

CAREY W P & CO LLC
Form 10-Q
November 06, 2009

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**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 September 30, 2009

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 & CO. LLC

(Exact name of registrant as specified in its charter)

Delaware

(State of incorporation)

13-3912578

(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. (Check one):

Large accelerated filer

Accelerated filer

Non-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 had 39,190,638 shares of common stock, no par value, outstanding at October 30, 2009.

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Forward Looking Statements

This Quarterly Report on Form 10-Q, 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. It is important to note that our actual results could be materially different from those projected in such forward-looking statements. 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 which 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 (the "SEC"), including but not limited to those described in Item 1A. Risk Factors in our Form 10-K for the year ended December 31, 2008. We do not undertake to revise or update any forward-looking statements. Additionally, a description of our critical accounting estimates is included in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our Form 10-K for the year ended December 31, 2008. There has been no significant change in our critical accounting estimates.

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W. P. CAREY & CO. LLC
Consolidated Balance Sheets (Unaudited)
(in thousands, except share and per share amounts)

	September 30, 2009	December 31, 2008 (NOTE)
Assets		
Investments in real estate:		
Real estate, at cost	\$ 567,622	\$ 603,044
Operating real estate, at cost	85,808	84,547
Accumulated depreciation	(118,268)	(113,262)
Net investments in properties	535,162	574,329
Net investment in direct financing leases	83,077	83,792
Equity investments in real estate and CPA [®] REITs	304,406	260,620
Net investments in real estate	922,645	918,741
Cash and cash equivalents	19,008	16,799
Due from affiliates	34,133	53,423
Intangible assets and goodwill, net	86,990	93,398
Other assets, net	33,963	28,775
Total assets	\$ 1,096,739	\$ 1,111,136
Liabilities and Equity		
Liabilities:		
Non-recourse debt	\$ 220,021	\$ 245,874
Line of credit	100,000	81,000
Accounts payable, accrued expenses and other liabilities	48,032	42,323
Income taxes, net	50,445	58,011
Distributions payable	19,548	19,508
Total liabilities	438,046	446,716
Redeemable noncontrolling interests	14,789	18,085
Commitments and contingencies (Note 6)		
Equity:		
W. P. Carey members' equity:		
Listed shares, no par value, 100,000,000 shares authorized; 39,193,174 and 39,589,594 shares issued and outstanding, respectively	756,107	757,921
Distributions in excess of accumulated earnings	(129,780)	(116,990)
Deferred compensation obligation	10,249	
Accumulated other comprehensive income (loss)	648	(828)

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Total W. P. Carey members equity	637,224	640,103
Noncontrolling interests	6,680	6,232
Total equity	643,904	646,335
Total liabilities and equity	\$ 1,096,739	\$ 1,111,136

Note: The consolidated balance sheet at December 31, 2008 has been derived from the consolidated financial statements at that date as adjusted (Note 2).

See Notes to Consolidated Financial Statements.

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W. P. CAREY & CO. LLC
Consolidated Statements of Income (Unaudited)
(in thousands, except share and per share amounts)

	Three months ended September		Nine months ended September	
	30,		30,	
	2009	2008	2009	2008
Revenues				
Asset management revenue	\$ 19,106	\$ 20,205	\$ 57,441	\$ 60,370
Structuring revenue	5,476	10,818	16,250	17,403
Wholesaling revenue	1,869	1,517	4,426	4,145
Reimbursed costs from affiliates	13,503	11,303	33,747	32,749
Lease revenues	17,448	18,816	52,690	57,187
Other real estate income	3,768	3,834	11,672	10,261
	61,170	66,493	176,226	182,115
Operating Expenses				
General and administrative	(14,970)	(17,013)	(48,246)	(48,242)
Reimbursable costs	(13,503)	(11,303)	(33,747)	(32,749)
Depreciation and amortization	(5,936)	(6,293)	(18,348)	(18,460)
Property expenses	(2,236)	(1,734)	(6,235)	(5,267)
Impairment charges	(2,390)		(4,090)	
Other real estate expenses	(1,758)	(1,989)	(5,596)	(6,204)
	(40,793)	(38,332)	(116,262)	(110,922)
Other Income and Expenses				
Other interest income	470	752	1,278	2,193
Income from equity investments in real estate and CPA® REITs	2,923	2,272	9,866	10,917
Gain on sale of investments in direct financing lease		1,103		1,103
Other income and (expenses)	251	(1,566)	3,532	3,093
Interest expense	(3,889)	(5,004)	(11,600)	(14,579)
	(245)	(2,443)	3,076	2,727
Income from continuing operations before income taxes	20,132	25,718	63,040	73,920
Provision for income taxes	(6,018)	(5,839)	(15,938)	(20,405)
Income from continuing operations	14,114	19,879	47,102	53,515
Discontinued Operations				
Income (loss) from operations of discontinued properties	70	(40)	(30)	3,666
Gain on sale of real estate			343	
Impairment charges		(538)	(580)	(538)

