



W. P. Carey & Co. LLC Annual Report 2000

*Investing for the Long Run*

W. P. CAREY

## *Financial Highlights*

IN THOUSANDS EXCEPT PER SHARE AND  
STOCK DATA FOR THE YEAR ENDED DECEMBER 31 **2000**

### **Operations**

Total Revenues	\$	120,251
Net Income	\$	(9,278)
Funds From Operations (FFO)	\$	68,044

### **Per Share**

Funds From Operations (FFO)	\$	2.28
Dividend	\$	1.69
Pay-Out Ratio		74.1%
Weighted Average Listed Shares Outstanding (Diluted)		29,652,698

AS OF DECEMBER 31 **2000**

### **Balance Sheet**

Total Assets	\$	904,242
Shareholders' Equity	\$	562,073

### **Stock Data**

Price Range (January 1, 2000 thru December 31, 2000)	\$15.88 - \$18.31
Dividend Yield Range	9.23% - 10.64%
Average Daily Trading Volume (January 1, 2000 thru December 31, 2000)	20,778
Number of Shareholders	20,385



*Properties owned by WPC*  
*Properties owned by CPA REITs*

W. P. CAREY & CO. LLC (NYSE: WPC) IS A fully integrated investment company and the nation's dominant net lease firm, specializing in the triple net leasing of single tenant commercial and industrial properties throughout the United States. In addition to our extensive real estate holdings, we manage properties held by a group of companies, including the Corporate Property Associates (CPA®) series of private REITs, and Carey Institutional Properties. Through direct ownership or management, our portfolio consists of 409 properties in 41 states, the United Kingdom and France. Assets under ownership and management total over 45,000,000 square feet and exceed \$2.6 billion.

W. P. Carey & Co. shareholders benefit from the steady revenues generated by our net lease operations and growth from our asset management business.

Our mission is to provide investors with stable income and consistent investment performance and to assist our tenant companies in achieving their business goals.

## *Dear fellow shareholders*

### I N L A S T Y E A R ' S

report we cautioned that prudent asset allocation required investors to diversify, putting some of the gains from high-risk investments into undervalued, income-oriented investments — the “stay rich” portion of their portfolios. Those who heeded our warning were rewarded. The solid performance of our business during a year of extreme market volatility benefited our long-term thinking investors. In addition, last year’s combination of the growing asset management business of W. P. Carey & Co., Inc. with the stable income from Carey Diversified LLC’s highly diversified portfolio of net leased properties enhanced our performance. Today, we are on target with our goal of creating sustainable long-term value for our investors and recent market volatility has only reinforced our core belief in making sound investments and in the importance of diversification.

That long-term investment philosophy continues to guide us as the newly formed W. P. Carey & Co.



*Wm. Polk Carey*  
CHAIRMAN



*Francis J. Carey*  
VICE CHAIRMAN



*Gordon F. DuGan*  
PRESIDENT

LLC (WPC). We have successfully combined the advisory business of W. P. Carey & Co., Inc. with the investment portfolio of Carey Diversified LLC to create an entirely new enterprise that takes diversification to a new level.

◉ **The investment portfolio of net-leased commercial properties.** It continuously generates stable, gradually rising rents, with returns moderately leveraged with non-recourse mortgages and built-in credit and inflation protections.

◉ **The advisory business.** It has been historically faster growing, generating fees for providing acquisition and management services for four Carey-sponsored real estate investment trusts (REITs). Three of these REITs are in the Corporate Property Associates series, intended

primarily for individual investors (CPA<sup>®</sup>:10, CPA<sup>®</sup>:12 and CPA<sup>®</sup>:14). The fourth, Carey Institutional Properties (CIP<sup>®</sup>), is attractive to institutional investors as well.

The new WPC is clearly a winning combination for our shareholders. It generated an immediate, and



**THE NEW WPC IS CLEARLY A**

**WINNING COMBINATION FOR OUR**

**SHAREHOLDERS. IT GENERATED**

continuing, boost in revenue and cash flow and provided significant additional diversification. It aligned the interests of property ownership and the advisory function within a single entity. And its increased size, financial strength and marketplace presence will make it easier to pursue and finance attractive investment opportunities that may arise.

### *Strong Gain in Funds From Operations*

For the year 2000, the company turned in a solid earnings performance. While Generally Accepted Accounting Principles (GAAP) require depreciation of assets as a non-cash charge against earnings, that is more appropriate for production equipment and factories that gradually wear out or become obsolete than for commercial real estate, which tends to become more valuable over time. Funds From Operations (FFO), a widely used measure of real estate investment performance, adds depreciation charges back into earnings. FFO increased 10% to

**AN IMMEDIATE, AND  
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SIGNIFICANT ADDITIONAL  
DIVERSIFICATION.**

\$2.28 per share in 2000, from \$2.07 per share in 1999. Additionally, the approximate six months of combined operations showed a boost in book revenues and FFO. We prefer, however, in keeping with our “long-run” investment philosophy, not to measure our performance on a quarter-to-quarter

or even on a year- to-year basis, but rather to view our results with a longer-term perspective. As a company that makes long-term investments through real estate in businesses with solid prospects for future growth, we seek to create sustainable long-term shareholder value.

In keeping with our long-standing objective of providing shareholders with consistent, gradually rising income, our board of directors increased the dividend to an annualized rate of \$1.69 per share in 2000. As expected, our earnings amply covered distributions.

Assets at year-end totaled \$904,242,000, compared with \$856,259,000 a year earlier. Shareholders’ equity rose from \$512,600,000 to \$562,073,000.

## *Results on GAAP Basis*

Due to structural, non-recurring changes, WPC recorded a net loss for the year of \$9,278,000, or \$.31 per share, on revenues of \$120,251,000. In 1999, net earnings were \$34,039,000, or \$1.33 per share on revenues of \$88,506,000.

This book loss resulted from several non-cash charges to earnings, of which the largest was a non-recurring \$38 million charge for the terminated management contract between Carey Diversified LLC and W. P. Carey & Co., Inc. The management contract was terminated to reflect the new structure of the company as an internally managed entity after the merger. Other non-cash charges included nearly \$6 million from the amortization of goodwill and intangible assets acquired in connection with the merger and just over \$11 million in write-downs of properties and securi-

### Portfolio Diversification by Percentage Rent Contributor

TOP TENANTS  
BASED ON ONGOING RENTAL INCOME



% OF TOTAL RENT	LESSEE/LEASE GUARANTOR	ANNUAL RENT
4.9%	<b>Dr Pepper / Seven Up Bottling Group</b>	\$ 4,318,931
4.5%	<b>Detroit Diesel Corp.</b>	3,957,524
4.3%	<b>American Greetings Corporation</b>	3,720,000
3.6%	<b>Livho Inc.</b>	3,108,797
3.2%	<b>Federal Express Corp.</b>	2,827,023
3.0%	<b>Orbital Sciences Corp.</b>	2,655,320
2.9%	<b>America West Holdings Corporation</b>	2,538,805
2.9%	<b>Thermadyne Industries, Inc.</b>	2,525,163
2.8%	<b>Furon Company</b>	2,414,800
2.7%	<b>Quebecor Printing USA</b>	2,401,350
2.5%	<b>AutoZone, Inc.</b>	2,216,594
2.5%	<b>The Gap, Inc.</b>	2,205,385
2.5%	<b>Sybron International Corporation</b>	2,163,816
42.3%	<b>TOTAL</b>	<b>\$ 37,053,508</b>

ties to fair value. Of course, these book write-downs will help future earnings growth.

It is noteworthy that without the \$11 million write-down, operating income derived from real estate operations would have increased by 5%, reflecting the strong performance of our portfolio. After the write-down, income from real estate operations was \$23,113,000, compared with \$32,522,000 in 1999. The advisory business, excluding the charges for goodwill, intangibles and the management contract termination, contributed

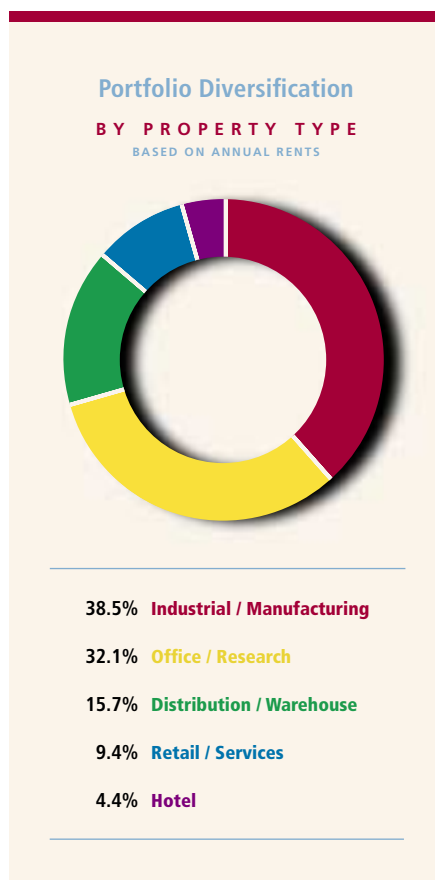
\$13,081,000 to operating income in the second half of the year.

## *An All-Weather Strategy*

As we have noted, we have focused on creating a business that performs well in good times as well as bad. During the dot.com boom, our stock suffered.

During last year's record household net worth decline, our stock went up 20%. Our funds' outstanding performance in all phases of the business cycle has demonstrated the effectiveness of W. P. Carey's disciplined, carefully structured "long-run" approach to investing in net leased commercial real estate.

We focus on sale-leaseback or build-to-suit acquisitions involving a long-term net lease with a single corporate tenant. We are careful to diversify our holdings geographically and by industry and type of property. We prefer properties that are both intrinsically attractive and central to the tenant company's operations. We structure the lease as an obligation of the parent corporation, and include rent escalation provisions to help offset inflation and provide gradually rising returns. Exhaustive analysis by our independent investment committee often enables us to discern an improving credit early, thereby increasing the value of the resulting lease when the markets recognize the tenant's financial soundness.



We leverage our properties moderately with property-specific, non-recourse debt to enhance our returns.

That approach, applied through partnerships, REITs and a limited liability company, has benefited investors and tenants alike since W. P. Carey & Co. was founded in 1973.

Tenant companies have used the sale-leaseback or build-to-suit approach to unlock the full value of company-owned real estate, to fund growth or acquisitions, or to reduce debt and clean up their balance sheets.

WPC, and its predecessor CDC, adopted the form of a limited liability company primarily because of the added flexibility it provides in terms of investments, operations and payouts. Unlike a REIT, which must distribute 90% of its taxable earnings, an LLC can retain a larger percentage of its earnings to fund future growth and build financial strength.

In 2000, WPC readily covered its distributions with a payout ratio of 74.1%, down from 80.7% in

the prior year and 83.3% in 1998. This ratio, which we expect to maintain in the 70% range, provides an excellent cushion for our dividend.

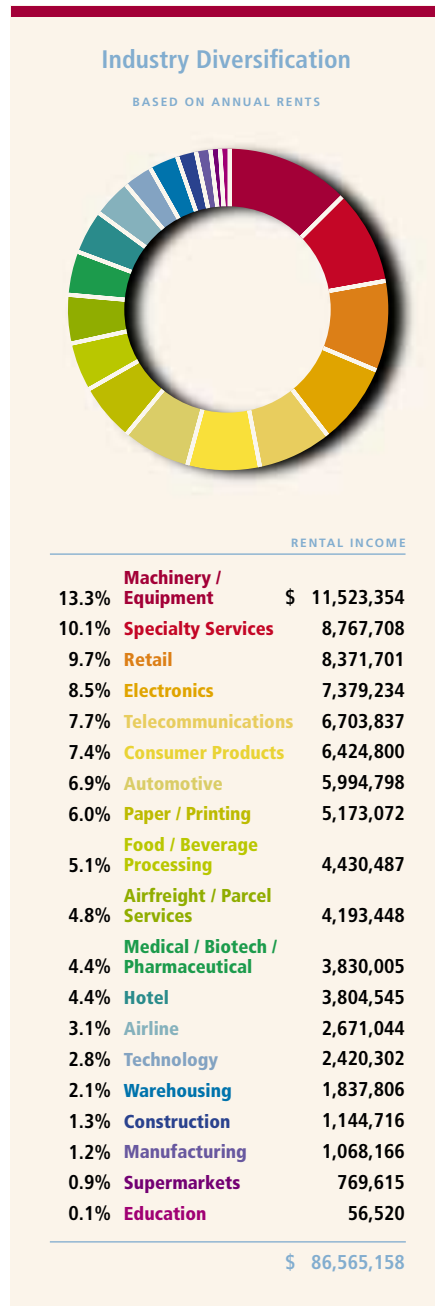
### *Four Macro Trends*

Meanwhile, the more difficult economic and business climate is affecting WPC's business in several ways. We note four relevant macro trends.

○ **A lower interest rate environment.** This is helpful for WPC. Lower market rates of interest increase the value of our lease stream, expand our opportunities to refinance advantageously, and reduce our interest expense.

