mortgage balances during 2005 and 2006 resulted in a decrease of \$1,208, including a \$784 prepayment penalty incurred in 2005 (see below), while scheduled mortgage principal payments resulted in a decrease of \$1,013. These decreases were partially offset by additional interest expense totaling \$883 on properties acquired in the merger.

2005 vs. 2004 — For the years ended December 31, 2005 and 2004, interest expense decreased by \$234 primarily from paying scheduled principal payments, prepayment of mortgage principal obligations and defeasance of the Dick's Sporting Goods mortgage. These decreases were partially offset by a charge on extinguishment of debt of \$784 in the fourth quarter of 2005 in connection with the defeasance of the mortgage on the Dick's Sporting Goods property.

Income from Discontinued Operations

2006 — For 2006, we recognized income from discontinued operations of \$11,538, primarily due to the recognition of a net gain of \$13,182 on the sale of a properties in Minnesota and Indiana, partially offset by prepayment penalties incurred totaling \$1,586 in connection with the prepayment of the mortgage financing on the Minnesota property.

2005 — For 2005, we recognized income from discontinued operations of \$924 related to the results of operations of properties in Indiana, California and Minnesota, including a gain of \$196 on the sale of the California property.

2004 — For 2004, we recognized income from discontinued operations of \$989 related to the results of operations of properties in Indiana, California and Minnesota.

Net Income

2006 vs. 2005 — For the years ended December 31, 2006 and 2005, net income increased by \$22,369, primarily due to the recognition of gains on the sale of real estate totaling \$36,802, including our pro rata share of two investments accounted for under the equity method, and our pro rata share of lease termination income of \$4,561 related to the Starmark transaction. These increases were partially offset by the recognition of our pro rata share of an impairment charge on the Starmark properties of \$10,241 and our pro rata share of prepayment penalties and defeasance costs totaling \$6,216, incurred in connection with the sale of properties accounted for under the equity method. These variances are described above.

2005 vs. 2004 — For the years ended December 31, 2005 and 2004, net income increased \$8,309, primarily due to increases in lease revenue and income from equity investments in real estate totaling \$4,793 and a \$6,259 increase in gain (loss) on derivative instruments and other gains, net. These increases were partially offset by an increase in property expense of \$2,190. These variances are described above.

FINANCIAL CONDITION*Uses of Cash During the Year*

Cash and cash equivalents totaled \$18,991 as of December 31, 2006, a decrease of \$18,880 from the December 31, 2005 balance. We believe that we have sufficient cash balances to meet our working capital needs. Our sources and use of cash during 2006 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. For the year ended December 31, 2006, cash flows from operating activities of \$102,232 were sufficient to fund distributions to shareholders of \$83,633, meet scheduled principal payment installments on mortgage debt of \$12,580 and distribute \$3,869 to minority partners. In 2006, cash flows from operating activities increased significantly over 2005, primarily due to an increase in our net income following the recognition of gains on the sale of two properties accounted for under the equity method (see Results of Operations above). Distributions to shareholders also increased significantly over 2005, primarily as a result of special distributions totaling \$0.49 per share or \$33,609 that were paid to shareholders out of proceeds received on property sales in 2006.

Investing Activities

Our investing activities are generally comprised of real estate transactions (purchases and sales), payment of our annual installment of deferred acquisition fees and capitalized property-related costs. Our investment activity in 2006 was primarily comprised of our merger with CPA[®]:12 and the disposition of several investments. In connection with the merger, we used \$102,176 to redeem the interests of CPA[®]:12 shareholders who elected to receive cash and assumed a cash overdraft of \$3,950 from CPA[®]:12 resulting from its payment of obligations to its shareholders. In addition to our merger related activity, we received \$84,934 in capital distributions from equity investments in real estate, including \$44,610 related to the sale of the New York property, \$37,176 from mortgage refinancings at a property in Georgia and the former Starmark properties that were re-leased to Life Time Fitness, Inc. and \$3,148 related to our pro rata share of the release of security deposits and prepaid rent from the former Starmark properties which will primarily be used to fund improvements at certain properties formerly

leased by Starmark. Of these amounts, \$81,788 represents distributions in excess of cumulative income from equity investments in real estate. During 2006, we received proceeds of \$37,628 from the sales of properties in Minnesota and Indiana. Of these proceeds, funds of \$21,741 were placed in a restricted account for use in a potential future investment on a tax-deferred basis, but were subsequently released as the contemplated investment was not consummated. In addition, we received net proceeds of \$2,986 from the sale of our holdings in PW Eagle, Inc. common stock. During 2006, we also contributed \$45,481 to the Starmark venture to fund our pro rata share of the payoff/defeasance of the existing limited recourse mortgage obligation and related prepayment penalties and debt defeasance costs. The annual installment of deferred acquisition fees is paid to the advisor each January and was \$3,514 in 2006.

Financing Activities

In addition to making scheduled mortgage principal payments, paying distributions to shareholders and minority partners, we prepaid mortgage obligations totaling \$24,167 during 2006, including \$11,631 in connection with the sale of a Minnesota property, \$3,859 for the defeasance of the mortgage at a Pennsylvania property and \$8,677 for the payoff of the mortgage at a Virginia property, which we subsequently refinanced for \$12,000. During 2006, we used gross borrowings under our credit facility of \$28,000 primarily to repay a short-term loan from the advisor of \$24,000 that we obtained in order to facilitate the merger closing. Gross repayments under the credit facility were \$3,000. We also received \$10,766 as a result of issuing shares through our Distribution Reinvestment and Share Purchase Plan and used \$9,186 to purchase treasury shares through a redemption plan which allows shareholders to sell shares back to us, subject to certain limitations.

We hold a participation in a mortgage pool consisting of \$172,335 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 of \$24,129 in which we own a 25% interest, and we acquired an additional 30% interest in the subordinated interests from CPA®:12 in connection with the merger. 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, 2006, there have been no defaults.

Summary of Financing

The table below summarizes our mortgage notes payable as December 31, 2006 and 2005, respectively.

	December 31,	
	2006	2005
BALANCE		
Fixed rate	\$ 657,819	\$ 636,523
Variable rate ^{(1) (2)}	152,996	26,575
Total	<u>\$ 810,815</u>	<u>\$ 663,098</u>
PERCENT OF TOTAL DEBT		
Fixed rate	81%	96%
Variable rate ⁽²⁾	19%	4%
	<u>100%</u>	<u>100%</u>
WEIGHTED AVERAGE INTEREST RATE AT END OF PERIOD		
Fixed rate	7.65%	7.37%
Variable rate ⁽¹⁾	6.44%	5.28%

(1) Includes amounts outstanding under our credit facility totaling \$25,000 at December 31, 2006.

(2) Included in variable rate debt at December 31, 2006 is (i) \$43,376 in aggregate principal of our credit facility (\$25,000) and variable rate mortgages (\$18,376) which have not been hedged; (ii) \$97,698 in mortgage obligations which currently bear interest at fixed rates but which convert to variable rates during their term and (iii) \$11,922 in mortgage obligations which are currently fixed rate but which have interest rate reset features which may change the interest rates to then prevailing market fixed rates at certain points in their term.

Cash Resources

As of December 31, 2006, our cash resources consisted of the following:

- Cash and cash equivalents totaling \$18,991, of which \$7,981, at current exchange rates, was held in foreign bank accounts to maintain local capital requirements;
- Credit facility with unused capacity of up to \$125,000; and
- Unleveraged properties with a carrying value of \$96,488, subject to meeting certain financial ratios on our credit facility.

Our cash resources can be used for working capital needs and other commitments and may be used for future investments. We continue to evaluate fixed-rate financing options, such as obtaining limited recourse financing on our unleveraged properties. Any financing obtained may be used for working capital objectives and may be used to pay down existing debt balances.

Credit Facility

In connection with the merger, we entered into a \$150,000 credit facility with Wells Fargo Bank in November 2006. The credit facility provides for an initial three year term and an annual interest rate of either (i) LIBOR plus a spread which ranges from 135 to 160 basis points depending on our leverage or (ii) the greater of the bank's prime rate and the Federal Funds Effective Rate, plus 0.50%, plus a spread of up to 0.125% depending on our leverage ratio. The credit facility is guaranteed by our current and future subsidiaries that own unencumbered assets. The credit facility has financial covenants that require, among other things, us to maintain a minimum equity value and to meet or exceed certain operating and coverage ratios. We are in compliance with these covenants as of December 31, 2006. The facility also provides us with the right, on up to two occasions, to increase the amount available under the credit facility by not less than \$20,000 and not more than \$75,000 up to a maximum of \$225,000.

We expect cash flows from operating activities to be affected by several factors in 2007 including:

- The full year impact from properties acquired in the merger, which we estimate will generate annual lease revenue and cash flow of approximately \$21,600 and \$12,000, respectively, and annual equity investment income of approximately \$4,700. There are no scheduled balloon payments on any of the properties acquired from CPA®:12 until 2008.
- The advisor's election in 2007 to continue to receive performance fees in restricted shares.
- Scheduled rent increases on several properties during 2006 and 2007 should result in additional cash from operations.
- The full year impact of dispositions completed in 2006 which will reduce cash flow in 2007.

Cash Requirements

During 2007, cash requirements will include scheduled mortgage principal payment installments and paying distributions to shareholders and minority partners as well as other normal recurring operating expenses. We have no balloon payments due until 2008, when a total of \$17,649 in balloon payments will be due. We may also seek

to use our cash resources to make new investments to further diversify our portfolio, and expect to maintain cash balances sufficient to meet working capital needs.

Aggregate Contractual Agreements

The table below summarizes our contractual obligations as of December 31, 2006 and the effect that such obligations are expected to have on our liquidity and cash flow in future periods.

	Total	Less than 1 Year	1—3 Years	3—5 Years	More than 5 years
Mortgage notes payable — Principal	\$ 785,815	\$ 16,707	\$ 117,377	\$ 376,219	\$ 275,512
Mortgage notes payable — Interest ⁽¹⁾	297,648	58,260	109,416	83,308	46,664
Credit facility — Principal	25,000	—	25,000	—	—
Credit facility — Interest ⁽¹⁾	4,958	1,700	3,258	—	—
Deferred acquisition fees — Principal	15,644	4,369	7,106	3,631	538
Deferred acquisition fees — Interest	2,548	1,000	1,130	377	41
Subordinated disposition fees ⁽²⁾	3,507	—	—	—	3,507
Property improvements ⁽³⁾	11,200	5,600	5,600	—	—
Operating leases ⁽⁴⁾	6,650	544	1,315	1,361	3,430
	<u>\$ 1,152,970</u>	<u>\$ 88,180</u>	<u>\$ 270,202</u>	<u>\$ 464,896</u>	<u>\$ 329,692</u>

(1) Interest on variable rate debt obligations was calculated using the applicable variable interest rate as of December 31, 2006.

(2) Payable to the advisor, subject to meeting contingencies, in connection with any liquidity event.

(3) Represents our pro rata share of landlord improvements on the Life Time properties (see Item 1 — Significant Developments During 2006 of our annual report on Form 10-K). We acquired an additional 15% interest in these properties in the merger.

(4) Operating lease obligations consist primarily of 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. Such amounts are allocated among the entities based on gross revenues and are adjusted quarterly.

Amounts in the table above related to our foreign operations are based on the exchange rate of the local currencies as of December 31, 2006.

As of December 31, 2006, we have no material capital lease obligations for which we are the lessee, either individually or in the aggregate.

In connection with the purchase of our properties, we require 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 either leakage from underground storage tanks, surface spills from facility activities 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 which 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 the 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 matter should not have a material adverse effect on our financial condition, liquidity or results of operations.

Subsequent Events

In January 2007, we obtained limited recourse mortgage financing on existing properties totaling \$26,227, including our pro rata share of mortgage financing on a property accounted for under the equity method. The financing has a weighted average interest rate and term of 5.84% and 12 years, respectively.

Effective April 2, 2007, Trevor Bond is resigning from our board of directors in connection with his appointment to the advisor's board of directors. Marshall Blume was appointed as an independent director of our board of directors, effective April 2, 2007.