Income (loss) from discontinued operations	70	(578)	(267)	3,128
Net Income	14,184	19,301	46,835	56,643
Add: Net loss attributable to noncontrolling interests	186	238	559	578
Less: Net income attributable to redeemable noncontrolling interests	(1,019)	(341)	(1,357)	(1,074)
Net Income Attributable to W. P. Carey Members	\$ 13,351	\$ 19,198	\$ 46,037	\$ 56,147
Basic Earnings Per Share				
Income from continuing operations attributable to W. P. Carey members	\$ 0.33	\$ 0.50	\$ 1.16	\$ 1.35
Income (loss) from discontinued operations attributable to W. P. Carey members		(0.01)	(0.01)	0.08
Net income attributable to W. P. Carey members	\$ 0.33	\$ 0.49	\$ 1.15	\$ 1.43
Diluted Earnings Per Share				
Income from continuing operations attributable to W. P. Carey members	\$ 0.34	\$ 0.49	\$ 1.16	\$ 1.32
Income (loss) from discontinued operations attributable to W. P. Carey members		(0.01)	(0.01)	0.08
Net income attributable to W. P. Carey members	\$ 0.34	\$ 0.48	\$ 1.15	\$ 1.40
Weighted Average Shares Outstanding				
Basic	39,727,460	39,294,889	39,163,186	39,125,329
Diluted	40,368,946	40,299,073	39,770,196	40,293,094
Amounts Attributable to W. P. Carey Members				
Income from continuing operations, net of tax	\$ 13,281	\$ 19,776	\$ 46,304	\$ 53,019
Income (loss) from discontinued operations, net of tax	70	(578)	(267)	3,128
Net income	\$ 13,351	\$ 19,198	\$ 46,037	\$ 56,147
Distributions Declared Per Share	\$ 0.500	\$ 0.492	\$ 1.494	\$ 1.461

See Notes to Consolidated Financial Statements.

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W. P. CAREY & CO. LLC
Consolidated Statements of Comprehensive Income (Unaudited)
(in thousands)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Net Income	\$ 14,184	\$ 19,301	\$ 46,835	\$ 56,643
Other Comprehensive Income (Loss):				
Foreign currency translation adjustment	2,258	(6,295)	2,114	(2,856)
Unrealized (loss) gain on derivative instrument	(495)	(315)	(596)	184
Change in unrealized appreciation on marketable securities	21	25	35	(14)
	1,784	(6,585)	1,553	(2,686)
Comprehensive income	15,968	12,716	48,388	53,957
 Amounts Attributable to Noncontrolling Interests:				
Net loss	186	238	559	578
Foreign currency translation adjustment	(66)	148	(71)	45
Comprehensive loss attributable to noncontrolling interests	120	386	488	623
 Amounts Attributable to Redeemable Noncontrolling Interests:				
Net income	(1,019)	(341)	(1,357)	(1,074)
Foreign currency translation adjustment	2		(6)	
Comprehensive income attributable to redeemable noncontrolling interests	(1,017)	(341)	(1,363)	(1,074)
 Comprehensive Income Attributable to W. P. Carey Members	 \$ 15,071	 \$ 12,761	 \$ 47,513	 \$ 53,506

See Notes to Consolidated Financial Statements.

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W. P. CAREY & CO. LLC
Consolidated Statements of Cash Flows (Unaudited)
(in thousands)

	Nine months ended September	
	30,	
	2009	2008
Cash Flows Operating Activities		
Net income	\$ 46,835	\$ 56,643
Adjustments to net income:		
Depreciation and amortization including intangible assets and deferred financing costs	18,385	20,412
Income from equity investments in real estate and CPA® REITs in excess of distributions received	(4,303)	(1,224)
Straight-line rent adjustments	1,560	1,718
Management income received in shares of affiliates	(23,451)	(30,237)
Gain on sale of real estate and investment in direct financing lease	(343)	(1,103)
Gain on extinguishment of debt	(6,991)	
Allocation of earnings to profit sharing interest	3,976	
Unrealized (gain) loss on foreign currency transactions, warrants and securities	(257)	324
Realized gain on foreign currency transactions and other	(260)	(1,567)
Impairment charges	4,670	538
Stock-based compensation expense	7,777	5,894
Decrease in deferred acquisition revenue received	23,109	46,695
Increase in structuring revenue receivable	(8,196)	(8,845)
Decrease in income taxes, net	(11,137)	(6,527)
Decrease in settlement provision		(29,979)
Net changes in other operating assets and liabilities	(1,991)	(5,250)
Net cash provided by operating activities	49,383	47,492
Cash Flows Investing Activities		
Distributions received from equity investments in real estate and CPA® REITs in excess of equity income	33,917	7,566
Capital contributions to equity investments	(3,709)	(1,361)
Purchases of real estate and equity investments in real estate	(39,632)	(184)
Capital expenditures	(6,110)	(8,355)
VAT refunded on purchase of real estate		3,189
Proceeds from sale of real estate and securities	6,927	5,062
Proceeds from transfer of profit sharing interest	21,928	
Funds released from escrow in connection with the sale of property		636
Payment of deferred acquisition revenue to affiliate		(120)
Net cash provided by investing activities	13,321	6,433
Cash Flows Financing Activities		

