

CAREY W P & CO LLC  
Form 10-Q  
August 06, 2010

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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 June 30, 2010**

**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.

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 39,324,188 shares of common stock, no par value, outstanding at July 31, 2010.



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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. 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 continue, and similar expressions. 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 Annual Report on Form 10-K for the year ended December 31, 2009 as filed with the SEC on February 26, 2010 (the "2009 Annual Report"). 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 2009 Annual Report. 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 amounts)*

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
<b>Assets</b>		
Investments in real estate:	\$ 559,441	\$ 525,607
Real estate, at cost (inclusive of amounts attributable to consolidated variable interest entities ( VIEs ) of \$52,745 and \$52,625, respectively)		
Operating real estate, at cost (inclusive of amounts attributable to VIEs of \$25,665 and \$25,665, respectively)	85,960	85,927
Accumulated depreciation (inclusive of amounts attributable to consolidated VIEs of \$27,047 and \$25,650, respectively)	(113,348)	(112,286)
Net investments in properties	532,053	499,248
Net investment in direct financing leases	78,087	80,222
Assets held for sale	5,390	
Equity investments in real estate and CPA® REITs	313,080	304,990
Net investments in real estate	928,610	884,460
Cash and cash equivalents (inclusive of amounts attributable to consolidated VIEs of \$91 and \$108, respectively)	39,449	18,450
Due from affiliates	29,234	35,998
Intangible assets and goodwill, net	89,359	85,187
Other assets, net (inclusive of amounts attributable to consolidated VIEs of \$1,635 and \$1,504, respectively)	37,754	69,241
Total assets	1,124,406	1,093,336
<b>Liabilities and Equity</b>		
Liabilities:		
Non-recourse debt (inclusive of amounts attributable to consolidated VIEs of \$9,743 and \$9,850, respectively)	206,247	215,330
Line of credit	171,750	111,000
Accounts payable, accrued expenses and other liabilities (inclusive of amounts attributable to consolidated VIEs of \$2,175 and \$2,286, respectively)	45,891	51,710
Income taxes, net	40,447	43,831
Distributions payable	19,849	31,365
Total liabilities	484,184	453,236
Redeemable noncontrolling interest	7,119	7,692
Commitments and contingencies (Note 8)		
Equity:		
W. P. Carey members' equity:		

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Listed shares, no par value, 100,000,000 shares authorized; 39,323,929 and 39,204,605 shares issued and outstanding, respectively	758,080	754,507
Distributions in excess of accumulated earnings	(141,571)	(138,442)
Deferred compensation obligation	10,249	10,249
Accumulated other comprehensive loss	(9,859)	(681)
Total W. P. Carey members equity	616,899	625,633
Noncontrolling interests	16,204	6,775
Total equity	633,103	632,408
Total liabilities and equity	\$ 1,124,406	\$ 1,093,336

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)*

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Revenues</b>				
Asset management revenue	\$ 19,080	\$ 19,227	\$ 37,900	\$ 38,335
Structuring revenue	13,102	365	19,936	10,774
Wholesaling revenue	2,230	1,597	4,333	2,690
Reimbursed costs from affiliates	15,354	11,115	30,402	20,111
Lease revenues	15,833	16,374	31,844	32,745
Other real estate income	4,797	4,557	8,572	7,770
	70,396	53,235	132,987	112,425
<b>Operating Expenses</b>				
General and administrative	(18,131)	(14,334)	(35,732)	(33,433)
Reimbursable costs	(15,354)	(11,115)	(30,402)	(20,111)
Depreciation and amortization	(5,815)	(6,574)	(11,991)	(11,694)
Property expenses	(2,379)	(1,921)	(4,628)	(3,371)
Other real estate expenses	(1,773)	(1,707)	(3,588)	(3,838)
Impairment charges		(900)	(2,268)	(900)
	(43,452)	(36,551)	(88,609)	(73,347)
<b>Other Income and Expenses</b>				
Other interest income	336	416	609	823
Income from equity investments in real estate and CPA <sup>®</sup> REITs	7,638	4,875	16,780	6,262
Other income and (expenses)	42	127	(622)	3,281
Interest expense	(3,765)	(3,805)	(7,476)	(8,000)
	4,251	1,613	9,291	2,366
Income from continuing operations before income taxes	31,195	18,297	53,669	41,444
Provision for income taxes	(6,751)	(3,720)	(10,863)	(9,920)
Income from continuing operations	24,444	14,577	42,806	31,524
<b>Discontinued Operations</b>				
Income from operations of discontinued properties	206	1,202	626	2,164
Gain on sale of real estate	56	478	460	343
Impairment charges	(985)	(1,380)	(5,869)	(1,380)
(Loss) income from discontinued operations	(723)	300	(4,783)	1,127