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 as either real estate under operating leases or net investment in direct financing leases at the inception of a lease or when significant lease terms are amended. 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. 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 which 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 of 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 other liabilities in the accompanying financial statements.

The value attributed to tangible assets is determined in part using a discount 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 as it 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 assessment of the risk associated with the lease acquired. If we acquire properties subject to net leases, we 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 quality, 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, are 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

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. 46(R), “Consolidation of Variable Interest Entities” (“FIN 46(R)"). 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 which 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) 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 which 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 June 2005, the Emerging Issues Task Force issued EITF 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 limited to limited partnerships or similar entities that are not variable interest entities under FIN 46(R). The Task Force 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 shall account for its investment in the limited partnership using the equity method of accounting. We adopted EITF 04-05 in June 2005 for all arrangements created or modified after June 29, 2005. For all other arrangements, we adopted EITF 04-05 on January 1, 2006. The adoption of EITF 04-05 had no impact on our financial position or results of operations. Upon completion of the merger, we acquired additional interests in certain limited liability companies and limited partnerships such that our ownership interests now exceed 50% and we exercise significant influence. Because our venture partners, which are affiliates, are the managing members or general partners in the limited partnerships or limited liability companies, respectively and no unaffiliated parties have substantive kick-out or participation rights, the venture partners are required to consolidate the investments under the provisions of EITF 04-05 and, therefore, we account for these investments under the equity method of accounting. All material inter-entity transactions have been eliminated.

Impairments

Impairment charges may be recognized on long-lived assets, including but not limited to, real estate, direct financing leases, equity investments in real estate and assets held for sale. 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, it is different from the risks related to leasing and managing multi-tenant properties. Events or changes in circumstances can result in further noncash 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 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. While an evaluation of potential impairment of real estate subject to operating leases 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.

Investments in unconsolidated ventures are accounted for under the equity method and are recorded initially at cost as equity investments in real estate and are 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 impairment has occurred, the charge is measured as the excess of the carrying amount of the investment over the fair value of the investment.

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 a valuation allowance is established. To the extent that a purchase and sale agreement has been entered into, the allowance 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 valuation for subsequent changes in the fair value less cost to sell and will recognize an additional impairment charge or a gain (not to exceed the cumulative loss previously recognized.) 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.

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 (24 lessees represented 74% of lease revenue during 2006), 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 Assets and Liabilities

In 2002, we acquired a subordinated interest in a mortgage trust that consists of limited recourse loans on 62 properties that we own or two of our affiliates own. We acquired an additional interest in the mortgage trust in the merger. 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.

Income Taxes

We have elected and expect to continue 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 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 to the extent we distribute our net taxable income annually to our shareholders. Accordingly, no provision for U.S. federal income taxes is included in the accompanying consolidated financial statements. We have and intend to continue to operate so that we 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 are subject to certain state, local and foreign taxes. State, local, franchise and other taxes of \$57, \$434 and \$595 are included in general and administrative expenses for the years ended December 31, 2006, 2005 and 2004, respectively.

Recent Accounting Pronouncements

EITF 04-05

We adopted EITF 04-05 in June 2005 for all limited partnerships created after June 29, 2005 and on January 1, 2006 for all other arrangements. Refer to Basis of Consolidation above for a discussion of the effect of EITF 04-05 on our financial position and results of operations.

FSP FAS 13-1

In October 2005, the FASB issued Staff Position No. 13-1 "Accounting for Rental Costs Incurred during a Construction Period" ("FSP FAS 13-1"). FSP FAS 13-1 addresses the accounting for rental costs associated with operating leases that are incurred during the construction period. FSP FAS 13-1 makes no distinction between the right to use a leased asset during the construction period and the right to use that asset after the construction period. Therefore, rental costs associated with ground or building operating leases that are incurred during a construction period shall be recognized as rental expense, allocated over the lease term in accordance with SFAS No. 13 and Technical Bulletin 85-3. We adopted FSP FAS 13-1 as required on January 1, 2006 and the initial application of this Staff Position did not have a material impact on our financial position or results of operations.

SFAS 155

In February 2006, the FASB issued Statement No. 155, “Accounting for Certain Hybrid Financial Instruments an Amendment of FASB No. 133 and 140” (“SFAS 155”). The purpose of SFAS 155 is 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 must adopt SFAS 155 effective January 1, 2007 and do not believe that this adoption will have a material impact on our financial position or results of operations.

FIN 48

In July 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109” (“FIN 48”), which clarifies the accounting for uncertainty in income tax positions. This Interpretation requires that the Company recognize in its consolidated financial statements the impact of a tax position that is more likely than not to be sustained upon examination based on the technical merits of the position. We must adopt FIN 48 effective January 1, 2007. We are currently evaluating the impact of adopting FIN 48 on our consolidated financial statements.

SAB 108

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.” SAB 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements.

Traditionally, there have been two widely-recognized methods for quantifying the effects of financial statement misstatements: the “rollover” method and the “iron curtain” method. The rollover method focuses primarily on the impact of a misstatement on the income statement — including the reversing effect of prior year misstatements — but its use can lead to the accumulation of misstatements in the balance sheet. The iron curtain method, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. We currently use the iron curtain method for quantifying identified financial statement misstatements.

In SAB 108, the SEC staff established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the Company’s financial statements and the related financial statement disclosures. This model is commonly referred to as a “dual approach” because it requires quantification of errors under both the iron curtain and rollover methods. SAB 108 permits existing public companies to initially apply its provisions either by (i) restating prior financial statements as if the “dual approach” had always been used or (ii) recording the cumulative effect of initially applying the “dual approach” as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings. Use of the “cumulative effect” transition method requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose. We adopted SAB 108 using the cumulative effect transition method in connection with the preparation of our annual financial statements for the year ending December 31, 2006. The adoption of SAB 108 had no impact on our financial position or results of operations.

SFAS 157

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 provides guidance for using fair value to measure assets and liabilities. This statement clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability. SFAS 157 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data. SFAS 157 applies whenever other standards require assets or liabilities to be measured at fair value. This statement is effective for our 2008 fiscal year, although early adoption is permitted. We believe that the adoption of SFAS 157 will not have a material effect on our financial position or results of operations.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In thousands

MARKET RISKS

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates and equity prices. In pursuing our business plan, the primary risks to which we are exposed are interest rate risk and foreign currency exchange risk.

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 agreements with lenders which effectively convert the variable rate debt service obligations of the loan to a fixed rate. These interest rate swaps are derivative instruments designated as cash flow hedges on the forecasted interest payments on the debt obligation. Interest rate swaps 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. As of December 31, 2006, neither we nor our venture partners have entered into any interest rate swaps.

Our objective in using derivatives is to limit our exposure to interest rate movements. We do not use derivative instruments to hedge foreign exchange rate risk exposure, credit/market risks or for speculative purposes.

Because we transact business in Finland, France, the Netherlands and the United Kingdom, we are also exposed to foreign exchange rate movements. We manage foreign exchange rate movements by generally placing both our debt obligation to the lender and the tenant's rental obligation to us in the local currency.

Interest Rate Risk

The value of our real estate and related fixed 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 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 owned and managed assets to decrease, which would create lower revenues from managed assets lower investment performance for the managed funds. Increases in interest rates may also have an impact on the credit quality 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/or economic downturn, loan defaults could increase and result in us recognizing 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 own marketable securities through our ownership interests in Carey Commercial Mortgage Trust ("CCMT"). The value of the marketable securities is subject to fluctuation based on changes in interest rates, economic conditions and the creditworthiness of lessees at the mortgaged properties. We acquired an additional interest in the CCMT valued at \$7,346 on December 1, 2006 in connection with the merger. As of December 31, 2006, our total interests in CCMT had a fair value of \$13,911. We also own marketable equity securities of

Core-Mark Holding Company, Inc., which based on its quoted per share price had a fair value of \$296 as of December 31, 2006. Warrants issued to us by Consolidated Theaters Holding, G.P., Compucom Systems, Inc., Vermont Teddy Bear Company and Fitness Ventures are classified as derivative instruments and had an aggregate fair value of \$4,338 and \$665 at December 31, 2006 and 2005, respectively.

The following table presents principal cash flows based upon expected maturity dates and scheduled amortization payments of our debt obligations and the related weighted-average interest rates by expected maturity dates for the fixed rate debt. Annual interest rates on fixed rate debt as of December 31, 2006 ranged from 5.15% to 9.38%. The interest rates on our variable rate debt as of December 31, 2006 ranged from 5.15% to 7.32%.

	2007	2008	2009	2010	2011	Thereafter	Total	Fair value
Fixed rate debt	\$ 12,276	\$ 30,485	\$ 77,238	\$ 83,840	\$ 281,623	\$ 172,357	\$ 657,819	\$ 657,107
Weighted average interest rate	7.50%	7.14%	8.30%	8.04%	7.49%	7.49%		
Variable rate debt	\$ 4,431	\$ 4,713	\$ 29,941	\$ 5,253	\$ 5,503	\$ 103,155	\$ 152,996	\$ 152,996

As more fully described in Summary of Financing above, our current variable rate debt obligations include some obligations which are currently subject to variable interest rates, some obligations which may convert to variable interest rates during their term and some that reset to then-prevailing market fixed rates at certain points in their term. Based on our current unhedged exposure to variable rates in the next twelve months, annual interest expense from variable rate debt would increase or decrease by approximately \$1,530 for each change of 1% in annual interest rates. A change in interest rates of 1% would increase or decrease by an aggregate of \$23,635 the combined fair value of our fixed rate debt and our mortgage obligations which currently bear interest at fixed rates but which may convert to variable rates during their term or have interest rate reset features which may change the interest rates to then prevailing market fixed rates at certain points in their term.

Foreign Currency Exchange Rate Risk

We have foreign operations in the United Kingdom, Finland, France and the Netherlands and as such are subject to risk from the effects of exchange rate movements of foreign currencies, which may affect future costs and cash flows. Our foreign operations for the preceding year were conducted in the Euro and the British pound sterling. For these currencies we are a net receiver of the foreign currency (we receive more cash than we pay out) and therefore our foreign investments benefit from a weaker U.S. dollar and are adversely affected by a stronger U.S. dollar relative to the foreign currency. Net realized foreign currency translation gains were \$417, \$334 and \$1,357 for the years ended December 31, 2006, 2005 and 2004, respectively and net unrealized foreign currency translation gains (losses) were \$513, (\$775) and \$90 for the years ended December 31, 2006, 2005 and 2004, respectively. Such gains and losses are included in the accompanying consolidated financial statements and are primarily due to changes in 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 limited 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. For the year ended December 31, 2006, Carrefour France SAS, which leases properties in France, contributed 11.5% of lease

revenues. The leverage on the limited recourse financing of the Carrefour investment is higher than the average leverage on our domestic real estate investments.

During each of the next five years following December 31, 2006 and thereafter, scheduled future minimum rents, exclusive of renewals, under non-cancelable leases resulting from our foreign operations are as follows:

Lease Revenues ⁽¹⁾	2007	2008	2009	2010	2011	Thereafter	Total
Euro	\$ 19,359	\$ 19,359	\$ 19,359	\$ 19,359	\$ 11,809	\$ 53,964	\$ 143,209
British pound sterling	1,357	1,357	1,357	1,482	1,482	38,357	45,392
	<u>\$ 20,716</u>	<u>\$ 20,716</u>	<u>\$ 20,716</u>	<u>\$ 20,841</u>	<u>\$ 13,291</u>	<u>\$ 92,321</u>	<u>\$ 188,601</u>

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

Debt Service ^{(1) (2)}	2007	2008	2009	2010	2011	Thereafter	Total
Euro	\$ 13,671	\$ 13,696	\$ 13,605	\$ 13,579	\$ 34,237	\$ 106,433	\$ 195,221
British pound sterling	557	560	561	561	563	9,524	12,326
	<u>\$ 14,228</u>	<u>\$ 14,256</u>	<u>\$ 14,166</u>	<u>\$ 14,140</u>	<u>\$ 34,800</u>	<u>\$ 115,957</u>	<u>\$ 207,547</u>

(1) Based on the applicable December 31, 2006 exchange rate. Contractual rents and debt obligations are denominated in the functional currency of the country of each property.

