

W. P. CAREY



W. P. Carey & Co. LLC

Annual Report 2003

Investing for the Long Run™



Founded in 1973, W. P. Carey & Co. is a leading global investment firm that has long served as the preeminent provider of sale-leaseback financing to corporations and private equity firms in the United States and Europe.

It owns a portfolio of net-leased real estate assets and provides asset management services to the Corporate Property Associates (CPA®) series of income generating, publicly held non-traded real estate investment trusts (REITs). The Company currently owns and/or manages more than 600 commercial and industrial properties worldwide, representing more than 80 million square feet, valued at approximately \$6 billion.

W. P. Carey's shareholders continue to benefit from the stability of its net-leased portfolio, as well as from its growing asset management business. The Company remains committed to providing its shareholders with stable income and consistent investment performance, while also meeting the financing needs of its clients.

THE W. P. CAREY GROUP PORTFOLIO OF PROPERTIES*

Located in (from left) United States, Ireland, United Kingdom, France, Belgium, The Netherlands, Germany and Finland



PROPERTIES OWNED BY WPC
PROPERTIES MANAGED BY WPC

*AS OF 3/31/04

FINANCIAL HIGHLIGHTS

Twelve Months Ended December 31,
2003

OPERATIONS *(in thousands)*

Total Revenues	\$	163,379
Net Income	\$	62,878
Funds From Operations (FFO) ⁽¹⁾	\$	105,518

PER SHARE

Diluted Earnings Per Share	\$	1.65
Diluted Funds From Operations (FFO)	\$	2.78
Dividends	\$	1.73
Weighted Average Listed Shares Outstanding (Diluted)		38,008,762

STOCK DATA

Price Range (January 2, 2003 through December 31, 2003)	\$	24.84-\$ 30.52
Total Return for 2003 ⁽²⁾		30.83%
Number of Shareholders		27,587

FUNDS FROM OPERATIONS *(in thousands)*

Net income	\$	62,878
Gain on sale of real estate		(1,238)
Charge on extinguishment of debt		350
Funds from operations of equity investees in excess of equity income		4,396
Depreciation, amortization, deferred taxes and other noncash charges		34,688
Funds from operations applicable to minority investees in excess of minority income (loss)		(344)
Straight-line rents		910
Impairment loss on real estate		3,878
Funds from operations		<u>\$105,518</u>

⁽¹⁾Funds from operations (FFO) is calculated as net income, excluding gains (or losses) from debt extinguishment and sales of property, plus certain noncash items (primarily real estate depreciation, amortization of intangible assets, impairments, stock compensation and deferred taxes) and after adjustments for unconsolidated partnerships and joint ventures. Funds from operations is a supplemental measure of performance and does not represent net income or cash flows generated from operating activities in accordance with generally accepted accounting principles. It should not be considered an alternative to net income as an indication of the Company's operating performance or to cash flows as a measure of liquidity or an indicator of the Company's ability to fund its cash needs.

⁽²⁾Includes dividend reinvestment.

DEAR FELLOW SHAREHOLDERS

We are pleased to report that 2003 was another successful year for W. P. Carey & Co. Our full year earnings increased 35%, we completed our second-best year of acquisitions, we experienced a record year of fundraising and our assets under management and ownership increased to \$5.8 billion, an increase of 26% over 2002. These strong results, in an environment marked by economic uncertainty coupled with the increased amount of capital in the real estate finance market, reflect the value of W. P. Carey's unique business model and long-term approach to investing for itself and on behalf of its affiliates. This business philosophy has enabled us to succeed as a company, and build shareholder value, both in good times and in bad.

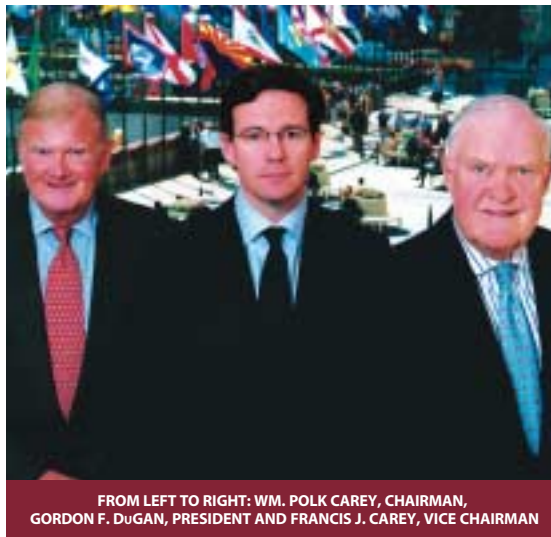
A DISCIPLINED APPROACH TO INVESTING

For more than 30 years, W. P. Carey's reputation as being conservative in its investments has held strong. Our management team, with more than 200 combined years of investment management experience, has witnessed the economic cycles during that time and understands how varying market conditions can affect the real estate industry. We

are somewhat concerned about the abundance of capital in the real estate market. We view the current market, and the atmosphere surrounding it, as being quite similar to early 1998 when there was an enormous amount of capital available. This capital surplus has led to an unbridled enthusiasm for real estate at any price, as well as a lack of differentiation among financing companies, their investment teams and their strategies.

