

W. P. Carey Inc.  
Form 10-Q  
August 07, 2015

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

FORM 10-Q

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

For the quarterly period ended June 30, 2015  
or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-13779

W. P. CAREY INC.

(Exact name of registrant as specified in its charter)

Maryland

(State of incorporation)

45-4549771

(I.R.S. Employer Identification No.)

50 Rockefeller Plaza

New York, New York

(Address of principal executive offices)

10020

(Zip Code)

Investor Relations (212) 492-8920

(212) 492-1100

(Registrant's telephone numbers, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Accelerated filer  Non-accelerated filer

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Large accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  
 No

Registrant has 104,398,173 shares of common stock, \$0.001 par value, outstanding at July 31, 2015.

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## Forward-Looking Statements

This Quarterly Report on Form 10-Q, or this Report, including Management’s Discussion and Analysis of Financial Condition and Results of Operations, in Item 2 of Part I of this Report, contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements generally are identified by the words “believe,” “project,” “expect,” “anticipate,” “estimate,” “intend,” “strategy,” “plan,” “may,” “should,” “will,” “would,” “will be,” “will likely result,” and similar expressions. These forward-looking statements include, but are not limited to, statements regarding capital markets, tenant credit quality, general economic overview, our expected range of Adjusted funds from operations, or AFFO, our corporate strategy, our capital structure, our portfolio lease terms, our international exposure and acquisition volume, our expectations about tenant bankruptcies and interest coverage, statements regarding estimated or future economic performance and results, including our underlying assumptions, occupancy rate, credit ratings, and possible new acquisitions by us and our investment management programs, the Managed REITs discussed herein, including their earnings, statements that we make regarding our ability to remain qualified for taxation as a real estate investment trust, or REIT, the amount and timing of any future dividends, our existing or future leverage and debt service obligations, our ability to sell shares under our “at the market” program and the use of any such proceeds from that program, our future prospects for growth, our projected assets under management, our future capital expenditure levels, our historical and anticipated funds from operations, our future financing transactions, our estimates of growth, and our plans to fund our future liquidity needs. These statements are based on the current expectations of our management. It is important to note that our actual results could be materially different from those projected in such forward-looking statements. There are a number of risks and uncertainties that could cause actual results to differ materially from these forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on our business, financial condition, liquidity, results of operations, AFFO, and prospects. You should exercise caution in relying on forward-looking statements as they involve known and unknown risks, uncertainties, and other factors that may materially affect our future results, performance, achievements or transactions. Information on factors that could impact actual results and cause them to differ from what is anticipated in the forward-looking statements contained herein is included in this Report as well as in our other filings with the Securities and Exchange Commission, or the SEC, including but not limited to those described in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2014 as filed with the SEC on

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March 2, 2015, as amended by a Form 10-K/A filed with the SEC on March 17, 2015, or the 2014 Annual Report, and Part II, Item 1A “Risk Factors” in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 as filed with the SEC on May 18, 2015. Moreover, because we operate in a very competitive and rapidly changing environment, new risks are likely to emerge from time to time. Given these risks and uncertainties, potential investors are cautioned not to place undue reliance on these forward-looking statements as a prediction of future results, which speak only as of the date of this Report, unless noted otherwise. Except as required by federal securities laws and the rules and regulations of the SEC, we do not undertake to revise or update any forward-looking statements.

All references to “Notes” throughout the document refer to the footnotes to the consolidated financial statements of the registrant in Part I, Item 1. Financial Statements (Unaudited).

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## PART I

## Item 1. Financial Statements.

## W. P. CAREY INC.

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands, except share and per share amounts)

	June 30, 2015	December 31, 2014
Assets		
Investments in real estate:		
Real estate, at cost (inclusive of \$183,810 and \$184,417, respectively, attributable to variable interest entities, or VIEs)	\$5,296,054	\$5,006,682
Operating real estate, at cost (inclusive of \$38,714 and \$38,714, respectively, attributable to VIEs)	85,237	84,885
Accumulated depreciation (inclusive of \$23,552 and \$19,982, respectively, attributable to VIEs)	(324,136)	(258,493)
Net investments in properties	5,057,155	4,833,074
Net investments in direct financing leases (inclusive of \$59,829 and \$61,609, respectively, attributable to VIEs)	783,832	816,226
Assets held for sale	—	7,255
Net investments in real estate	5,840,987	5,656,555
Cash and cash equivalents (inclusive of \$1,749 and \$2,652, respectively, attributable to VIEs)	233,629	198,683
Equity investments in the Managed Programs and real estate	263,418	249,403
Due from affiliates	176,796	34,477
Goodwill	687,084	692,415
In-place lease and tenant relationship intangible assets, net (inclusive of \$19,513 and \$21,267, respectively, attributable to VIEs)	948,547	993,819
Above-market rent intangible assets, net (inclusive of \$12,784 and \$13,767, respectively, attributable to VIEs)	498,746	522,797
Other assets, net (inclusive of \$18,775 and \$18,603, respectively, attributable to VIEs)	318,397	300,330
Total assets	\$8,967,604	\$8,648,479
Liabilities and Equity		
Liabilities:		
Non-recourse debt, net (inclusive of \$122,712 and \$125,226, respectively, attributable to VIEs)	\$2,443,212	\$2,532,683
Senior Unsecured Credit Facility - Revolver	350,234	807,518
Senior Unsecured Credit Facility - Term Loan	250,000	250,000
Senior Unsecured Notes, net	1,501,061	498,345
Below-market rent and other intangible liabilities, net (inclusive of \$8,830 and \$9,305, respectively, attributable to VIEs)	171,544	175,070
Accounts payable, accrued expenses and other liabilities (inclusive of \$4,012 and \$5,573, respectively, attributable to VIEs)	312,521	293,846
Deferred income taxes (inclusive of \$535 and \$587, respectively, attributable to VIEs)	89,036	94,133
Distributions payable	101,517	100,078
Total liabilities	5,219,125	4,751,673
Redeemable noncontrolling interest	13,374	6,071

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Commitments and contingencies (Note 13)

Equity:

W. P. Carey stockholders' equity:

Preferred stock, \$0.001 par value, 50,000,000 shares authorized; none issued	—	—
Common stock, \$0.001 par value, 450,000,000 shares authorized; 105,421,626 and 105,085,069 shares issued, respectively; and 104,377,210 and 104,040,653 shares outstanding, respectively	105	105
Additional paid-in capital	4,298,574	4,322,273
Distributions in excess of accumulated earnings	(575,404	) (465,606 )
Deferred compensation obligation	57,395	30,624
Accumulated other comprehensive loss	(120,777	) (75,559 )
Less: treasury stock at cost, 1,044,416 shares	(60,948	) (60,948 )
Total W. P. Carey stockholders' equity	3,598,945	3,750,889
Noncontrolling interests	136,160	139,846
Total equity	3,735,105	3,890,735
Total liabilities and equity	\$8,967,604	\$8,648,479

See Notes to Consolidated Financial Statements.

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W. P. CAREY INC.  
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)  
(in thousands, except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues				
Real estate revenues:				
Lease revenues	\$ 162,574	\$ 148,253	\$ 322,739	\$ 271,320
Operating property revenues	8,426	8,251	15,538	13,244
Reimbursable tenant costs	6,130	5,749	12,069	11,763
Lease termination income and other	3,122	14,988	6,331	16,175
	180,252	177,241	356,677	312,502
Revenues from the Managed Programs:				
Structuring revenue	37,808	17,254	59,528	35,005
Asset management revenue	12,073	9,045	23,232	18,822
Reimbursable costs	7,639	41,925	17,246	81,657
Dealer manager fees	307	7,949	1,581	14,626
Incentive, termination and subordinated disposition revenue	—	—	203	—
	57,827	76,173	101,790	150,110
	238,079	253,414	458,467	462,612
Operating Expenses				
Depreciation and amortization	65,166	63,445	130,566	116,118
General and administrative	26,376	19,134	56,144	41,804
Reimbursable tenant and affiliate costs	13,769	47,674	29,315	93,420
Property expenses, excluding reimbursable tenant costs	11,020	11,211	20,384	19,630
Stock-based compensation expense	5,089	7,957	12,098	15,000
Subadvisor fees	4,147	2,451	6,808	2,469
Dealer manager fees and expenses	2,327	6,285	4,699	11,710
Merger and property acquisition expenses	1,897	1,137	7,573	30,751
Impairment charges	591	2,066	3,274	2,066
	130,382	161,360	270,861	332,968
Other Income and Expenses				
Interest expense	(47,693)	(47,733)	(95,642)	(86,808)
Equity in earnings of equity method investments in the Managed Programs and real estate	14,272	9,452	25,995	23,714
Other income and (expenses)	7,641	(1,378)	3,335	(7,019)
Gain on change in control of interests	—	—	—	105,947
	(25,780)	(39,659)	(66,312)	35,834
Income from continuing operations before income taxes and gain (loss) on sale of real estate	81,917	52,395	121,294	165,478
Provision for income taxes	(15,010)	(8,021)	(16,990)	(10,274)
Income from continuing operations before gain (loss) on sale of real estate	66,907	44,374	104,304	155,204
Income from discontinued operations, net of tax	—	26,421	—	32,828
Gain (loss) on sale of real estate, net of tax	16	(3,823)	1,201	(3,743)
Net Income	66,923	66,972	105,505	184,289
Net income attributable to noncontrolling interests	(3,575)	(2,344)	(6,041)	(3,921)
	—	111	—	(151)

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Net loss (income) attributable to redeemable noncontrolling interest				
Net Income Attributable to W. P. Carey	\$63,348	\$64,739	\$99,464	\$180,217
Basic Earnings Per Share				
Income from continuing operations attributable to W. P. Carey	\$0.60	\$0.38	\$0.94	\$1.55
Income from discontinued operations attributable to W. P. Carey	—	0.26	—	0.34
Net Income Attributable to W. P. Carey	\$0.60	\$0.64	\$0.94	\$1.89
Diluted Earnings Per Share				
Income from continuing operations attributable to W. P. Carey	\$0.59	\$0.38	\$0.93	\$1.53
Income from discontinued operations attributable to W. P. Carey	—	0.26	—	0.34
Net Income Attributable to W. P. Carey	\$0.59	\$0.64	\$0.93	\$1.87
Weighted-Average Shares Outstanding				
Basic	105,764,032	100,236,362	105,532,976	94,855,067
Diluted	106,281,983	100,995,225	106,355,402	95,857,916
Amounts Attributable to W. P. Carey				
Income from continuing operations, net of tax	\$63,348	\$38,275	\$99,464	\$147,211
Income from discontinued operations, net of tax	—	26,464	—	33,006
Net Income	\$63,348	\$64,739	\$99,464	\$180,217
Distributions Declared Per Share	\$0.9540	\$0.9000	\$1.9065	\$1.7950

See Notes to Consolidated Financial Statements.