(2) Interest on variable rate debt obligations was calculated using the applicable variable interest rate as of December 31, 2006.

As a result of statutory lease durations in France and two balloon payments due in 2011 totaling \$21,500, projected debt service obligations exceed projected lease revenues in the years 2011 and thereafter. We currently expect the impact from future lease renewals, including any renewals on our properties in France, will be sufficient to cover our debt service obligations in those years.

**REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of Corporate Property Associates 14 Incorporated:

In our opinion, the consolidated balance sheets and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Corporate Property Associates 14 Incorporated and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 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 22, 2007

CONSOLIDATED BALANCE SHEETS*In thousands, except share and per share amounts*

	December 31,	
	2006	2005
ASSETS		
Real estate, net	\$ 1,154,336	\$ 943,637
Net investment in direct financing leases	137,147	115,513
Equity investments in real estate	200,332	143,417
Cash and cash equivalents	18,991	37,871
Marketable securities	14,207	9,267
Intangible assets, net	92,447	—
Other assets, net	57,863	45,331
Total assets	<u>\$ 1,675,323</u>	<u>\$ 1,295,036</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Limited recourse in mortgage notes payable	\$ 785,815	\$ 663,098
Credit facility	25,000	—
Accrued interest	5,285	4,358
Accounts payable, accrued expenses and other liabilities	8,636	5,887
Due to affiliates	9,587	4,894
Prepaid and deferred rental income and security deposits	30,924	20,296
Deferred acquisition fees payable to affiliate	15,644	16,424
Distributions payable	17,327	13,103
Total liabilities	<u>898,218</u>	<u>728,060</u>
Minority interest in consolidated entities	19,465	25,012
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Common stock, \$0.001 par value; 120,000,000 shares authorized; 90,514,607 and 70,308,710 shares issued and outstanding, respectively	90	70
Additional paid-in capital	874,370	636,009
Distributions in excess of accumulated earnings	(99,405)	(81,166)
Accumulated other comprehensive income	11,801	7,080
	<u>786,856</u>	<u>561,993</u>
Less, treasury stock at cost, 2,861,902 and 2,028,584 shares, respectively	(29,216)	(20,029)
Total shareholders' equity	<u>757,640</u>	<u>541,964</u>
Total liabilities, minority interest and shareholders' equity	<u>\$ 1,675,323</u>	<u>\$ 1,295,036</u>

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

CONSOLIDATED STATEMENTS OF INCOME*In thousands, except share and per share amounts*

	For the years ended December 31,		
	2006	2005	2004
REVENUES			
Rental income	\$ 116,963	\$ 113,391	\$ 110,774
Interest income from direct financing leases	14,353	14,112	13,430
Other operating income	3,876	4,407	3,567
	<u>135,192</u>	<u>131,910</u>	<u>127,771</u>
OPERATING EXPENSES			
Depreciation and amortization	(27,834)	(23,105)	(23,003)
Property expense	(22,905)	(24,471)	(22,281)
General and administrative	(6,758)	(6,371)	(6,150)
	<u>(57,497)</u>	<u>(53,947)</u>	<u>(51,434)</u>
OTHER INCOME AND EXPENSES			
Income from equity investments in real estate	27,410	15,798	14,304
Other interest income	3,104	2,232	1,239
Minority interest in income	(1,956)	(2,153)	(1,805)
Gain (loss) on derivative instruments and other gains, net	2,344	5,540	(719)
Gain (loss) on foreign currency transactions, net	930	(446)	1,438
Interest expense	(51,447)	(52,609)	(52,843)
	<u>(19,615)</u>	<u>(31,638)</u>	<u>(38,386)</u>
Income from continuing operations	<u>58,080</u>	<u>46,325</u>	<u>37,951</u>
DISCONTINUED OPERATIONS			
(Loss) income from operations of discontinued properties	(1,644)	728	989
Gain on sale of real estate, net	13,182	196	—
Income from discontinued operations	<u>11,538</u>	<u>924</u>	<u>989</u>
Net Income	<u>\$ 69,618</u>	<u>\$ 47,249</u>	<u>\$ 38,940</u>
EARNINGS PER SHARE			
Income from continuing operations	\$ 0.83	\$ 0.68	\$ 0.56
Income from discontinued operations	0.16	0.01	0.02
Net income	<u>\$ 0.99</u>	<u>\$ 0.69</u>	<u>\$ 0.58</u>
Distributions Declared Per Share	<u>\$ 0.7711</u>	<u>\$ 0.7646</u>	<u>\$ 0.7592</u>
Weighted Average Shares Outstanding	<u>70,421,426</u>	<u>68,208,208</u>	<u>67,447,812</u>

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
In thousands

	For the years ended December 31,		
	2006	2005	2004
Net income	\$ 69,618	\$ 47,249	\$ 38,940
Other comprehensive income:			
Foreign currency translation adjustment	4,269	(5,745)	2,254
Change in unrealized gain (loss) on marketable securities	452	(796)	217
	4,721	(6,541)	2,471
Comprehensive income	\$ 74,339	\$ 40,708	\$ 41,411

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended December 31, 2006, 2005 and 2004

In thousands, except share and per share amounts

	Common Stock	Additional Paid-in Capital	Distribution in Excess of Accumulated Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at January 1, 2004	\$ 68	\$ 606,380	\$ (64,036)	\$ 11,150	\$ (7,133)	\$ 546,429
1,287,321 shares issued \$.001 par, at \$11.30 per share, net of offering costs	1	13,986				13,987
Distributions declared			(51,205)			(51,205)
Net income			38,940			38,940
Change in other comprehensive income				2,471		2,471
Repurchase of 388,848 shares					(3,924)	(3,924)
Balance at December 31, 2004	69	620,366	(76,301)	13,621	(11,057)	546,698
1,326,687 shares issued \$.001 par, at \$12.10 per share, net of offering costs	1	15,643				15,644
Distributions declared			(52,114)			(52,114)
Net income			47,249			47,249
Change in other comprehensive income				(6,541)		(6,541)
Repurchase of 837,094 shares					(8,972)	(8,972)
Balance at December 31, 2005	70	636,009	(81,166)	7,080	(20,029)	541,964
1,735,546 shares issued \$.001 par, at \$12.40 and \$11.85 per share, net of offering costs	2	19,505				19,507
18,470,351 shares issued in connection with the CPA®:12 merger, \$.001 par, at \$11.85 per share	18	218,856				218,874
Distributions declared			(87,857)			(87,857)
Net income			69,618			69,618
Change in other comprehensive income				4,721		4,721
Repurchase of 833,318 shares					(9,187)	(9,187)
Balance at December 31, 2006	\$ 90	\$ 874,370	\$ (99,405)	\$ 11,801	\$ (29,216)	\$ 757,640

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands

	For the years ended December 31,		
	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 69,618	\$ 47,249	\$ 38,940
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization, including intangible assets and deferred financing costs	29,366	24,597	24,642
Straight-line rent adjustments	(2,344)	(3,173)	(4,349)
Income (loss) from equity investments in real estate in excess of distributions received	8,989	30	(1,162)
Minority interest in income	1,956	2,153	1,805
Issuance of shares to affiliate in satisfaction of fees due	8,741	8,947	8,289
Increase (decrease) in prepaid and deferred rental income and security deposits	1,973	(2,232)	2,584
Realized gain on foreign currency transactions, net	(417)	(334)	(1,357)
Unrealized (gain) loss on foreign currency transactions, net	(513)	780	(81)
Realized loss (gain) on sale of securities and warrants	158	(2,192)	—
Reversal of unrealized (loss) gain on warrants and derivatives	(229)	7	—
Unrealized (gain) loss on warrants and derivatives, net	(2,273)	(3,086)	719
Gain from sale of real estate	(13,182)	(465)	—
Settlement proceeds received in the form of marketable securities	—	(223)	—
Change in other operating assets and liabilities, net	389	(1,163)	560
Net cash provided by operating activities	<u>102,232</u>	<u>70,895</u>	<u>70,590</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Equity distributions received in excess of equity income in real estate	81,788	1,837	2,412
Cash payments to shareholders of acquired company	(102,176)	—	—
Cash overdraft assumed in acquisition of CPA®:12's business operations	(3,950)	—	—
Capital contributions to equity investments in real estate	(45,481)	—	—
Purchases of real estate and equity investments and other capitalized costs, net ^(a)	(1,085)	(3,279)	(17,195)
Proceeds from sale of real estate	37,628	5,808	—
Funds placed in restricted account for future investment	(21,741)	—	—
Funds released from restricted account	21,741	—	—
Purchase of securities	—	—	(10,825)
Proceeds from sale of securities	2,986	9,432	19,775
Payment of deferred acquisition fees to an affiliate	(3,514)	(3,420)	(3,266)
Net cash (used in) provided by investing activities	<u>(33,804)</u>	<u>10,378</u>	<u>(9,099)</u>

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

(Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands

CASH FLOWS FROM FINANCING ACTIVITIES:			
Distributions paid	(83,633)	(51,905)	(50,973)
Distributions paid to minority interest partner	(3,869)	(3,579)	(2,735)
Proceeds from mortgages and credit facility	40,000	—	—
Prepayment of mortgage principal and credit facility	(27,167)	(8,512)	—
Scheduled payments of mortgage principal	(12,580)	(12,433)	(11,046)
Release of mortgage funds by lenders	—	—	167
Proceeds from loan from affiliate	24,000	—	—
Prepayment of loan from affiliate	(24,000)	—	—
Repayment of proceeds from note	—	—	(1,617)
Payment of financing costs	(1,731)	—	—
Proceeds from stock issuance, net of costs	10,766	6,697	5,698
Purchase of treasury stock	(9,187)	(8,972)	(3,924)
Net cash used in financing activities	<u>(87,401)</u>	<u>(78,704)</u>	<u>(64,430)</u>
Effect of exchange rate changes on cash	93	(1,093)	609
Net (decrease) increase in cash and cash equivalents	<u>(18,880)</u>	<u>1,476</u>	<u>(2,330)</u>
Cash and cash equivalents, beginning of year	37,871	36,395	38,725
Cash and cash equivalents, end of year	<u>\$ 18,991</u>	<u>\$ 37,871</u>	<u>\$ 36,395</u>

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

(Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands

Non-cash investing and financing activities

- (a) Included in the cost basis of real estate and equity investments acquired in 2004 are deferred acquisition fees payable to W. P. Carey & Co., LLC of \$749. No such fees were incurred in 2005 or 2006.
- (b) The merger with Corporate Property Associates 12 Incorporated (“CPA®:12”), an affiliate, as described in Note 3, consisted of the acquisition and assumption of certain assets and liabilities, respectively, at fair value in exchange for the issuance of shares, a cash payment to CPA®:12 shareholders who elected to redeem their shares and certain costs, as follows:

Real estate accounted for under the operating method	\$ 214,858
Net investment in direct financing leases	19,799
Intangible assets	93,019
Equity investments	111,977
Investment in mortgage loan securitization	7,346
Other assets	4,415
Mortgage notes payable (cost \$110,041)	(116,082)
Redemption of CPA®:12 shareholders	(102,176)
Other liabilities ⁽¹⁾	(13,966)
Elimination of minority interest	3,634
Issuance of common stock	<u>(218,874)</u>
Cash overdraft assumed in acquisition of CPA®:12’s business operations	<u>\$ (3,950)</u>

(1) Includes deferred fees of \$2,734 payable to the advisor (see Note 4).

As part of the merger, the Company issued 18,470,351 shares of its common stock to CPA®:12 shareholders in exchange for 21,249,828 shares of common stock of CPA®:12.

Supplemental cash flow information

Interest paid was \$49,185, \$52,019 and \$52,923 in 2006, 2005 and 2004, respectively. No capitalized interest was recognized in 2006, 2005 or 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In thousands, except share and per share amounts

1

BUSINESS AND ORGANIZATION

Corporate Property Associates 14 Incorporated (the “Company”) is a real estate investment trust (“REIT”) that invests in commercial properties leased to companies domestically and internationally. The primary source of the Company’s revenue is earned from leasing real estate, primarily on a triple-net basis. Revenue is subject to fluctuation because of lease expirations, lease terminations, the timing of new lease transactions, tenant defaults and sales of properties. As of December 31, 2006, the Company’s portfolio consisted of 289 properties leased to 91 tenants and totaled approximately 29.9 million square feet (on a pro rata basis), with a 100% occupancy rate. Subject to certain restrictions and limitations, the business of the Company is managed by W. P. Carey & Co. LLC (“WPC”) and its subsidiaries (collectively, the “advisor”). As of December 31, 2006, the advisor owns 4,948,043 of the Company’s common stock.