As our proven investment philosophy has shown, we are patient, disciplined investors, with a focused strategy and a strong franchise. We are committed to increasing shareholder value and refraining from the frenzied bidding taking place in the real estate finance

industry today. Our customized approach, our sophisticated understanding of credit and complicated structures, and the certainty of our execution continues to carry a premium return for our investors. This past year was our second-best year of acquisitions ever. We completed 29 transactions, totaling \$725 million, as compared to 28 acquisitions, totaling \$1 billion in 2002. While we completed one transaction greater than \$100 million in 2003, as compared to three transactions greater than \$100 million in 2002, our focus in 2004 will



FROM LEFT TO RIGHT: WM. POLK CAREY, CHAIRMAN,
GORDON F. DUGAN, PRESIDENT AND FRANCIS J. CAREY, VICE CHAIRMAN

be on completing larger deals that provide attractive returns for our investors and investors in our managed REITs.

As the economy continues to improve, and with the possibility of rising interest rates on the horizon, we believe that the demand for long-term financing and alternative sources of capital will increase as companies continue to shed their real estate assets and convert them into more productive uses in their core businesses. W. P. Carey remains well-positioned for further growth. While we anticipate the changing economic conditions will translate into increased sale-leaseback opportunities in 2004, we remain cautiously optimistic.

AN EVOLVING BUSINESS PRODUCING SOLID RETURNS

W. P. Carey & Co. provided investors with solid returns in 2003. Among our financial highlights:

- Diluted earnings per share increased 29%,
- Net Income increased 35%,
- Funds from Operations (FFO) per diluted share, a widely accepted supplemental measure of performance, declined 1%, and
- Total revenue increased 5%.

These solid returns, as well as our decision to increase our dividend every quarter in 2003, reflect W. P. Carey's on-going success in making wise investment decisions on behalf of its affiliates. With an ownership and/or management interest in more than 600 facilities, representing more than 80 million square feet, W. P. Carey's total assets under management and ownership increased to \$5.8 billion in 2003, up from \$4.6 billion in 2002, an increase of 26%. In 2003, approximately 54% of our revenue was derived

from our management business while 46% was from our net-leased portfolio of properties. As we continue to evolve from a real estate owning company into an investment management company, we anticipate a larger portion of our revenues will come from the management services we provide to our CPA® REITs.

CPA® – 25 YEARS OF INCOME

After more than 25 years, W. P. Carey's CPA® investment funds continue to remain popular among individual investors seeking income



generating investments. This past year, on behalf of our affiliate CPA®:15, we raised a record \$557 million, up from \$473 million in 2002, an 18% increase. This success reflects the increased popularity of our CPA® investment funds which currently maintain an investor base of more than 80,000 individuals and offer an average dividend yield of 7.67%.

In mid-August, despite a record year of fundraising, we made the difficult decision to

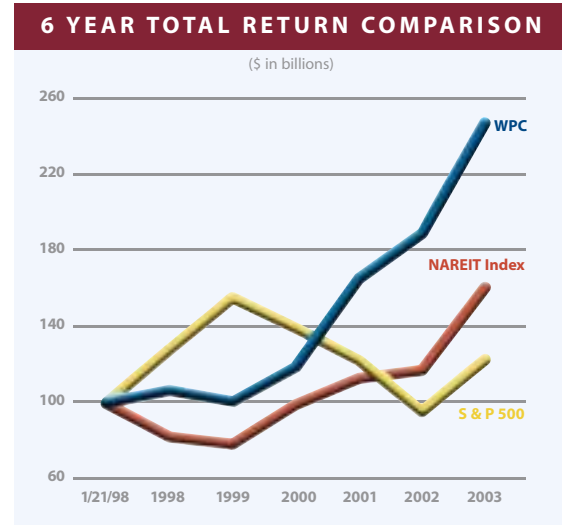
stop our fundraising efforts. We made this decision because we felt we should only raise money that we could prudently and wisely invest. We've learned that one of the hallmarks of investing is the discipline to shut down fundraising and put our investors first to make sure that they receive the returns that they require. This past December, after a four-month hiatus, we launched CPA[®]:16 – Global. As of March 31, 2004, we raised approximately \$86.4 million from investors for this fund.