Lower interest rates improve our returns, making our holdings more valuable over time.

○ **Falling corporate earnings.** Declining profits eventually lead to layoffs and then a reduction in the amount of space a company needs. That possibility



has led us to focus heavily on re-leasing properties early and selling off some properties where leases are short in order to increase average lease duration and protect our earnings.

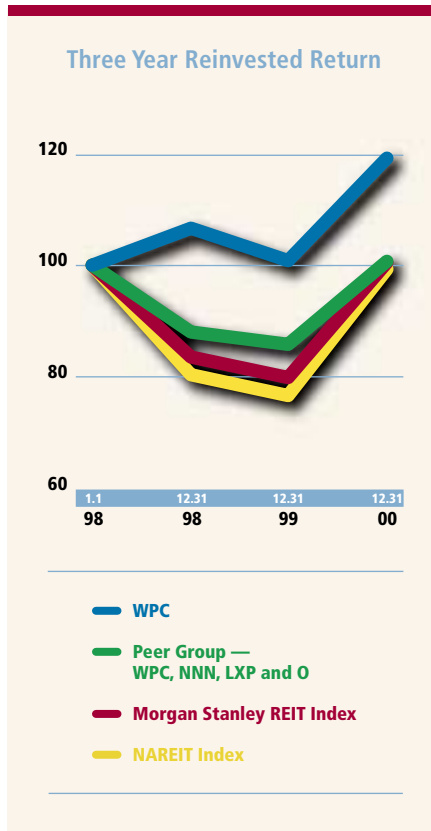
○ **A tighter credit environment.** This benefits WPC directly in that our tenants cannot readily find as attractive alternative financing. Our advisory business benefits even more because a tight credit market increases the demand for sale-leaseback financing, increasing the flow of potential investments for our REITs. The financial strength of the merged company, coupled with our favorable track record

among investors, provides us with ready access to debt or equity capital, conferring a relative advantage in pursuing attractive acquisitions. While tight credit markets and shrinking profits could result in defaults, we are monitoring our WPC and REIT portfolios



closely to minimize credit losses.

○ **A drought in public offerings.** In healthier times, the public market made tremendous amounts of money available. This is no longer the case, creating opportunity for alternative providers of capital such as W. P. Carey.



ever — in property ownership, revenues and sources of capital. We have a “long-run” investment strategy that has proven itself effective in all parts of the business cycle, a skilled and disciplined staff to carry it out, and a proud legacy of integrity and success. At the same time, we are a new company, with a sharp

*A Positive Outlook*

focus on a bright future of growth, profitability and rising shareholder value.

Despite continuing uncertainty over the extent and duration of the slowdown in the U.S. economy, our outlook is distinctly positive. We are well positioned to weather a downturn and to take advantage of emerging opportunities. We are diversified more than

We are grateful for, and count upon, the dedication of our talented staff, the goodwill of our clients and the strong support of our fellow investors as we face the challenges of the year ahead.

WM. POLK CAREY  
Chairman

FRANCIS J. CAREY  
Vice Chairman

GORDON F. DUGAN  
President

# *Investment Capital: Diversity = Availability*



## IN REAL ESTATE INVESTMENT, ACCESS TO

capital is critical to success. In today's challenging economic climate, W. P. Carey & Co. is positioned to assure that the debt and equity capital needed to invest advantageously is readily available.

Diversification in its property acquisitions — geographically, by industry and by type of property — has always been an article of faith at W. P. Carey & Co. Now we have extended that approach by diversifying our sources of capital as well.

The U.S. economic slowdown, accompanied by tightening of the credit markets, has generated expanded opportunities to acquire attractive properties at reasonable prices, while making it harder for many potential buyers to obtain the capital necessary to do so. By contrast, we can tap a variety of sources for both debt and equity capital.

## *Equity Capital*

WPC has three sources of equity capital. In creating the Corporate Property Associates (CPA®) series of limited partnerships and real estate investment trusts over the years, for example, we have raised capital by obtaining private equity investments from individuals. Such investors remain an important source of the private equity that fuels those REITs' growth, and in turn, the growth of WPC. Carey Institutional Properties, another REIT, has received private equity investments from institutions, such as foundations, pension plans and banks, as well as from individuals. The third source is the public equity markets. WPC, whose shares are traded on the New York Stock Exchange, can issue stock to raise funds. The size, financial strength, superior track record and growing public recognition of WPC facilitates investor acceptance of such issues.

## *Debt Capital*

We use two sources of debt capital to fund property acquisitions for WPC and the REITs that we manage: mortgages and corporate credit facilities.

As every homeowner knows, a mortgage typically provides the bulk of the funds necessary to acquire a property. In net leased commercial real estate, leverage provided by a mortgage is critical to improving returns and stretching invested equity. We use only non-recourse mortgages — that is, in case of default, the lender would have recourse only to the value of the specific property, not to other assets of WPC. To maximize our current returns while still building some equity in a given property, we typically obtain a 10- to 20-year mortgage that amortizes on a 25-year schedule. The lease payment, or rent, is structured to provide for periodic rent increases.

Credit lines at the corporate level comprise our other source of debt capital. WPC recently renewed its credit facility with various lenders of \$185 million adding such prominent banks as Wells Fargo, Citizens and National Australia Bank. Our current outstanding balance on our credit facilities is \$110 million. Growing cash flow, infusions of equity and occasional asset sales enable us to pay down this essentially short-term credit line debt.

## *Capital Driving Growth*

Capital from these sources will enable WPC to invest as much as \$400 million in acquiring properties for its own account and for its REITs during the remainder of 2001. WPC will also take advantage of the current low interest rate environment to refinance some properties, thereby improving returns and freeing up capital.

WPC's capital strength, careful attention to underwriting and lease-structuring, and conservative approach to borrowing result in a stock that is underleveraged and generates more than enough cash to cover its distributions. The price stability and consistent returns that this approach affords make WPC stock a particularly attractive long-term investment in a time of economic uncertainty.



**CAPITAL FROM THESE  
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# *Management's Discussion and Analysis of Financial Condition and Results of Operations*

Dollar amounts in thousands

## **Overview**

The following discussion and analysis of financial condition and results of operations of W. P. Carey & Co. LLC ("WPC") (formerly Carey Diversified, LLC) should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2000. The following discussion includes forward looking statements. Forward looking statements, which are based on certain assumptions, describe future plans, strategies and expectations of WPC. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievement of WPC to be materially different from the results of operations or plan expressed or implied by such forward looking statements. Accordingly, such information should not be regarded as representations by WPC that the results or conditions described in such statements or objectives and plans of WPC will be achieved.

Effective June 29, 2000, Carey Diversified LLC acquired the net lease real estate management operations of Carey Management LLC by issuing 8,000,000 shares, and changed its name to W. P. Carey & Co. LLC. As a result of acquiring the operations of Carey Management, WPC acquired its workforce of approximately 95 employees, assumed the advisory contracts with four affiliated real estate investment trusts ("REITs") and terminated the management contract between Carey Diversified LLC and Carey Management LLC. Management believes that the acquisition will provide WPC with several potential advantages including, but not limited to, increased diversification of revenue sources, reduced operating expenses through the elimination of management fees formerly paid to Carey Management, potentially increased earnings growth rate, the ability to offer a full range of financial options to corporate property owners and lessees, a strengthened credit profile and improved access to capital markets. WPC has substantially increased its asset base without increasing its long-term debt, and the acquisition may provide WPC the ability to increase its debt capacity, if necessary. The net income of the management business of Carey Management has historically grown at a faster rate than the net income of WPC's real estate operations, and Management believes that the prospects for an increase in the growth rate of earnings will be improved. Because the capital markets have indicated a strong preference for internally managed real estate companies, the ability of WPC to raise additional equity capital in the public markets should be enhanced.

## **Overview** *(continued)*

Public business enterprises are required to report financial and descriptive information about their reportable operating segments. WPC's management evaluates the performance of its portfolio as a whole, but allocates its resources between two operating segments: real estate operations with domestic and international investments and management services.

## **Results of Operations**

### *Year Ended December 31, 2000 Compared to Year Ended December 31, 1999*

WPC reported a net loss of \$9,278 and net income of \$34,039 for the years ended December 31, 2000 and 1999, respectively. The results for 2000 and 1999 are not fully comparable, primarily due to the acquisition of the operations of Carey Management. WPC incurred a charge of \$38,000 on the termination of its management contract with Carey Management. Management believes that the termination of the management contract will provide substantial benefit to WPC.

In addition to the \$38,000 fair value attributed to the terminated management contract, a substantial portion of the other net assets acquired consists of intangible assets including goodwill. Intangible assets and goodwill are amortized over their estimated useful lives, and such amortization, a non-cash charge, was \$5,958 in the current year. Results for 2000 include approximately six months of operations for the management services business. Prior to the acquisition, real estate operations contributed substantially all of WPC's income. Excluding the charges for amortization and the writeoff of the management contract, the management business segment contributed income of \$13,081.

Income from real estate operations provided operating income (income before gains and losses on sales and extraordinary items) of \$23,113 in 2000 as compared with \$32,522 in 1999. The results for 2000 and 1999 include charges of \$11,047 and \$5,988, respectively, for writedowns of assets to estimated fair value. Excluding the effect of the writedowns, operating income from real estate operations for 2000 would have reflected a decrease of \$4,350.

The decrease in real estate operating income was primarily due to increases in interest expense and depreciation offset by increases in lease revenues (rental income and interest income from direct financing leases) and other income.

The increase in interest expense of \$7,731 was primarily due to mortgage financing obtained in 1999 and a change in the use of amounts drawn from the credit line. Limited recourse financings included a new loan on the America West property, refinancings of the Gap, Inc. and Orbital Sciences Corporation properties and obtaining mortgage debt in connection with the December 1999 purchase of the Bell South property. Interest expense from the line of credit increased because a substantial portion of the interest incurred in 1999 was on borrowings used

## **Results of Operations** *(continued)*

to fund construction of the America West and Federal Express projects, and was capitalized rather than expensed in accordance with generally accepted accounting principles. Subsequent to the completion of the projects, interest costs were expensed. The credit facility is a variable rate obligation and also was affected by increases in interest rates during 2000.

The increase in depreciation of \$3,051 was due to the completion of build-to-suit projects on properties leased to America West Airlines and Federal Express, the acquisition of the Bell South property, the expansion of the Orbital Sciences property and the renovation of a property in Moorestown, New Jersey in 1999 now leased to Cendant.

The increase in lease revenues was primarily due to the completion of build-to-suit projects with Federal Express Corporation in February 2000 and America West Holdings Corp. in May 1999, new leases with Cendant Operations, Inc. and Bell South Telecommunications, Inc. in May and December 1999, respectively, and rent increases on various leases in 2000 and 1999. Lease revenue increases were partially offset by the sale of fourteen properties in 2000, the sales of the KSG, Inc. and Hotel Corporation of America properties in 1999 pursuant to the exercise of purchase options by the lessees, and the termination of the Copeland Beverage Group, Inc. lease in December 1999. As a result of financial difficulties, Copeland was placed in receivership and subsequently liquidated. Annual rent from the Copeland lease was \$1,800. WPC drew \$1,800 from a letter of credit that had been provided by Copeland which was used to cover property expenses for the period subsequent to the lease termination.

Other income in the accompanying consolidated statements consists of income from real estate operations other than lease revenues. Other income increased by \$1,418 in 2000. These items include, but are not limited to, bankruptcy distributions on claims against former tenants and termination agreements. The increase in other income in 2000 included bankruptcy distributions received from a former lessee and termination consideration. Hotel operating income (hotel revenues less hotel expenses) increased from \$1,113 to \$1,324 primarily due to increases in occupancy and average room rates of 4%.

Income from equity investments increased by \$996 due to the improved performance of the operating partnership of Meristar Hospitality Corporation, a publicly traded real estate investment trust, and an increase in income from the investment in a net lease with Checkfree Holdings Corp., which is owned with an affiliate. The increase in income from the Checkfree investment was due to recognition of a full year's revenues on the property leased to Checkfree which was purchased in June 1999. Rent on the Checkfree lease also increased in connection with the completion of an expansion in 2000.

General and administrative expenses increased due to the acquisition of the management operations, including the personnel and office facilities necessary to render advisory and administrative services to the REITs. The

## **Results of Operations** *(continued)*

general and administrative expense of the real estate operations segment reflected a decrease. Management and performance fee expenses for periods subsequent to the merger have been terminated effective June 29, 2000, resulting in a decrease in property expenses for the year ended December 31, 2000. The provision for income taxes increased as a result of forming a wholly-owned subsidiary that is responsible for management operations and all administrative functions. Formation of the taxable subsidiary allows the Company to maintain its status as a publicly-traded partnership.

Management monitors its real estate assets and securities on an on-going basis. In the event of certain circumstances, including, but not limited to, lease terminations, vacating of a property by a lessee or nonpayment of rent or interest, Management evaluates whether the fair value of an asset is less than its carrying value. In these instances, when the estimate of fair value is less than the carrying value, a writedown is recorded for the difference. In 2000 and 1999, WPC recognized writedowns of \$11,047 and \$5,988, respectively.