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## W. P. CAREY INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net Income	\$66,923	\$66,972	\$105,505	\$184,289
Other Comprehensive Income (Loss)				
Foreign currency translation adjustments	48,090	(1,590 )	(65,989 )	2,956
Realized and unrealized (loss) gain on derivative instruments	(9,619 )	(1,767 )	17,199	(4,564 )
Change in unrealized (loss) gain on marketable securities	—	(5 )	14	12
	38,471	(3,362 )	(48,776 )	(1,596 )
Comprehensive Income	105,394	63,610	56,729	182,693
Amounts Attributable to Noncontrolling Interests				
Net income	(3,575 )	(2,344 )	(6,041 )	(3,921 )
Foreign currency translation adjustments	(1,585 )	113	3,558	448
Comprehensive income attributable to noncontrolling interests	(5,160 )	(2,231 )	(2,483 )	(3,473 )
Amounts Attributable to Redeemable Noncontrolling Interest				
Net loss (income)	—	111	—	(151 )
Foreign currency translation adjustments	—	21	—	27
Comprehensive loss (income) attributable to redeemable noncontrolling interest	—	132	—	(124 )
Comprehensive Income Attributable to W. P. Carey	\$100,234	\$61,511	\$54,246	\$179,096

See Notes to Consolidated Financial Statements.

## W. P. CAREY INC.

## CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

Six Months Ended June 30, 2015

(in thousands, except share and per share amounts)

	W. P. Carey Stockholders			Distributions in Excess of Accumulated Earnings	Deferred Compensation Obligation	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total W. P. Carey Stockholders	Noncontrolling Interests	Total
	Common Stock \$0.001 Par Value Shares	Additional Paid-in Capital Amount								
Balance at January 1, 2015	104,040,653	\$105	\$4,322,273	\$(465,606)	\$30,624	\$(75,559 )	\$(60,948)	\$3,750,889	\$139,846	\$3,890,735
Contributions from noncontrolling interests								—	483	483
Exercise of stock options and employee purchases under the employee share purchase plan	4,738	—	256					256		256
Grants issued in connection with services rendered	288,142	—	(14,533 )					(14,533 )		(14,533)
Shares issued under share incentive plans	43,677	—	(870 )					(870 )		(870)
Deferral of vested shares			(24,935 )	24,935				—		—
Windfall tax benefits - share incentive plans			6,524					6,524		6,524
Amortization of stock-based compensation expense			12,098					12,098		12,098
Redemption value adjustment			(7,303 )					(7,303 )		(7,303)
Distributions to noncontrolling interests								—	(6,652 )	(6,652)
Distributions declared (\$1.9065 per			5,064	(209,262 )	1,836			(202,362 )		(202,362)

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share)										
Net income			99,464				99,464		6,041	105,505
Other comprehensive income (loss):										
Foreign currency translation adjustments					(62,431 )		(62,431 )		(3,558 )	(65,989)
Realized and unrealized gain on derivative instruments					17,199		17,199			17,199
Change in unrealized gain on marketable securities					14		14			14
Balance at June 30, 2015	104,377,210	\$ 105	\$ 4,298,574	\$ (575,404)	\$ 57,395	\$ (120,777)	\$ (60,948)	\$ 3,598,945	\$ 136,160	\$ 3,733,815

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W. P. CAREY INC.  
CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)  
(Continued)

Six Months Ended June 30, 2014

(in thousands, except share and per share amounts)

	W. P. Carey Stockholders			Distributions in Excess of Accumulated Earnings	Deferred Compensation Obligation	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total W. P. Carey Stockholders	Noncontrol Interests
	Common Stock \$0.001 Par Value Shares	Additional Paid-in Capital Amount							
Balance at January 1, 2014	68,266,570	\$69	\$2,256,503	\$(318,577)	\$11,354	\$15,336	\$(60,270)	\$1,904,415	\$298,316
Shares issued to stockholders of CPA®:16 – Global in connection with the CPA®:16 Merger	30,729,878	31	1,815,490					1,815,521	
Purchase of the remaining interests in less-than-wholly-owned investments that we already consolidate in connection with the CPA®:16 Merger			(41,374 )					(41,374 )	(239,562 )
Purchase of noncontrolling interests in connection with the CPA®:16 Merger								—	99,947
Exercise of stock options and employee purchases under the employee share purchase plan	23,506		1,184					1,184	
Grants issued in connection with services rendered	352,188		(15,736 )					(15,736 )	
Shares issued under share incentive plans	18,683		(534 )					(534 )	
Deferral of vested shares			(15,428 )	15,428				—	
Windfall tax benefits - share incentive plans			5,449					5,449	
Amortization of stock-based compensation expense			15,000					15,000	
Redemption value adjustment			306					306	
								—	(11,185 )

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Distributions to noncontrolling interests									
Distributions declared (\$1.7950 per share)		3,179		(187,798 )	3,842			(180,777 )	
Purchase of treasury stock from related party	(11,037 )							(678 )	(678 )
Foreign currency translation								—	4
Net income				180,217				180,217	3,921
Other comprehensive income (loss):									
Foreign currency translation adjustments						3,431		3,431	(448 )
Realized and unrealized loss on derivative instruments						(4,564 )		(4,564 )	
Change in unrealized gain on marketable securities						12		12	
Balance at June 30, 2014	99,379,788	\$ 100	\$4,024,039	\$(326,158)	\$30,624	\$14,215	\$(60,948)	\$3,681,872	\$150,993

See Notes to Consolidated Financial Statements.

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## W. P. CAREY INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Six Months Ended June 30,	
	2015	2014
Cash Flows — Operating Activities		
Net income	\$105,505	\$184,289
Adjustments to net income:		
Depreciation and amortization, including intangible assets and deferred financing costs	134,129	123,908
Straight-line rent and amortization of rent-related intangibles	19,793	23,350
Stock-based compensation expense	12,098	15,000
Management income received in shares of Managed REITs and other	(10,699)	(18,045)
Impairment charges	3,274	2,066
Realized and unrealized loss (gain) on foreign currency transactions, derivatives, extinguishment of debt and other	1,452	(1,756)
Equity in earnings of equity method investments in the Managed Programs and real estate in excess of distributions received	(1,417)	(1,815)
Gain on sale of real estate	(1,201)	(23,930)
Gain on change in control of interests	—	(105,947)
Amortization of deferred revenue	—	(786)
Changes in assets and liabilities:		
Increase in structuring revenue receivable	(17,896)	(10,842)
Payments for withholding taxes upon delivery of equity-based awards and exercises of stock options	(15,402)	(16,271)
Deferred acquisition revenue received	14,084	11,153
Net changes in other operating assets and liabilities	(27,668)	(11,737)
Net Cash Provided by Operating Activities	216,052	168,637
Cash Flows — Investing Activities		
Purchases of real estate	(435,915)	(88,334)
Funding of loans to affiliates	(122,447)	(11,000)
Change in investing restricted cash	31,692	(103,116)
Proceeds from sale of real estate	24,016	280,795
Investment in real estate under construction	(21,638)	(2,835)
Proceeds from repayment of note receivable	9,964	—
Capital contribution to equity investments in real estate	(8,643)	(459)
Distributions received from equity investments in the Managed Programs and real estate in excess of equity income	3,383	8,889
Capital expenditures on corporate assets	(2,312)	(8,637)
Capital expenditures on owned real estate	(2,026)	(2,005)
Other investing activities, net	977	740
Cash acquired in connection with the CPA <sup>®</sup> :16 Merger	—	65,429
Purchase of securities	—	(7,664)
Cash paid to stockholders of CPA <sup>®</sup> :16 – Global in the CPA <sup>®</sup> :16 Merger	—	(1,338)
Proceeds from repayment of short-term loan to affiliate	—	1,155
Net Cash (Used in) Provided by Investing Activities	(522,949)	131,620
Cash Flows — Financing Activities		

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Proceeds from issuance of Senior Unsecured Notes	1,022,303	498,195	
Repayments of Senior Unsecured Credit Facility	(913,868	) (1,310,000	)
Proceeds from Senior Unsecured Credit Facility	484,122	1,042,627	
Distributions paid	(200,915	) (158,312	)
Scheduled payments of mortgage principal	(36,095	) (61,608	)
Proceeds from mortgage financing	17,778	6,550	
Payment of financing costs	(10,886	) (12,192	)
Distributions paid to noncontrolling interests	(6,652	) (12,026	)
Windfall tax benefit associated with stock-based compensation awards	6,524	5,449	
Contributions from noncontrolling interests	483	314	
Change in financing restricted cash	(342	) (588	)
Proceeds from exercise of stock options and employee purchases under the employee share purchase plan	256	1,184	
Prepayments of mortgage principal	—	(201,820	)
Purchase of treasury stock from related party	—	(677	)
Net Cash Provided by (Used in) Financing Activities	362,708	(202,904	)
Change in Cash and Cash Equivalents During the Period			
Effect of exchange rate changes on cash	(20,865	) 99	
Net increase in cash and cash equivalents	34,946	97,452	
Cash and cash equivalents, beginning of period	198,683	117,519	
Cash and cash equivalents, end of period	\$233,629	\$214,971	

See Notes to Consolidated Financial Statements.

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W. P. CAREY INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Business and Organization

W. P. Carey Inc., or W. P. Carey, is, together with its consolidated subsidiaries and predecessors, a REIT that provides long-term financing via sale-leaseback and build-to-suit transactions for companies worldwide and manages a global investment portfolio. We invest primarily in commercial properties domestically and internationally. We earn revenue principally by leasing the properties we own to single corporate tenants, primarily on a triple-net lease basis, which generally requires each tenant to pay substantially all of the costs associated with operating and maintaining the property. Through our taxable REIT subsidiaries, or TRSs, we also earn revenue as the advisor to publicly-owned, non-listed REITs, which are sponsored by us under the Corporate Property Associates, or CPA<sup>®</sup>, brand name that invest in similar properties. At June 30, 2015, we were the advisor to Corporate Property Associates 17 – Global Incorporated, or CPA<sup>®</sup>:17 – Global, and Corporate Property Associates 18 – Global Incorporated, or CPA<sup>®</sup>:18 – Global. We were also the advisor to Corporate Property Associates 16 – Global Incorporated, or CPA<sup>®</sup>:16 – Global, until its merger with us on January 31, 2014. We refer to CPA<sup>®</sup>:16 – Global, CPA<sup>®</sup>:17 – Global, and CPA<sup>®</sup>:18 – Global together as the CPA<sup>®</sup> REITs. At June 30, 2015, we were also the advisor to Carey Watermark Investors Incorporated, or CWI (which we also refer to as CWI 1), and Carey Watermark Investors 2 Incorporated, or CWI 2, two publicly-owned, non-listed REITs that invest in lodging and lodging-related properties. We refer to CWI and CWI 2 as the CWI REITs, and, together with the CPA<sup>®</sup> REITs, as the Managed REITs (Note 5). We have also invested in Carey Credit Income Fund, or CCIF, a newly formed business development company, or BDC (Note 8), with a third-party investment partner, that is the master fund in a master/feeder fund structure.

In September 2014, we filed two registration statements on Form N-2, as amended, with the SEC regarding the organization of two feeder funds that are affiliated with CCIF. The registration statements enable each of the newly organized feeder funds to sell common shares up to \$1.0 billion each and to invest that equity capital into CCIF. The advisor to CCIF is wholly owned by us. We refer to CCIF and the two feeder funds collectively as the Managed BDCs and, together with the Managed REITs, as the Managed Programs. The registration statements were declared effective by the SEC in July 2015.