The success of our prior CPA[®] investment funds is reflected in our track record that spans more than 25 years during which:

- No full-term CPA[®] investor has lost money;
- More than 660 quarterly dividends were paid without a miss;
- Investors experienced a 12% average annual return on completed CPA[®] programs; and
- Two-thirds of our completed CPA[®] investment funds went full-cycle to liquidity.

PROVIDING INVESTORS LIQUIDITY

W. P. Carey's eleventh fund, Carey Institutional Properties (CIP[®]), is currently reviewing liquidity options for its investors. CIP[®]'s Board of Directors has proposed that rather than conducting a public offering of its portfolio, which would trigger capital gains taxes for its investors, it would sell its portfolio to W. P. Carey & Co. and its affiliated REIT, CPA[®]:15, which would pay for CIP[®]'s portfolio in CPA[®]:15 shares and cash. W. P. Carey & Co., positioned more as a management company, would acquire properties with shorter-term leases that would require



more managing. Properties with longer-term leases would be sold to CPA[®]:15, where they would continue to mature and produce solid and rising returns for investors of CPA[®]:15.

CIP[®] investors who want cash will receive it, while those who want to postpone tax-related issues can exchange their CIP[®] shares for shares of CPA[®]:15. As manager of the CPA[®] series of funds, we believe this plan will benefit investors of the respective companies and fulfill W. P. Carey's fiduciary obligation of providing liquidity to CIP[®] investors as it has done for two-thirds of its previous CPA[®] programs.

BUILDING LONG-TERM RELATIONSHIPS

Over the past 30 years, W. P. Carey has specialized in providing customized sale-leaseback financing solutions to high quality companies. Following the completion of hundreds of sale-leaseback transactions, we've developed strong relationships and fostered partnerships with our clients. They know that when we complete a transaction we're in it for the long-run. We've

built a reputation for being long-term partners, rather than short-term sources of capital. We believe this business philosophy will continue to benefit our clients and shareholders alike.

A FOUNDATION FOR SUCCESS

One of the cornerstones that has enabled W. P. Carey to maintain its disciplined approach to investing has rested with its Independent Investment Committee, which must approve all transactions. Led by George Stoddard, the former head of the Direct Placement Department at The Equitable, this Committee includes Frank Hoenemeyer, the former Vice Chairman and Chief Investment Officer of Prudential Insurance; Nobel Laureate Dr. Lawrence Klein; Nathaniel Coolidge, the former Head of Bond and Corporate Finance Department at John Hancock Mutual Life Insurance Company; Ralph Verni, the former President and CEO of State Street Research and Management and Dr. Karsten von Köller, the former Chairman of Eurohypo AG, the leading commercial real estate bank in Europe.

Our corporate finance expertise enables us to custom-design transactions to meet the financing needs of a wide variety of companies and private equity firms. Through our disciplined approach to financing, W. P. Carey provides companies the certainty that W. P. Carey has the ability of closing every transaction, which will translate into income for our investors.

A POSITIVE OUTLOOK FOR THE FUTURE

W. P. Carey's track record of success in completing customized acquisitions on time and as promised will bode well for our investors in

2004. Our proven investment strategy of net-leasing properties to high quality corporate tenants will benefit our investors as we seek additional opportunities internationally.

In closing, we want to congratulate our tenant clients, in whose success we share, and to thank our investors, whose confidence and assets we try so hard to preserve. Most of all, we want to pay tribute to our talented, highly motivated family of employees, whose skills, energy and character are the best guarantors of our future success.

Sincerely,



WM. POLK CAREY
Chairman



GORDON F. DuGAN
President



FRANCIS J. CAREY
Vice Chairman

COMMON INVESTOR-RELATED QUESTIONS

WHAT IS AN LLC (LIMITED LIABILITY COMPANY) AND WHY IS W. P. CAREY STRUCTURED THIS WAY?

An LLC is a separate legal entity, similar to an S corporation, but is treated as a partnership for tax purposes. An LLC has a pass-through feature that allows a large portion of our income to flow through to our investors without corporate level taxation. Additionally, LLCs are less restrictive in terms of where companies can generate revenues as compared to the stricter restrictions that the REIT structure places on asset ownership and revenue sources.

The LLC structure provides us with the flexibility we require to implement our unique business model, which includes the ownership of net-leased assets as well as the management and advisory services we provide our CPA® series of income-generating REITs, while providing our shareholders with the most efficient tax treatment.

HOW WILL RISING INTEREST RATES IMPACT W. P. CAREY?