An initial offering of the Company’s shares which commenced on November 10, 1997 concluded on November 10, 1999 at which time the Company had issued an aggregate of 29,440,594 shares (\$294,406). On November 17, 1999, the Company commenced an offering for a maximum of 40,000,000 shares of common stock. The shares were offered to the public on a “best efforts” basis at a price of \$10 per share. The second offering concluded on November 15, 2001, by which time 36,353,686 shares (\$363,537) were issued. These proceeds have been combined with limited recourse mortgage financing to purchase the Company’s real estate portfolio. As a REIT, the Company is not subject to U.S. federal income taxation as long as it satisfies certain requirements relating to the nature of its income, the level of its distributions and other factors.

On December 1, 2006, the Company completed a merger (the “merger”) with Corporate Property Associates 12 Incorporated (“CPA@:12”), an affiliate, for a total purchase price of \$540,500. Refer to Note 3 for details of the merger.

2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

When the Company obtains an economic interest in an entity, the Company evaluates the entity to determine if the entity is deemed a variable interest entity (“VIE”), and if the Company is deemed to be the primary beneficiary, in accordance with FASB Interpretation No. 46(R), “Consolidation of Variable Interest Entities” (“FIN 46(R)"). The Company consolidates (i) entities that are VIEs and of which the Company is deemed to be the primary beneficiary and (ii) entities that are non-VIEs which the Company controls. Entities that the Company accounts for under the equity method (i.e., at cost, increased or decreased by the Company’s share of earnings or losses, less distributions) include (i) entities that are VIEs and of which the Company is not deemed to be the primary beneficiary and (ii) entities that are non-VIEs which the Company does not control, but over which the

Company has the ability to exercise significant influence. The Company will reconsider its 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 June 2005, the Emerging Issues Task Force issued EITF 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 limited to limited partnerships or similar entities that are not variable interest entities under FIN 46(R). The Task Force 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 shall account for its investment in the limited partnership using the equity method of accounting. The Company adopted EITF 04-05 in June 2005 for all arrangements created or modified after June 29, 2005. For all other arrangements, the Company adopted EITF 04-05 on January 1, 2006. The adoption of EITF 04-05 had no impact on the Company's financial position or results of operations. Upon completion of the merger, the Company acquired additional interests in certain limited liability companies and limited partnerships such that its ownership interests now exceed 50% and the Company exercises significant influence. Because the Company's venture partners, which are affiliates, are the managing members or general partners in the limited partnerships or limited liability companies and no unaffiliated parties have substantive kick-out or participation rights, the venture partners are required to consolidate the investments under the provisions of EITF 04-05 and, therefore, the Company accounts for these investments under the equity method of accounting. All material inter-entity transactions have been eliminated.

The Company has interests in six 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 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 at December 31, 2006 and 2005 is \$12,222 and \$12,478, respectively. The fair value of these minority interests at December 31, 2006 and 2005 is \$12,494 and \$10,678, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements included in our annual report on Form 10-K have been adjusted to reflect the disposition of certain properties as discontinued operations for all periods presented (see Note 15).

Purchase Price Allocation

In connection with the Company's acquisition of properties, including properties acquired in the merger, 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 the relative fair values and is included in prepaid and deferred rental income and security deposits in the accompanying 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 the Company's 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, prospects for developing new business 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.

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.

Intangibles for both in-place and above-market leases are amortized to expense over the remaining initial lease term while intangibles for both tenant relationships and below-market leases are amortized to expense over the remaining initial lease term and any expected renewal terms. No amortization period for any intangible asset will exceed the remaining depreciable life of the building. In the event that a lease is terminated, the unamortized portion of each intangible is charged to expense. The purchase price allocation in connection with the merger is described in Note 3.

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 Equivalents

The Company considers all short-term, highly liquid investments that are both readily convertible to cash and have a maturity of generally 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. The Company's cash and cash equivalents at December 31, 2006 were held in the custody of several financial institutions, including international institutions, and these balances at times exceed federally insurable limits. The Company mitigates this risk by depositing funds only with major financial institutions.

Marketable Securities

Marketable securities, which consist of an interest in collateralized mortgage obligations (see Note 9), common stock in publicly-traded companies and auction-rate securities, are classified as available for sale securities and reported at fair value, with the Company's interest in unrealized gains and losses on these securities reported as a component of other comprehensive income until realized. The Company had no auction rate securities in 2006.

Other Assets

Included in other assets are deferred charges and deferred rental income. Deferred charges are costs incurred in connection with mortgage financings and refinancings and are amortized over the terms of the mortgages using the effective interest rate method and included in interest expense in the accompanying consolidated financial statements. Deferred rental income is the aggregate cumulative difference for operating leases between scheduled rents, which 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 by the advisor, an affiliate, to the Company 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 eight years following the first anniversary of the date a property was purchased. Payment of such fees is subject to the performance criterion (see Note 4).

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, 2006, lessees were responsible for the direct payment of real estate taxes of approximately \$17,860.

The Company diversifies its real estate investments among various corporate tenants engaged in different industries, by property type and geographically (see Note 11). Substantially all of the Company's 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 the Company 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 5).

Direct financing method — Leases accounted for under the direct financing method are recorded at their net investment (Note 6). Unearned income is deferred and amortized to income over the lease terms so as to produce a constant periodic rate of return on the Company's net investment in the lease.

On an ongoing basis, the Company assesses its ability to collect rent and other tenant-based receivables and determines an appropriate allowance for uncollected amounts. Because the Company has a limited number of lessees (24 lessees represented 74% of lease revenue during 2006), the Company believes 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. The Company generally recognizes a provision for uncollected rents and other tenant receivables and measures its allowance against actual arrearages. For amounts in arrears, the Company makes subjective judgments based on its 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 16 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 may not be recoverable, the Company assesses the recoverability of its 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. The Company performs a review of its estimate of residual value of its direct financing leases at least annually to determine whether there has been an other than temporary decline in the Company's current estimate of residual value of the underlying real estate assets (i.e., the estimate of what the Company 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.

Investments in unconsolidated ventures are accounted for under the equity method and are recorded initially at cost as equity investments in real estate, and are subsequently adjusted for the Company's proportionate share of earnings and cash contributions and distributions. On a periodic basis, the Company assesses 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.

When the Company identifies assets as held for sale, it discontinues depreciating the assets and estimates the sales price, net of selling costs, of such assets. If in the Company's 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 a

valuation allowance is established. To the extent that a purchase and sale agreement has been entered into, the allowance is based on the negotiated sales price. To the extent that the Company has adopted a plan to sell an asset but has not entered into a sales agreement, it will make judgments of the net sales price based on current market information. The Company will continue to review the initial valuation for subsequent changes in the fair value less costs to sell and will recognize an additional impairment charge or a gain (not to exceed the cumulative loss previously recognized). If circumstances arise that previously were considered unlikely and, as a result, the Company decides 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.

Foreign Currency Translation

The Company consolidates its real estate investments in the Netherlands, Finland, France and the United Kingdom. The functional currencies for these investments are the Euro and 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, 2006 and 2005, the cumulative foreign currency translation adjustment gain was \$11,030 and \$6,761, 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 a 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 the Company's financial statements will not be included in determining net income but will be 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. Contributions to any equity investments in real estate may be funded in part through subordinated debt. The Company had no foreign equity investments in real estate during the years ended December 31, 2006, 2005 and 2004.

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, and the Company recognized unrealized (losses) gains of \$513, (\$775) and \$90 from such transactions in the years ended December 31, 2006, 2005 and 2004, respectively. In the years ended December 31, 2006, 2005 and 2004, the Company recognized realized gains of \$417, \$334 and \$1,357, respectively, on foreign currency transactions in connection with the transfer of cash from foreign operations of subsidiaries to the parent company.

Derivative Instruments

The Company accounts for its derivative instruments in accordance with FASB No. 133 "Accounting for Derivative Instruments and Hedging Activities," as amended ("SFAS 133"). Certain stock warrants which were granted to the Company by lessees in connection with structuring the initial lease transactions are defined as derivative instruments because such stock warrants are readily convertible to cash or provide for net settlement upon conversion. Pursuant to SFAS 133, changes in the fair value of such derivative instruments are determined using an option pricing model and are recognized currently in earnings as gains or losses. The Company also holds stock warrants that were not defined as derivative instruments and have been recorded at nominal values.

A lease for a property located in the Netherlands provides the Company with an option to receive a portion of rental payments in Euros or U.S. dollars. Pursuant to the adoption of SFAS 133, the option is a derivative instrument and changes in the fair value of the option are recognized in earnings as gains or losses.

Changes in the fair value of an interest swap instrument on a variable rate loan are included in the determination of net income for the years ended December 31, 2006, 2005 and 2004. The Company entered into the interest rate swap agreement for the purpose of fixing the interest rate on the limited recourse obligation for the term of that obligation; however, the swap agreement did not qualify as a hedge for financial accounting purposes and changes in its value have been reflected in earnings. The interest rate swap agreement was terminated during 2006.

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 the Company has committed to a plan to actively market a property for sale and expects 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 (see Note 15).

If circumstances arise that previously were considered unlikely and, as a result, the Company decides 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.

The Company recognizes 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.

Income Taxes

The Company has elected and expects to continue 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 its qualification as a REIT, the Company is required, among other things, to distribute at least 90% of its net taxable income to its shareholders (excluding net capital gains) and meet certain tests regarding the nature of its income and assets. As a REIT, the Company is not subject to U.S. federal income tax to the extent it distributes its net taxable income annually to its shareholders. Accordingly, no provision for U.S. federal income taxes is included in the accompanying consolidated financial statements. The Company has and intends to continue to operate so that it meets the requirements for taxation as a REIT. Many of these requirements, however, are highly technical and complex. If the Company were to fail to meet these requirements, the Company would be subject to U.S. federal income tax. The Company is

subject to certain state, local and foreign taxes. State, local, franchise and other taxes of \$57, \$434 and \$595 are included in general and administrative expenses for the years ended December 31, 2006, 2005 and 2004, respectively.

Earnings Per Share

The Company has 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 accompanying consolidated financial statements.

Recent Accounting Pronouncements

EITF 04-05

The Company adopted EITF 04-05 in June 2005 for all limited partnerships created after June 29, 2005 and on January 1, 2006 for all other arrangements. Refer to Basis of Consolidation above for a discussion of the effect of EITF 04-05 on the Company's financial position and results of operations.

FSP FAS 13-1

In October 2005, the FASB issued Staff Position No. 13-1 "Accounting for Rental Costs Incurred during a Construction Period" ("FSP FAS 13-1"). FSP FAS 13-1 addresses the accounting for rental costs associated with operating leases that are incurred during the construction period. FSP FAS 13-1 makes no distinction between the right to use a leased asset during the construction period and the right to use that asset after the construction period. Therefore, rental costs associated with ground or building operating leases that are incurred during a construction period shall be recognized as rental expense, allocated over the lease term in accordance with SFAS No. 13 and Technical Bulletin 85-3. The Company adopted FSP FAS 13-1 as required on January 1, 2006 and the initial application of this Staff Position did not have a material impact on our financial position or results of operations.

SFAS 155

In February 2006, the FASB issued Statement No. 155, "Accounting for Certain Hybrid Financial Instruments an Amendment of FASB No. 133 and 140" ("SFAS 155"). The purpose of SFAS 155 is 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. The Company must adopt SFAS 155 effective January 1, 2007 and does not believe that this adoption will have a material impact on its financial position or results of operations.

FIN 48

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in income tax positions. This Interpretation requires that the Company recognize in its consolidated financial statements the impact of a tax position that is more likely than not to be sustained upon examination based on the technical merits of the position. The Company must adopt FIN 48 effective January 1, 2007. The Company is currently evaluating the impact of adopting FIN 48 on its consolidated financial statements.