Earnings from the management business segment include transaction-based revenues that are directly related to the acquisition activity of the CPA® REITs. The ability of a CPA® REIT to acquire interests in real estate depends on its ability to raise capital and to leverage its properties with limited recourse mortgage debt. Accordingly, the growth of the management business segment will be affected by the amount of equity capital raised by CPA® REIT acquisition activity in 2001. Management expects the level of acquisition activity on behalf of the CPA® REITs for 2001 to approximate the annualized rate for 2000. WPC is in the process of preparing a “best efforts” public offering for a new CPA® REIT which is expected to commence before the end of 2001. An on-going “best efforts” offering of Corporate Property Associates 14 Incorporated is scheduled to conclude in the third quarter of 2001.

### *Year Ended December 31, 1999 Compared to Year Ended December 31, 1998*

Income before the effects of non-recurring items consisting of the noncash writedown of investments, gains from sales and extraordinary items increased by \$437 or 1% in 1999 as compared to 1998. This increase is primarily due to the growth of lease revenues, which was partially offset by increases in depreciation, interest and general and administrative expenses. Net income for the twelve months ended December 31, 1999 decreased by \$4,425 as compared to 1998 primarily due to a noncash writedown to fair value of \$4,830 of WPC’s investment in Meristar Hospitality. The noncash writedown was recognized because of continued weakness in the public market’s valuation of equity securities of real estate investment companies, including Meristar. The carrying value of the equity investment in Meristar subsequent to the writedown approximates WPC’s pro rata share of Meristar at Meristar’s reported net asset value.



## Results of Operations *(continued)*

Lease revenues, including rental income from operating leases and interest income from financing leases, increased by approximately \$3,300 for the year ended December 31, 1999 as compared to 1998. This increase represents the excess of additional lease revenues of approximately \$6,000 from completed build-to-suit construction projects and the effect of property acquisitions, over revenue decreases as compared with 1998 of approximately \$2,700 due to sales of properties and lease terminations. During 1999, WPC completed construction of a new \$37,000 office building for America West in which WPC owns an approximate 75% interest, a \$3,000 renovation for property leased to Cendant and a \$1,800 expansion on the Orbital Sciences property. Annual rent on the America West and Cendant properties is \$2,539 and \$1,000, respectively. Additional annual rent from the Orbital Science expansion is \$234. Approximately \$2,500 of the increase in lease revenues was realized as a result of recognizing a full year's rent in 1999 on properties acquired in 1998, including a property leased to Eagle Hardware and Garden Inc., a portfolio of seven properties acquired from J.A. Billipp Development Corporation and three properties located in France.

Decreases in lease revenues in 1999 of approximately \$2,700 resulted from the scheduled expiration of a lease with Hughes Markets in April 1998 and the sale of properties. Approximately \$1,300 of the decrease in lease revenues was due to the termination of the lease with Hughes Markets for a dairy processing plant in Los Angeles, California. On April 30, 1998, WPC's two-year extension term with Hughes Markets at above-market rental rates ended, and the new lease for the property with Copeland became effective. Annual rent of \$1,800 from the lease with Copeland approximated the rent in effect before commencement of Hughes' two-year extension term. In April 1998, WPC received a final rent payment of \$3,500 from Hughes. Loss of revenues from the sale of properties in 1999 and 1998 account for approximately \$1,400 of the decrease in lease revenues. These properties were sold as a result of the exercise of purchase options by the lessees of the properties.

Hotel operating income (hotel revenues less hotel expenses) decreased from \$1,333 to \$1,113 primarily due to a transfer of hotel operations in 1998. Income from hotels in 1998 included one month of operating income from a hotel in Livonia, Michigan, whose operations were transferred to an affiliated entity on February 1, 1998. Operating income from the hotels located in Alpena and Petoskey, Michigan was substantially unchanged.

Other income increased by \$250, primarily due to the receipt of payments in connection with the settlement of a dispute with the former tenant of a property in Broomfield, Colorado. Pursuant to the settlement, WPC received \$700 of unpaid rents, interest and penalties due from the former tenant. WPC also received proceeds of \$265 from the settlement of a bankruptcy by a former tenant. Income from equity investments increased by 3% in 1999 as compared to 1998.

## **Results of Operations** *(continued)*

Interest expense increased primarily due to an increase in debt balances for the acquisition of additional properties. Total debt, consisting of limited recourse mortgage debt and advances on the revolving line of credit, increased from approximately \$271,000 in 1998 to \$317,000 in 1999. The increase in interest expense from additional borrowings was substantially offset by the decrease in expense from lower principal balances on amortizing mortgage loans. WPC used draws on its \$185,000 revolving line of credit to fund construction costs and acquisitions and to refinance high rate debt on a transitional basis. Advances made on the revolving line of credit during 1999 were repaid from the proceeds of limited recourse mortgage loans and property sales.

Depreciation and amortization expense increased by \$2,786 in 1999 as compared to 1998 primarily due to the acquisition of properties in 1998 and the completion of construction on properties leased to America West and Cendant in 1999.

General and administrative expenses increased by approximately \$1,051 in 1999 as compared to 1998 primarily due to increases in professional fees. Professional fees increased due to the implementation of a new integrated accounting and asset management system and costs related to the evaluation and remediation of Year 2000 issues. A portion of the increase in professional fees was due to efforts to improve WPC's tax reporting capabilities to shareholders. WPC revised its systems and procedures to provide accelerated reporting of tax information to shareholders and engaged an external processing agent to provide shareholders with internet access to their tax information. State and local income taxes have increased due to the growth of WPC's portfolio of properties.

Because of the long-term nature of WPC's net leases, inflation and changing prices should not unfavorably affect revenues and net income or have an impact on the continuing operations of WPC's properties. WPC's leases usually have rent increases based on the consumer price index and other similar indexes and may have caps on such increases, or sales overrides, which should increase operating revenues in the future. The moderate increases in the consumer price index over the past several years will affect the rate of such future rent increases. Management believes that hotel operations will not be significantly impacted by changing prices.

## **Financial Condition**

WPC's primary sources of capital to meet its short-term and long-term needs are cash generated from operations, limited recourse mortgage loans, unsecured indebtedness and the issuance of additional equity securities. During 2000, WPC issued 8,000,000 shares in connection with acquiring the business operations of Carey Management. WPC assesses its ability to obtain debt financing on an ongoing basis.

## **Financial Condition** *(continued)*

Cash flows from operations and distributions from equity investments for the year ended December 31, 2000 of \$60,000 were sufficient to fund dividends to shareholders of \$49,957 and distributions to minority interests of \$1,321. Cash flow from operations for 2000 is not fully representative of future cash flows. Cash flows for 2000 only reflect six months of operations for the management business. A full year's cash flow from the management segment is expected to substantially benefit cash flow from operations. In connection with the acquisition, WPC also acquired Carey Management's minority partner interest in the CPA® Partnerships. Annual distributions relating to Carey Management's minority partner interest had been approximately \$2,045. Cash flows from operations are expected to increase as a result of the expected growth of the management business segment. Cash flow from operations should continue to fully fund distributions.

Cash flow from real estate operations will benefit from the completion of the build-to-suit project in October 2000 for a property leased to Bouygues Télécom, S.A. in France which will provide annual cash flow of \$445. Expansions of properties leased to Sprint and AT&T Corporation being funded by WPC in consideration for increases in rent and extensions of remaining lease terms are expected to be completed in April 2001 and July 2001, respectively, and will provide additional annual cash flow of approximately \$600. In connection with the sale of its 60% interest in the Federal Express properties in Collierville, Tennessee to an affiliate and the concurrent placement of limited recourse mortgage debt on the properties, annual cash flow will decrease by \$5,091. Solely as a result of using \$60,000 from the proceeds from the sale and the concurrent placement of debt on the Federal Express properties, annual interest on the line of credit will decrease by up to \$4,500. Additionally, the sale of the Federal Express properties has reduced the concentration of risk in a single lessee. Prior to the sale of this interest, Federal Express represented more than 7% of lease revenues and total assets.

WPC's investing activities in 2000 primarily consisted of funding construction costs in connection with the completion of build-to-suit projects for the Federal Express and Bouygues Télécom properties of \$18,417, the purchase of 11 acres of land adjacent to an existing WPC property in Broomfield, Colorado for \$922 in cash and \$778 in stock, and capital improvements to existing properties of \$2,078. WPC also completed a buyout of the joint venture partner in the Cendant property for \$527. WPC is seeking approvals which will allow WPC the ability to redevelop the existing property and adjacent land in Broomfield. WPC also has commenced a commercial redevelopment of its property in Los Angeles formerly leased to Copeland. Estimated costs for the Broomfield and Copeland projects are \$115,000. Management is still evaluating its financing alternatives for these construction costs but a significant portion could be drawn from its line of credit to fund such costs, if necessary.

## **Financial Condition** *(continued)*

During 2000, WPC sold (a) its interest in Federal Express for \$42,287, (b) fourteen small properties for \$3,007 and (c) 18,540 shares of common stock of Titan Corporation for \$324. WPC had previously converted warrants it received in 1991 in connection with structuring its net lease with Titan Corporation to Titan common stock. WPC continues to assess its real estate portfolio, and will continue to sell smaller properties when Management believes sufficient value can be received.

In addition to meeting its commitment to pay dividends to shareholders, WPC's financing activities in 2000 included paying down the line of credit by \$35,000, using \$13,944 to purchase back WPC stock on the open market at share prices ranging from \$15.75 to \$18.00 and making distributions to minority interests of \$1,321. WPC obtained limited recourse mortgage financing on the Cendant property and the Bouygues Télécom property of \$6,000 and \$10,397, respectively. WPC uses limited recourse mortgage notes for a substantial portion of its long-term financing strategy because the cost of this financing is attractive and the exposure of its assets is limited to the collateral designated for each loan.

WPC maintains a revolving line of credit that provides for borrowings of up to \$185,000. Advances from the line of credit bear interest at an annual rate indexed to the LIBOR Rate. The revolving credit agreement has financial covenants that require the Company to (i) maintain minimum equity value of \$400,000 plus 85% of amounts received by the Company as proceeds from the issuance of equity interests and (ii) meet or exceed certain operating and coverage ratios. Such operating and coverage ratios include, but are not limited to, (a) ratios of earnings before interest, taxes, depreciation and amortization to fixed charges for interest and (b) ratios of net operating income, as defined, to interest expense. The Company is in compliance with these covenants. The current revolving line of credit had initially been scheduled to mature in March 2001 and has been extended to March 2004.

In the case of limited recourse mortgage financing that does not fully amortize over its term or is currently due, WPC is responsible for the balloon payment only to the extent of its interest in the encumbered property because the holder has recourse only to the collateral. In the event that balloon payments come due, WPC may seek to refinance the loans, restructure the debt with the existing lenders or evaluate its ability to satisfy the obligation from its existing resources including its revolving line of credit, to satisfy the mortgage debt. To the extent the remaining initial lease term on any property remains in place for a number of years beyond the balloon payment date, WPC believes that the ability to refinance balloon payment obligations is enhanced. WPC also evaluates all its outstanding loans for opportunities to refinance debt at lower interest rates that may occur as a result of decreasing interest rates or improvements in the credit rating of tenants. Scheduled balloon payments on limited recourse mortgage notes approximate \$12,981 in 2001 and \$2,333 in 2002.

## **Financial Condition** *(continued)*

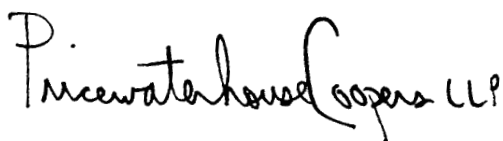
WPC expects to meet its capital requirements to fund future property acquisitions, construction costs on build-to-suit transactions, capital expenditures on existing properties and scheduled debt maturities through long-term secured and unsecured indebtedness and the possible issuance of additional equity securities. WPC's remaining commitments on the expansions of the Sprint and AT&T properties total \$4,931. Commitments for capital expenditures on the Livonia, Alpena and Petoskey, Michigan hotels are currently estimated to be approximately \$801.

In connection with the purchase of many of its properties, WPC required the sellers to perform environmental reviews. Management believes, based on the results of such reviews, that WPC's properties were in substantial compliance with Federal and state environmental statutes at the time the properties were acquired. However, portions of certain properties have been subject to some degree of contamination, principally in connection with leakage from underground storage tanks, surface spills or historical on-site activities. In most instances where contamination has been identified, tenants are actively engaged in the remediation process and addressing identified conditions. Tenants are generally subject to environmental statutes and regulations regarding the discharge of hazardous materials and any related remediation obligations. In addition, WPC's leases generally require tenants to indemnify WPC from all liabilities and losses related to the leased properties with provisions of such indemnification specifically addressing environmental matters. The leases generally include provisions that allow for periodic environmental assessments, paid for by the tenant, and allow WPC to extend leases until such time as a tenant has satisfied its environmental obligations. Certain of the leases allow WPC to require financial assurances from tenants such as performance bonds or letters of credit if the costs of remediating environmental conditions are, in the estimation of WPC, in excess of specified amounts. Accordingly, Management believes that the ultimate resolution of environmental matters will not have a material adverse effect on WPC's financial condition, liquidity or results of operations.