Originally founded in 1973, we reorganized as a REIT in September 2012 in connection with our merger with Corporate Property Associates 15 Incorporated. We refer to that merger as the CPA<sup>®</sup>:15 Merger. Our shares of common stock are listed on the New York Stock Exchange under the symbol “WPC.”

On January 31, 2014, CPA<sup>®</sup>:16 – Global merged with and into us based on a merger agreement, dated as of July 25, 2013 (Note 4), which we refer to as the CPA<sup>®</sup>:16 Merger.

We have elected to be taxed as a REIT under Section 856 through 860 of the Internal Revenue Code. As a REIT, we are not generally subject to United States federal income taxation other than from our TRSs as long as we satisfy certain requirements, principally relating to the nature of our income and the level of our distributions, as well as other factors. We hold all of our real estate assets attributable to our Real Estate Ownership segment under the REIT structure, while the activities conducted by our Investment Management segment subsidiaries have been organized under TRSs.

Reportable Segments

Real Estate Ownership — We own and invest in commercial properties principally in the United States, Europe, and Asia that are then leased to companies, primarily on a triple-net lease basis. We have also invested in several operating properties, such as lodging and self-storage properties. We earn lease revenues from our wholly-owned and co-owned



real estate investments that we control. In addition, we generate equity income through co-owned real estate investments that we do not control and through our ownership of shares of the Managed REITs (Note 8). Through our special member interests in the operating partnerships of the Managed REITs, we also participate in their cash flows (Note 5). At June 30, 2015, our owned portfolio was comprised of our full or partial ownership interests in 852 properties, substantially all of which were net leased to 217 tenants, with an occupancy rate of 98.6%, and totaled approximately 89.3 million square feet.

Investment Management — Through our TRSs, we structure and negotiate investments and debt placement transactions for the Managed REITs, for which we earn structuring revenue, and manage their portfolios of real estate investments, for which we earn asset-based management revenue. We earn disposition revenue when we negotiate and structure the sale of properties on behalf of the Managed REITs, and we may also earn incentive revenue and receive other compensation in connection with providing liquidity events for the Managed REITs' stockholders. At June 30, 2015, CPA<sup>®</sup>:17 – Global and CPA<sup>®</sup>:18 – Global collectively owned all or a portion of 422 properties, including certain properties in which we have an ownership interest.

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## Notes to Consolidated Financial Statements (Unaudited)

Substantially all of these properties, totaling approximately 47.3 million square feet, were net leased to 192 tenants, with an average occupancy rate of approximately 99.9%. The Managed REITs also had interests in 149 operating properties for an aggregate of approximately 17.1 million square feet at June 30, 2015. We have begun to explore alternatives for expanding our investment management operations by raising funds beyond advising the existing Managed REITs. Any such expansion could involve the purchase of properties or other investments as principal, either for our owned portfolio or with the intention of transferring such investments to a newly-created fund, as well as the sponsorship of one or more funds to make investments other than primarily net lease investments, such as the CWI REITs and the Managed BDCs. These new funds could invest primarily in assets other than net-lease real estate and could include funds raised through private placements or publicly-traded vehicles, either in the United States or internationally.

### Note 2. Revisions of Previously-Issued Financial Statements

During the second quarter of 2015, we identified errors in the March 31, 2015 interim consolidated financial statements related to the calculation of foreign currency translation of the assets and liabilities of a foreign investment acquired in January 2015 and the presentation of certain foreign currency losses within the consolidated statement of cash flows for the three months ended March 31, 2015. We evaluated the impact on the previously issued financial statements and concluded that these errors were not material to our consolidated financial statements as of and for the three months ended March 31, 2015. However, in order to correctly present such foreign currency translation and certain foreign currency losses, we will revise the consolidated statements of comprehensive (loss) income, equity, and cash flows for the three months ended March 31, 2015 when such statements are presented in our future public filings. The interim consolidated financial statements as of and for the three months ended June 30, 2015, are not impacted by these adjustments.

If the correct foreign currency translation adjustments had been recorded during the three months ended March 31, 2015, Total assets and Total liabilities and equity each would have been higher by \$17.6 million, comprised of increases in Real estate, at cost of \$14.8 million and In-place lease intangibles of \$2.8 million with a corresponding increase of \$0.3 million in Below-market rent and other intangible liabilities, net and a \$17.3 million decrease in Accumulated other comprehensive loss on the consolidated balance sheet and consolidated statement of equity as of and for the three months ended March 31, 2015. Additionally, Other comprehensive loss, Comprehensive loss and Comprehensive loss attributable to W. P. Carey within the consolidated statement of comprehensive loss each would have been reduced by \$17.3 million for the three months ended March 31, 2015.

In addition, if foreign currency losses had been properly presented within the consolidated statement of cash flows for the three months ended March 31, 2015, Net cash provided by operating activities for that period would have increased by \$13.6 million with a corresponding decrease to the Effect of exchange rate changes on cash.

The revisions described above had no effect on our cash balances or liquidity as of March 31, 2015, the consolidated statements of income or basic and diluted earnings per common share for the three months ended March 31, 2015.

### Note 3. Basis of Presentation

#### Basis of Presentation

Our interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not necessarily include all information and footnotes necessary for a fair statement of our consolidated financial position, results of operations, and cash flows in accordance with accounting principles generally accepted in the United States, or GAAP.

In the opinion of management, the unaudited financial information for the interim periods presented in this Report reflects all normal and recurring adjustments necessary for a fair statement of financial position, results of operations,

and cash flows. Our interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements and accompanying notes for the year ended December 31, 2014, which are included in the 2014 Annual Report, as certain disclosures that would substantially duplicate those contained in the audited consolidated financial statements have not been included in this Report. Operating results for interim periods are not necessarily indicative of operating results for an entire year.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in our consolidated financial statements and the accompanying notes. Actual results could differ from those estimates.

## Notes to Consolidated Financial Statements (Unaudited)

### Basis of Consolidation

Our consolidated financial statements reflect all of our accounts, including those of our controlled subsidiaries and our tenancy-in-common interests as described below. The portion of equity in a consolidated subsidiary that is not attributable, directly or indirectly, to us is presented as noncontrolling interests. All significant intercompany accounts and transactions have been eliminated.

We have an investment in a tenancy-in-common interest in various underlying international properties. Consolidation of this investment is not required as such interest does not qualify as a VIE and does not meet the control requirement for consolidation. Accordingly, we account for this investment using the equity method of accounting. We use the equity method of accounting because the shared decision-making involved in a tenancy-in-common interest investment provides us with significant influence on the operating and financial decisions of this investment. We also have certain investments in wholly-owned tenancy-in-common interests, which we now consolidate after we obtained the remaining interests in the CPA®:16 Merger.

At June 30, 2015, we had 18 VIEs. We apply accounting guidance for consolidation of VIEs to certain entities in which the equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Fixed price purchase and renewal options within a lease as well as certain decision-making rights within a loan can cause us to consider an entity a VIE.

Additionally, we own interests in single-tenant, net-leased properties leased to companies through noncontrolling interests in partnerships and limited liability companies that we do not control but over which we exercise significant influence. We account for these investments under the equity method of accounting. At times, the carrying value of our equity investments may fall below zero for certain investments. We intend to fund our share of the investments' future operating deficits should the need arise. However, we have no legal obligation to pay for any of the liabilities of such investments nor do we have any legal obligation to fund operating deficits. At June 30, 2015, none of our equity investments had carrying values below zero.

In June 2014, CWI 2 filed a registration statement on Form S-11 with the SEC to sell up to \$1.0 billion of common stock in an initial public offering plus up to an additional \$400.0 million of its common stock under a distribution reinvestment plan. In January 2015, CWI 2 amended the registration statement to increase the offering size to \$1.4 billion of its class A common stock plus up to an additional \$600.0 million of its class A common stock through its distribution reinvestment plan. The registration statement was declared effective by the SEC on February 9, 2015. An amended registration statement adding the class T common stock was declared effective by the SEC on April 13, 2015, so that the offering amounts noted can be in any combination of class A or class T shares. Through May 15, 2015, the financial activity of CWI 2 was included in our consolidated financial statements. On May 15, 2015, upon CWI 2 reaching its minimum offering proceeds and admitting new stockholders, we deconsolidated CWI 2 and began to account for our interest in it under the equity method. The deconsolidation did not have a material impact on our financial position or results of operations.

### Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation. The consolidated financial statements included in this Report have been retrospectively adjusted to reflect the disposition of certain properties as discontinued operations and certain measurement period adjustments related to purchase accounting for all periods presented.

Recent Accounting Requirements

The following Accounting Standards Updates, or ASUs, promulgated by the Financial Accounting Standards Board are applicable to us:

ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30) — ASU 2015-03 changes the presentation of debt issuance costs, which are currently recognized as a deferred charge (that is, an asset) and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 does not affect the recognition and measurement guidance for debt issuance costs. ASU 2015-03 is effective for periods beginning after December 15, 2015, early adoption is permitted and retrospective application is required. We are currently evaluating the impact of ASU 2015-03 on our consolidated financial statements.

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## Notes to Consolidated Financial Statements (Unaudited)

ASU 2014-09, Revenue from Contracts with Customers (Topic 606) — ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 does not apply to our lease revenues, but will apply to reimbursed tenant costs and revenues generated from our operating properties and our Investment Management business. Additionally, this guidance modifies disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In April 2015, the Financial Accounting Standards Board issued a proposed ASU to defer the effective date of ASU 2014-09 by one year. In July 2015, the Financial Accounting Standards Board affirmed its proposal to defer the effective date of the new revenue standard for all entities by one year and directed the staff to draft a final ASU for vote by written ballot. Upon issuance of the final ASU deferring the effective date, ASU 2014-09 will be effective beginning in 2018, and early adoption is permitted but not before 2017, the original public company effective date. We are currently evaluating the impact of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard.

Note 4. Merger with CPA<sup>®</sup>:16 – Global

On July 25, 2013, we and CPA<sup>®</sup>:16 – Global entered into a definitive agreement pursuant to which CPA<sup>®</sup>:16 – Global would merge with and into one of our wholly-owned subsidiaries, subject to the approval of our stockholders and the stockholders of CPA<sup>®</sup>:16 – Global. On January 24, 2014, our stockholders and the stockholders of CPA<sup>®</sup>:16 – Global each approved the CPA<sup>®</sup>:16 Merger, and the CPA<sup>®</sup>:16 Merger closed on January 31, 2014.

In the CPA<sup>®</sup>:16 Merger, CPA<sup>®</sup>:16 – Global stockholders received 0.1830 shares of our common stock in exchange for each share of CPA<sup>®</sup>:16 – Global stock owned, pursuant to an exchange ratio based upon a value of \$11.25 per share of CPA<sup>®</sup>:16 – Global and the volume weighted-average trading price of our common stock for the five consecutive trading days ending on the third trading day preceding the closing of the transaction on January 31, 2014. CPA<sup>®</sup>:16 – Global stockholders received cash in lieu of any fractional shares in the CPA<sup>®</sup>:16 Merger. We paid total merger consideration of approximately \$1.8 billion, including the issuance of 30,729,878 shares of our common stock with a fair value of \$1.8 billion based on the closing price of our common stock on January 31, 2014, of \$59.08 per share, to the stockholders of CPA<sup>®</sup>:16 – Global in exchange for the 168,041,772 shares of CPA<sup>®</sup>:16 – Global common stock that we and our affiliates did not previously own, and cash of \$1.3 million paid in lieu of issuing any fractional shares, or collectively, the Merger Consideration. As a condition of the CPA<sup>®</sup>:16 Merger, we waived the subordinated disposition and termination fees that we would have been entitled to receive from CPA<sup>®</sup>:16 – Global upon its liquidation pursuant to the terms of our advisory agreement with CPA<sup>®</sup>:16 – Global (Note 5).