We believe the most important component of our business is our cash flow and our ability to meet our dividend payments. To increase the predictability of our cash flow we invest in properties with long-term leases using long-term mortgage financing, a majority of which has a fixed interest rate. Therefore a rising interest rate environment will not dramatically affect the cash flow that we generate from our net-leased assets. Our business model enables us to generate revenue from two main sources of business. Currently, 46% is generated from our net-leased portfolio of real estate assets. Many of our leases are structured to include rental increases that rise with

inflation, which is designed to protect our revenue from inflation erosion. Since there is typically a strong positive relationship between rising inflation and rising interest rates, our real estate returns tend to increase as interest rates rise.

The remainder of our revenue is generated through the management of our CPA® REITs. This business continues to drive the revenue and earnings growth of the firm. Our management business is impacted by our ability to successfully manage the CPA® REITs.

PORTFOLIO DIVERSIFICATION OF OWNED AND MANAGED PROPERTIES

Based on Contractual Annualized Rents

Total Rent = \$452,347,125

By Tenant Industry

Manufacturing
\$151,159,992

Retail Trade
\$60,796,816

Wholesale Trade
\$58,748,351

**Arts, Entertainment
and Recreation**
\$42,621,793

**Professional, Scientific
and Technical Services**
\$41,799,777

Information
\$29,989,650

**Transportation
and Warehousing**
\$22,971,777

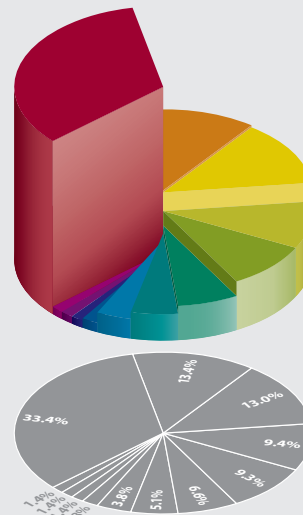
Other*
\$17,085,042

**Health Care
and Social Assistance**
\$8,197,654

Educational Services
\$6,419,281

**Accommodation
and Food Services**
\$6,300,715

**Management of Companies
and Enterprises**
\$6,256,277



* Other includes: Administrative and Support and Waste Management and Remediation Services; Construction; Finance and Insurance; Mining; Other Services; Public Administration; Real Estate and Rental and Leasing

We believe that from an operational standpoint rising interest rates will not have a major impact on our ability to grow both sides of our business. However, the price of W. P. Carey's stock may or may not reflect this. As investors price securities based on the return they expect to receive for a given level of risk, W. P. Carey's stock price may fluctuate based on return requirements compared to other asset classes. It is our goal to run our busi-

ness for the long run and provide superior risk-adjusted returns in any market environment.

WHAT ARE THE TAX TREATMENTS OF YOUR DIVIDENDS?

As an LLC, a portion of the income that is generated is passed through to investors without being taxed at the corporate level. This income is taxable as ordinary income on a Schedule K-1. If we generate capital gains from property sales or other businesses those gains would be passed through to investors and reported on the Schedule K-1 as well. While tax treatment for a shareholder may be different, depending on when shares are purchased, historically, taxable income and capital gains have been approximately 70-85% of the distribution paid to shareholders and 15-30% of the distribution is not taxable in that particular tax year.

DO YOU STILL ACQUIRE PROPERTIES OR JUST FACILITATE TRANSACTIONS ON BEHALF OF YOUR AFFILIATED REITS?

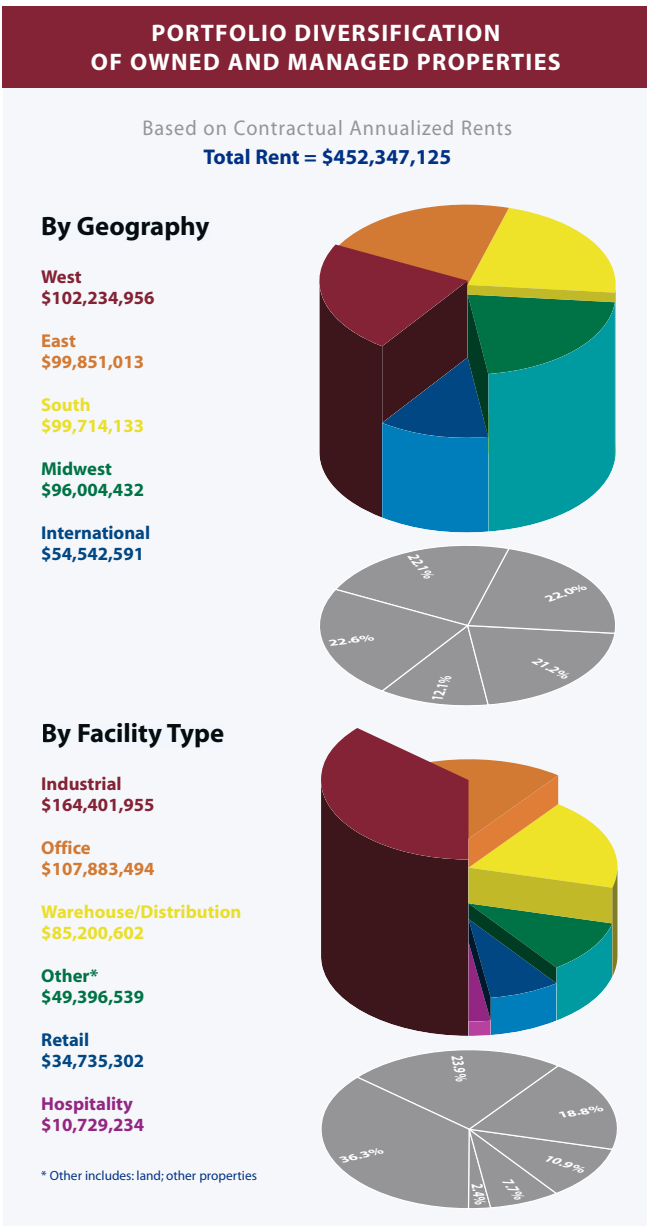
We have made and will continue to make a majority of our real estate acquisitions on behalf of our CPA® REITs. When an opportunity arises to make a joint investment in a property for diversification purposes or there is a need to invest tax-deferred capital, we may make a property acquisition.