## Report of Independent Accountants

**To the Board of Directors and Shareholders of  
W. P. Carey & Co. LLC and Subsidiaries:**

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, members' equity and cash flows present fairly, in all material respects, the financial position of W. P. Carey & Co. LLC and its Subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

*New York, New York*

*February 22, 2001*

*Consolidated Balance Sheets*

In thousands except share amounts

	DECEMBER 31	
	2000	1999
<b>Assets</b>		
Real estate leased to others:		
Accounted for under the operating method, net of accumulated depreciation of \$24,159 and \$16,455 at December 31, 2000 and 1999	\$414,006	\$425,421
Net investment in direct financing leases	287,876	295,556
Real estate leased to others	701,882	720,977
Operating real estate, net of accumulated depreciation of \$1,442 and \$832 at December 31, 2000 and 1999	6,502	6,753
Real estate under construction and redevelopment	13,359	69,176
Equity investments	47,224	32,167
Assets held for sale	2,573	3,091
Cash and cash equivalents	10,165	2,297
Due from affiliates	7,945	—
Intangible assets, net of accumulated amortization of \$5,958 at December 31, 2000	94,183	—
Other assets, net of accumulated amortization of \$1,971 and \$1,125 at December 31, 2000 and 1999 and reserve for uncollected rent of \$2,207 and \$1,839 at December 31, 2000 and 1999	20,409	21,798
Total assets	<u>\$904,242</u>	<u>\$856,259</u>
<b>Liabilities, Minority Interest and Members' Equity</b>		
Liabilities:		
Mortgage notes payable	\$196,094	\$188,248
Notes payable	94,066	129,103
Accrued interest	2,655	874
Dividends payable	14,182	10,718
Due to affiliates	15,308	7,227
Accrued taxes	2,688	1,205
Other liabilities	16,374	9,420
Total liabilities	<u>341,367</u>	<u>346,795</u>
Minority interest	802	(3,136)
Commitments and contingencies		
Members' Equity:		
Listed shares, no par value, 33,604,716 and 25,833,603 shares issued and outstanding at December 31, 2000 and 1999	644,749	526,130
Distributions in excess of accumulated earnings	(74,260)	(11,560)
Unearned compensation	(5,291)	—
Accumulated other comprehensive loss	(3,125)	(910)
	<u>562,073</u>	<u>513,660</u>
Less, shares in treasury at cost, 62,300 shares at December 31, 1999	—	(1,060)
Total members' equity	<u>562,073</u>	<u>512,600</u>
Total liabilities, minority interest and members' equity	<u>\$904,242</u>	<u>\$856,259</u>

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

*Consolidated Statements of Operations*

In thousands except share and per share amounts

	FOR THE YEARS ENDED DECEMBER 31		
	2000	1999	1998
<b>Revenues</b>			
Rental income	\$ 52,086	\$46,719	\$42,771
Interest income from direct financing leases	33,572	33,842	34,529
Management income from affiliates	25,271	—	—
Other interest income	452	962	783
Other income	2,626	1,208	958
Revenues of hotel operations	6,244	5,775	6,289
	<u>120,251</u>	<u>88,506</u>	<u>85,330</u>
<b>Expenses</b>			
Interest	26,571	18,840	18,266
Depreciation	13,508	10,457	7,725
Amortization	7,801	735	681
General and administrative	16,487	7,293	6,241
Property expenses	5,644	5,433	5,059
Termination of management contract	38,000	—	—
Impairment of real estate and securities	11,047	5,988	1,585
Operating expenses of hotel operations	4,920	4,662	4,956
	<u>123,978</u>	<u>53,408</u>	<u>44,513</u>
(Loss) income before income from equity investments, (loss) gain on sale, minority interest, income taxes and extraordinary item	(3,727)	35,098	40,817
Income from equity investments	2,882	1,886	1,837
(Loss) income before (loss) gain on sale, minority interest, income taxes and extraordinary item	(845)	36,984	42,654
(Loss) gain on sale of real estate and securities, net	(2,752)	471	1,512
(Loss) income before minority interest, income taxes and extraordinary item	(3,597)	37,455	44,166
Minority interest in income	(1,517)	(2,664)	(4,662)
(Loss) income before income taxes and extraordinary item	(5,114)	34,791	39,504
Provision for income taxes	(4,164)	(752)	(419)
(Loss) income before extraordinary item	(9,278)	34,039	39,085
Extraordinary loss on early extinguishment of debt, net of minority interest of \$79	—	—	(621)
Net (loss) income	<u>\$ (9,278)</u>	<u>\$34,039</u>	<u>\$38,464</u>
Basic and diluted (loss) earnings per share:			
(Loss) earnings before extraordinary item	\$ (.31)	\$ 1.33	\$ 1.57
Extraordinary item	—	—	(.02)
	<u>\$ (.31)</u>	<u>\$ 1.33</u>	<u>\$ 1.55</u>
Weighted average shares outstanding:			
Basic	29,652,698	25,596,793	24,866,225
Diluted	29,652,698	25,596,793	24,869,570

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



W. P. Carey & Co. LLC

*Consolidated Statements of Members' Equity*

For the years ended December 31, 2000, 1999 and 1998  
In thousands except share amounts

	Shares	Paid-in Capital	Dividends in Excess of Accumulated Earnings	Unearned Compen- sation	Comprehen- sive Income (Loss)	Accumulated Other Comprehen- sive Income (Loss)	Treasury Shares	Total
Balance at								
January 1, 1998	23,959,101	\$490,820						\$490,820
Cash proceeds on								
issuance of shares, net	384,708	6,191						6,191
Shares issued in connection								
with services rendered								
and properties acquired	999,593	20,744						20,744
Dividends declared			\$(41,267)					(41,267)
Comprehensive income:								
Net income			38,464		\$38,464			38,464
Other comprehensive income:								
Change in unrealized								
appreciation								
(depreciation)								
of marketable securities					(233)			
Foreign currency translation								
adjustment					(486)			
					(719)	\$(719)		(719)
					\$37,745			
Balance at								
December 31, 1998	25,343,402	517,755	(2,803)			(719)		514,233
Cash proceeds on issuance								
of shares, net	34,272	652						652
Shares issued in connection								
with services rendered								
and properties acquired	455,929	7,723						7,723
Dividends declared			(42,796)					(42,796)
Repurchase of shares	(62,300)						\$(1,060)	(1,060)
Comprehensive income:								
Net income			34,039		\$34,039			34,039
Other comprehensive income:								
Change in unrealized								
appreciation								
(depreciation)								
of marketable securities					497			
Foreign currency translation								
adjustment					(688)			
					(191)	(191)		(191)
					\$33,848			
Balance at								
December 31, 1999	25,771,303	\$526,130	\$(11,560)			\$(910)	\$(1,060)	\$512,600

W. P. Carey & Co. LLC

*Consolidated Statements of Members' Equity (continued)*

For the years ended December 31, 2000, 1999 and 1998

In thousands except share amounts

	Shares	Paid-in Capital	Dividends in Excess of Accumulated Earnings	Unearned Compen- sation	Comprehen- sive Income (Loss)	Accumulated Other Comprehen- sive Income (Loss)	Treasury Shares	Total
Balance at December 31, 1999	25,771,303	526,130	(11,560)			(910)	(1,060)	512,600
Shares issued in connection with services rendered and properties acquired	226,290	3,169						3,169
Shares issued in connection with acquisition	8,104,673	124,630						124,630
Shares and options issued under share incentive plans	347,100	6,311		\$ (6,311)				—
Forfeitures	(8,050)	(160)		160				—
Dividends declared			(53,422)					(53,422)
Amortization of unearned compensation				860				860
Repurchase of shares	(836,600)						(14,271)	(14,271)
Cancellation of treasury shares		(15,331)					15,331	—
Comprehensive loss:								
Net loss			(9,278)		\$ (9,278)			(9,278)
Other comprehensive income:								
Change in unrealized depreciation of marketable securities					(1,155)			
Foreign currency translation adjustment					(1,060)			
					<u>(2,215)</u>	(2,215)		(2,215)
					<u>\$(11,495)</u>			
Balance at December 31, 2000	<u>33,604,716</u>	<u>\$644,749</u>	<u>\$(74,260)</u>	<u>\$(5,291)</u>		<u>\$(3,125)</u>	<u>—</u>	<u>\$562,073</u>

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

*Consolidated Statements of Cash Flows*

In thousands

	FOR THE YEARS ENDED DECEMBER 31		
	2000	1999	1998
Cash flows from operating activities:			
Net (loss) income	\$ (9,278)	\$ 34,039	\$ 38,464
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	21,309	11,192	8,406
Amortization of deferred income	(566)	(1,397)	(964)
Extraordinary loss	—	—	621
Loss (gain) on sales of real estate and securities, net	2,752	(471)	(1,512)
Minority interest in income	1,517	2,664	4,662
Straight-line rent adjustments and other noncash rent adjustments	(1,831)	(1,646)	(2,642)
Management income received in shares of affiliates	(2,747)	—	—
Writedown of real estate and securities to estimated fair value	11,047	5,988	1,585
Structuring fees receivable	(6,351)	—	—
Provision for uncollected rents	743	328	682
Costs paid by issuance of shares	1,482	1,647	881
Amortization of unearned compensation	860	—	—
Termination of management contract	38,000	—	—
Net changes in operating assets and liabilities, net of assets and liabilities acquired on acquisition	1,511	(4,142)	1,761
Net cash provided by operating activities	58,448	48,202	51,944
Cash flows from investing activities:			
Purchases of real estate	(21,497)	(60,804)	(89,650)
Additional capital expenditures	(2,078)	(3,784)	(5,156)
Payment of deferred acquisition fees	(392)	—	—
Proceeds from sales of real estate and securities	45,617	9,631	21,567
Accrued disposition fees payable	—	(1,007)	1,007
Purchases of mortgage receivable and marketable securities	—	(3,676)	(56)
Sale of mortgage receivable	—	3,676	—
Distributions received from equity investments in excess of equity income	1,552	775	763
Capital distribution from equity investment	17,544	—	—
Cash acquired on acquisition of business operations	212	—	—
Net cash provided by (used in) investing activities	40,958	(55,189)	(71,525)
Cash flows from financing activities:			
Dividends paid	(49,957)	(42,525)	(30,820)
Payment of accrued preferred distributions	—	—	(4,422)
Distributions paid to minority interest	(1,321)	(2,344)	(2,499)
Redemption of subsidiary partnership unitholders	—	—	(8,789)
Payments of mortgage principal	(7,590)	(6,393)	(6,627)
Proceeds from mortgages and notes payable	64,397	74,251	157,823
Prepayments of mortgages and notes payable	(83,037)	(17,803)	(101,555)
Prepayment charges paid	—	—	(700)
Deferred financing costs	—	(1,744)	(1,963)
Proceeds from issuance of shares	—	652	7,304
Repurchase of shares	(13,944)	(627)	—
Other	(46)	(75)	(1,084)
Net cash (used in) provided by financing activities	(91,498)	3,392	6,668
Effect of exchange rate changes on cash	(40)	219	—
Net increase (decrease) in cash and cash equivalents	7,868	(3,376)	(12,913)
Cash and cash equivalents, beginning of year	2,297	5,673	18,586
Cash and cash equivalents, end of year	\$ 10,165	\$ 2,297	\$ 5,673

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

*Consolidated Statements of Cash Flows (continued)*

Noncash operating, investing and financing activities:

A. The purchase of Carey Management consisted of the acquisition of certain assets and liabilities at fair value in exchange for the issuance of listed shares as follows:

Intangible assets:

Management contracts	\$97,135
Trade name	4,700
Workforce	4,900
Goodwill	31,406
	<hr/>
	138,141

Liability for 500,000 shares to be issued, net	(9,050)
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Other assets and liabilities, net	(4,673)
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Listed shares issued	(124,630)
	<hr/>

Net cash acquired	<u>\$ 212</u>
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B. The Company issued 181,644, 203,166 and 215,424 restricted shares valued at \$2,424, \$3,311 and \$4,367 in 2000, 1999 and 1998, respectively, to certain directors, officers and affiliates in consideration of services rendered. In connection with the acquisition of Carey Management in 2000, restricted shares and stock options valued at \$6,295 have been recorded as unearned compensation, of which \$160 has subsequently been forfeited and \$860 has been included in compensation expense.

C. In connection with the acquisition of real estate interests in 2000, 1999 and 1998, the Company issued shares valued at \$778, \$4,412 and \$16,377, respectively. The Company also assumed mortgage obligations of \$6,098 and \$13,593 in 1999 and 1998, respectively.