SAB 108

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.” SAB 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements.

Traditionally, there have been two widely-recognized methods for quantifying the effects of financial statement misstatements: the “rollover” method and the “iron curtain” method. The rollover method focuses primarily on the impact of a misstatement on the income statement — including the reversing effect of prior year misstatements — but its use can lead to the accumulation of misstatements in the balance sheet. The iron curtain method, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. The Company currently uses the iron curtain method for quantifying identified financial statement misstatements.

In SAB 108, the SEC staff established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the Company’s financial statements and the related financial statement disclosures. This model is commonly referred to as a “dual approach” because it requires quantification of errors under both the iron curtain and rollover methods. SAB 108 permits existing public companies to initially apply its provisions either by (i) restating prior financial statements as if the “dual approach” had always been used or (ii) recording the cumulative effect of initially applying the “dual approach” as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings. Use of the “cumulative effect” transition method requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose. The Company adopted SAB 108 using the cumulative effect transition method in connection with the preparation of our annual financial statements for the year ending December 31, 2006. The adoption of SAB 108 had no impact on the Company’s financial position or results of operations.

SFAS 157

In September 2006, the FASB issued Statement No. 157, “Fair Value Measurements” (“SFAS 157”). SFAS 157 provides guidance for using fair value to measure assets and liabilities. This statement clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability. SFAS 157 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data. SFAS 157 applies whenever other standards require assets or liabilities to be measured at fair value. This statement is effective for the Company’s 2008 fiscal year, although early adoption is permitted. The Company believes that the adoption of SFAS 157 will not have a material effect on its financial position or results of operations.

3

BUSINESS COMBINATION WITH CORPORATE PROPERTY ASSOCIATES 12 INCORPORATED

On December 1, 2006, the Company completed a merger (the “merger”) with Corporate Property Associates 12 Incorporated (“CPA®:12”), an affiliate, pursuant to a merger agreement dated June 29, 2006. The merger provided a liquidation option for CPA®:12 shareholders and provided the Company with the opportunity to

continue to grow and enhance its investment portfolio. Under the terms of the merger, which was approved by the shareholders of both companies at special meetings of the shareholders of each company held on November 30, 2006, the Company acquired CPA®:12's business on December 1, 2006 and is the surviving company. The total purchase price for CPA®:12 was \$540,500, which was comprised of 18,470,351 shares of the Company's common stock (\$218,874 based on a value of \$11.85 per share), \$102,176 in consideration for CPA®:12 shareholders who redeemed their interests (9,920,039 shares of CPA®:12), \$215,369 in fair value of debt and other liabilities assumed (including the Company's pro rata share of fair value of debt assumed on investments accounted for under the equity method) and transaction costs of \$4,081. Prior to the merger, CPA®:12 sold certain of its properties or interests in properties to third parties and to the advisor which had remaining lease terms of eight years or less and therefore did not meet the Company's investment objectives. As a result of these sales and prior to the merger, CPA®:12 paid a special distribution to its shareholders of \$99,432 in addition to a distribution of \$4,273 from its operations for the period from October 1, 2006 through November 30, 2006. The Company also owned a 49.99% interest in one of these properties, which was sold to a third party in October 2006, and as a result of the sale, the Company made a special cash distribution of \$0.04 per share to its shareholders at the close of the merger (see Note 14).

Under the terms of the merger agreement, CPA®:12's shareholders had the right to elect to receive either \$10.30 per share in cash or 0.8692 of the Company's shares for each share of CPA®:12 owned as of October 20, 2006. The value of properties acquired and the exchange rates are based in large part on a third party valuation of the properties belonging to CPA®:12 as of December 31, 2005 and were subsequently adjusted to reflect the Starmark Holdings LLC ("Starmark") restructuring (see Note 7) but did not take into account any additional changes in value that may have occurred subsequent to December 31, 2005.

The Company has accounted for the merger under the purchase method of accounting. The purchase price has been allocated to the assets acquired and liabilities assumed based upon their fair values. The assets acquired primarily consist of commercial real estate assets net leased to single tenants, lease-related intangible assets cash, a subordinated interest in a mortgage loan securitization, receivables and deposits. The liabilities assumed primarily consist of mortgage notes payable, accrued interest, accounts payable, security deposits and amounts due to former CPA®:12 shareholders. The amounts due to former CPA®:12 shareholders were paid on December 1, 2006. In addition, the advisor owned 2,134,140 shares of CPA®:12 as of December 1, 2006 and elected to receive \$9,861 in cash and 1,022,800 shares of the Company's stock on consummation of the merger.

The Company has entered into a \$150,000 credit facility with Wells Fargo Bank. The credit facility provides for an initial three year term and an annual interest rate of either (i) LIBOR plus a spread which ranges from 135 to 160 basis points depending on our leverage or (ii) the greater of the bank's prime rate and the Federal Funds Effective Rate, plus 0.50%, plus a spread of up to 0.125% depending on our leverage ratio (see Note 12).

The advisor agreed to make available to the Company an additional loan of up to \$50,000 to be funded using the advisor's existing credit line. The loan from the advisor had a maturity date of May 2007 and bore interest ranging between LIBOR plus 110 basis points and 145 basis points, which are the same terms as the advisor's existing credit line. In connection with the consummation of the merger on December 1, 2006, the advisor loaned \$24,000 to the Company to facilitate the merger closing. The loan was repaid on December 5, 2006 with proceeds from the credit facility.

On completion of the merger, CPA®:12 paid the advisor termination and disposition compensation totaling \$49,798. A subsidiary of the advisor has agreed to indemnify the Company if it were to suffer certain losses arising out of a breach by CPA®:12 of its representations and warranties under the merger agreement and having a material adverse effect on the Company after the merger, up to the amount of fees received by such subsidiary of

the advisor in connection with the merger. The advisor has also agreed to waive any acquisition fees payable after the merger by the Company under its advisory agreement with the advisor in respect of the properties being acquired in the merger and has also agreed to waive any disposition fees that may subsequently be payable by the Company to the advisor upon a sale of such assets. As described in Note 4, the Company assumed deferred acquisition fees incurred by CPA®:12.

4

TRANSACTIONS WITH RELATED PARTIES

Pursuant to an advisory agreement between the Company and the advisor, the advisor performs certain services for the Company including the identification, evaluation, negotiation, financing, purchase and disposition of property, the day-to-day management of the Company and the performance of certain administrative duties. The advisory agreement between the Company and the advisor provides that the advisor will receive an asset management fee. The fee is 1% of average invested assets as defined in the advisory agreement, 1/2 of which (the “performance fee”) is subordinated to the performance criterion, a cumulative rate of cash flow from operations of 7% per annum. Effective in 2005, the advisory agreement was amended to allow the advisor to elect to receive restricted common stock for any fees due from the Company. For 2006 and 2005, the advisor has elected to receive the performance fees through the issuance of restricted shares of common stock in the Company.

The advisor is also reimbursed for the allocated cost of personnel needed to provide administrative services necessary to the operations of the Company. The Company incurred base asset management fees of \$8,743, \$9,055 and \$8,540 in 2006, 2005 and 2004, respectively, and performance fees in like amounts, both of which are included in property expenses in the accompanying consolidated financial statements. The Company incurred personnel reimbursements of \$2,728, \$2,789 and \$2,856 in 2006, 2005 and 2004, respectively, which are included in general and administrative expenses in the accompanying consolidated financial statements.

Fees are payable to the advisor for services provided to the Company relating to the identification, evaluation, negotiation, financing and purchase of properties and refinancing of mortgages. A portion of such fees is deferred and payable in equal installments over no less than eight years following the first anniversary of the date a property was purchased. Such deferred fees are only payable if the performance criterion has been met. The unpaid portion of the deferred fees bears interest at an annual rate of 6% from the date of acquisition of a property until paid. In connection with the merger, the Company assumed deferred fees incurred by CPA®:12 totaling \$2,734 that bear interest at an annual rate of 7% and have scheduled installment payments through 2013.

The Company’s annual installment of \$3,514 in deferred fees was paid to the advisor in January 2006. For transactions that were completed in 2004, current fees were \$936 and deferred fees were \$749. No such fees were incurred during 2005 or 2006. In connection with the refinancing of mortgage obligations on existing properties, fees of \$270 were incurred and paid during 2006. No such fees were incurred during 2005 and 2004.

The advisor is obligated to reimburse the Company for the amount by which operating expenses of the Company 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 the operating expenses of the Company exceed the 2%/25% guidelines, the advisor will have an obligation to reimburse the Company for such excess, subject to certain conditions. If the independent directors find that such excess expenses were justified based on any unusual and nonrecurring factors which 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 the Company's operating expenses to exceed this limit in any such year. Charges related to asset impairment, bankruptcy of lessees, lease payment defaults, extinguishment of debt or uninsured losses are generally not considered unusual and nonrecurring. A determination that a charge is unusual and nonrecurring, such as the costs of significant litigation that are not associated with day-to day operations, or uninsured losses that are beyond the size or scope of the usual course of business based on the event history and experience of the advisor and independent directors, is made at the sole discretion of the independent directors. The Company 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. The operating expenses of the Company have not exceeded the amount that would require the advisor to reimburse the Company.

The advisor will be entitled to receive subordinated disposition fees based upon the cumulative proceeds arising from the sale of Company assets since the inception of the Company, 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 return of 6% (based on an initial share price of \$10) since the inception of the Company. The advisor's interest in such disposition fees amounts to \$3,507 and \$412 as of December 31, 2006 and 2005, respectively. Payment of such amount, however, cannot be made until the subordination provisions are met. The Company has 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 accompanying consolidated financial statements.

The Company owns interests in entities which range from 11.54% to 90% with the remaining interests generally held by affiliates.

The Company is a participant in an entity with certain affiliates for the purpose of leasing office space used for the administration of real estate entities and for sharing the associated costs. Pursuant to the terms of the agreement, the Company's share of rental, occupancy and leasehold improvement costs is based on the relative gross revenues of the affiliates. Expenses incurred in 2006, 2005 and 2004 were \$756, \$770 and \$500, respectively. The Company's current share of future annual minimum lease payments is \$688 through 2016.

In connection with the merger, the Company borrowed \$24,000 from its advisor to facilitate the merger closing. Proceeds from the Company's credit facility were used to repay the borrowing. The Company incurred interest expense of \$22 in connection with the borrowing from its advisor.

5 REAL ESTATE

Real estate, which consists of land and buildings leased to others, at cost, under operating leases is summarized as follows:

	December 31,	
	2006	2005
Cost	\$ 1,291,598	\$ 1,050,368
Less: Accumulated depreciation	(137,262)	(106,731)
	<u>\$ 1,154,336</u>	<u>\$ 943,637</u>

In June 2006, the Company entered into an agreement with a third party in connection with a property in Pennsylvania. Under the terms of the agreement, the Company's existing warehouse facility was demolished and the existing land is being redeveloped as part of the construction of a new retail shopping center. In connection with demolishing the property, the Company recognized a charge to depreciation expense of \$3,730 to fully depreciate the property. Upon completion of construction, the third party will transfer to the Company a newly constructed retail facility with a tenant in place. The outstanding limited recourse mortgage obligation of \$3,859 was defeased as a result of entering into this transaction.

Scheduled future minimum rents, exclusive of renewals and expenses paid by tenants, percentage rents and future CPI-based increases, under non-cancelable operating leases amount are approximately as follows:

Year ending December 31,	
2007	\$ 129,999
2008	130,567
2009	130,349
2010	127,498
2011	122,101
Thereafter through 2024	941,474

6 NET INVESTMENT IN DIRECT FINANCING LEASES

Net investment in direct financing leases is summarized as follows:

	December 31,	
	2006	2005
Minimum lease payments receivable	\$ 223,982	\$ 221,136
Unguaranteed residual value	133,081	111,752
	357,063	332,888
Less: unearned income	(219,916)	(217,375)
	<u>\$ 137,147</u>	<u>\$ 115,513</u>

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

Year ending December 31,

2007	\$ 14,517
2008	14,517
2009	14,517
2010	14,684
2011	14,784
Thereafter through 2031	150,963

Percentage rent revenue was approximately \$102 and \$404 in 2006 and 2005, respectively. There was no percentage rent in 2004.