WHAT ARE THE DIFFERENCES IN INVESTING IN W. P. CAREY VERSUS ITS AFFILIATED CPA® SERIES OF INCOME GENERATING REITS?

There are two significant differences between an investment with W. P. Carey versus an investment in its CPA® REITs. Shares of W. P. Carey & Co. are publicly traded on the New York Stock Exchange under the ticker “WPC,” while its CPA® REITs, which are publicly registered, are not traded and are generally designed to be eight to 12 year investments. Currently, W. P. Carey generates approximately 46% of its revenue from the rental income it receives from its own net-leased portfolio and 54% of its revenue from the management income it receives from its CPA® REITs. The CPA® REITs generate almost 100% of their revenue from the rental income they receive from their net-leased portfolio.

CAN INVESTORS ANTICIPATE SIGNIFICANT DIVIDEND INCREASES IN THE FUTURE?

It has been our philosophy to grow our distributions, however slight, in a prudent manner, so that we can continue to do so over the long run. Our conservative approach has been key to our success over several economic and real estate cycles. While we do not intend to stray from our conservative viewpoint, we will continue to review yields on competitive investments, closely monitor the interest rate environment and optimize the use of cash flow from operations in shaping our future distribution policy.





MEDIMEDIA USA, YARDLEY, PA



GALYAN'S TRADING COMPANY, INC., BUFFALO, NY



SSG PRECISION OPTRONICS, INC., RICHMOND, CA

FINANCIAL STATEMENT CONTENTS

SELECTED FINANCIAL DATA	10
MANAGEMENT'S DISCUSSION AND ANALYSIS	11
REPORT OF INDEPENDENT AUDITORS	31
CONSOLIDATED BALANCE SHEETS	32
CONSOLIDATED STATEMENTS OF OPERATIONS	33
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY	35
CONSOLIDATED STATEMENTS OF CASH FLOWS	38
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	41
MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS	74
REPORT ON FORM 10-K	75
CORPORATE INFORMATION	76

W. P. Carey & Co. LLC

SELECTED FINANCIAL DATA

In thousands except per share amounts

	1999	2000	2001	2002	2003
OPERATING DATA					
Revenues	\$ 71,591	\$104,131	\$123,383	\$ 155,944	\$163,379
Income (loss) from continuing operations ⁽¹⁾	25,991	(11,123)	32,290	45,902	62,212
Basic earnings (loss) from continuing operations per share	1.03	(.38)	.94	1.29	1.70
Diluted earnings (loss) from continuing operations per share	1.03	(.38)	.92	1.26	1.64
Net income (loss)	34,039	(9,278)	35,761	46,588	62,878
Basic earnings (loss) per share	1.33	(.31)	1.04	1.31	1.72
Diluted earnings (loss) per share	1.33	(.31)	1.02	1.28	1.65
Cash dividends paid	42,525	49,957	58,048	60,708	62,978
Cash provided by operating activities	48,186	58,222	58,877	75,896	67,851
Cash (used in) provided by investing activities	(55,173)	41,138	(13,368)	51,921	24,229
Cash (used in) provided by financing activities	3,392	(91,452)	(46,815)	(115,261)	(89,299)
Cash dividends declared per share	1.67	1.69	1.70	1.72	1.73
BALANCE SHEET DATA:					
Real estate, net ⁽²⁾	\$501,350	\$433,867	\$435,629	\$ 440,193	\$421,543
Net investment in direct financing leases	295,556	287,876	258,041	189,339	182,452
Total assets	856,259	904,242	915,883	893,524	906,505
Long-term obligations ⁽³⁾	310,562	176,657	287,903	226,102	158,605

(1) Includes gain (loss) on sale of real estate.