D. In connection with the disposition of a property in Topeka, Kansas in 1999, the property was transferred to the purchaser in exchange for assumption of the mortgage obligation on the property and certain other assets and liabilities. The gain on sale was as follows:

Land, buildings and personal property, net of accumulated depreciation	\$ (7,654)
Mortgage note payable	8,107
Other	(373)
	<hr/>
Gain on sale	<u>\$ 80</u>

E. Deferred acquisition fees payable to an affiliate at December 31, 2000, 1999 and 1998 are \$4,330, \$3,945 and \$3,137, respectively.

**Supplemental Cash Flow Information:**

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Cash paid for interest, net of amounts capitalized	\$24,790	\$20,055	\$17,936
Income taxes paid	\$ 1,437	\$ 659	\$ 353

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

## *Notes to Consolidated Financial Statements*

All amounts in thousands except share and per share amounts

### **1. Organization**

W. P. Carey & Co. LLC (the “Company”) (formerly known as Carey Diversified LLC) commenced operations on January 1, 1998, pursuant to a consolidation transaction, when the Company acquired the majority ownership interests in the nine Corporate Property Associates (CPA<sup>®</sup>) Partnerships. The former General Partner interests in the CPA<sup>®</sup> Partnerships were retained by two special limited partners, William Polk Carey, formerly the Individual General Partner of the nine CPA<sup>®</sup> Partnerships, and Carey Management LLC (“Carey Management”). Limited partners in the CPA<sup>®</sup> Partnerships who did not elect to receive shares in the Company retained direct ownership interests in the applicable CPA<sup>®</sup> Partnerships as subsidiary partnership unitholders. In July 1998, the Company redeemed all subsidiary partnership units for \$8,377.

The exchange of CPA<sup>®</sup> Partnership limited partner interests for interests in Carey Diversified was accounted for as a purchase with the limited partner interests recorded at the fair value of the shares exchanged. The excess of fair value over the related historical cost basis of \$189,932 was allocated principally to real estate leased to others under operating leases, net investment in direct financing leases and equity investments. The exchange of the former General Partners’ interests for shares was accounted for at their historical cost basis.

On June 28, 2000 the Company acquired the net lease real estate management operations of Carey Management subsequent to receiving shareholder approval. The assets acquired include the Advisory Agreements with four affiliated publicly owned real estate investment trusts (the “CPA<sup>®</sup> REITs”), the Company’s Management Agreement, the stock of an affiliated broker-dealer, investments in the common stock of the CPA<sup>®</sup> REITs, and certain office furniture, fixtures, equipment and employees required to carry on the business operations of Carey Management. The purchase price consisted of the initial issuance of 8,000,000 Listed Shares (“shares”) with an additional 2,000,000 shares issuable over four years if specified performance criteria are achieved (of which 500,000 shares will be issued based on meeting performance criteria as of December 31, 2000 and valued at \$9,050, based on the quoted price of the Company’s shares at December 31, 2000). The initial 8,000,000 shares issued are restricted from resale for a period of up to three years. The total initial purchase price was approximately \$131,300 including the issuance of 8,000,000 shares, transaction costs of \$2,605, the acquisition of Carey Management’s special limited partnership minority interests in the CPA<sup>®</sup> Partnerships and the value of restricted shares and options issued in respect of the

## **1. Organization** *(continued)*

interests of certain officers in a non-qualified deferred compensation plan of Carey Management. The Company has guaranteed loans of \$7,995 to these officers in connection with their acquisition of equity interests in the Company.

The acquisition of interests in Carey Management was accounted for as a purchase and is recorded at the fair value of the initial 8,000,000 shares issued and an additional 500,000 shares issuable based on meeting certain performance criteria as of December 31, 2000. For financial reporting purposes, the value of the 500,000 shares is recorded as additional purchase price. The fair value of the initial shares was based upon the average market price for a reasonable period before and after the date the terms of the acquisition were announced, including a discount to reflect the restrictions on their disposition. Any subsequent issuances based on performance criteria are valued based on the market price of the shares on the date when the performance criteria are achieved. The purchase price has been allocated to the assets and liabilities acquired based upon their fair market values. Intangible assets acquired, including the Advisory Agreements with the CPA® REITs, the Company's Management Agreement, the trade name, and workforce, were determined pursuant to an independent valuation. The value of the Advisory Agreements and the Management Agreement have been computed based on a discounted cash flow analysis of the projected fees. The excess of the purchase price over the fair values of the identified tangible and intangible assets, has been recorded as goodwill. The acquisition of the Company's Management Agreement has been accounted for as a contract termination and the fair value of the Agreement of \$38,000 was expensed as of the date of the merger.

Effective January 1, 2001, the Company has acquired all remaining minority interests in the CPA® Partnerships. An independent valuation is being completed which will determine the shares to be issued for the acquisition of the remaining minority interests. Concurrent with the purchase of the remaining interests in the CPA® Partnerships, certain CPA® Partnerships were merged so that as of January 1, 2001, the four remaining CPA® Partnerships will be wholly-owned subsidiaries. With the reduction in the number of Partnerships and the elimination of the minority interest owners in such Partnerships, the Company expects to achieve certain operating efficiencies.

## **2. Summary of Significant Accounting Policies**

### *Basis of Consolidation*

The consolidated financial statements include the Company and its wholly-owned and majority-owned subsidiaries including the CPA® Partnerships. All material inter-entity transactions have been eliminated.

## 2. Summary of Significant Accounting Policies *(continued)*

### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to the assessment of recoverability of real estate and intangible assets and goodwill. Actual results could differ from those estimates.

### *Real Estate Leased to Others*

Real estate is leased to others on a net lease basis, whereby the tenant is generally responsible for all operating expenses relating to the property, including property taxes, insurance, maintenance, repairs, renewals and improvements.

The Company diversifies its real estate investments among various corporate tenants engaged in different industries and by property type. No lessee currently represents 10% or more of total leasing revenues. The leases are accounted for under either the direct financing or operating methods. Such methods are described below (also see Notes 4 and 5):

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

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

Substantially all of the Company's leases provide for either scheduled rent increases, periodic rent increases based on formulas indexed to increases in the Consumer Price Index or sales overrides.

Certain of the Company's leases provide for additional rental revenue by way of percentage rents to be paid based upon the level of sales to be achieved by the lessee. These percentage rents are recorded once the required sales level is achieved and are included in the accompanying consolidated financial statements in rental income and interest income from direct financing leases.

## **2. Summary of Significant Accounting Policies** *(continued)*

### *Operating Real Estate*

Land and buildings and personal property are carried at cost less accumulated depreciation. Renewals and improvements are capitalized, while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed currently.

### *Real Estate Under Construction and Redevelopment*

For properties under construction, interest charges are capitalized rather than expensed and rentals received are recorded as a reduction of capitalized project (i.e., construction) costs.

The amount of interest capitalized is determined by applying the interest rate applicable to outstanding borrowings on the line of credit to the average amount of accumulated expenditures for properties under construction during the period.

### *Equity Investments*

The Company's interests in entities in which the Company's ownership is 50% or less and the Company exerts significant influence are accounted for under the equity method, i.e. at cost, increased or decreased by the Company's pro rata share of earnings or losses, less distributions.

### *Assets Held for Sale*

Assets held for sale are accounted for at the lower of carrying value or fair value, less costs to dispose.

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

### *Intangible Assets*

Goodwill represents the excess of the purchase price of the net lease real estate management operations over the fair value of net assets acquired. Other intangible assets represent cost allocated to trade names, advisory contracts with the CPA® REITs and the acquired workforce. Intangible assets are being amortized over their estimated useful lives which range from 2½ to 16½ years.



## 2. Summary of Significant Accounting Policies *(continued)*

Intangible assets as of December 31, 2000 are as follows:

Management contracts	\$ 59,135
Workforce	4,900
Trade name	4,700
Goodwill	<u>31,406</u>
	100,141
Less accumulated amortization	<u>5,958</u>
	<u><u>\$ 94,183</u></u>

### *Long-Lived Assets*

When events or changes in circumstances indicate that the carrying amount may not be recoverable, the Company assesses the recoverability of its long-lived assets, including residual interests of real estate assets and investments, based on projections of undiscounted cash flows, without interest charges, over the life of such assets. In the event that such cash flows are insufficient, the assets are adjusted to their estimated fair value.

### *Depreciation*

Depreciation is computed using the straight-line method over the estimated useful lives of the properties (generally forty years) and for furniture, fixtures and equipment (generally up to seven years).

### *Foreign Currency Translation*

The Company consolidates its real estate investments in France. The functional currency for these investments is the French Franc. The translation from the French Franc to U. S. dollars is performed for assets and liabilities using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted average exchange rate during the period. The gains and losses resulting from such translation are reported as a component of other comprehensive income as part of members' equity.

### *Cash Equivalents*

The Company considers all short-term, highly liquid investments that are both readily convertible to cash and have a maturity of generally three months or less at the time of purchase to be cash equivalents. Items classified as cash equivalents include commercial paper and money market funds. Substantially all of the Company's cash and cash equivalents at December 31, 2000 and 1999 were held in the custody of four financial institutions and which

## **2. Summary of Significant Accounting Policies** *(continued)*

balances, at times, exceed federally insurable limits. The Company mitigates this risk by depositing funds with major financial institutions.

### *Other Assets and Liabilities*

Included in other assets are accrued rents and interest receivable, deferred rent receivable, deferred charges and marketable securities. Included in other liabilities are accrued interest, accounts payable and accrued expenses and deferred income taxes. Deferred charges include costs incurred in connection with debt financing and refinancing and are amortized over the terms of the related debt obligations. Deferred rent receivable is the aggregate difference for operating method leases between scheduled rents which vary during the lease term and rent recognized on a straight-line basis. Also included in deferred rent receivable are lease restructuring fees received which are recognized over the remainder of the initial lease terms.

Marketable securities are classified as available-for-sale securities and reported at fair value with the Company's interest in unrealized gains and losses on these securities reported as a component of other comprehensive income until realized. Such marketable securities had a cost basis of \$1,362 and \$2,065 and reflected a fair value of \$470 and \$2,329 at December 31, 2000 and 1999, respectively.

### *Due to Affiliates*

Included in due to affiliates are deferred acquisition fees which are payable for services provided by Carey Management prior to the termination of the Management Contract, relating to the identification, evaluation, negotiation, financing and purchase of properties and additional shares for meeting performance criteria related to the acquisition of the net lease real estate management operations. The fees are payable in eight annual installments each January 1 following the first anniversary of the date a property was purchased, with each installment equal to .25% of the purchase price of the property.

### *Revenue Recognition*

In connection with the acquisition of Carey Management described in Note 1, the Company earns transaction and asset-based fees. Structuring and financing fees are earned for investment banking services provided in connection with the analysis, negotiation and structuring of transactions, including acquisitions and the placement of mortgage financing obtained by the CPA® REITs. Asset-based fees consist of property management, leasing and advisory fees and reimbursement of certain expenses in accordance with the separate management agreements with each

## **2. Summary of Significant Accounting Policies** *(continued)*

CPA® REIT for administrative services provided for operation of such CPA® REIT. Receipt of the incentive fee portion of the management fee, however, is subordinated to the achievement of specified cumulative return requirements by the shareholders of the CPA® REITs. The incentive portion of management fees may be collected in cash or shares of the CPA® REIT at the option of the Company. During 2000, the Company elected to receive its earned incentive fees in CPA® REIT shares.

All fees are recognized as earned. Transaction fees are earned upon the consummation of a transaction and management fees are earned when services are performed. Fees subject to subordination are recognized only when the contingencies affecting the payment of such fees are resolved, that is, when the performance criterion or criteria of the CPA® REIT is achieved. The Company also receives reimbursement of certain marketing costs in connection with the sponsorship of a CPA® REIT that is conducting a “best efforts” public offering. Reimbursement income is recorded as the expenses are incurred (see Note 3).

### *Income Taxes*

The Company is a limited liability company and has elected partnership status for federal income tax purposes. The Company is not liable for Federal income taxes as each member recognizes his or her proportionate share of income or loss in his or her tax return. Certain wholly-owned subsidiaries are not eligible for partnership status and, accordingly, all tax liabilities incurred by these subsidiaries do not pass through to the members. Accordingly, the provision for Federal income taxes is based on the results of those consolidated subsidiaries that do not pass through any share of income or loss to members. The Company is subject to certain state and local taxes.

Deferred income taxes are provided for based on earnings reported. The provision for income taxes differs from the amounts currently payable because of temporary differences in the recognition of certain income and expense items for financial reporting and tax reporting purposes.

Income taxes are computed under the asset and liability method. The asset and liability method requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between tax bases and financial bases of assets and liabilities (see Note 17).

### *Earnings Per Share*

The Company presents both basic and diluted earnings per share (“EPS”). Basic EPS excludes dilution and is computed by dividing net income available to shareholders by the weighted average number of shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue

## 2. Summary of Significant Accounting Policies *(continued)*

shares were exercised or converted into common stock, where such exercise or conversion would result in a lower EPS amount.