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<b>Net Income</b>	23,721	14,877	38,023	32,651
Add: Net loss attributable to noncontrolling interests	128	203	414	373
Less: Net income attributable to redeemable noncontrolling interests	(417)	(103)	(592)	(338)
<b>Net Income Attributable to W. P. Carey Members</b>	\$ 23,432	\$ 14,977	\$ 37,845	\$ 32,686
<b>Basic Earnings Per Share</b>				
Income from continuing operations attributable to				
W. P. Carey members	\$ 0.62	\$ 0.36	\$ 1.08	\$ 0.79
(Loss) income from discontinued operations attributable to W. P. Carey members	(0.03)	0.01	(0.12)	0.03
Net income attributable to W. P. Carey members	\$ 0.59	\$ 0.37	\$ 0.96	\$ 0.82
<b>Diluted Earnings Per Share</b>				
Income from continuing operations attributable to				
W. P. Carey members	\$ 0.62	\$ 0.36	\$ 1.06	\$ 0.78
(Loss) income from discontinued operations attributable to W. P. Carey members	(0.03)	0.01	(0.12)	0.03
Net income attributable to W. P. Carey members	\$ 0.59	\$ 0.37	\$ 0.94	\$ 0.81
<b>Weighted Average Shares Outstanding</b>				
Basic	39,081,064	39,350,684	39,116,126	39,067,391
Diluted	39,510,231	40,065,495	39,567,583	39,780,708
<b>Amounts Attributable to W. P. Carey Members</b>				
Income from continuing operations, net of tax	\$ 24,155	\$ 14,677	\$ 42,628	\$ 31,559
(Loss) income from discontinued operations, net of tax	(723)	300	(4,783)	1,127
Net income	\$ 23,432	\$ 14,977	\$ 37,845	\$ 32,686
<b>Distributions Declared Per Share</b>	\$ 0.506	\$ 0.498	\$ 1.010	\$ 0.994

See Notes to Consolidated Financial Statements.

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**W. P. CAREY & CO. LLC**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**  
*(in thousands)*

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Net Income</b>	\$ 23,721	\$ 14,877	\$ 38,023	\$ 32,651
<b>Other Comprehensive (Loss) Income:</b>				
Foreign currency translation adjustments	(4,627)	3,284	(8,034)	(144)
Unrealized (loss) gain on derivative instrument	(735)	163	(1,295)	(101)
Change in unrealized appreciation on marketable securities	(7)	31	(11)	13
	(5,369)	3,478	(9,340)	(232)
<b>Comprehensive Income</b>	18,352	18,355	28,683	32,419
<b>Amounts Attributable to Noncontrolling Interests:</b>				
Net loss	128	203	414	373
Foreign currency translation adjustments	26	(105)	145	(4)
Comprehensive loss attributable to noncontrolling interests	154	98	559	369
<b>Amounts Attributable to Redeemable Noncontrolling Interests:</b>				
Net income	(417)	(103)	(592)	(338)
Foreign currency translation adjustments	16	(10)	17	(8)
Comprehensive income attributable to redeemable noncontrolling interests	(401)	(113)	(575)	(346)
<b>Comprehensive Income Attributable to W. P. Carey Members</b>	\$ 18,105	\$ 18,340	\$ 28,667	\$ 32,442

See Notes to Consolidated Financial Statements.