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Distributions paid	(58,787)	(67,987)
Contributions from noncontrolling interests	2,137	1,957
Distributions to noncontrolling interests	(4,589)	(1,659)
Distributions to profit sharing interest	(5,372)	
Scheduled payments of mortgage principal	(7,527)	(7,196)
Proceeds from mortgages and credit facilities	158,994	122,968
Prepayments of mortgage principal and credit facilities	(137,436)	(102,427)
Proceeds from loan from affiliates	1,625	
Repayment of loan from affiliates		(7,569)
Payment of financing costs, net of deposits refunded	(849)	(375)
Proceeds from issuance of shares	1,356	21,242
Windfall tax benefits associated with stock-based compensation awards	275	697
Repurchase and retirement of shares	(10,686)	(5,134)
Net cash used in financing activities	(60,859)	(45,483)
 Change in Cash and Cash Equivalents During the Period		
Effect of exchange rate changes on cash	364	(94)
Net increase in cash and cash equivalents	2,209	8,348
Cash and cash equivalents, beginning of period	16,799	12,137
Cash and cash equivalents, end of period	\$ 19,008	\$ 20,485

See Notes to Consolidated Financial Statements.

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Table of Contents**W. P. CAREY & CO. LLC****Notes to Consolidated Financial Statements (Unaudited)****Note 1. Business**

W. P. Carey & Co. LLC, its consolidated subsidiaries and predecessors (collectively, we, us or our) provide long-term sale-leaseback and build-to-suit transactions for companies worldwide and manage a global investment portfolio. We invest primarily in commercial properties domestically and internationally that are each triple-net leased to single corporate tenants, which requires each tenant to pay substantially all of the costs associated with operating and maintaining the property. We also earn revenue as the advisor to publicly owned, non-actively traded real estate investment trusts (CPA[®] REITs) sponsored by us that invest in similar properties. We are currently the advisor to the following CPA[®] REITs: Corporate Property Associates 14 Incorporated (CPA:14), Corporate Property Associates 15 Incorporated (CPA:15), Corporate Property Associates 16 Global Incorporated (CPA:16 Global) and Corporate Property Associates 17 Global Incorporated (CPA:17 Global). As of September 30, 2009, we owned and managed 870 properties domestically and internationally, including our own portfolio. Our own portfolio was comprised of our full or partial ownership interest in 172 properties, substantially all of which were net leased to 81 tenants, and totaled approximately 16.7 million square feet (on a pro rata basis) with an occupancy rate of 95%.

Primary Business Segments

Investment Management We structure and negotiate investments and debt placement transactions for the CPA[®] REITs, for which we earn structuring revenue, and manage their portfolios of real estate investments, for which we earn asset-based management and performance revenue. We earn asset-based management and performance revenue from the CPA[®] REITs based on the value of their real estate-related assets under management. As funds available to the CPA[®] REITs are invested, the asset base from which we earn revenue increases. In addition, we also receive a percentage of distributions of available cash from CPA[®]:17 Global's operating partnership. We may also earn incentive and disposition revenue and receive other compensation in connection with providing liquidity alternatives to CPA[®] REIT shareholders.

Real Estate Ownership We own and invest in commercial properties in the United States (U.S.) and the European Union that are then leased to companies, primarily on a triple-net leased basis. We may also invest in other properties if opportunities arise.

Note 2. Basis of Presentation

Our interim consolidated financial statements have been prepared, without audit, 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 of America (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 results of operations, financial position 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, 2008, which are included in our 2008 Annual Report on Form 10-K, 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 fiscal 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. Certain prior year amounts have been reclassified to conform to the current year presentation. The consolidated financial statements included in this Report have been retrospectively adjusted to reflect the adoption of several accounting pronouncements during the nine months ended September 30, 2009 (Note 10 and 11).

In May 2009, the FASB issued authoritative guidance for subsequent events, which we adopted as required in the second quarter of 2009. The guidance establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. We evaluated subsequent events through November 6, 2009, the date on which we filed this Report with the SEC.

Basis of Consolidation

The consolidated financial statements include all of our accounts and those of our majority-owned and/or controlled subsidiaries. The portion of equity in a subsidiary that is not attributable, directly or indirectly, to us is presented as noncontrolling interests. All

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Notes to Consolidated Financial Statements

significant intercompany accounts and transactions have been eliminated. Under current authoritative accounting guidance, we have determined that we are the primary beneficiary of one variable interest entity (VIE), which we consolidate. In addition, we hold investments in tenant-in-common interests, which we account for as equity investments in real estate under current authoritative accounting guidance.

Out of Period Adjustment

As of September 30, 2009 and for the nine months ended September 30, 2009, we recorded an adjustment to record an entity on the equity method that had been incorrectly accounted for under a proportionate consolidation method since its acquisition in 1990. This adjustment was recorded as a reduction to Real estate and Non-recourse debt of approximately \$23.3 million and \$15.0 million, respectively, and an increase to Equity investment in real estate and CPA® REITs of \$7.8 million on our consolidated balance sheet at September 30, 2009, and an adjustment to classify approximately \$0.5 million and \$1.2 million of net earnings to income from equity investme