Basic and diluted earnings (loss) per share were calculated as follows:

	Net (Loss) Income	Basic and Diluted Weighted Shares Outstanding	Per Share Amount
<b>Year Ended December 31, 2000</b>			
Basic and diluted net loss	\$ (9,278)	29,652,698	\$ (.31)
<b>Year Ended December 31, 1999</b>			
Basic and diluted net income	\$34,039	25,596,793	\$1.33
<b>Year Ended December 31, 1998</b>			
Basic earnings before extraordinary item	\$39,085	24,866,225	\$1.57
Extraordinary item	(621)		(.02)
Basic net income	\$38,464	24,866,225	\$1.55
Effect of dilutive securities — options for shares		3,345	
Diluted earnings before extraordinary item	\$39,085	24,869,570	\$1.57
Extraordinary item	(621)		(.02)
Diluted net income	\$38,464	24,869,570	\$1.55

For the years ended 2000 and 1999, 4,143,254 and 3,199,280 share options, respectively, were not reflected because such options were anti-dilutive, either because of the exercise price of the options or because the Company incurred a net loss.

The Company repurchased 836,600 of its shares outstanding during 2000 in connection with an announcement in December 1999 that it would purchase up to 1,000,000 shares.

### *Stock Based Compensation*

The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations ("APB No. 25"). Under APB No. 25, compensation cost is measured as the excess, if any, of the quoted market price of the Company's shares at the date of grant over the exercise price of the option granted.

The Company has granted restricted shares and stock options to substantially all employees. Shares were awarded in the name of the employee, who has all the rights of a shareholder, subject to certain restrictions of trans-

## **2. Summary of Significant Accounting Policies** *(continued)*

ferability and a risk of forfeiture. The forfeiture provisions on the awards expire annually, over periods of four and three years for the shares and stock options, respectively. Shares and stock options subject to forfeiture provisions have been recorded as unearned compensation and are presented as a separate component of members' equity. Compensation cost for stock options and restricted stock, if any, is recognized ratably over the vesting period of three and four years, respectively. Compensation cost for share plans was \$860 in 2000. No compensation cost was recognized in 1999 and 1998 in connection with the Company's share plans. The Company provides additional pro forma disclosures as required (see Note 15).

All transactions with non-employees in which the Company issues stock as consideration for services received are accounted for based on the fair value of the stock issued or services received, whichever is more reliably determinable.

### *Reclassification*

Certain prior year amounts have been reclassified to conform to the current year financial statement presentation.

## **3. Transactions with Related Parties**

For the years ended 2000, 1999 and 1998, the Company incurred combined management and performance fees of \$1,924, \$3,025 and \$2,201, respectively, and general and administrative costs of \$861, \$1,457, and \$1,540, respectively.

As described in Note 1, the Company's Management Agreement with Carey Management was cancelled effective with the acquisition of the business operations of Carey Management. The Company is now internally managed and, as a result of the cancellation of the Management Agreement and acquisition of Carey Management's workforce as of the date of the acquisition, no longer incurs management and performance fees nor reimburses a manager for general and administrative reimbursements, primarily consisting of the manager's cost of providing administration to the operation of the Company.

As a result of acquiring the Advisory Agreements with the CPA® REITs, the Company has engaged in a new business segment, advisory operations, and earns fees as the Advisor to the four affiliated CPA® REITs as described in Note 2.

Under the Advisory Agreements with the CPA® REITs, the Company performs various services, including but not limited to the day-to-day management of the CPA® REITs and transaction-related services. In addition, the Company's broker-dealer subsidiary earns fees in connection with the on-going "best efforts" public offering of CPA®:14. The Company earns an asset management fee of 1/2 of 1% per annum of Average Invested Assets, as defined in the Agreements, for each CPA® REIT and, based upon certain performance criteria for each REIT, may

### **3. Transactions with Related Parties** *(continued)*

be entitled to receive performance fees, calculated on the same basis as the asset management fee, and is reimbursed for certain costs, primarily the cost of personnel. For the year ended December 31, 2000, asset-based fees and reimbursements earned were \$10,377.

In connection with structuring and negotiating acquisitions and related mortgage financing for the CPA® REITs, the Advisory Agreements provide for transaction fees based on the cost of the properties acquired. A portion of the fees are payable in equal annual installments over no less than eight years, subject to certain limitations. Such unpaid amounts bear interest at annual rates ranging from 6% to 7%. The Company may also earn fees related to the disposition of properties, subject to subordination provisions and will only be recognized as such subordination provisions are achieved. For the year ended December 31, 2000, the Company earned transaction fees of \$14,894.

In connection with the acquisition of the CPA® Partnerships described in Note 1, the former Corporate General Partners of eight of the CPA® Partnerships satisfied provisions for receiving a subordinated preferred return from the Partnerships totaling \$4,422 based upon the cumulative proceeds from the sale of the assets of each Partnership from inception through the date of the consolidation. Payment was based on achieving a specified cumulative return to limited partners. For the partnership that has not yet achieved the specified cumulative return, its subordinated preferred return of \$1,423 is included in due to affiliates, and will be paid if the Company achieves a closing price equal to or in excess of \$23.11 for five consecutive trading days.

Prior to the termination of the Management Agreement, Carey Management performed certain services for the Company and earned transaction fees in connection with the purchase and disposition of properties. Transaction fees paid to Carey Management and affiliates were \$1,832 and \$4,510 in 1999 and 1998, respectively. The Company is also obligated to pay deferred acquisition fees in equal annual installments over a period of no less than eight years. As of December 31, 2000 and 1999, unpaid deferred acquisition fees were \$3,802 and \$3,945, respectively, and bear interest at an annual rate of 6%. An installment of \$392 was paid in January 2000.

The Company is a participant in an agreement with certain affiliates for the purpose of leasing office space used for the administration of the Company and other affiliated real estate entities and sharing the associated costs. Pursuant to the terms of the agreement, the Company's share of rental, occupancy and leasehold improvement costs is based on gross revenues. Expenses incurred were \$348, \$545, and \$558 in 2000, 1999 and 1998, respectively.

An independent director of the Company has an ownership interest in companies that own the minority interest in the Company's French majority-owned subsidiaries. The director's ownership interest is subject to the same terms as all other ownership interests in the subsidiary companies. An officer of the Company is the sole shareholder of Livho, Inc., a lessee of the Company (see Note 8).

#### 4. Real Estate Leased to Others Accounted for Under the Operating Method

Real estate leased to others, at cost, and accounted for under the operating method is summarized as follows:

	DECEMBER 31	
	2000	1999
Land	\$ 86,134	\$ 91,447
Buildings and improvements	352,031	350,429
	438,165	441,876
Less: Accumulated depreciation	24,159	16,455
	\$414,006	\$425,421

The scheduled future minimum rents, exclusive of renewals, under noncancellable operating leases amount to \$45,214 in 2001, \$43,909 in 2002, \$39,909 in 2003, \$36,189 in 2004, \$33,136 in 2005, and aggregate \$335,527 through 2019.

Contingent rentals were \$621, \$563 and \$614 in 2000, 1999 and 1998 respectively.

#### 5. Net Investment in Direct Financing Leases

Net investment in direct financing leases is summarized as follows:

	DECEMBER 31	
	2000	1999
Minimum lease payments receivable	\$348,316	\$365,558
Unguaranteed residual value	284,843	293,550
	633,159	659,108
Less: Unearned income	345,283	363,552
	\$287,876	\$295,556

The scheduled future minimum rents, exclusive of renewals, under noncancellable direct financing leases amount to \$30,679 in 2001, \$30,154 in 2002, \$30,168 in 2003, \$30,157 in 2004, \$30,240 in 2005, and aggregate \$348,316 through 2018.

Contingent rentals were approximately \$1,491, \$995 and \$320 in 2000, 1999 and 1998, respectively.

#### 6. Mortgage Notes Payable and Notes Payable

Mortgage notes payable, substantially all of which are limited recourse obligations, are collateralized by the assignment of various leases and by real property with a carrying value of approximately \$325,066. As of December 31,

2000, mortgage notes payable have interest rates varying from 4.56% to 9.82% per annum and mature from 2001 to 2015. Certain of the mortgage notes payable are prepayable, subject to prepayment charges.

Scheduled principal payments for the mortgage notes during each of the next five years following December 31, 2000 and thereafter are as follows:

<u>YEAR ENDING DECEMBER 31,</u>	
2001	\$ 22,719
2002	12,345
2003	10,708
2004	27,659
2005	8,627
Thereafter	<u>114,036</u>
Total	<u><u>\$196,094</u></u>

The Company has a line of credit of \$185,000 pursuant to a revolving credit agreement with The Chase Manhattan Bank in which nine lenders participate. The revolving credit agreement had an initial term of three years through March 20, 2001 and has been extended for an additional three years through March 2004. As of December 31, 2000, the Company had \$94,000 drawn from the line of credit. Additional advances of \$16,000 have been drawn from the line of credit since December 31, 2000.

Advances, which are prepayable at any time, bear interest at an annual rate of either (i) the one, two, three or six-month LIBOR, as defined, plus a spread which ranges from 0.6% to 1.45% depending on leverage or corporate credit rating or (ii) the greater of the bank's Prime Rate and the Federal Funds Effective Rate, plus .50%, plus a spread of up to .125% depending upon the Company's leverage. At December 31, 2000 and 1999, the average interest rate on advances on the line of credit was 7.86% and 7.8%, respectively. In addition, the Company will pay a fee (a) ranging between 0.15% and 0.20% per annum of the unused portion of the credit facility, depending on the Company's leverage, if no minimum credit rating for the Company is in effect or (b) equal to .15% of the total commitment amount, if the Company has obtained a certain minimum credit rating.



## **6. Mortgage Notes Payable and Notes Payable** *(continued)*

The revolving credit agreement has financial covenants that require the Company to (i) maintain minimum equity value of \$400,000 plus 85% of amounts received by the Company as proceeds from the issuance of equity interests and (ii) meet or exceed certain operating and coverage ratios. Such operating and coverage ratios include, but are not limited to, (a) ratios of earnings before interest, taxes, depreciation and amortization to fixed charges for interest and (b) ratios of net operating income, as defined, to interest expense. The Company has always been in compliance with the financial covenants.

## **7. Dividends Payable**

The Company declared a quarterly dividend of \$.4225 per share on December 22, 2000 payable to shareholders of record as of December 29, 2000. The dividend was paid in January 2001.

## 8. Lease Revenues

For the years ended December 31, 2000, 1999 and 1998, the Company earned its net leasing revenues (i.e., rental income and interest income from direct financing leases) from over 75 lessees. A summary of net leasing revenues including all current lease obligors with more than \$1,000 in annual revenues is as follows:

	YEARS ENDED DECEMBER 31					
	2000	%	1999	%	1998	%
Federal Express Corporation	\$ 5,659	7	\$ 247	—	\$ 254	—
Dr Pepper Bottling Company of Texas	4,283	5	4,123	5	3,998	5
Gibson Greetings, Inc.	4,046	5	3,954	5	3,870	5
Detroit Diesel Corporation	3,795	4	3,658	5	3,658	5
Sybron International Corporation	3,627	4	3,627	4	3,311	4
Livho, Inc.	3,226	4	3,226	4	2,958	4
Orbital Sciences Corporation	2,655	3	2,311	3	2,154	3
Quebecor Printing, Inc.	2,586	3	2,552	3	2,523	3
America West Holdings Corp	2,539	3	1,839	2	—	—
Thermadyne Holdings Corp	2,477	3	2,243	3	2,234	3
Furon Company	2,415	3	2,415	3	2,415	3
AutoZone, Inc.	2,378	3	2,331	3	2,469	3
The Gap, Inc.	2,205	3	2,205	3	2,199	3
Lockheed Martin Corporation	2,056	2	2,740	3	1,621	2
Unisource Worldwide, Inc.	1,725	2	1,726	2	1,714	2
Bell South Telecommunications, Inc.	1,711	2	175	—	—	—
AP Parts International, Inc.	1,617	2	1,617	2	1,783	2
CSS Industries, Inc.	1,598	2	1,588	2	1,580	2
Brodart, Co.	1,519	2	1,519	2	1,432	2
Red Bank Distribution, Inc.	1,475	2	1,401	2	1,401	2
Peerless Chain Company	1,463	2	1,463	2	1,463	2
United States Postal Service	1,425	2	1,396	2	1,090	1
High Voltage Engineering Corp.	1,329	2	1,329	2	1,187	2
Eagle Hardware & Garden, Inc.	1,288	2	1,387	2	—	—
Duff-Norton Company, Inc.	1,164	1	1,164	1	1,164	2
Sprint Spectrum, Inc.	1,154	1	1,154	1	—	—
Cendant Operations, Inc.	1,075	1	634	—	—	—
Other	23,168	25	26,537	34	30,822	40
	<u>\$85,658</u>	<u>100</u>	<u>\$80,561</u>	<u>100</u>	<u>\$77,300</u>	<u>100</u>

## 9. Gains and Losses on Sale of Real Estate and Securities

Significant sales of properties are summarized as follows:

### *2000*

In 1998, the Company acquired land in Collierville, Tennessee and entered into a build-to-suit commitment to construct four office buildings to be occupied by Federal Express Corporation (“Federal Express”) at a cost of up to \$77,000. In February 2000, a net lease with Federal Express with an initial lease term of 20 years commenced at an annual rent of \$6,360. In order to mitigate the concentration of risk in a single lease, the Company agreed to sell a 60% majority interest in the subsidiary that owns the Federal Express property to an affiliate, Corporate Property Associates 14 Incorporated (“CPA<sup>®</sup>:14”), at a purchase price based on an independent appraisal. Based on such independent appraisal, the Company received \$42,287 and recognized a loss of \$2,262 in connection with the sale.