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EQUITY INVESTMENTS IN REAL ESTATE

The Company owns interests in single-tenant net leased properties leased to corporations through noncontrolling interests (i) in various partnerships and limited liability companies in which its ownership interests are 50% or less and the Company exercises significant influence, (ii) as tenants-in-common subject to joint control and (iii) in limited liability companies and limited partnerships in which its ownership interests exceed 50% and the Company exercises significant influence (see Note 2). The ownership interests range from 11.54% to 66.67%. All of the underlying investments are owned with affiliates that have similar investment objectives as the Company.

Upon completion of the merger, the Company acquired investments in properties leased to Best Buy Co., Inc., Sidor, Inc., The Upper Deck Company, Del Monte Corporation and ShopRite Supermarkets, Inc. The Company also acquired the remaining interests in existing investments leased to Textron, Inc. and Special Devices, Inc. which had previously been accounted for under the equity method of accounting, and now consolidates these investments on its consolidated financial statements effective December 1, 2006. In addition, the Company increased its interests in investments leasing properties to Advanced Micro Devices, Inc., Compucom Systems, Inc. and Starmark Camhood, LLC ("Starmark Camhood") to 66.67%, 66.67% and 56%, respectively but continues to account for these properties under the equity method of accounting under the provisions of EITF 04-05, as described in Note 2. In 2006, the Company terminated the master lease agreement with Starmark Camhood and entered into new lease agreements with Life Time Fitness, Inc. ("Life Time") and Town Sports International Holdings, Inc. ("Town Sports") as described below⁽²⁾.

During 2006, the Company sold its investments in properties leased to Clear Channel Communications, Inc.⁽³⁾ and Applied Materials, Inc.⁽⁴⁾ as described below. The Company also has investments in properties leased to Dick's Sporting Goods, Inc.⁽⁵⁾, CheckFree Holdings, Inc., True Value Company, and U-Haul Moving Partners, Inc. ("U-Haul")⁽⁶⁾ and Mercury Partners, LP ("Mercury")⁽⁶⁾. The interests in the properties leased to U-Haul and Mercury were acquired in April 2004 and are described below.

Summarized combined financial information of the Company's equity investees is as follows:

	December 31,		
	2006	2005	
Assets (primarily real estate)	\$ 913,466	\$ 1,084,354	
Liabilities (primarily mortgage notes payable)	(538,085)	(652,119)	
Partners' and members' capital	\$ 375,381	\$ 432,235	
Company's share of equity investees' net assets	\$ 200,332	\$ 143,417	
	For the year ended December 31,		
	2006 ⁽¹⁾	2005	2004
Revenue (primarily rental income and interest income from direct financing leases)	\$ 105,543	\$ 117,156	\$ 105,488
Expenses (primarily interest on mortgages, defeasance costs/prepayment penalties and depreciation) ⁽²⁾⁽⁴⁾	(86,461)	(69,698)	(64,085)
Gain on sale of real estate ⁽³⁾⁽⁴⁾	73,590	—	—
Impairment charge ⁽²⁾	(8,614)	—	—
Net income	\$ 84,058	\$ 47,458	\$ 41,403
Company's share of net income from equity investments	\$ 27,410	\$ 15,798	\$ 14,304

(1) Results for equity investees are presented for the period during which the Company accounted for the investee under the equity method of accounting (that is, for December 1, 2006 through December 31, 2006 for investments acquired during the merger, and for January 1, 2006 through November 30, 2006 for the two investments that are now consolidated following the Company's acquisition of the remaining interests in the merger). Results for investments owned by the Company as of January 1, 2006, including those investments in which the Company increased its interest in an existing investment in the merger, are presented for the full year.

(2) The Company and an affiliate own interests in a venture owning 15 properties formerly leased to Starmark (formerly the parent of Starmark Camhood L.L.C.) under a master lease agreement. The Company owned a 41% interest in this venture and acquired an additional 15% interest in the venture in the merger. The Company continues to account for this investment under the equity method of accounting as its affiliate is the managing member in the limited liability company and is required to consolidate the investment under the provisions of EITF 04-05. The Company's interest in this investment had a carrying value of \$34,975 and \$29,113 as of December 31, 2006 and 2005, respectively and accounted for (\$7,786), \$2,835 and \$2,682 of (loss) income from equity investments in real estate for the years ended December 31, 2006, 2005 and 2004, respectively. The loss in 2006 reflects the recognition of impairment charges and prepayment penalties and debt defeasance costs as described below.

In January 2006, the advisor entered into a cooperation agreement with Starmark. Under this cooperation agreement, the advisor, on behalf of ourselves and our affiliate, agreed to cooperate in Starmark's efforts to sell its existing individual leasehold interests to third parties and restructure the lease agreements. Additionally, Starmark's financial covenants were replaced by certain payment restrictions and an agreement to reserve certain of the proceeds of sale of the leasehold interests and other Starmark properties to cover certain costs the venture incurred in connection with transactions under the cooperation agreement.

In June 2006, the advisor approved a plan to restructure the master lease agreement with Starmark. Under the restructuring plan, six properties under the master lease agreement were re-leased to Life Time Fitness, Inc. ("Life Time"), a new tenant unaffiliated with Starmark, and Life Time entered into a commitment to provide \$20,000 of improvements to these six properties. In connection with the restructuring, four properties formerly leased to Starmark were transferred to Life Time in exchange for Life Time's commitment to use \$10,000 to fund a portion of the improvements to the six leased properties. This commitment is secured by letters of credit totaling \$10,000. The venture has 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 remaining \$10,000 of improvements to the six leased properties will be funded through a rent abatement to the tenant of \$2,322 and through security deposits and prepaid rent totaling \$7,678 that were released by Starmark prior to the merger (of which the Company's pro rata share is \$952 and \$3,148, respectively). The \$20,000 of improvements (of which the Company's pro rata share, following the merger, is \$11,200) are for the benefit of the venture and will be retained by the venture upon expiration of the lease. One 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. The master lease agreement was amended to remove these properties.

As a result of approving the restructuring plan, during the second quarter of 2006, the venture incurred charges totaling \$24,978, including \$18,678 to write off intangible assets on the properties leased to Starmark and \$6,300 to reduce the carrying value of the four properties to be sold to their estimated fair values. The Company's pro rata share of these charges totals \$10,241. During the third quarter of 2006, the venture also prepaid/defeased the existing debt of \$100,857 and incurred prepayment penalties and debt defeasance costs totaling \$10,072 (of which the Company's share is \$41,351 and \$4,130, respectively). During the fourth quarter of 2006, the venture obtained new limited recourse mortgage financing of \$80,000 on the Life Time properties at a fixed annual interest rate of 5.75% and with a 10-year term (of which the Company's share is \$32,800).

In December 2006, a third party, Fitness Ventures purchased 100% of the existing shareholders' interests in the ownership of Starmark. At this time, Fitness Ventures issued warrants to the Company and its affiliate to acquire up to 10% of its equity and entered into new leases for the four remaining properties under terms which are similar to the original master lease. Concurrent with these transactions, the cooperation agreement with Starmark was terminated and the venture recognized lease termination income of \$8,145, of which \$7,678 represents security deposits and prepaid rent from Starmark and \$447 represents the release of real estate tax escrows funded by the venture which have been replaced by escrows funded by the new lessees. The Company's share of the termination income is \$4,561.

The Company's share of the effects of the venture's transactions will be reflected as part of income from equity investments in our statements of income in the periods described.

- (3) In June 2006, a venture in which the Company and an affiliate held 40% and 60% interests, respectively, sold a property in New York, New York leased to Clear Channel for \$200,012, net of closing costs, and recognized a gain on the sale of \$41,101, net of a \$10,253 writeoff of unrecoverable receivables related to future stated rent increases. In connection with the sale, the venture repaid the existing limited recourse mortgage obligation of \$81,166 and incurred a charge for prepayment penalties and related costs totaling \$2,981. The Company's pro rata share of the gain, which was \$16,441, and the charge for prepayment penalties of

\$1,192 is included in income from equity investments in real estate in the accompanying consolidated financial statements.

- (4) In October 2006, a venture through which the Company and an affiliate held 49.99% and 50.01% interests, respectively, in a property in California leased to Applied Materials, sold the property for \$56,357 and recognized a gain on this sale of \$14,362, of which the Company's share is \$28,172 and \$7,180, respectively. The venture also recognized a gain on the sale of additional properties in which the Company had no ownership interest. In connection with the sale, the venture repaid the outstanding mortgage obligation on this property of \$19,680 in October 2006 and incurred a charge on the early extinguishment of debt of \$1,788, of which the Company's share is \$9,838 and \$894, respectively.
- (5) In December 2005, the Company contributed a 55.1% interest in a limited liability company, which owns land and a building in Plainfield, Indiana. The Company retained a 44.9% interest in the limited liability company and as a result now accounts for its interest under the equity method of accounting.
- (6) On April 29, 2004, the Company, along with two affiliates, Corporate Property Associates 15 Incorporated and Corporate Property Associates 16 — Global Incorporated, through a limited partnership in which the Company owns an 11.54% interest through a subsidiary, purchased 78 retail self-storage and truck rental facilities and entered into master lease agreements with two lessees that operate the facilities under the U-Haul brand name. The self-storage facilities are leased to Mercury, and the truck rental facilities are leased to U-Haul. The total cost was \$312,445. In connection with the purchase, the limited partnership obtained \$183,000 of limited recourse mortgage financing collateralized by the properties and lease assignments.

The Mercury lease has an initial term of 20 years with two 10-year renewal options and provides for annual rent of \$18,551. The Mercury lease is guaranteed by Mercury 99, LLC, an entity that owns a 99% ownership interest in Mercury. The U-Haul lease has an initial term of 10 years with two 10-year renewal options and provides for annual rent of \$9,990. In the event of default, termination or expiration of the U-Haul lease, Mercury 99, LLC will automatically assume the obligations of the U-Haul lease and Mercury 99, LLC will continue to lease the self-storage facilities and shall lease the truck rental facilities pursuant to the terms (with extension) of the U-Haul lease. Upon Mercury 99, LLC's assumption, the term of the U-Haul lease shall be deemed extended so as to automatically become co-terminus for the term of the Mercury 99, LLC lease. Each lease provides for rent increases every five years based on a formula indexed to the CPI.

The loan provides for monthly payments of principal and interest of \$1,230 at a fixed annual interest rate of 6.449% and based on a 25-year amortization schedule. The loan matures on May 1, 2014.

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I N T A N G I B L E S

In connection with its acquisition of properties from CPA®:12, the Company has recorded net lease intangibles of \$87,653 which are being amortized over periods ranging from 9 to 40 years. Amortization of below-market and above-market rent intangibles is recorded as an adjustment to revenue.

Intangibles are summarized as follows:

	<u>December 31, 2006</u>
Lease intangibles In-place lease	\$ 35,715
Tenant relationship	10,920
Above-market rent	46,384
Less: accumulated amortization	<u>(572)</u>
	<u>92,447</u>
Below-market rent	(5,365)
Less: accumulated amortization	<u>11</u>
	<u>(5,354)</u>

Net amortization of intangibles was \$561 for the year ended December 31, 2006. Based on the intangibles recorded as of December 31, 2006, scheduled annual net amortization of intangibles for each of the next five years is expected to be \$6,774.

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MORTGAGE FINANCING THROUGH LOAN SECURITIZATION

The Company is accounting for its 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 other comprehensive income as part of shareholders’ equity. Upon completion of the merger, the Company acquired CPA®:12’s share of the CCMT at a fair value of \$7,346. As of December 31, 2006 and 2005, the fair value of the Company’s interest was \$13,911 and \$6,434, respectively, reflecting an aggregate unrealized gain of \$1,623 and \$747 and accumulated amortization of \$462 and \$345 at December 31, 2006 and 2005, respectively. The fair value of the Company’s interest in CCMT is determined using a discounted cash flow model with assumptions for market rates 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 Transfer and Servicing of Financial Assets and Extinguishments of Liabilities,” a sensitivity analysis of the current value of the CPA® Interests based on adverse changes in the market interest rates of 1% and 2% as of December 31, 2006 is as follows:

	Fair value as of December 31, 2006	1% adverse change	2% adverse change
Fair value of CPA® Interests	\$ 13,911	\$ 13,378	\$ 12,871

The above sensitivity 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.