Immediately prior to the CPA<sup>®</sup>:16 Merger, CPA<sup>®</sup>:16 – Global's portfolio was comprised of the consolidated full or partial interests in 325 leased properties, substantially all of which were triple-net leased with an average remaining life of 10.4 years and an estimated contractual minimum annualized base rent, or ABR, totaling \$300.1 million, and two hotel properties. The related property-level debt was comprised of 92 fixed-rate and 18 variable-rate non-recourse mortgage loans with an aggregate fair value of approximately \$1.8 billion and a weighted-average annual interest rate of 5.6% at that date. Additionally, CPA<sup>®</sup>:16 – Global had a line of credit with an outstanding balance of \$170.0 million on the date of the closing of the CPA<sup>®</sup>:16 Merger. In addition, CPA<sup>®</sup>:16 – Global had equity interests in 18 unconsolidated investments, 11 of which were consolidated by us prior to the CPA<sup>®</sup>:16 Merger, five of which were consolidated by us subsequent to the CPA<sup>®</sup>:16 Merger, and two of which were jointly-owned with CPA<sup>®</sup>:17 – Global. These investments owned 140 properties, substantially all of which were triple-net leased with an average remaining life of 8.6 years and an estimated ABR totaling \$63.9 million, as of January 31, 2014. The debt related to these equity investments was comprised of 17 fixed-rate and five variable-rate non-recourse mortgage loans with an aggregate fair value of approximately \$0.3 billion and a weighted-average annual interest rate of 4.8% on January 31, 2014. The lease revenues and income from continuing operations from the properties acquired from the date of the CPA<sup>®</sup>:16

Merger through June 30, 2014 were \$115.9 million and \$35.2 million (inclusive of \$1.8 million attributable to noncontrolling interests), respectively.

During 2014, we sold all ten of the properties that were classified as held-for-sale upon acquisition in connection with the CPA<sup>®</sup>:16 Merger (Note 16). The results of operations for all ten of these properties have been included in Income from discontinued operations, net of tax in the consolidated financial statements. In addition, we sold one property subject to a direct financing lease that we acquired in the CPA<sup>®</sup>:16 Merger. The results of operations for this property have been included in Income from continuing operations before income taxes in the consolidated financial statements.

Notes to Consolidated Financial Statements (Unaudited)

Purchase Price Allocation

We accounted for the CPA®:16 Merger as a business combination under the acquisition method of accounting. After consideration of all applicable factors pursuant to the business combination accounting rules, we were considered the “accounting acquirer” due to various factors, including the fact that our stockholders held the largest portion of the voting rights in us upon completion of the CPA®:16 Merger. Costs of \$30.5 million related to the CPA®:16 Merger were incurred in 2014, of which \$30.4 million were incurred and expensed during the six months ended June 30, 2014 and classified within Merger and property acquisition expenses in the consolidated financial statements. In addition, CPA®:16 – Global incurred a total of \$10.6 million of merger expenses prior to January 31, 2014.

Equity Investments and Noncontrolling Interests

During the first quarter of 2014, we recognized a gain on change in control of interests of approximately \$73.1 million, which was the difference between the carrying value of approximately \$274.1 million and the preliminary estimated fair value of approximately \$347.2 million of our previously-held equity interest in 38,229,294 shares of CPA®:16 – Global’s common stock. During 2014, we identified certain measurement period adjustments that impacted the provisional accounting, which increased the estimated fair value of our previously-held equity interest in shares of CPA®:16 – Global’s common stock by \$2.6 million, resulting in an increase of \$2.6 million in Gain on change in control of interests. In accordance with Accounting Standards Codification, or ASC, 805-10-25, we did not record the measurement period adjustments during the periods they occurred. Rather, such amounts are reflected in the financial statements for the three months ended March 31, 2014.

The CPA®:16 Merger also resulted in our acquisition of the remaining interests in nine investments in which we already had a joint interest and accounted for under the equity method. Upon acquiring the remaining interests in these investments, we owned 100% of these investments and thus accounted for the acquisitions of these interests utilizing the purchase method of accounting. Due to the change in control of the nine jointly-owned investments that occurred, we recorded a gain on change in control of interests of approximately \$30.2 million during the first quarter of 2014, which was the difference between our carrying values and the estimated fair values of our previously-held equity interests on the acquisition date of approximately \$142.5 million and approximately \$172.7 million, respectively. Subsequent to the CPA®:16 Merger, we consolidate these wholly-owned investments.

In connection with the CPA®:16 Merger, we also acquired the remaining interests in 12 less-than-wholly-owned investments that we already consolidate and recorded an adjustment to additional paid-in-capital of approximately \$42.0 million during the first quarter of 2014 related to the difference between our carrying values and the preliminary estimated fair values of our previously-held noncontrolling interests on the acquisition date of approximately \$236.8 million and \$278.2 million, respectively. During 2014, we identified certain measurement period adjustments that impacted the provisional accounting, which increased the fair value of our previously-held noncontrolling interests on the acquisition date by \$0.6 million, resulting in a reduction of \$0.6 million to additional paid-in-capital.

Pro Forma Financial Information (Unaudited)

The following unaudited consolidated pro forma financial information has been presented as if the CPA®:16 Merger had occurred on January 1, 2013 for the three and six months ended June 30, 2014. The pro forma financial information is not necessarily indicative of what the actual results would have been had the CPA®:16 Merger occurred on that date, nor does it purport to represent the results of operations for future periods.





## Notes to Consolidated Financial Statements (Unaudited)

(in thousands, except share and per share amounts):

	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
Pro forma total revenues	\$252,907	\$487,032
Pro forma net income from continuing operations, net of tax	\$40,469	\$78,409
Pro forma net income attributable to noncontrolling interests	(2,344	) (2,916
Pro forma net loss (income) attributable to redeemable noncontrolling interest	111	(151
Pro forma net income from continuing operations, net of tax attributable to W. P. Carey <sup>(a)</sup>	\$38,236	\$75,342
Pro forma earnings per share: <sup>(a)</sup>		
Basic	\$0.38	\$0.75
Diluted	\$0.38	\$0.75
Pro forma weighted-average shares: <sup>(b)</sup>		
Basic	100,236,362	99,976,714
Diluted	100,995,225	100,875,283

The pro forma income attributable to W. P. Carey for the three and six months ended June 30, 2014 reflects the following income and expenses recognized related to the CPA<sup>®</sup>:16 Merger as if the CPA<sup>®</sup>:16 Merger had taken place on January 1, 2013: (i) combined merger expenses through December 31, 2014; (ii) an aggregate gain on change in control of interests; and (iii) an income tax expense from a permanent difference upon recognition of deferred revenue associated with accelerated vesting of shares previously issued by CPA<sup>®</sup>:16 – Global for asset management and performance fees in connection with the CPA<sup>®</sup>:16 Merger.

The pro forma weighted-average shares outstanding for the three and six months ended June 30, 2014 were (b) determined as if the 30,729,878 shares of our common stock issued to CPA<sup>®</sup>:16 – Global stockholders in the CPA<sup>®</sup>:16 Merger were issued on January 1, 2013.

## Note 5. Agreements and Transactions with Related Parties

## Advisory Agreements with the Managed REITs

We have advisory agreements with each of the Managed REITs, pursuant to which we earn fees and are entitled to receive cash distributions. The following tables present a summary of revenue earned and/or cash received from the Managed REITs for the periods indicated, included in the consolidated financial statements (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Structuring revenue	\$37,808	\$17,254	\$59,528	\$35,005
Asset management revenue	12,073	9,022	23,185	18,776
Distributions of Available Cash	9,256	5,235	18,062	15,681
Reimbursable costs from affiliates	7,639	41,925	17,246	81,657
Interest income on deferred acquisition fees and loans to affiliates	442	163	596	337
Dealer manager fees	307	7,949	1,581	14,626
Incentive, termination and subordinated disposition revenue	—	—	203	—

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Deferred revenue earned	—	—	—	786
	\$67,525	\$81,548	\$120,401	\$166,868
	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
CPA <sup>®</sup> :16 – Global <sup>(a)</sup>	\$—	\$—	\$—	\$7,999
CPA <sup>®</sup> :17 – Global <sup>(b)</sup>	20,484	16,645	42,161	32,472
CPA <sup>®</sup> :18 – Global <sup>(b)</sup>	24,725	42,654	43,666	98,831
CWI <sup>(b)</sup>	16,897	22,249	29,155	27,566
CWI 2 <sup>(b)</sup>	5,419	—	5,419	—
	\$67,525	\$81,548	\$120,401	\$166,868

(a) The amount for the six months ended June 30, 2014 reflects transactions through January 31, 2014, the date of the CPA<sup>®</sup>:16 Merger.

The advisory agreements with each of the CPA<sup>®</sup> REITs are scheduled to expire on December 31, 2015 and the (b) advisory agreements with CWI and CWI 2 are scheduled to expire on September 30, 2015 and December 31, 2015, respectively, unless otherwise renewed.

## Notes to Consolidated Financial Statements (Unaudited)

The following table presents a summary of amounts included in Due from affiliates in the consolidated financial statements (in thousands):

	June 30, 2015	December 31, 2014
Notes receivable from affiliates, including interest thereon	\$122,724	\$—
Deferred acquisition fees receivable	30,725	26,913
Current acquisition fees receivable	6,650	2,463
Reimbursable costs	5,600	301
Accounts receivable	5,068	2,680
Asset management fees receivable	3,092	—
Organization and offering costs	2,937	2,120
	\$176,796	\$34,477

## Asset Management Revenue

We earn asset management revenue from each Managed REIT based on each REIT's Average Invested Assets (as defined in the respective advisory agreements). For CPA<sup>®</sup>:16 – Global, prior to the CPA<sup>®</sup>:16 Merger, we earned asset management revenue of 0.5% of average invested assets. For CPA<sup>®</sup>:17 – Global and CPA<sup>®</sup>:18 – Global, we earn asset management revenue ranging from 0.5% to 1.75% and 0.5% to 1.5%, respectively, depending on the type of investment and based on the average market value or average equity value, as applicable. For CWI and CWI 2, we earn asset management revenue of 0.5% and 0.55%, respectively, of the average market value of their lodging-related investments.