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**W. P. CAREY & CO. LLC**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
*(in thousands)*

	<b>Six months ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash Flows Operating Activities</b>		
Net income	\$ 38,023	\$ 32,651
Adjustments to net income:		
Depreciation and amortization including intangible assets and deferred financing costs	12,377	12,757
Income from equity investments in real estate and CPA <sup>®</sup> REITs in excess of distributions received	(5,942)	(3,157)
Straight-line rent and financing lease adjustments	429	967
Gain on sale of real estate	(460)	(343)
Gain on extinguishment of debt		(6,991)
Allocation of (loss) earnings to profit sharing interest	(373)	3,875
Management income received in shares of affiliates	(17,344)	(15,414)
Unrealized loss (gain) on foreign currency transactions and others	860	(39)
Realized loss (gain) on foreign currency transactions and others	143	(126)
Impairment charges	8,137	2,280
Stock-based compensation expense	4,936	5,260
Deferred acquisition revenue received	17,048	22,877
Increase in structuring revenue receivable	(9,352)	(5,416)
Decrease in income taxes, net	(6,116)	(8,454)
Net changes in other operating assets and liabilities	(6,075)	(6,044)
<b>Net cash provided by operating activities</b>	<b>36,291</b>	<b>34,683</b>
<b>Cash Flows Investing Activities</b>		
Distributions received from equity investments in real estate and CPA <sup>®</sup> REITs in excess of equity income	7,762	7,606
Purchases of real estate and equity investments in real estate	(74,904)	(39,677)
VAT paid in connection with acquisition of real estate	(4,222)	
Capital expenditures	(1,652)	(6,929)
Proceeds from sale of real estate	9,200	3,835
Funds released from escrow in connection with the sale of property	36,132	
Proceeds from transfer of profit sharing interest		21,928
<b>Net cash used in investing activities</b>	<b>(27,684)</b>	<b>(13,237)</b>
<b>Cash Flows Financing Activities</b>		
Distributions paid	(52,490)	(39,060)
Contributions from noncontrolling interests	11,180	1,583
Distributions to noncontrolling interests	(1,444)	(3,474)
Distributions to profit sharing interest	(693)	(3,434)
Scheduled payments of mortgage principal	(10,322)	(5,241)

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Prepayments of mortgage principal		(11,918)
Proceeds from mortgage financing	6,315	39,000
Proceeds from line of credit	83,250	88,500
Prepayments of line of credit	(22,500)	(72,018)
Proceeds from loans from affiliates		1,624
Payment of financing costs	(301)	(806)
Proceeds from issuance of shares	799	874
Windfall tax (provision) benefits associated with stock-based compensation awards	(159)	242
Repurchase and retirement of shares		(10,686)
<b>Net cash provided by (used in) financing activities</b>	<b>13,635</b>	<b>(14,814)</b>
 <b>Change in Cash and Cash Equivalents During the Period</b>		
Effect of exchange rate changes on cash	(1,243)	38
Net increase in cash and cash equivalents	20,999	6,670
Cash and cash equivalents, beginning of period	18,450	16,799
Cash and cash equivalents, end of period	\$ 39,449	\$ 23,469

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 ( W. P. Carey and, together with its consolidated subsidiaries and predecessors, we, us or our ) 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 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-listed real estate investment trusts, which are sponsored by us under the Corporate Property Associates brand name (the CPA® REITs ) and 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® Global ) and Corporate Property Associates 17 Global Incorporated ( CPA®:17 Global ). At June 30, 2010, we owned and managed 922 properties domestically and internationally. Our own portfolio was comprised of our full or partial ownership interest in 167 properties, substantially all of which were net leased to 80 tenants, and totaled approximately 14 million square feet (on a pro rata basis) with an occupancy rate of approximately 92%.

**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 of America ( 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 U.S. ( 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, 2009, which are included in our 2009 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 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.

*Basis of Consolidation*

The consolidated financial statements affect all of our accounts, including 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 significant intercompany accounts and transactions have been eliminated. We hold investments in tenant-in-common in