During 2000, the Company sold ten properties formerly leased to The Kobacker Stores, Inc. and a property formerly leased to AutoZone, Inc. located in Pensacola, Florida. In connection with the sales, the Company received \$2,672, net of costs, and incurred combined losses on the sales of \$755. The Company also sold two properties, located in Silver City, New Mexico and Carthage, New York, for \$700, and recognized a net loss of \$20.

The Company recognized a gain of \$257 on the sale of its 18,540 shares of common stock of Titan Corporation. The Company had previously exercised warrants that were granted in connection with structuring its net lease with Titan Corporation in 1991.

### *1999*

On September 30, 1999, the Company sold its property in Topeka, Kansas, leased to Hotel Corporation of America (“Hotel Corp.”) for \$8,107 pursuant to Hotel Corp.’s exercise of its purchase option. In connection with the sale, the Company realized an \$80 gain.

In December 1996, KSG, Inc. (“KSG”) notified the Company that it was exercising its option to purchase the property it leased in Hazelwood, Missouri. In January 1999, the Company and KSG entered into an agreement to establish a minimum and maximum exercise price of \$9,000 and \$11,500 and agreed to defer the exercise price determination until a dispute regarding an interpretation of the purchase option provisions of the lease was resolved. The court ruled in favor of the Company in 1999, and the Company sold the property to KSG for \$11,000 plus an allowance of \$100 for legal costs. In connection with the sale, the Company realized a \$391 gain.

## **9. Gains and Losses on Sale of Real Estate and Securities** *(continued)*

*1998*

In April 1998 Simplicity Manufacturing, Inc. purchased its leased property in Port Washington, Wisconsin for \$9,684 pursuant to the exercise of its purchase option. A loss of \$291 was recognized on the sale.

In December 1998, NVR, Inc. purchased its leased property in Pittsburgh, Pennsylvania for \$12,193 pursuant to a purchase option exercised in 1998. A gain of \$1,754 was recognized on the sale.

## **10. Extraordinary Gains and Losses on Extinguishment of Debt**

In connection with the prepayment of high interest loans collateralized by properties leased to Dr Pepper Bottling Company of Texas, Orbital Sciences Corporation and Simplicity Manufacturing, Inc., the Company incurred \$700 in prepayment charges resulting in an extraordinary loss on the extinguishment of debt of \$621, net of \$79 attributable to minority interests in 1998.

## **11. Impairment of Real Estate and Securities**

Significant writedowns of properties and securities to estimated fair value based on assessment of recoverability are summarized as follows:

*2000*

The Company incurred impairment losses of \$11,047 in 2000 in connection with the writedown of real estate interests and other long-lived assets to estimated fair value based on the following circumstances:

The Company owns a property in Garland, Texas leased to Varo, Inc. ("Varo"). Although the lease ends in October 2002 and Varo continues to meet its lease obligations, the property is vacant. As a result, the Company is actively remarketing the property. The property has been written down to its estimated fair value and a writedown of \$2,238 has been recognized.

The Company owns a property in Traveler's Rest, South Carolina formerly leased to Swiss-M-Tex L.P. ("M-Tex"). Based on M-Tex's weak financial condition and its inability to meet its lease obligations, the lease was terminated in 2000. The property has been written down to its estimated fair value and a writedown of \$2,657 has been recognized.

DeVlieg Bullard, Inc., the former lessee of properties in Frankenmuth, Michigan and McMinnville, Tennessee disaffirmed its master lease for the two properties in connection with its petition of voluntary bankruptcy. The two properties are currently occupied under short-term license agreements and the Company expects to enter into leases

## **11. Impairment of Real Estate and Securities** *(continued)*

with the current occupants. The McMinnville property has been written down to its estimated fair value and a writedown of \$2,677 has been recognized.

The Company owns a property in Burnsville, Minnesota leased to General Cinema Corporation (“General Cinema”). During 2000, General Cinema filed a petition of voluntary bankruptcy. Because General Cinema had vacated the property prior to the filing of its petition, the Company anticipates that the lease will be disaffirmed. Accordingly, the property has been written down to its estimated fair value and a writedown of \$1,500 has been recognized. The lease obligations of General Cinema are guaranteed by Harcourt General, Inc.

The Company also recognized writedowns of \$1,514 on its assessments of the recoverability of a redeemable preferred limited partnership interest that was acquired in connection with the sale of a property in 1995 and debentures received in connection with a bankruptcy settlement with a former lessee and \$461 in connection with other properties held for sale.

### *1999*

The Company owned a property in Carthage, New York which was leased to Sunds Defibrator, Inc. (“Sunds”). During 1999, the Company accepted offers to sell the property for \$300 and to receive a lease termination payment of \$500, payable at the time of sale. In connection with the proposed sale, the Company recognized a noncash charge of \$1,000 on the writedown of the property to the anticipated sales price. Annual rent for the property was \$144. The initial term of the Sunds lease was scheduled to expire in 2005. The property was subsequently sold in 2000.

As described in Note 12, the Company recognized a noncash charge of \$4,830 on the writedown of the Company’s equity interest in Meristar Hospitality Corporation.

### *1998*

The Company owns a property in Urbana, Illinois leased to Motorola, Inc. (“Motorola”). During 1998, Motorola notified the Company of its intention to exercise its option to purchase the property. Based on the appraisal prepared for the Company and the expectation that the appraisal would be the basis for the exercise price, the Company recognized a writedown of \$1,575 to an amount representing the fair value of the property, less costs to sell. An additional writedown of \$158 was recognized in 1999. The purchase option was not exercised.

## 12. Equity Investments

The Company owns 780,269 units of the operating partnership of Meristar Hospitality Corporation (“Meristar”), a publicly traded real estate investment trust which primarily owns hotels. The Company has the right to convert its units in the operating partnership to shares of common stock in Meristar at any time on a one-for-one basis. The exchange of units for common stock would be a taxable transaction in the year of exchange. The Company’s interest in the Meristar operating partnership is being accounted for under the equity method.

The carrying value of the equity interest in the Meristar operating partnership was \$18,889 and \$18,725 as of December 31, 2000 and 1999, respectively. Because of a continued weakness in the public market’s valuation of equity securities of real estate investment companies including Meristar, Management concluded that the underlying value of its investment in operating partnership units was impaired. Accordingly, the Company wrote down its equity investment by \$4,830 in 1999. The carrying value of the investment in Meristar subsequent to the write-down approximated the Company’s pro rata ownership of Meristar at Meristar’s reported net asset value. As of December 31, 2000, Meristar’s quoted per share market value was \$19.69 resulting in an aggregate value of approximately \$15,364 if converted.

The audited consolidated financial statements of Meristar filed with the United States Securities and Exchange Commission (“SEC”) reported total assets of \$3,013,008 and \$3,094,201 and shareholders’ equity of \$1,134,555 and \$1,183,896 as of December 31, 2000 and 1999, respectively, and revenues of \$400,778, \$374,904 and \$525,297 and net income of \$105,861, \$98,964 and \$43,707 for the years ended December 31, 2000, 1999 and 1998, respectively.

The Company owns equity interests as a limited partner in two limited partnerships that each own real estate net leased to a single tenant. Corporate Property Associates 10 Incorporated owns the remaining controlling interests as a general partner in each partnership. The Company also owns equity interests in two limited liability companies that each own real estate net leased to a single tenant with CPA®:14. Effective as of June 29, 2000, the Company acquired 20,000 shares of common stock in the four CPA® REITs with which it has advisory agreements. Since June 29, 2000, the Company has acquired an additional 105,691 and 132,066 shares, respectively, of Carey Institutional Properties Incorporated and Corporate Property Associates 12 Incorporated, both CPA® REITs, in connection with earning incentive fees (see Note 3). The interests in the CPA® REITs are accounted for under the equity method due to the Company’s ability to exercise significant influence as the Advisor to the REITs. The Company’s ownership interests in each of the CPA® REITs represent less than 1% of the outstanding shares of

## 12. Equity Investments *(continued)*

each CPA® REIT. The audited consolidated financial statements of the CPA® REITs are filed with the SEC. Combined financial information of the affiliated equity investees is summarized as follows:

	DECEMBER 31	
	2000	1999
Assets	\$1,745,901	\$81,054
Liabilities	789,984	51,211
Capital	\$ 955,917	\$29,843

	YEAR ENDED DECEMBER 31		
	2000	1999	1998
Revenue <sup>(1)</sup>	\$173,006	\$8,465	\$6,990
Expenses	100,006	5,603	4,536
Net income	\$ 73,000	\$2,862	\$2,454

(1) Includes the net effect of minority interests in income, income from equity investments and gains (losses) on the sale of real estate and securities.

## 13. Disclosures About Fair Value of Financial Instruments

The carrying amounts of cash, accounts receivable, accounts payable and accrued expenses approximate fair value because of the short maturity of these items.

The Company estimates that the fair value of mortgage notes payable and other notes payable was \$294,278 and \$313,747 at December 31, 2000 and 1999, respectively (see Note 6). The fair value of fixed rate debt instruments was evaluated using a discounted cash flow model with discount rates that take into account the credit of the tenants and interest rate risk. The fair value of the note payable from the line of credit approximates the carrying value as it is a variable rate obligation with an interest rate that resets to market rates.

#### 14. Selected Quarterly Financial Data (unaudited)

	THREE MONTHS ENDED			
	March 31, 2000	June 30, 2000	September 30, 2000	December 31, 2000
Revenues	\$23,276	\$ 26,611	\$33,929	\$36,435
Expenses	13,659	54,744	22,114	33,461
Net income (loss)	9,625	(30,041)	11,375	(237)
Net income (loss) per share — basic and diluted	.38	(1.18)	.34	(.01)
Dividends declared per share	.4225	.4225	.4225	.4225

	THREE MONTHS ENDED			
	March 31, 1999	June 30, 1999	September 30, 1999	December 31, 1999
Revenues	\$21,114	\$21,877	\$23,731	\$21,784
Expenses	11,084	11,687	13,872	17,478
Income before extraordinary items	9,866	9,620	9,470	5,122
Net income	9,827	9,620	9,470	5,122
Net income per share — basic and diluted	.39	.38	.37	.20
Dividends declared per share	.4175	.4175	.4175	.4175

#### 15. Stock Options and Warrants

In January 1998, an affiliate was granted warrants to purchase 2,284,800 shares exercisable at \$21 per share and 725,930 shares exercisable at \$23 per share as compensation for investment banking services in connection with structuring the consolidation on the CPA® Partnerships. The warrants are exercisable until January 2009.

The Company maintains stock option incentive plans pursuant to which share options may be issued. The 1997 Share Incentive Plan (the "Incentive Plan"), as amended, authorizes the issuance of up to 2,600,000 shares. The Company Non-Employee Directors' Plan (the "Directors' Plan") authorizes the issuance of up to 300,000 shares.

The Incentive Plan provides for the grant of (i) share options which may or may not qualify as incentive stock options, (ii) performance shares, (iii) dividend equivalent rights and (iv) restricted shares. In 2000, 922,152 share options were granted at exercise prices ranging from \$7.69 to \$16.50 per share. In 1999, share options for 38,500 shares were granted at an exercise price of \$19.69 per share. In 1998, share options for 113,500 shares were granted at an exercise price of \$20 per share. The options granted under the Incentive Plan have a 10-year term and are exercisable for one-third of the granted options on the first, second and third anniversaries of the date of grant.



## 15. Stock Options and Warrants *(continued)*

The vesting of grants, however, may be accelerated upon a change in control of the Company and under certain other conditions.

The Directors' Plan provides for the same terms as the Incentive Plan. Share options for 21,822, 12,704 and 23,846 shares were granted at exercise prices ranging from \$16.38 to \$20 per share in 2000, 1999 and 1998, respectively.

Share option and warrant activity is as follows:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price Per Share</u>
Balance at January 1, 1998	—	—
Granted	3,148,076	\$21.42
Exercised	—	—
Forfeited	—	—
Balance at December 31, 1998	<u>3,148,076</u>	<u>\$21.42</u>
Granted	51,204	\$19.31
Exercised	—	—
Forfeited	—	—
Balance at December 31, 1999	<u>3,199,280</u>	<u>\$21.38</u>
Granted	943,974	\$13.24
Exercised	—	—
Forfeited	(29,000)	\$16.25
Balance at December 31, 2000	<u><u>4,114,254</u></u>	<u><u>\$19.57</u></u>

At December 31, 2000, 1999 and 1998, the range of exercise prices and weighted-average remaining contractual life of outstanding share options and warrants was \$7.69 to \$23 and 8.32 years, \$17.25 to \$23.00 and nine years, and \$20 to \$23 and ten years, respectively.