Through December 31, 2014, under the terms of the respective advisory agreements with the CPA<sup>®</sup> REITs, we could elect to receive cash or shares of stock for asset management revenue due from each REIT. Effective January 1, 2015, the independent directors of the CPA<sup>®</sup> REITs have the option to approve, after consultation with us, paying the annual asset management revenue due to us in cash, shares of stock, or a combination of both. In 2014, we elected to receive all asset management revenue from CPA<sup>®</sup>:17 – Global, CPA<sup>®</sup>:18 – Global, and CWI in shares of their respective common stock. For CPA<sup>®</sup>:16 – Global, we elected to receive its January 2014 asset management revenue due to us in cash. In 2015, CPA<sup>®</sup>:17 – Global elected to pay 50% of its asset management fees due to us in cash, with the remaining 50% paid in shares of its common stock, while CPA<sup>®</sup>:18 – Global elected to pay its asset management fees due to us in shares of its Class A common stock.

Under the terms of the advisory agreements with each of the CWI REITs, we may elect to receive the annual asset management revenue in cash or in shares of their common stock. For 2015, we elected to receive asset management fees due to us from CWI in cash and from CWI 2 in shares of its Class A common stock.

## Structuring Revenue

Under the terms of the advisory agreements, we earn revenue in connection with structuring and negotiating investments and related financing for the Managed REITs, which we refer to as acquisition revenue. We may receive acquisition revenue of 4.5% of the total aggregate cost of long-term net-lease investments made by each CPA<sup>®</sup> REIT, of which 2.5% is paid when the transaction is completed and 2.0% is paid in annual installments over three years, provided the relevant CPA<sup>®</sup> REIT meets its performance criterion. For certain types of non-long term net-lease investments acquired on behalf of CPA<sup>®</sup>:17 – Global, we receive initial acquisition revenue up to 1.75% of the equity invested plus the related acquisition revenue, with no deferred acquisition revenue being earned. For each of the CWI REITs, we earn initial acquisition revenue of 2.5% of the total investment cost of the properties acquired and loans originated by them, with no deferred acquisition revenue being earned. Total acquisition revenue from each of the

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Managed REITs cannot exceed 6.0% of the aggregate contract purchase price of all investments and loans. For each of the CWI REITs, we may also be entitled to fees for structuring loan refinancing transactions of up to 1.0% of the principal amount. This loan refinancing revenue, together with the acquisition revenue, is referred to as structuring revenue.

Unpaid deferred acquisition fees, including accrued interest, are included in Due from affiliates in the consolidated financial statements. Unpaid deferred acquisition fees bear interest at annual rates ranging from 2.0% to 5.0%.

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Notes to Consolidated Financial Statements (Unaudited)

Reimbursable Costs from Affiliates and Dealer Manager Fees

The Managed REITs reimburse us for certain costs we incur on their behalf, primarily broker-dealer commissions, marketing costs, an annual distribution and shareholder servicing fee, or Shareholder Servicing Fee, in the case of CPA<sup>®</sup>:18 – Global and CWI 2, and certain personnel and overhead costs. Personnel and overhead costs are charged to the CPA<sup>®</sup> REITs based on the average of the trailing 12-month reported revenues of the CPA<sup>®</sup> REITs, the CWI REITs, and us. Under the amended and restated advisory agreements for the CPA<sup>®</sup> REITs, in 2015 and 2016, the amount of personnel costs, excluding costs related to our legal transactions group, allocated to the CPA<sup>®</sup> REITs is capped at 2.4% and 2.2%, respectively, of pro rata lease revenues for each year. In 2017 and thereafter, the cap decreases to 2.0% of pro rata lease revenues for that year. Costs related to our legal transactions group are based on a schedule of expenses for different types of transactions, including 0.25% of the total investment cost of an acquisition. We allocate personnel and overhead costs to the CWI REITs based on the time incurred by our personnel. Effective April 1, 2015, we amended the advisory agreement with each of the CWI REITs so that personnel and overhead costs allocated between them based upon the percentage of their total pro rata hotel revenues for the most recently completed quarter. For 2015, we will receive personnel cost reimbursements from the CWI REITs in cash, but for 2014, we agreed to receive such reimbursements from CWI in shares of its common stock.

During CWI's follow-on offering, which began in December 2013 and terminated in December 2014, we earned a selling commission of \$0.70 per share sold and a dealer manager fee of \$0.30 per share sold.

For CPA<sup>®</sup>:18 – Global's initial public offering, which commenced in May 2013 and terminated in April 2015, we received selling commissions of \$0.70 or \$0.14 per share sold, and a dealer manager fee of \$0.30 or \$0.21 per share sold, for its class A common stock and class C common stock, respectively. CPA<sup>®</sup>:18 – Global completed sales of its class A common stock and class C common stock during June 2014 and April 2015, respectively. We also receive a Shareholder Servicing Fee in connection with sales of shares of class C common stock. The amount of the Shareholder Servicing Fee is 1% of the purchase price per share (or, once reported, the amount of the estimated NAV per share) for the shares of class C common stock sold in the offering. The Shareholder Servicing Fee is accrued daily and is payable quarterly in arrears. CPA<sup>®</sup>:18 – Global will cease paying the Shareholder Servicing Fee on the date at which, in the aggregate, underwriting compensation from all sources, including the Shareholder Servicing Fee, any organizational and offering fee paid for underwriting, and underwriting compensation paid by us, equals 10% of the gross proceeds from the initial public offering.

For CWI 2's initial public offering, which began to admit new stockholders on May 15, 2015, we receive selling commissions of \$0.70 or \$0.19 per share sold, and a dealer manager fee of \$0.30 or \$0.26 per share sold, for its class A common stock and class T common stock, respectively. We also receive a Shareholder Servicing Fee paid in connection with investor purchases of shares of class T common stock. The amount of the Shareholder Servicing Fee is 1% of the purchase price per share (or, once reported, the amount of the estimated NAV per share) for the shares of class T common stock sold in the offering. The Shareholder Servicing Fee is accrued daily and is payable quarterly in arrears. CWI 2 will cease paying the Shareholder Servicing Fee at the earlier of: (i) the date at which, in the aggregate, underwriting compensation from all sources, including the Shareholder Servicing Fee, any organizational and offering fee paid for underwriting, and underwriting compensation paid by us, equals 10% of the gross proceeds from the initial public offering; and (ii) the sixth anniversary of the end of the quarter in which CWI 2's initial public offering terminates.

We re-allowed all of the selling commissions and Shareholder Servicing Fees, if any, and re-allowed a portion of the dealer manager fees to selected dealers in the offerings for CWI, CWI 2, and CPA<sup>®</sup>:18 – Global. Dealer manager fees that were not re-allowed were classified as Dealer manager fees in the consolidated financial statements.

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Pursuant to its advisory agreement, CWI was obligated to reimburse us for all organization costs and a portion of offering costs incurred in connection with its follow-on public offering, which terminated in December 2014, up to a maximum amount (excluding selling commissions and the dealer manager fee) of 4% of the gross proceeds of its offering. Through June 30, 2015, we incurred organization and offering costs on behalf of CWI of approximately \$13.0 million, substantially all of which had been reimbursed by CWI as of June 30, 2015.

Pursuant to its advisory agreement, CWI 2 is obligated to reimburse us for all organization costs and a portion of offering costs incurred in connection with its initial public offering, which began to admit new stockholders on May 15, 2015, up to a maximum amount (excluding selling commissions and the dealer manager fee) ranging from 1.5% and 4%, depending upon the gross proceeds of its offering. Through June 30, 2015, we incurred organization and offering costs on behalf of CWI 2 of approximately \$3.0 million, of which CWI 2 is obligated to reimburse us \$0.7 million, and \$0.1 million of which had been reimbursed as of June 30, 2015.

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## Notes to Consolidated Financial Statements (Unaudited)

Pursuant to its advisory agreement, CPA<sup>®</sup>:18 – Global is obligated to reimburse us for all organization costs and a portion of offering costs incurred in connection with its initial public offering, which terminated in April 2015. CPA<sup>®</sup>:18 – Global is obligated to reimburse us up to 1.5% of the gross proceeds within 60 days after the end of the quarter in which the offering terminates. Through June 30, 2015, we incurred organization and offering costs on behalf of CPA<sup>®</sup>:18 – Global of approximately \$8.6 million. As of June 30, 2015, substantially all of the organization and offering costs had been reimbursed by CPA<sup>®</sup>:18 – Global.

## Distributions of Available Cash and Deferred Revenue Earned

We are entitled to receive distributions of up to 10% of the Available Cash (as defined in the respective advisory agreements) from the operating partnerships of each of the Managed REITs, as defined in their respective operating partnership agreements. In May 2011, we acquired a special member interest, or the Special Member Interest, in CPA<sup>®</sup>:16 – Global’s operating partnership. We initially recorded this Special Member Interest at its fair value, and amortized it into earnings through the date of the CPA<sup>®</sup>:16 Merger. Cash distributions of our proportionate share of earnings from the Managed REITs’ operating partnerships, as well as deferred revenue earned from our Special Member Interest in CPA<sup>®</sup>:16 – Global’s operating partnership, are recorded as Equity in earnings of equity method investments in real estate and the Managed REITs within the Real Estate Ownership segment.

## Other Transactions with Affiliates

## Loans to Affiliates

During 2015 and 2014, our board of directors approved unsecured loans from us to CPA<sup>®</sup>:17 – Global of up to \$75.0 million, CPA<sup>®</sup>:18 – Global of up to \$100.0 million, CWI and CWI 2 of up to \$110.0 million in the aggregate, and CCIF of up to \$50.0 million, with each loan at a rate equal to the rate at which we are able to borrow funds under our senior credit facility (Note 12), for the purpose of facilitating acquisitions approved by their respective investment committees.

The following table presents a summary of our unsecured loans to the Managed Programs, all of which were made at an interest rate of London Interbank Offered Rate, or LIBOR, plus 1.1%, (in thousands):

Managed Program	Issue Date	Principal Amount	Maturity Date	Carrying Amount at	
				June 30, 2015	December 31, 2014
CWI 2	4/1/2015	\$37,170	3/31/2016	\$37,170	—
CWI 2	5/1/2015	65,277	12/30/2015	65,277	—
CCIF	5/28/2015	10,000	12/30/2015	10,000	—
CCIF	6/10/2015	10,000	12/30/2015	10,000	—
Principal				122,447	—
Accrued interest				277	—
				\$122,724	\$—

On June 25, 2014, we made an \$11.0 million loan to CWI, with a scheduled maturity date of June 30, 2015. The loan, including accrued interest, was repaid in full prior to maturity on July 22, 2014. In July 2015, we made two loans to CPA<sup>®</sup>:17 – Global for \$10.0 million and \$15.0 million, both of which have an interest rate of LIBOR plus 1.1% and mature on December 30, 2015. In July 2015, CWI 2 repaid \$25.0 million of its outstanding loans.

## Treasury Stock



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In February 2014, we repurchased 11,037 shares of our common stock for \$0.7 million in cash from the former independent directors of CPA<sup>®</sup>:16 – Global at a price per share equal to the volume weighted-average trading price of our stock utilized in the CPA<sup>®</sup>:16 Merger. These shares were issued to them as their portion of the Merger Consideration in exchange for their shares of CPA<sup>®</sup>:16 – Global common stock (Note 4) and were repurchased by agreement in order to satisfy the independence requirements set forth in the organizational documents of the remaining CPA<sup>®</sup> REITs, for which these individuals also serve as independent directors.