(2) Includes real estate accounted for under the operating method, operating real estate and real estate under construction, net of accumulated depreciation.

(3) Represents mortgage and note obligations and deferred acquisition fees due after more than one year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dollar amounts in thousands

OVERVIEW

The following discussion and analysis of financial condition and results of operations of W. P. Carey & Co. LLC ("WPC") should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2003. The following discussion includes forward looking statements. Forward looking statements, which are based on certain assumptions, describe future plans, strategies and expectations of WPC. Forward-looking statements discuss matters that are not historical facts. Because they discuss future events or conditions, forward-looking statements may include words such as "anticipate", "believe", "expect", "estimate", "intend", "could", "should", "would", "may", or similar expressions. Do not unduly rely on forward looking statements. They give our expectations about the future and are not guarantees, and speak only as of the date they are made. Such statements involve known and unknown risks, uncertainties and other factors that may cause 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.

WPC was formed in 1998 through the acquisition of nine affiliated real estate limited partnerships that had been managed by an affiliate of WPC as general partner and, at that time, became listed on the New York Stock Exchange. In June 2000, WPC acquired the net lease real estate management operations of its former manager, Carey Management, LLC. As a result of the June 2000 acquisition, WPC is currently the Advisor to five publicly-owned real estate investment trusts: Carey Institutional Properties Incorporated ("CIP[®]"), Corporate Property Associates 12 Incorporated ("CPA[®]:12"), Corporate Property Associates 14 Incorporated ("CPA[®]:14"), Corporate Property Associates 15 Incorporated ("CPA[®]:15") and Corporate Property Associates 16 – Global Incorporated ("CPA[®]:16 – Global") (collectively, the "CPA[®] REITs"). CPA[®]:16 – Global was formed in 2003.

WPC is a publicly-traded limited liability company which consists of real estate and management operations. Certain of the management operations taxable subsidiaries are the Advisors to publicly registered real estate investment trusts that were sponsored by the predecessors of WPC's management operations. As a limited liability company, WPC's taxable income is passed through to its shareholders, regardless of their cash distributions from WPC. Management assesses performance, in part, to determine if cash flow from operations along with distributions received from equity investments is sufficient to distribute dividends at an increasing rate while preserving liquidity. For the year ended December 31, 2003, cash flow from operations and equity investments was \$71,354 and distributions paid were \$62,978.

WPC's real estate operations are intended to provide a steady, reliable cash flow from properties subject to single-tenant net leases. As leases have expired, several properties are no longer subject to net leases or have been retrofitted as multi-tenant properties resulting in more intensive asset management activities by WPC. WPC evaluates its portfolio on an on-going basis to give consideration to selling those properties that require more intensive management or provide lower returns due to the absorbing the obligation to pay property costs and lower rentals. In order to strengthen or increase

cash flow from its real estate portfolio, WPC has participated in real estate purchases with affiliates. During 2003, WPC purchased a 22.5% interest in eight distribution properties in France leased to Carrefour, S.A., the world's second largest retailer. WPC expects to purchase properties or interests in real estate partnerships with affiliates in 2004.

In connection with its management operations, WPC receives a portion of its fees in shares of the CPA® REITs. As of December 31, 2003, WPC owns more than 3,900,000 shares of the CPA® REITs. These shares generate annual distributions of approximately \$3,300. WPC accounts for its interests in the CPA® REITs as equity investments and recognizes income based on per share net income of each CPA® REIT rather than on distributions received. Shares issued from CIP®, CPA®:12 and CPA®:14 for payment of fees are based on values, which are determined by independent annual valuations. These appraised values are generally in excess of the "book value" of the CPA® REITs and GAAP requires that this difference be allocated to the assets and liabilities of the underlying entities and charged as a reduction to earnings over the lives of these assets and liabilities. Fees for CPA®:15 are currently based on historical cost and are scheduled to be based on appraised values in the future. Income recognized from the investments in the CPA® REITs was \$885 which consisted of WPC's share of earnings of \$1,592 less a noncash reduction for the excess of appraised value to book value of \$707. In general, the CPA® REITs, like other REITs, have the ability to distribute amounts in excess of their net income because of depreciation, a noncash expense.