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DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company’s mortgage notes payable had a carrying value of \$785,815 and \$663,098 and a fair value of \$785,103 and \$718,347 at December 31, 2006 and 2005, respectively. The Company’s marketable securities, including its interest in Carey Commercial Mortgage Trust, had a carrying value of \$12,510 and \$8,935 and a fair value of \$14,207 and \$9,267 at December 31, 2006 and 2005, 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. The fair value of the Company’s other financial assets and liabilities at December 31, 2006 and 2005 approximated their carrying value.

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RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS

Risk Management

In the normal course of its on-going business operations, the Company encounters economic risk. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk on its interest-bearing liabilities. Credit risk is the risk of default on the Company's operations and tenants' inability or unwillingness to make contractually required payments. Market risk includes changes in the value of the properties and related loans held by the Company due to changes in interest rates or other market factors. In addition, the Company transacts business in Finland, France, the Netherlands and the United Kingdom and is also subject to the risks associated with changing exchange rates.

Use of Derivative Financial Instruments

From time to time, the Company may obtain variable rate mortgage loans and may enter into interest rate swap contracts with lenders which effectively convert the variable rate debt service obligations of the loan to a fixed rate. The Company does not have any interest rate swap agreements in place as of December 31, 2006. In addition, the Company does not use derivative instruments to hedge foreign exchange rate risk exposure, credit/market risks or for speculative purposes.

The Company is exposed to the impact of interest rate changes primarily through its borrowing activities. The Company attempts to obtain mortgage financing on a long-term, fixed-rate basis to mitigate this exposure. As of December 31, 2006, 81% of the Company's limited recourse mortgage financing bears interest at fixed rates. The majority of the Company's variable rate debt consists of limited recourse mortgage obligations that currently bear interest at fixed rates but may be reset in the future, pursuant to the terms of the mortgage contracts. The Company is also exposed to foreign exchange rate movements in the Euro and British pound sterling. The Company manages foreign exchange rate movements by generally placing both our debt obligation to the lender and the tenant's rental obligation to us in the local currency but remain subject to such movements to the extent of the difference.

The Company owns stock warrants that were granted to the Company by lessees in connection with structuring the initial lease transactions or were acquired through the merger which are defined as derivative instruments because these stock warrants are readily convertible to cash or provide for net settlement upon conversion. Warrants issued to the Company by Consolidated Theaters Holding, G.P., Compucom Systems, Inc., Vermont Teddy Bear Company and Fitness Ventures are classified as derivative instruments and had an aggregate fair value of \$4,338 and \$665 at December 31, 2006 and 2005, respectively.

A lease for a property located in the Netherlands provides the Company with an option to receive a portion of rental payments in Euros or U.S. dollars. Pursuant to the adoption of SFAS 133, this option is deemed a derivative instrument. As of December 31, 2006, the Company's cumulative unrealized foreign currency gain from this option was \$5.

Changes in the fair value of an interest swap instrument on a variable rate loan are included in the determination of net income for the years ended December 31, 2006, 2005 and 2004. The Company entered into the interest rate swap agreement for the purpose of fixing the interest rate on the limited recourse obligation for the term of that obligation; however, the swap agreement did not qualify as a hedge for financial accounting

purposes and changes in its value have been reflected in earnings. The interest rate swap agreement was terminated during 2006 at a cost of \$147 following the payment of the remaining \$8,677 balance of the related variable rate limited recourse mortgage obligation, at which time the Company reversed a cumulative unrealized loss of \$229.

For the years ended December 31, 2006, 2005 and 2004, unrealized gains and losses on derivative instruments were as follows:

	For the year ended December 31,		
	2006	2005	2004
Unrealized gain (loss) on common stock warrants ⁽¹⁾	\$ 2,273	\$ 2,653	\$ (64)
Unrealized gain (loss) on interest rate swap agreement ⁽²⁾	229	426	(655)
Unrealized loss on foreign currency option ⁽³⁾	—	(5)	(9)
	<u>\$ 2,502</u>	<u>\$ 3,074</u>	<u>\$ (728)</u>

(1) During 2005, an unrealized gain of \$2,199 related to certain stock warrants of American Tire Distributors, Inc. held by the Company was reversed and a corresponding gain of \$2,192 was recognized upon American Tire's redemption of its outstanding warrants.

(2) In connection with the termination of an interest rate swap agreement during 2006, the Company reversed a cumulative unrealized loss of \$229 recognized during 2005.

(3) Included in gain (loss) on foreign currency transactions, net in the accompanying consolidated financial statements.

Concentration of Credit Risk

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

The majority of the Company's real estate properties and related loans are located in the United States, with Texas (10%) representing the only significant concentration (greater than 10% of annualized lease revenue). The Company's real estate properties contain significant concentrations in the following asset types as of December 31, 2006: industrial (33%), warehouse/distribution (28%) and office (21%) and the following tenant industries as of December 31, 2006: retail (23%) and electronics (14%). For the year ended December 31, 2006, one tenant, Carrefour France, SAS represented 11.5% of our total lease revenue.

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MORTGAGE NOTES PAYABLE AND NOTES PAYABLE

Mortgage notes payable, all of which are limited recourse to the Company, are collateralized by an assignment of real property and direct financing leases with a carrying value of \$1,194,995 as of December 31, 2006. Mortgage notes payable had fixed annual interest rates ranging from 5.15% to 9.38% and variable annual interest rates ranging from 5.15% to 7.32% and maturity dates ranging from 2008 to 2027 as of December 31, 2006. As described below, the Company also has a credit facility with a \$25,000 outstanding balance as of December 31, 2006.

Scheduled principal payments during each of the five years following December 31, 2006 and thereafter are as follows:

Year ending December 31,	Total Debt	Fixed Rate Debt	Variable Rate Debt
2007	\$ 16,707	\$ 12,276	\$ 4,431
2008	35,198	30,485	4,713
2009 ⁽¹⁾	107,179	77,238	29,941
2010	89,093	83,840	5,253
2011	287,126	281,623	5,503
Thereafter through 2032	275,512	172,357	103,155
Total	\$ 810,815	\$ 657,819	\$ 152,996

(1) Includes maturity of credit facility in November 2009.

Credit Facility

In connection with the merger, the Company entered into a \$150,000 credit facility with Wells Fargo Bank in November 2006. The credit facility provides for an initial three year term and an annual interest rate of either (i) LIBOR plus a spread which ranges from 135 to 160 basis points depending on our leverage or (ii) the greater of the bank's prime rate and the Federal Funds Effective Rate, plus 0.50%, plus a spread of up to 0.125% depending on our leverage ratio. The credit facility is guaranteed by the Company's current and future subsidiaries that own unencumbered assets. The credit facility has financial covenants that require, among other things, the Company to maintain a minimum equity value and to meet or exceed certain operating and coverage ratios. The Company is in compliance with these covenants as of December 31, 2006. The facility also provides the Company with the right, on up to two occasions, to increase the amount available under the credit facility by not less than \$20,000 and not more than \$75,000 up to a maximum of \$225,000.

Upon consummation of the merger, the Company paid a fee to the lender of \$1,033 and drew down \$25,000 from its credit facility. The credit facility bore interest of 6.80% per annum as of December 31, 2006.

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COMMITMENTS AND CONTINGENCIES

As of December 31, 2006, the Company was not involved in any material litigation.

In March 2004, following a broker-dealer examination of Carey Financial, LLC ("Carey Financial"), the wholly-owned broker-dealer subsidiary of WPC, by the staff of the SEC, Carey Financial received a letter from the staff of the SEC alleging certain infractions by Carey Financial of the Securities Act of 1933, the Securities Exchange Act of 1934, the rules and regulations thereunder and those of the National Association of Securities Dealers, Inc. ("NASD").

The staff alleged that in connection with a public offering of the shares of Corporate Property Associates 15 Incorporated ("CPA®:15"), Carey Financial and its retail distributors sold certain securities without an effective registration statement. Specifically, the staff alleged that the delivery of investor funds into escrow after completion of the first phase of the offering (the "Phase I Offering"), completed in the fourth quarter of 2002 but before a registration statement with respect to the second phase of the offering (the "Phase II Offering") became effective

in the first quarter of 2003, constituted sales of securities in violation of Section 5 of the Securities Act of 1933. In addition, in the March 2004 letter the staff raised issues about whether actions taken in connection with the Phase II offering were adequately disclosed to investors in the Phase I Offering.

In June 2004, the Division of Enforcement of the SEC (“Enforcement Staff”) commenced an investigation into compliance with the registration requirements of the Securities Act of 1933 in connection with the public offerings of CPA®:15’s shares during 2002 and 2003. In December 2004, the scope of the Enforcement Staff’s inquiries broadened to include broker-dealer compensation arrangements in connection with CPA®:15 and other REITs managed by WPC, including the Company, as well as the disclosure of such arrangements. At that time WPC and Carey Financial received a subpoena from the Enforcement Staff seeking documents relating to payments by WPC, Carey Financial, and REITs managed by WPC to (or requests for payment received from) any broker-dealer, excluding selling commissions and selected dealer fees. WPC and Carey Financial subsequently received additional subpoenas and requests for information from the Enforcement Staff seeking, among other things, information relating to any revenue sharing agreements or payments (defined to include any payment to a broker-dealer, excluding selling commissions and selected dealer fees) made by WPC, Carey Financial or any REIT managed by WPC in connection with the distribution of WPC’s managed REITs or the retention or maintenance of REIT assets. Other information sought by the SEC includes information concerning the accounting treatment and disclosure of any such payments, communications with third parties (including other REIT issuers) concerning revenue sharing, and documents concerning the calculation of underwriting compensation in connection with the REIT offerings under applicable NASD rules.

In response to the Enforcement Staff’s subpoenas and requests, WPC and Carey Financial have produced documents relating to payments made to certain broker-dealers both during and after the offering process, for certain of the REITs managed by WPC (including Corporate Property Associates 10 Incorporated (“CPA®:10”), Carey Institutional Properties Incorporated (“CIP®”), CPA®:12 and CPA®:15 as well as the Company), in addition to selling commissions and selected dealer fees.

Among the payments reflected on documents produced to the Staff were certain payments, aggregating in excess of \$9,600, made to a broker-dealer which distributed shares of the REITs. The expenses 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 REITs. Of these payments, CPA®:10 paid in excess of \$40; CIP® paid in excess of \$875; CPA®:12 paid in excess of \$2,455; the Company paid in excess of \$4,990; and CPA®:15 paid in excess of \$1,240. In addition, other smaller payments by the REITs to the same and other broker-dealers have been identified aggregating less than \$1,000.

WPC and Carey Financial are cooperating fully with this investigation and have provided information to the Enforcement Staff in response to the subpoenas and requests. Although no formal regulatory action has been initiated against WPC or Carey Financial in connection with the matters being investigated, the Company expects the SEC may pursue such an action against either or both. The nature of the relief or remedies the SEC may seek cannot be predicted at this time. If an action is brought, it could have a material adverse effect on WPC and Carey Financial and the magnitude of that effect would not necessarily be limited to the payments described above but could include other payments and civil monetary penalties. Any action brought against WPC or Carey Financial could also have a material adverse effect on the Company because of our dependence on WPC and Carey Financial for a broad range of services.

Several state securities regulators have sought information from Carey Financial relating to the matters described above. While one or more states may commence proceedings against Carey Financial in connection with

these inquiries, the Company does not currently expect that these inquiries or proceedings will have a material effect on WPC or Carey Financial incremental to that caused by any SEC action.

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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, 2006, distributions per share reported for tax purposes were as follows:

	2006	2005	2004
Ordinary income	\$ 0.31	\$ 0.56	\$ 0.57
Capital gains	0.44	0.04	—
Return of capital	—	0.16	0.19
	0.75	0.76	0.76
Spillover distribution ⁽¹⁾	0.02	—	—
	<u>\$ 0.77</u>	<u>\$ 0.76</u>	<u>\$ 0.76</u>

(1) This portion of the distribution is not taxable to the shareholder until 2007; therefore, the taxability and classification of this portion will be determined in 2007.