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## Notes to Consolidated Financial Statements (Unaudited)

## Other

At June 30, 2015, we owned interests ranging from 3% to 90% in jointly-owned investments, including a jointly-controlled tenancy-in-common interest in several properties, with the remaining interests generally held by affiliates, and own common stock in each of the Managed REITs. We consolidate certain of these investments and account for the remainder under the equity method of accounting.

## Note 6. Net Investments in Properties

## Real Estate

Real estate, which consists of land and buildings leased to others, at cost, and which are subject to operating leases, and real estate under construction, is summarized as follows (in thousands):

	June 30, 2015	December 31, 2014
Land	\$ 1,182,707	\$ 1,146,704
Buildings	4,063,736	3,829,981
Real estate under construction	49,611	29,997
Less: Accumulated depreciation	(317,136)	(253,627)
	\$ 4,978,918	\$ 4,753,055

During the six months ended June 30, 2015, the U.S. dollar strengthened against the euro, as the end-of-period rate for the U.S. dollar in relation to the euro at June 30, 2015 decreased by 8.0% to \$1.1189 from \$1.2156 at December 31, 2014. As a result, the carrying value of our Real estate decreased by \$103.7 million from December 31, 2014 to June 30, 2015.

## Acquisitions of Real Estate

During the six months ended June 30, 2015, we entered into the following investments, which were deemed to be business combinations because we assumed the existing leases on the properties, for which the sellers were not the lessees, at a total cost of \$437.9 million, including land of \$72.3 million, buildings of \$301.2 million, and net lease intangibles of \$64.4 million (Note 9):

- an investment of \$345.9 million for 73 auto dealership properties in various locations in the United Kingdom on January 28, 2015;
- an investment of \$42.4 million for a logistics facility in Rotterdam, the Netherlands on February 11, 2015;
- an investment of \$23.3 million for a retail facility in Bad Fischau, Austria on April 10, 2015; and
- an investment of \$26.3 million for a logistics facility in Oskarshamn, Sweden on June 17, 2015.

In connection with these transactions, we also expensed acquisition-related costs totaling \$7.7 million, which are included in Merger and property acquisition expenses in the consolidated financial statements. Dollar amounts are based on the exchange rates of the foreign currencies on the dates of acquisitions.

## Real Estate Under Construction

In December 2013, we entered into a build-to-suit transaction for the construction of an office building located in Mönchengladbach, Germany for a total projected cost of up to \$65.0 million, including acquisition expenses. During the six months ended June 30, 2015, we funded approximately \$21.6 million. At June 30, 2015, the unfunded

commitment was \$3.8 million, based on the exchange rate of the euro at June 30, 2015.

## Notes to Consolidated Financial Statements (Unaudited)

## Operating Real Estate

Operating real estate, which consists of our investments in two hotels and two self-storage properties, at cost, is summarized as follows (in thousands):

	June 30, 2015	December 31, 2014
Land	\$7,104	\$7,074
Buildings	78,133	77,811
Less: Accumulated depreciation	(7,000	) (4,866
	\$78,237	\$80,019

## Assets Held for Sale

Below is a summary of our properties held for sale (in thousands):

	June 30, 2015	December 31, 2014
Real estate, net	\$—	\$5,969
Above-market rent intangible assets, net	—	838
In-place lease intangible assets, net	—	448
Assets held for sale	\$—	\$7,255

At December 31, 2014, we had four properties classified as Assets held for sale, all of which were sold during the six months ended June 30, 2015.

## Note 7. Finance Receivables

Assets representing rights to receive money on demand or at fixed or determinable dates are referred to as finance receivables. Our finance receivables portfolio consists of our Net investments in direct financing leases, notes receivable, and deferred acquisition fees. Operating leases are not included in finance receivables as such amounts are not recognized as an asset in the consolidated financial statements.

## Net Investments in Direct Financing Leases

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

	June 30, 2015	December 31, 2014
Minimum lease payments receivable	\$851,243	\$904,788
Unguaranteed residual value	786,871	818,334
	1,638,114	1,723,122
Less: unearned income	(854,282	) (906,896
	\$783,832	\$816,226

Interest income from direct financing leases, which was included in Lease revenues in the consolidated financial statements, was \$18.7 million and \$21.4 million for the three months ended June 30, 2015 and 2014, respectively, and \$37.4 million and \$38.6 million during the six months ended June 30, 2015 and 2014, respectively. During the six months ended June 30, 2015, the U.S. dollar strengthened against the euro, resulting in a \$29.9 million decrease in the carrying value of Net investments in direct financing leases from December 31, 2014 to June 30, 2015. During the six

months ended June 30, 2014, we reclassified properties with a carrying value of \$7.0 million from Net investments in direct financing leases to Real estate (Note 6), in connection with the restructuring of the underlying leases.

At June 30, 2015 and December 31, 2014, Other assets, net included \$1.6 million and \$1.4 million of accounts receivable, respectively, related to amounts billed under these direct financing leases.

#### Notes Receivable

At June 30, 2015, we had a note receivable with an outstanding balance of \$10.8 million, representing the expected future payments under a sales type lease, which was included in Other assets, net in the consolidated financial statements.

In February 2015, a note receivable with an outstanding balance of \$10.0 million was repaid in full to us.

#### Deferred Acquisition Fees Receivable

As described in Note 5, we earn revenue in connection with structuring and negotiating investments and related mortgage financing for the CPA<sup>®</sup> REITs. A portion of this revenue is due in equal annual installments over three years, provided the CPA<sup>®</sup> REITs meet their respective performance criteria. Unpaid deferred installments, including accrued interest, from the CPA<sup>®</sup> REITs were included in Due from affiliates in the consolidated financial statements.

#### Credit Quality of Finance Receivables

We generally seek investments in facilities that we believe are critical to a tenant's business and that we believe have a low risk of tenant default. At both June 30, 2015 and December 31, 2014, none of the balances of our finance receivables were past due and we had not established any allowances for credit losses. Other than the lease restructurings noted under "Net Investment in Direct Financing Leases" above, there were no modifications of finance receivables during the six months ended June 30, 2015 or the year ended December 31, 2014. We evaluate the credit quality of our finance receivables utilizing an internal five-point credit rating scale, with one representing the highest credit quality and five representing the lowest. The credit quality evaluation of our finance receivables was last updated in the second quarter of 2015. We believe the credit quality of our deferred acquisition fees receivable falls under category one, as the CPA<sup>®</sup> REITs are expected to have the available cash to make such payments.

A summary of our finance receivables by internal credit quality rating is as follows (dollars in thousands):

Internal Credit Quality Indicator	Number of Tenants / Obligors at		Carrying Value at	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
1	3	3	\$134,406	\$79,343
2	3	4	27,068	37,318
3	22	22	510,232	592,631
4	7	7	122,956	127,782
5	—	—	—	—
			\$794,662	\$837,074

## Notes to Consolidated Financial Statements (Unaudited)

## Note 8. Equity Investments in Real Estate and the Managed Programs

We own interests in certain unconsolidated real estate investments with the Managed Programs and also own interests in the Managed Programs. We account for our interests in these investments under the equity method of accounting (i.e., at cost, increased or decreased by our share of earnings or losses, less distributions, plus contributions and other adjustments required by equity method accounting, such as basis differences).

The following table presents Equity in earnings of equity method investments in the Managed Programs and real estate, which represents our proportionate share of the income or losses of these investments, as well as certain adjustments related to other-than-temporary impairment charges and amortization of basis differences related to purchase accounting adjustments (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Proportionate share of earnings from equity investments in the Managed Programs	\$686	\$769	\$994	\$1,549
Amortization of basis differences on equity investments in the Managed Programs	(190)	(118)	(375)	(508)
Other-than-temporary impairment charges on the Special Member Interest in CPA <sup>®</sup> :16 – Global’s operating partnership	—	—	—	(735)
Distributions of Available Cash (Note 5)	9,256	5,235	18,062	15,681
Deferred revenue earned (Note 5)	—	—	—	786
Total equity earnings from the Managed Programs	9,752	5,886	18,681	16,773
Equity earnings from other equity investments	5,449	3,662	9,158	7,618
Amortization of basis differences on other equity investments	(929)	(96)	(1,844)	(677)
Equity in earnings of equity method investments in the Managed Programs and real estate	\$14,272	\$9,452	\$25,995	\$23,714

## Managed Programs

We own interests in the Managed Programs and account for these interests under the equity method, because, as their advisor and through our ownership of their common stock, we do not exert control over, but we do have the ability to exercise significant influence on, the Managed Programs.

At June 30, 2015 and December 31, 2014, the aggregate unamortized basis differences on our equity investments in the Managed Programs were \$22.0 million and \$20.2 million, respectively.

The following table sets forth certain information about our investments in the Managed Programs (dollars in thousands):

Fund	% of Outstanding Shares Owned at		Carrying Amount of Investment at	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
CPA <sup>®</sup> :17 – Global <sup>(a)</sup>	2.893	% 2.676	% \$83,080	\$79,429
CPA <sup>®</sup> :17 – Global operating partnership <sup>(b)</sup>	0.009	% 0.009	% —	—
CPA <sup>®</sup> :18 – Global <sup>(c)</sup>	0.420	% 0.221	% 5,677	2,784
CPA <sup>®</sup> :18 – Global operating partnership <sup>(d)</sup>	0.034	% 0.034	% 209	209

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CWI	1.147	% 1.088	% 13,114	13,940
CWI operating partnership <sup>(e)</sup>	0.015	% 0.015	% —	—
CWI 2 <sup>(f)</sup>	3.069	% —	% 166	—
CWI 2 operating partnership <sup>(g)</sup>	0.015	% —	% 300	—
CCIF <sup>(h)</sup>	50.000	% 50.000	% 25,162	25,000
			\$127,708	\$121,362

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## Notes to Consolidated Financial Statements (Unaudited)

Carrying value at June 30, 2015 includes asset management fees receivable, for which 127,007 shares of CPA®:17 – (a) Global common stock were issued during the third quarter of 2015. We received distributions from this investment during the six months ended June 30, 2015 and 2014 of \$2.9 million and \$2.1 million, respectively.

(b) We received distributions from this investment during the six months ended June 30, 2015 and 2014 of \$11.9 million and \$9.3 million, respectively.

Carrying value at June 30, 2015 includes asset management fees receivable, for which 64,523 shares of CPA®:18 – (c) Global class A common stock were issued during the third quarter of 2015.

(d) We received distributions from this investment during the six months ended June 30, 2015 and 2014 of \$2.3 million and \$0.6 million, respectively.

(e) We received distributions from this investment during the six months ended June 30, 2015 and 2014 of \$3.9 million and \$1.1 million, respectively.

(f) On May 30, 2014, we purchased 22,222 shares of CWI 2's class A common stock, par value \$0.001 per share, for an aggregate purchase price of \$0.2 million. On May 15, 2015, upon CWI 2 reaching its minimum offering proceeds and admitting new stockholders, we began to account for our interest in CWI 2 under the equity method of accounting (Note 3). As of June 30, 2015, we had not received any distributions from this investment. Carrying value at June 30, 2015 includes asset management fees receivable, for which 16,804 shares of class A common stock of CWI 2 were issued during the third quarter of 2015.