Revenues from the management services operations are earned as Advisor to the CPA® REITs by providing services in connection with structuring and negotiating acquisition and debt placement transactions and providing on-going management of the portfolio. The revenues and income of this business segment are subject to fluctuation because the volume of transactions that are originated on behalf of the CPA® REITs is subject to various uncertainties including competition for net lease transactions, the requirement that each acquisition meet suitability standards and due diligence requirements and the ability to raise capital on behalf of the CPA® REITs. During 2003, management revenues increased by approximately 4.5% because asset-based fees increased even though transaction volume decreased. Asset-based management and performance fees for CIP®, CPA®:12 and CPA®:14 are determined based on Average Invested Assets, that is, the appraised value of assets under management. CPA®:15's Average Invested Assets are currently determined based on the historical cost of its real estate assets. As CPA®:14 and CPA®:15 have in excess of \$387,000 available for investment and CPA®:16 – Global has commenced a "best efforts" offering for up to \$1,100,000, the asset base can be expected to continue to increase over the next several years as these available and to be raised funds are invested for these CPA® REITs. The CPA® REITs use limited recourse debt in their acquisition strategy and such leverage generally ranges between 50% and 60% of the acquisition cost for properties. This provides the capacity for up to \$2,900,000 of acquisitions and could generate as much as \$29,000 of annual asset-based revenues; however, there is no assurance that these funds will be invested quickly, as all acquisitions are subject to a due diligence process which includes approval of each purchase of real estate by the Investment Committee of the Board of Directors or that the anticipated leverage will be achieved. For the year ended December 31, 2003, management services operations provided approximately 54% of revenues.

RESULTS OF OPERATIONS

Year-Ended December 31, 2003 Compared to Year-Ended December 31, 2002

WPC reported net income of \$62,878 and \$46,588 for the years ended December 31, 2003 and 2002, respectively. The results for 2003 and 2002 include noncash asset impairment charges of \$4,150 and \$29,411, respectively, representing the writedown of assets to their estimated fair value. In addition, 2002 results include a gain of \$11,160 on the sale of a property in Los Angeles, California.

Income from continuing operations before gains on sale of real estate increased to \$62,212 from \$33,251, for the comparable years ended December 31, 2003 and 2002. The increase in 2003 was due primarily to a decrease in impairment charges on real estate and investments, increases in other income, management income and equity income and, to a lesser extent a decrease in amortization expense. This was partially offset by a decrease in lease revenues and increases in property and general and administrative expenses.

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

Real Estate Operations

Net operating income (income before gains and losses, income taxes, minority interest and discontinued operations) from real estate operations increased to \$40,298 from \$13,099, respectively, for the comparable years ended December 31, 2003 and 2002. The increase for the comparable periods was affected by a decrease in noncash impairment charges on real estate and investments of \$18,806, and increases in other income and income from equity investments and, to a lesser extent, a decrease in interest expense. This was partially offset by a decrease in lease revenues and an increase in property expense.

As a result of its annual independent review of the estimated residual values on its properties classified as net investments in direct financing leases, WPC determined that an other than temporary decline in estimated residual value had occurred at several properties and the net investment in direct financing leases was revised using the changed estimates. The resulting changes in estimated residual value resulted in the recognition of impairment charges in 2003 and 2002 of \$1,208 and \$14,880, respectively. In addition, during 2002 WPC incurred an impairment charge of \$4,596 on its investment in the operating partnership units of MeriStar Hospitality Corporation due to the deterioration in the operating results of MeriStar. The operating partnership units were converted into MeriStar common stock in 2003 and the common stock is reflected in the accompanying consolidated financial statements at fair value based on its quoted price per share.

Other income includes lease termination payments and other non-rent related revenues from real estate operations including, but not limited to, settlements of claims against former lessees and reimbursements of property costs. WPC receives settlements in the ordinary course of business; however, the timing and amount of such settlements cannot always be estimated. A lease termination settlement of \$2,250 in March 2003 was received from The Gap, Inc. as well as approximately \$830 in distributions from bankruptcy claims against former tenants.

The increase in income from equity investments for the comparable periods was due primarily to the conversion of WPC's ownership interest in MeriStar to publicly-traded common stock in 2003.