The Company declared a quarterly distribution of \$0.002097 per day for each day of the period from and including October 1, 2006 through December 31, 2006 on which a shareholder was a shareholder of record, which was paid in January 2007. Amounts in the table above exclude a special distribution of \$0.45 that was paid in July 2006 to shareholders of record as of June 30, 2006 and a special distribution of \$0.04 that was paid in January 2007 to shareholders of record as of November 30, 2006. These special distributions were approved by the Company's board of directors in connection with the dispositions of certain investments in real estate during 2006.

Accumulated Other Comprehensive Income

As of December 31, 2006 and 2005, accumulated other comprehensive income reflected in the Company's shareholders' equity is comprised of the following:

	2006	2005
Unrealized appreciation on marketable securities	\$ 771	\$ 319
Foreign currency translation adjustment	11,030	6,761
Accumulated other comprehensive (loss) income	<u>\$ 11,801</u>	<u>\$ 7,080</u>

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DISCONTINUED OPERATIONS

2006—The Company sold a property in Indiana for \$2,116, net of selling costs and recognized a loss on the sale of \$996, exclusive of impairment charges totaling \$3,810 previously recognized against the property.

The Company sold a property in Minnesota for \$35,512, net of selling costs and recognized a gain on the sale of \$14,178. In connection with the sale, the Company prepaid the existing limited recourse mortgage loan of \$11,631 and incurred prepayment penalties of \$1,586.

2005— The Company sold a property in California for \$4,116, net of selling costs and recognized a gain of \$196.

In accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”, the results of operations and gain or loss on sales of real estate for properties held for sale are reflected in the accompanying consolidated financial statements as discontinued operations for all periods presented and are summarized as follows:

	For the year ended December 31,		
	2006	2005	2004
Revenues (primarily rental revenues and other operating income):	\$ 1,003	\$ 2,676	\$ 2,889
Expenses (primarily interest on mortgages, prepayment penalties, depreciation and property expenses):	(2,647)	(1,948)	(1,900)
Gain on sales of real estate, net	13,182	196	—
Income from discontinued operations	<u>\$ 11,538</u>	<u>\$ 924</u>	<u>\$ 989</u>

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SEGMENT INFORMATION

The Company has determined that it operates in one business segment, real estate operations, with domestic and foreign investments.

For 2006, geographic information for the real estate operations segment is as follows:

	Domestic	Foreign ⁽¹⁾	Total Company
Revenues	\$ 110,894	\$ 24,298	\$ 135,192
Operating expenses	(50,661)	(6,836)	(57,497)
Income from equity investments in real estate	27,410	—	27,410
Interest expense, net	(39,779)	(8,564)	(48,343)
Other, net ⁽²⁾	388	930	1,318
Income from continuing operations	<u>\$ 48,252</u>	<u>\$ 9,828</u>	<u>\$ 58,080</u>
Total equity investments in real estate	\$ 200,332	\$ —	\$ 200,332
Total long-lived assets	1,300,717	191,098	1,491,815
Total assets	1,473,492	201,831	1,675,323

For 2005, geographic information for the real estate operations segment is as follows:

	Domestic	Foreign ⁽¹⁾	Total Company
Revenues	\$ 108,470	\$ 23,440	\$ 131,910
Operating expenses	(47,090)	(6,857)	(53,947)
Income from equity investments in real estate	15,798	—	15,798
Interest expense, net	(41,495)	(8,882)	(50,377)
Other, net ⁽²⁾	3,382	(441)	2,941
Income from continuing operations	<u>\$ 39,065</u>	<u>\$ 7,260</u>	<u>\$ 46,325</u>
Total equity investments in real estate	\$ 143,417	\$ —	\$ 143,417
Total long-lived assets	1,027,312	175,255	1,202,567
Total assets	1,112,722	182,314	1,295,036

For 2004, geographic information for the real estate operations segment is as follows:

	Domestic	Foreign ⁽¹⁾	Total Company
Revenues	\$ 105,296	\$ 22,475	\$ 127,771
Operating expenses	(44,778)	(6,656)	(51,434)
Income from equity investments in real estate	14,304	—	14,304
Interest expense, net	(42,485)	(9,119)	(51,604)
Other, net ⁽²⁾	(1,147)	61	(1,086)
Income from continuing operations	<u>\$ 31,190</u>	<u>\$ 6,761</u>	<u>\$ 37,951</u>
Total equity investments in real estate	\$ 134,905	\$ —	\$ 134,905
Total long-lived assets	1,048,775	202,334	1,251,109
Total assets	1,130,852	215,503	1,346,355

(1) Consists of operations in the United Kingdom, France, Finland and the Netherlands.

(2) Consists of minority interest, gain (loss) on derivative instruments and other gains, net and (loss) gain on foreign currency transactions, net

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SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	For the three months ended			
	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006
Revenues	\$ 32,248	\$ 32,761	\$ 34,713	\$ 35,470
Operating expenses	(12,701)	(16,439)	(14,404)	(13,953)
Net income	12,074	26,009	7,632	23,903
Earnings per share	0.18	0.38	0.11	0.32
Distributions declared per share	0.1924	0.1929	0.1929	0.1929

	For the three months ended			
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005
Revenues	\$ 32,580	\$ 32,590	\$ 34,725	\$ 32,015
Operating expenses	(12,852)	(13,484)	(15,355)	(12,256)
Net income	13,011	10,667	10,839	12,732
Earnings per share	0.19	0.16	0.16	0.18
Distributions declared per share	0.1904	0.1909	0.1914	0.1919

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PRO FORMA FINANCIAL INFORMATION

The following consolidated pro forma financial information for the years ended December 31, 2006 and 2005 has been presented as if properties acquired in connection with the merger, mortgage obligations assumed in the merger and amounts drawn under the Company's credit facility to effect the merger, had occurred on January 1, 2005. The pro forma financial information is not necessarily indicative of what the actual results would have been, nor does it purport to represent the results of operations for future periods.

	For the years ended December 31,	
	2006	2005
Pro forma total revenues	\$ 166,414	\$ 165,088
Pro forma income from continuing operations	63,774	52,612
Pro forma income from continuing operations per share	0.73	0.60

For pro forma purposes, the Company's interest income, other than interest earned from an existing mortgage security in which the Company increased its pro-rata share as a result of the merger, has been eliminated based on an assumption that substantially all of its cash and cash equivalents would be used to facilitate the merger. The Company will likely earn interest on cash generated from operations; however, it is not practicable to make assumptions as to how much interest income would have been earned on such funds during the pro forma periods presented.

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SUBSEQUENT EVENTS

In January 2007, the Company obtained limited recourse mortgage financing on existing properties totaling \$26,227, including its pro rata share of mortgage financing on a property accounted for under the equity method. The financing has a weighted average interest rate and term of 5.84% and 12 years, respectively.

Effective April 2, 2007, Trevor Bond is resigning from the Company's board of directors in connection with his appointment to the advisor's board of directors. Marshall Blume was appointed as an independent director of the Company's board of directors, effective April 2, 2007.

**MARKET FOR COMPANY'S COMMON EQUITY, RELATED
STOCKHOLDER MATTERS AND ISSUER PURCHASES OF
EQUITY SECURITIES**

There is no established public trading market for our shares. As of March 16, 2007, there were 30,337 holders of record of our shares.

Distributions

We are required to distribute annually at least 90% of our distributable REIT taxable income to maintain our status as a REIT. Quarterly distributions declared by us for the past two years are as follows:

	2006	2005
First quarter	\$ 0.1924	\$ 0.1904
Second quarter	0.1929	0.1909
Third quarter	0.1929	0.1914
Fourth quarter	0.1929	0.1919
	<u>\$ 0.7711</u>	<u>\$ 0.7646</u>

A quarterly distribution of \$0.002097 per day was declared for each day of the period from and including October 1, 2006 through December 31, 2006 on which a shareholder was a shareholder of record and was paid in January 2007. Amounts in the table above exclude a special distribution of \$0.45 that was paid in July 2006 to shareholders of record as of June 30, 2006 and a special distribution of \$0.04 that was paid in January 2007 to shareholders of record as of November 30, 2006. These special distributions were approved by our board of directors in connection with the dispositions of certain investments in real estate during 2006.

Unregistered Sales of Equity Securities

For the three months ended December 31, 2006, 175,208 shares of common stock were issued to the advisor as consideration for performance fees. Shares were issued at per share amounts of \$11.85. Since none of these transactions were considered to have involved a "public offering" within the meaning of Section 4(2) of the Securities Act, as amended, the shares issued were deemed to be exempt from registration. In acquiring our shares, the advisor represented that such interests were being acquired by it for the purposes of investment and not with a view to the distribution thereof. We previously reported other sales of unregistered shares during the past three years in our prior filings.

Issuer Purchases of Equity Securities

2006 Period	Total number of shares purchased ⁽¹⁾	Average price plans or programs ⁽¹⁾	Total number of shares purchased as part of publicly announced plans or programs ⁽¹⁾	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs ⁽¹⁾
October	—	\$ —	N/A	N/A
November	—	\$ —	N/A	N/A
December	<u>188,313</u>	<u>\$ 10.83</u>	N/A	N/A
Total	<u>188,313</u>			

(1) All shares were purchased pursuant to our redemption plan. In November 1997, we announced a redemption plan under which we may elect to redeem shares subject to certain conditions and limitations. The maximum amount of shares purchasable in any period depends on the availability of funds generated by the Distribution Reinvestment and Share Purchase Plan and other factors at the discretion of our Board of Directors. The redemption plan will terminate if and when our shares are listed on a national securities market.

R E P O R T O N F O R M 1 0 - K

The advisor will supply to any shareholder, upon written request and without charge, a copy of the Annual Report on Form 10-K for the year ended December 31, 2006 as filed with the SEC. The 10-K may also be obtained through the SEC's EDGAR database at www.sec.gov.

CORPORATE INFORMATION

Management

Wm. Polk Carey
Chairman of the Board

Gordon F. DuGan
Chief Executive Officer

Edward V. LaPuma
President

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

Claude Fernandez
Managing Director and Chief Accounting Officer

Benjamin P. Harris
Managing Director – Investments

Susan C. Hyde
Managing Director and Director of Investor Relations

Jan F. Kärst
Managing Director – Investments

John D. Miller
Chief Investment Officer

John J. Park
Managing Director – Strategic Planning

Anne Coolidge Taylor
Managing Director – Investments

Thomas E. Zacharias
Managing Director and Chief Operating Officer

Douglas E. Barzelay
General Counsel

Jason E. Fox
Executive Director – Investments

Jeffrey S. Lefleur
Executive Director – Investments

Thomas Ridings
Executive Director – Accounting

Michael D. Roberts
Executive Director – Accounting

Gino M. Sabatini
Executive Director – Investments

Kristin Chung
Senior Vice President and Controller

Christopher Franklin
Senior Vice President

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

Yvonne Cheng
First Vice President – Asset Management

L. Janusz Hooker
First Vice President – Investments

Robert C. Kehoe
First Vice President and Treasurer

Leonard Law
First Vice President and Chief Information Officer

David G. Termine
First Vice President – Accounting

Sheena R. Laughlin
Director of Human Resources

**Investment Committee of
Carey Asset Management Corp.**

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

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

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

Dr. Karsten von Köller
Chairman, Lone Star Germany GmbH

George E. Stoddard
Former Head of the Direct Placement Department, The Equitable Life Assurance Society of The United States

Directors

Wm. Polk Carey
Chairman of the Board

Gordon F. DuGan
Chief Executive Officer

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
Chief Executive Officer and Chairman, Right Management Consultants

James D. Price
President, Price & Marshall, Inc.

Corporate Information

Auditors
PricewaterhouseCoopers LLP

Executive Offices
Corporate Property Associates 14, 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

Annual Meeting
June 15, 2007 at 9:30 a.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 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

Web site
www.cpa14.com

E-mail
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