(g) On March 27, 2015, we purchased a 0.015% special general partnership interest in CWI 2 operating partnership for \$0.3 million. This special general partnership interest entitles us to receive distributions of our proportionate share of earnings up to 10% of the Available Cash from CWI 2's operating partnership (Note 5). As of June 30, 2015, we had not received any distributions from this investment.

(h) As of June 30, 2015, CCIF had not yet admitted any additional shareholders other than our joint venture partner (Note 1).

The following tables present estimated combined summarized financial information for the Managed Programs. Amounts provided are expected total amounts attributable to the Managed Programs and do not represent our proportionate share (in thousands):

	June 30, 2015	December 31, 2014
Real estate, net	\$6,327,876	\$5,969,011
Other assets	2,817,519	2,293,065
Total assets	9,145,395	8,262,076
Debt	(4,126,660)	(3,387,795)
Accounts payable, accrued expenses and other liabilities	(601,273)	(496,857)
Total liabilities	(4,727,933)	(3,884,652)
Noncontrolling interests	(257,780)	(170,249)
Stockholders' equity	\$4,159,682	\$4,207,175

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues	\$295,469	\$224,594	\$531,179	\$365,819
Expenses	(273,037)	(196,673)	(506,400)	(331,155)
Income from continuing operations	\$22,432	\$27,921	\$24,779	\$34,664
Net income (loss) attributable to the Managed Programs	\$8,511	\$40,469	\$(571)	\$47,211
(a) (b)				

(a) Inclusive of impairment charges recognized by the Managed Programs totaling \$0.5 million and \$1.0 million during the three and six months ended June 30, 2015, respectively. These impairment charges reduced our income



earned from these investments by less than \$0.1 million during each of the three and six months ended June 30, 2015, respectively. There were no such impairment charges recognized by the Managed Programs during the three and six months ended June 30, 2014.

Amounts included net gains on sale of real estate recorded by the Managed Programs totaling \$2.2 million for the six months ended June 30, 2015. Amounts included net gains on sale of real estate recorded by the Managed (b) Programs totaling \$12.5 million for each of the three and six months ended June 30, 2014. There were no gains or losses on sale of real estate recorded by the Managed Programs during the three months ended June 30, 2015. Net income (loss) attributable to the

## Notes to Consolidated Financial Statements (Unaudited)

Managed Programs for the three and six months ended June 30, 2015 were also negatively impacted by the increase in acquisition-related fees and expenses incurred on investments accounted for as business combinations as a result of higher investment volume during the current year periods as compared to the same periods in the prior year.

## Interests in Other Unconsolidated Real Estate Investments

We own equity interests in single-tenant net-leased properties that are generally leased to companies through noncontrolling interests (i) in partnerships and limited liability companies that we do not control but over which we exercise significant influence or (ii) as tenants-in-common subject to common control. Generally, the underlying investments are jointly-owned with affiliates. We account for these investments under the equity method of accounting. Earnings for each investment are recognized in accordance with each respective investment agreement. Investments in unconsolidated investments are required to be evaluated periodically. We periodically compare an investment's carrying value to its estimated fair value and recognize an impairment charge to the extent that the carrying value exceeds fair value and such decline is determined to be other than temporary.

The following table sets forth our ownership interests in our equity investments in real estate, excluding the Managed Programs, and their respective carrying values (dollars in thousands):

Lessee	Co-owner	Ownership Interest at		Carrying Value at	
		June 30, 2015		June 30, 2015	December 31, 2014
Existing Equity Investments <sup>(a)</sup> <sup>(b)</sup>					
C1000 Logistiek Vastgoed B.V. <sup>(c)</sup>	CPA <sup>®</sup> :17 – Global	15%		\$9,538	\$11,192
Waldaschaff Automotive GmbH and Wagon Automotive Nagold GmbH <sup>(d)</sup>	CPA <sup>®</sup> :17 – Global	33%		8,431	6,949
Wanbishi Archives Co. Ltd.	CPA <sup>®</sup> :17 – Global	3%		322	341
				18,291	18,482
Equity Investments Acquired in the CPA <sup>®</sup> :16 Merger					
The New York Times Company	CPA <sup>®</sup> :17 – Global	45%		71,922	72,476
Frontier Spinning Mills, Inc. <sup>(e)</sup>	CPA <sup>®</sup> :17 – Global	40%		24,197	15,609
Actebis Peacock GmbH <sup>(a)</sup>	CPA <sup>®</sup> :17 – Global	30%		6,195	6,369
				102,314	94,454
Recently Acquired Equity Investment					
Beach House JV, LLC <sup>(f)</sup>	Third Party	N/A <sup>(d)</sup>		15,105	15,105
				\$135,710	\$128,041

<sup>(a)</sup> The carrying value of this investment is affected by the impact of fluctuations in the exchange rate of the foreign currency.

<sup>(b)</sup> Represents equity investments we acquired prior to January 1, 2014.

This investment represents a tenancy-in-common interest, whereby the property is encumbered by the debt for which we are jointly and severally liable. For this investment, the co-obligor is CPA<sup>®</sup>:17 – Global and the amount <sup>(c)</sup> due under the arrangement was approximately \$75.3 million at June 30, 2015. Of this amount, \$11.3 million represents the amount we agreed to pay and is included within the carrying value of the investment at June 30, 2015.

During the six months ended June 30, 2015, we recognized equity income of approximately \$2.1 million, <sup>(d)</sup> representing our share of the bankruptcy proceeds received by the jointly-owned investment. As of June 30, 2015, we have not received any distribution of our share of the proceeds.

<sup>(e)</sup>

We made a contribution of \$8.6 million in the second quarter of 2015 to this jointly-owned investment to repay the related non-recourse mortgage loan.

In March 2014, we received a preferred equity position in Beach House JV, LLC as part of the sale of the Soho House investment. During the six months ended June 30, 2015, we recognized \$0.6 million of income and (f) distributions related to this investment, which is included in Equity in earnings of equity method investments in the Managed Programs and real estate in the consolidated financial statements.

We received aggregate distributions of \$6.5 million and \$5.5 million from our other unconsolidated real estate investments for the six months ended June 30, 2015 and 2014, respectively. At June 30, 2015 and December 31, 2014, the aggregate unamortized basis differences on our unconsolidated real estate investments were \$5.7 million and \$5.8 million, respectively.

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## Notes to Consolidated Financial Statements (Unaudited)

## Note 9. Goodwill and Other Intangibles

In connection with our acquisitions of properties, we have recorded net lease intangibles that are being amortized over periods ranging from one year to 40 years. In addition, we have several ground lease intangibles that are being amortized over periods of up to 250 years. Intangibles relating to in-place lease and tenant relationship, and above-market rent are included in In-place lease and tenant relationship intangible assets, net and Above-market rent intangible assets, net, respectively, in the consolidated financial statements. Below-market ground lease (as lessee), trade name, management contracts, and software license intangibles are included in Other assets, net in the consolidated financial statements. Below-market rent, above-market ground lease (as lessee), and below-market purchase option intangibles are included in Below-market rent and other intangible liabilities, net in the consolidated financial statements.

In connection with our investment activity during the six months ended June 30, 2015, we recorded net lease intangibles comprised as follows (life in years, dollars in thousands):

	Weighted-Average Life	Amount
Amortizable Intangible Assets		
In-place lease	14.0	\$46,560
Above-market rent	15.3	17,318
Below-market ground lease	223.4	6,963
		\$70,841
Amortizable Intangible Liabilities		
Below-market rent	14.6	\$(6,492)

The following table presents a reconciliation of our goodwill (in thousands):

	Real Estate Ownership	Investment Management	Total
Balance at January 1, 2015	\$628,808	\$63,607	\$692,415
Foreign currency translation adjustments and other	(6,732)	) —	(6,732)
Acquisition of investment accounted for as business combination	1,704	—	1,704
Allocation of goodwill to the cost basis of properties sold or classified as held-for-sale	(303)	) —	(303)
Balance at June 30, 2015	\$623,477	\$63,607	\$687,084

## Notes to Consolidated Financial Statements (Unaudited)

Intangible assets, intangible liabilities, and goodwill are summarized as follows (in thousands):

	June 30, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>Amortizable Intangible Assets</b>						
Management contracts	\$32,765	\$ (32,765 )	\$—	\$32,765	\$ (32,765 )	\$—
Internal-use software development costs	18,673	(1,014 )	17,659	17,584	(26 )	17,558
	51,438	(33,779 )	17,659	50,349	(32,791 )	17,558
<b>Lease Intangibles:</b>						
In-place lease and tenant relationship	1,192,512	(243,965 )	948,547	1,185,692	(191,873 )	993,819
Above-market rent	647,421	(148,675 )	498,746	639,370	(116,573 )	522,797
Below-market ground lease	23,950	(659 )	23,291	17,771	(435 )	17,336
	1,863,883	(393,299 )	1,470,584	1,842,833	(308,881 )	1,533,952
<b>Unamortizable Goodwill and Indefinite-Lived Intangible Assets</b>						
Goodwill	687,084	—	687,084	692,415	—	692,415
Trade name	3,975	—	3,975	3,975	—	3,975
	691,059	—	691,059	696,390	—	696,390
<b>Total intangible assets</b>	<b>\$2,606,380</b>	<b>\$ (427,078 )</b>	<b>\$2,179,302</b>	<b>\$2,589,572</b>	<b>\$ (341,672 )</b>	<b>\$2,247,900</b>
<b>Amortizable Intangible Liabilities</b>						
Below-market rent	\$(172,225 )	\$ 29,048	\$(143,177 )	\$(169,231 )	\$ 23,039	\$(146,192 )
Above-market ground lease	(13,114 )	1,458	(11,656 )	(13,311 )	1,144	(12,167 )
	(185,339 )	30,506	(154,833 )	(182,542 )	24,183	(158,359 )
<b>Unamortizable Intangible Liabilities</b>						
Below-market purchase option	(16,711 )	—	(16,711 )	(16,711 )	—	(16,711 )
<b>Total intangible liabilities</b>	<b>\$(202,050 )</b>	<b>\$ 30,506</b>	<b>\$(171,544 )</b>	<b>\$(199,253 )</b>	<b>\$ 24,183</b>	<b>\$(175,070 )</b>

Net amortization of intangibles, including the effect of foreign currency translation, was \$42.3 million and \$49.7 million for the three months ended June 30, 2015 and 2014, respectively, and \$86.3 million and \$89.5 million for the six months ended June 30, 2015 and 2014, respectively. Amortization of below-market rent and above-market rent intangibles is recorded as an adjustment to Lease revenues; amortization of management contracts, in-place lease and tenant relationship intangibles is included in Depreciation and amortization; and amortization of above-market ground lease and below-market ground lease intangibles is included in Property expenses.