The per share weighted average fair value of share options and warrants issued during 2000 was estimated to be \$3.80 using a Black-Scholes option pricing formula. The more significant assumptions underlying the determination of the weighted average fair value include a risk-free interest rate of 6.8%, a volatility factor of 22.53%, a dividend yield of 8.44% and an expected life of ten years.

The per share weighted average fair value of share options issued during 1999 was estimated to be \$1.48, using a binomial option pricing formula. The more significant assumptions underlying the determination of the weighted average fair value include a risk-free interest rate of 5.54%, a volatility factor of 18.35%, a dividend yield of 7.64% and an expected life of ten years.

## 15. Stock Options and Warrants *(continued)*

The per share weighted average fair value of share options and warrants issued during 1998 was estimated to be \$1.45 using a binomial option pricing formula. The more significant assumptions underlying the determination of the weighted average fair value include a risk-free interest rate of 5.36%, a volatility factor of 18.16%, a dividend yield of 7.33% and an expected life of ten years.

The Company has elected to adopt the disclosure only provisions of SFAS No. 123. If stock based compensation cost had been recognized based upon fair value at the date of grant for options awarded under the two plans in accordance with the provisions of SFAS No. 123, pro forma net (loss) income for 2000, 1999 and 1998 would have been \$(12,770), \$33,964 and \$38,299, respectively, and pro forma basic and diluted earnings (loss) per share would have been \$(.45) for 2000, unchanged for 1999 and \$1.54 for 1998.

## 16. Segment Reporting

The Company has determined that it operates in two business segments, management services and real estate operations with domestic and international investments. The two segments are summarized as follows:

	Management	Real Estate	Other <sup>(3)</sup>	Total Company
Revenues:				
2000	\$25,271	\$88,736	\$6,244	\$120,251
1999	—	82,731	5,775	88,506
1998	—	79,041	6,289	85,330
Operating, interest and tax expenses <sup>(1,2)</sup> (excluding depreciation and amortization):				
2000	12,259	51,568	5,006	68,833
1999	—	38,306	4,662	42,968
1998	—	31,570	4,956	36,526
Income from equity investments:				
2000	69	2,813	—	2,882
1999	—	1,886	—	1,886
1998	—	1,837	—	1,837
Net operating income <sup>(4)</sup> :				
2000	7,123	23,113	1,238	31,474
1999	—	32,522	1,046	33,568
1998	—	36,320	1,253	37,573
Total assets:				
2000	111,375	784,628	8,239	904,242
1999	—	848,526	7,733	856,259
Total long-lived assets:				
2000	105,504	761,028	7,136	873,668
1999	—	825,411	6,753	832,164

(1) Excludes the writeoff of an acquired management contract of \$38,000 in 2000.

(2) Excludes amortization of intangibles and goodwill of \$5,958 in 2000.

(3) Primarily consists of the Company's hotel operations.

(4) Net operating income excludes gains and losses on sales, extraordinary items and the writeoff of an acquired management contract.

## 16. Segment Reporting *(continued)*

The Company acquired its first international real estate investment in 1998. For 2000, geographic information for the real estate operations segment is as follows:

	Domestic	International	Total Real Estate
Revenues	\$ 86,312	\$ 2,424	\$ 88,736
Operating, interest and tax expenses <sup>(1,2,3)</sup>	48,670	2,898	51,568
Income from equity investments	2,813	—	2,813
Net operating income <sup>(4)</sup>	23,587	(474)	23,113
Total assets	752,126	32,502	784,628
Total long-lived assets	731,225	29,803	761,028

For 1999, geographic information is as follows:

	Domestic	International	Total Real Estate
Revenues	\$ 80,683	\$ 2,048	\$ 82,731
Operating, interest and tax expenses <sup>(1,2,3)</sup>	37,227	1,079	38,306
Income from equity investments	1,886	—	1,886
Net operating income <sup>(4)</sup>	31,667	855	32,522
Total assets	826,312	22,214	848,526
Total long-lived assets	803,649	21,762	825,411

For 1998, geographic information is as follows:

	Domestic	International	Total Real Estate
Revenues	\$78,214	\$827	\$79,041
Operating, interest and tax expenses <sup>(1,2,3)</sup>	31,026	544	31,570
Income from equity investments	1,837	—	1,837
Net operating income <sup>(4)</sup>	36,224	96	36,320

(1) Excludes the writeoff of an acquired management contract of \$38,000 in 2000.

(2) Excludes amortization of intangibles and goodwill of \$5,958 in 2000.

(3) Excludes depreciation and amortization.

(4) Net (loss) income excluding gains and loss, extraordinary items and the writeoff of an acquired management contract.

## 17. Income Taxes

The components of the Company's provision for income taxes for the years ended December 31, 2000, 1999 and 1998 are as follows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Federal:			
Current	\$ 569		
Deferred	848		
	<u>1,417</u>		
State and local:			
Current	2,176	\$752	\$419
Deferred	571	—	—
	<u>2,747</u>	<u>752</u>	<u>419</u>
Total provision	<u>\$4,164</u>	<u>\$752</u>	<u>\$419</u>

Deferred income taxes as of December 31, 2000 consist of the following:

	<u>2000</u>
Deferred tax assets:	
Unearned compensation	\$ 634
Corporate fixed assets	142
	<u>776</u>
Deferred tax liabilities:	
Receivables from affiliates	2,112
Net deferred tax liability	<u>\$1,336</u>

No deferred income taxes were recognized in 1999 and 1998.

The difference between the tax provision and the tax benefit recorded at the statutory rate at December 31, 2000 is as follows:

Federal benefit at statutory tax rate	\$ (1,739)
State and local taxes, net of federal benefit	2,629
Writeoff of management contract	12,920
Amortization of intangible assets	1,706
Income from entities not subject to federal taxation	(11,240)
Other	(112)
Tax provision	<u>\$ 4,164</u>

## 18. Employee Benefit Plans

The Company sponsors a qualified profit-sharing plan and trust covering substantially all of its full-time employees who have attained age twenty-one, worked a minimum of 1,000 hours and completed one year of service. The Company is under no obligation to contribute to the plan and the amount of any contribution is determined by and at the discretion of the Board of Directors. The Board of Directors can authorize contributions to a maximum of 15% of an eligible participant's total compensation, limited to \$25.5 annually per participant. For the year ended December 31, 2000, amounts expensed by the Company for contributions to the trust were \$627. Annual contributions represent an amount equivalent to 15% of each eligible participant's total eligible compensation for that period.

## 19. Pro Forma Financial Information (unaudited)

The following consolidated pro forma financial information has been presented as if the merger of Carey Management into the Company had occurred on January 1, 1999 for the years ended December 31, 2000 and 1999. In Management's opinion, all adjustments necessary to reflect the merger and the related issuance of common stock of the Company have been made. The pro forma financial information is not necessarily indicative of what the actual results would have been, nor does it purport to represent the results of operations for future periods.

	<u>YEARS ENDED DECEMBER 31</u>	
	<u>2000</u>	<u>1999</u>
Pro forma total revenues	\$133,666	\$129,255
Pro forma net income	29,215	48,781
Pro forma basic and diluted earnings per share	\$ 0.86	\$ 1.43

The pro forma net income and earnings per share figures presented above exclude a non-recurring noncash writeoff of \$38,000 related to the termination of the Management Agreement between the Company and Carey Management upon completion of the merger. The pro forma (loss) income, including the \$38,000 writeoff, for the years ended December 31, 2000 and 1999 is \$(8,785) and \$10,781, respectively. Pro forma basic and diluted (loss) income per share, including the \$38,000 writeoff, for the years ended December 31, 2000 and 1999 is \$(0.26) and \$0.32, respectively.

## **20. Accounting Pronouncements**

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (“SFAS”) No. 133, “Accounting for Derivative Instruments and Hedging Activities”, effective January 1, 2001, which establishes accounting and reporting standards for derivative instruments. The Company believes that upon adoption SFAS No. 133 will not have a material impact on the consolidated financial statements.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (“SAB 101”) which provides guidance on several revenue recognition issues including recognition of fees earned from services performed and rents based upon lessees’ sales. Certain of the Company’s leases provide for additional rents to be paid based upon the level of sales achieved by the lessee. These percentage rents are recorded once the required sales level is achieved and included in the consolidated statements of income in the rental revenue and interest income from direct financing leases. The adoption of SAB 101 did not have any impact on the consolidated financial statements.

## *Directors*

Wm. Polk Carey  
*Chairman*

Francis J. Carey  
*Vice Chairman*

Gordon F. DuGan  
*President and  
Chief Acquisitions Officer*

Donald E. Nickelson  
*Chairman of the Audit  
Committee; Former President,  
PaineWebber, Inc.*

Eberhard Faber, IV  
*Former Director of the Federal  
Reserve Bank of Philadelphia*

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

Charles C. Townsend, Jr.  
*Former Head of Corporate  
Finance, Morgan Stanley & Co.*

Reginald Winssinger  
*Chairman of Horizon New  
America National Portfolio Inc.*

## *Investment Committee*

George E. Stoddard  
*Chairman of the Investment  
Committee; Former Head of the  
Direct Placement Department,  
The Equitable Life Assurance  
Society of the United States*

Frank J. Hoene Meyer  
*Vice Chairman of the Investment  
Committee Former Vice  
Chairman and Chief Investment  
Officer, The Prudential Insurance  
Company of America*

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

Dr. Lawrence R. Klein  
*Member*

## *Officers*

Wm. Polk Carey  
*Chairman and Director*

Francis J. Carey  
*Vice Chairman and Director*

Gordon F. DuGan  
*President, Chief Acquisitions  
Officer and Director*

John J. Park  
*Executive Vice President, Chief  
Financial Officer and Treasurer*

H. Augustus Carey  
*Managing Director*

Claude Fernandez  
*Managing Director*

Stephen H. Hamrick  
*Managing Director*

Anne R. Coolidge  
*Executive Director*

Edward V. LaPuma  
*Executive Director*

W. Sean Sovak  
*Executive Director*

Gordon J. Whiting  
*Executive Director*

Debra E. Bigler  
*Senior Vice President –  
Regional Director*

Susan C. Hyde  
*Senior Vice President –  
Investor Relations*

Ted G. Lagreid  
*Senior Vice President –  
Regional Director*

David W. Marvin  
*Senior Vice President –  
Regional Director*

Anthony S. Mohl  
*Senior Director – Paris*

Michael D. Roberts  
*Senior Vice President  
and Controller*

James Longden  
*Director – London*

Brent Carrier  
*First Vice President –  
Development*

Robert C. Kehoe  
*First Vice President – Finance*

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

David G. Termine  
*First Vice President – Accounting*

Jeffrey R. Damec  
*Vice President – Regional Director*

Kimberly J. Dussol  
*Vice President –  
Asset Management*

Yasmin Guerrero  
*Vice President – Accounting*

Benjamin P. Harris  
*Vice President – Acquisitions*

Nichole B. LeFort  
*Vice President – Regional Director*

Louisa H. Quarto  
*Vice President – Marketing*

C. Curtis Ritter  
*Vice President – Communications*

Gagan Singh  
*Vice President – Finance*

## *Corporate Information*

### *Auditors*

PricewaterhouseCoopers LLP

### *Counsel*

Reed Smith LLP

### *Executive Offices*

W. P. Carey & Co. LLC  
50 Rockefeller Plaza  
New York, NY 10020  
212-492-1100

### *Transfer Agent*

Mellon Investor Services L.L.C.  
85 Challenger Road  
Ridgefield Park, NJ 07660  
888-200-8690

### *Annual Meeting*

June 7, 2001, 10:30 a.m. at the  
Waldorf=Astoria Hotel

### *Form 10-K*

A copy of the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission may be obtained without charge by writing the Executive Offices at the above address.

### *Website*

www.wpcarey.com

### *Trading Information*

Shares of Carey Diversified LLC began trading on January 21, 1998 on the New York Stock Exchange ("NYSE"). On June 29, 2000, Carey Diversified merged with its manager to form W. P. Carey & Co. LLC and began trading under the symbol "WPC."

### *Dividend Information*

The following table sets forth for the period indicated, the per share dividends paid to shareholders of record since inception:

<i>Record Date</i>	
March 31, 1998	\$4125
June 30, 1998	\$4125
September 30, 1998	\$4125
December 31, 1998	\$4125
March 31, 1999	\$4175
June 30, 1999	\$4175
September 30, 1999	\$4175
December 31, 1999	\$4175
March 31, 2000	\$4225
June 30, 2000	\$4225
September 30, 2000	\$4225
December 31, 2000	\$4225
March 30, 2001	\$4225





W. P. Carey & Co. LLC

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W. P. CAREY