Based on the intangible assets and liabilities recorded at June 30, 2015, scheduled annual net amortization of intangibles for the remainder of 2015, each of the next four calendar years following December 31, 2015, and thereafter is as follows (in thousands):

Years Ending December 31,	Net Decrease in Lease Revenues	Increase to Amortization/Property Expenses	Net

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2015 (remainder)	\$26,677	\$56,565	\$83,242
2016	52,238	112,082	164,320
2017	49,443	108,289	157,732
2018	46,225	98,790	145,015
2019	42,329	93,541	135,870
Thereafter	138,657	508,574	647,231
Total	\$355,569	\$977,841	\$1,333,410

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Notes to Consolidated Financial Statements (Unaudited)

Note 10. Fair Value Measurements

The fair value of an asset is defined as the exit price, which is the amount that would either be received when an asset is sold or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance establishes a three-tier fair value hierarchy based on the inputs used in measuring fair value. These tiers are: Level 1, for which quoted market prices for identical instruments are available in active markets, such as money market funds, equity securities, and U.S. Treasury securities; Level 2, for which there are inputs other than quoted prices included within Level 1 that are observable for the instrument, such as certain derivative instruments including interest rate caps, interest rate swaps, and foreign currency forward contracts; and Level 3, for securities that do not fall into Level 1 or Level 2 and for which little or no market data exists, therefore requiring us to develop our own assumptions.

Items Measured at Fair Value on a Recurring Basis

The methods and assumptions described below were used to estimate the fair value of each class of financial instrument. For significant Level 3 items we have also provided the unobservable inputs along with their weighted-average ranges.

**Money Market Funds** — Our money market funds, which are included in Cash and cash equivalents in the consolidated financial statements, are comprised of government securities and U.S. Treasury bills. These funds were classified as Level 1 as we used quoted prices from active markets to determine their fair values.

**Derivative Assets** — Our derivative assets, which are included in Other assets, net in the consolidated financial statements, are comprised of interest rate caps, interest rate swaps, stock warrants, foreign currency forward contracts and foreign currency collars (Note 11). The interest rate caps, interest rate swaps and foreign currency forward contracts were measured at fair value using readily observable market inputs, such as quotations on interest rates, and were classified as Level 2 as these instruments are custom, over-the-counter contracts with various bank counterparties that are not traded in an active market. The stock warrants were measured at fair value using internal valuation models that incorporate market inputs and our own assumptions about future cash flows. We classified these assets as Level 3 because these assets are not traded in an active market.

**Derivative Liabilities** — Our derivative liabilities, which are included in Accounts payable, accrued expenses and other liabilities in the consolidated financial statements, are comprised of interest rate swaps and foreign currency forward contracts (Note 11). These derivative instruments were measured at fair value using readily observable market inputs, such as quotations on interest rates. These derivative instruments were classified as Level 2 because they are custom, over-the-counter contracts with various bank counterparties that are not traded in an active market.

**Redeemable Noncontrolling Interest** — We account for the noncontrolling interest in W. P. Carey International, LLC, or WPCI, held by a third party as a redeemable noncontrolling interest (Note 14). We determined the valuation of redeemable noncontrolling interest using widely accepted valuation techniques, including comparable transaction analysis, comparable public company analysis and discounted cash flow analysis. We classified this liability as Level 3. At June 30, 2015, unobservable inputs for determining the estimated fair value of WPCI included, but were not limited to, a discount for lack of marketability, a discount rate, revenue, EBITDA (including normalized and run-rate EBITDA), and termination multiples with weighted-average ranges, across all valuation techniques utilized, as applicable, of 10% - 20%, 14% - 16%, 1.1x - 8.8x, 3.2x - 18.8x, and 5.5x - 7.5x, respectively. Significant increases or decreases in any one of these inputs in isolation would result in significant changes in the fair value measurement.

We did not have any transfers into or out of Level 1, Level 2, and Level 3 measurements during either the six months ended June 30, 2015 or 2014.

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## Notes to Consolidated Financial Statements (Unaudited)

Our other financial instruments had the following carrying values and fair values as of the dates shown (dollars in thousands):

	Level	June 30, 2015		December 31, 2014	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Non-recourse debt <sup>(a)</sup>	3	\$2,443,212	\$2,468,334	\$2,532,683	\$2,574,437
Senior Unsecured Notes <sup>(b)</sup>	2	1,501,061	1,487,777	498,345	527,029
Senior Unsecured Credit Facility <sup>(c)</sup>	2	600,234	600,235	1,057,518	1,057,519
Notes receivable from affiliates	3	122,724	122,724	—	—
Deferred acquisition fees receivable <sup>(d)</sup>	3	30,725	29,946	26,913	28,027
Notes receivable <sup>(a)</sup>	3	10,834	9,509	20,848	19,604

We determined the estimated fair value of these financial instruments using a discounted cash flow model with rates that take into account the credit of the tenant/obligor, where applicable, and interest rate risk. We also considered the value of the underlying collateral, taking into account the quality of the collateral, the credit quality of the tenant/obligor, the time until maturity and the current market interest rate.

We determined the estimated fair value of the Senior Unsecured Notes (Note 12) using quoted market prices in an open market with limited trading volume.

We determined the estimated fair value of our Senior Unsecured Credit Facility (Note 12) using a discounted cash flow model with rates that take into account the market-based credit spread and our credit rating.

We determined the estimated fair value of our deferred acquisition fees receivable based on an estimate of discounted cash flows using two significant unobservable inputs, which are the leverage adjusted unsecured spread of 205 basis points and an illiquidity adjustment of 75 basis points at June 30, 2015. Significant increases or decreases to these inputs in isolation would result in a significant change in the fair value measurement.

We estimated that our other financial assets and liabilities (excluding net investments in direct financing leases) had fair values that approximated their carrying values at both June 30, 2015 and December 31, 2014.

## Items Measured at Fair Value on a Non-Recurring Basis (Including Impairment Charges)

For investments in real estate held for use for which an impairment indicator is identified, we follow a two-step process to determine whether the investment is impaired and to determine the amount of the charge. First, we compare the carrying value of the property's asset group to the future undiscounted net cash flows that we expect the property's asset group will generate, including any estimated proceeds from the eventual sale of the property's asset group. If this amount is less than the carrying value, the property's asset group is considered to be not recoverable. We then measure the impairment charge as the excess of the carrying value of the property's asset group over the estimated fair value of the property's asset group, which is primarily determined using market information such as recent comparable sales, broker quotes or third-party appraisals. If relevant market information is not available or is not deemed appropriate, we perform a future net cash flow analysis, discounted for inherent risk associated with each investment. We determined that the significant inputs used to value these investments fall within Level 3 for fair value reporting. As a result of our assessments, we calculated impairment charges based on market conditions and assumptions that existed at the time. The valuation of real estate is subject to significant judgment and actual results may differ materially if market conditions or the underlying assumptions change.



## Notes to Consolidated Financial Statements (Unaudited)

The following table presents information about our other assets that were measured at fair value on a non-recurring basis (in thousands):

	Three Months Ended June 30, 2015		Three Months Ended June 30, 2014	
	Fair Value Measurements	Total Impairment Charges	Fair Value Measurements	Total Impairment Charges
Impairment Charges				
Real estate	\$782	\$591	\$5,200	\$2,066
	Six Months Ended June 30, 2015		Six Months Ended June 30, 2014	
	Fair Value Measurements	Total Impairment Charges	Fair Value Measurements	Total Impairment Charges
Impairment Charges				
Real estate	\$6,076	\$3,274	\$5,200	\$2,066
Equity investments in real estate	—	—	—	735
		\$3,274		\$2,801

Impairment charges, and their related triggering events and fair value measurements, recognized during the three and six months ended June 30, 2015 and 2014 were as follows:

## Real Estate

During the three and six months ended June 30, 2015, we recognized impairment charges totaling \$0.6 million and \$3.3 million, respectively, on a property and a parcel of vacant land in order to reduce the carrying values of the properties to their estimated fair values.

During the three and six months ended June 30, 2014, we recognized an impairment charge of \$2.1 million on a property in order to reduce the carrying value of the property to its estimated fair value, which approximated its estimated selling price.

## Equity Investments in Real Estate

During the six months ended June 30, 2014, we recognized other-than-temporary impairment charges of \$0.7 million on the Special Member Interest in CPA<sup>®</sup>:16 – Global’s operating partnership to reduce its carrying value to its estimated fair value, which had declined. The fair value was obtained by estimating discounted cash flows using two significant unobservable inputs, which are the discount rate and the estimated general and administrative costs as a percentage of assets under management with a weighted-average range of 12.75% - 15.75% and 35 - 45 basis points, respectively.

## Note 11. Risk Management and Use of Derivative Financial Instruments

## Risk Management

In the normal course of our ongoing business operations, we encounter economic risk. There are four main components of economic risk that impact us: interest rate risk, credit risk, market risk, and foreign currency risk. We are primarily subject to interest rate risk on our interest-bearing liabilities, including the Senior Unsecured Credit Facility (Note 12), at June 30, 2015. Credit risk is the risk of default on our operations and our tenants’ inability or unwillingness to make contractually required payments. Market risk includes changes in the value of our properties and related loans, as well as changes in the value of our other securities and the shares we hold in the Managed REITs due to changes in interest rates or other market factors. We own investments in Europe, Asia, and Australia and are subject to risks associated with fluctuating foreign currency exchange rates.

Derivative Financial Instruments

When we use derivative instruments, it is generally to reduce our exposure to fluctuations in interest rates and foreign currency exchange rate movements. We have not entered into, and do not plan to enter into, financial instruments for trading or speculative purposes. The primary risks related to our use of derivative instruments include default by a counterparty to a hedging arrangement on its obligation and a downgrade in the credit quality of a counterparty to such an extent that our ability to sell or assign our side of the hedging transaction is impaired. While we seek to mitigate these risks by entering into hedging arrangements with counterparties that are large financial institutions that we deem to be creditworthy, it is possible that our

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## Notes to Consolidated Financial Statements (Unaudited)

hedging transactions, which are intended to limit losses, could adversely affect our earnings. Furthermore, if we terminate a hedging arrangement, we may be obligated to pay certain costs, such as transaction or breakage fees. We have established policies and procedures for risk assessment and the approval, reporting, and monitoring of derivative financial instrument activities.

We measure derivative instruments at fair value and record them as assets or liabilities, depending on our rights or obligations under the applicable derivative contract. Derivatives that are not designated as hedges must be adjusted to fair value through earnings. For a derivative designated, and that qualified, as a cash flow hedge, the effective portion of the change in fair value of the derivative is recognized in Other comprehensive income (loss) until the hedged item is recognized in earnings. For a derivative designated, and that qualified, as a net investment hedge, the effective portion of the change in the fair value and/or the net settlement of the derivative is reported in Other comprehensive income (loss) as part of the cumulative foreign currency translation adjustment. Amounts are reclassified out of Other comprehensive income (loss) into earnings when the hedged investment is either sold or substantially liquidated. That portion not deemed to be effective is considered the ineffective portion of the change in fair value of a derivative and is immediately recognized in earnings.

The following table sets forth certain information regarding our derivative instruments (in thousands):

Derivatives Designated as Hedging Instruments	Balance Sheet Location	Asset Derivatives Fair Value at		Liability Derivatives Fair Value at	
		June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Interest rate cap	Other assets, net	\$ 1	\$ 3	\$—	\$—
Interest rate swaps	Other assets, net	284	285	—	—
Foreign currency forward contracts	Other assets, net	34,116	16,307	—	—
Foreign currency collars	Other assets, net	2,443	—	—	—
Interest rate swaps	Accounts payable, accrued expenses and other liabilities	—	—	(5,001	) (5,660 )
Foreign currency forward contracts	Accounts payable, accrued expenses and other liabilities	—	—	(18	) —
Foreign currency collar					