For the year ended December 31, 2002, WPC incurred a loss from the MeriStar investment of \$3,019, which was included in equity income. WPC now accounts for its investment in common stock of MeriStar as an available-for-sale security and, therefore records income as dividends are earned and no longer recognizes its share of MeriStar's reported net income or loss. Equity income for 2003 was also affected by increases in the earnings of WPC's equity investees and the acquisition, in December 2002, of a jointly controlled tenancy-in-common interest in the Hologic, Inc. properties. For the years ended December 31, 2003 and 2002, the Hologic investment contributed income of \$565 and \$35, respectively. Equity income also includes \$258 and \$51, for the years ended December 31, 2003 and 2002, respectively, from WPC's equity investment in Childtime Childcare, Inc. In August 2002, WPC's interest in Childtime was transferred from a tenancy-in-common to a limited partnership. The change in ownership changed the presentation for financial reporting purposes to the equity method but had no effect on net income. Future equity income is expected to benefit from the acquisition of a 22.5% interest in the eight Carrefour, S.A. properties in November 2003. The properties are leased to affiliates of Carrefour and the leases have nine-year terms, expiring between December 2011 and November 2012, at an aggregate annual rent of Euro 11,799 (\$14,809 as of December 31, 2003), with annual rent increases based on a formula indexed to increases in the INSEE, a French construction cost index. As of December 31, 2003, limited recourse mortgage debt of Euro 96,697 (\$121,422 as of December 31, 2003) is outstanding on the properties. The Carrefour loans provide for quarterly payments of interest at an annual interest rate of 5.55% and stated principal payments with scheduled increases over their terms. The loans mature in December 2014 at which time balloon payments are scheduled. WPC's share of annual cash flow (rent less debt service) from the Carrefour investment is expected to amount to \$1,300.

The decrease in interest expense for the comparable periods ended December 31, 2003 and 2002 was primarily attributable to lower average outstanding balances on WPC's \$185,000 credit facility, partially offset by an increase in mortgage interest expense. The average outstanding balance on the credit facility which incurs interest at a variable rate decreased by approximately \$38,000 for the comparable periods but was not affected by fluctuations caused by changes in the interest rate as rates were relatively stable throughout 2003. The increase in mortgage interest was due primarily to new mortgage financing placed on two of WPC's properties during the third and fourth quarters of 2002 with annual interest expense of approximately \$1,025. This was partially offset by decreases in interest expense on five mortgages that were paid off during 2003, with annual interest expense of \$780. In December 2003, WPC refinanced the mortgage encumbering its Pantin, France property and borrowed an additional \$5,080 under similar terms as the prior mortgage. Annual debt service on the Pantin property will increase by approximately \$205.

Lease revenues decreased by \$2,351 for the comparable years ended December 31, 2003 and 2002 as a result of several lease terminations and expirations, including leases with Thermadyne Holdings Corp. and Pillowtex, Inc. in 2002, and The Gap in 2003. The Gap lease, which expired in January 2003, provided annual rents of \$2,205. Additionally, the reclassification of the Childtime interest as an equity investment in August 2002, contributed to the decrease in lease revenues. Annual rents from the Childtime properties were \$440. Livho, Inc. operates a Holiday Inn in Livonia, Michigan and its ability to pay rent has been negatively affected by current economic conditions in its market. As a result, its annual rent for 2003 was reduced by \$720. Because Livho is a variable interest entity ("VIE"), as defined by the Financial Accounting Standards Board ("FASB") Interpretation No. 46,

“Consolidation of Variable Interest Entities” (“FIN 46”), and WPC is the primary economic beneficiary, it does not qualify for the deferral and WPC now consolidates Livho in its consolidated financial statements. Accordingly, WPC will no longer recognize rental revenue from the Livho lease (see Accounting Pronouncements). Lease revenues benefited from a lease with BE Aerospace, Inc. on a property purchased during the third quarter of 2002 as well as several rent increases on existing leases. Annual rentals from BE Aerospace are \$1,421. As the result of writedowns of direct financing leases in 2003 and 2002, the rates of return on several leases were revised, and interest income from direct financing leases for financial reporting purposes in 2003 decreased by approximately \$1,600, and in 2004 will decrease by approximately \$2,000. This change does not effect operating cash flow, as contractual rent from the underlying lessees is not affected by the change in accounting estimate.

Based on current market rentals, WPC does not expect the rents for any new leases on the Gap property to reach the previous levels. Management believes that the prospects for leasing the Gap property on a long-term basis are good; however, the effort to re-lease the facility has proceeded more slowly than anticipated and portions of the property may remain vacant for an extended period. WPC entered into a 10-year lease with Alstom Power, Inc., effective June 1, 2003 for 118,000 square feet at the former Gap facility (approximately 16% of the leasable space) at an annual rent of \$287 plus an approximate 16% share of property expenses. Future operating cash flow will also benefit from rent increases on existing properties, including an annual increase of \$300 on a property leased to America West Holdings Corporation, three new leases signed with tenants at the Pantin property with annual rents of \$500, as well as a number of renewals on existing leases including five-year renewals with Continental Airlines Inc. and Verizon Communications, Inc.

In addition to the impact of the expiration of the Gap lease, future operating cash flow will be affected by lease terminations, a lease renewal with Lockheed Martin Corporation, and the sales of properties. During 2003, WPC entered into a five-year lease renewal with Lockheed Martin, lessee of its King of Prussia, Pennsylvania property. Annual rents for the renewal period were reduced by \$175. In February and March 2003, WPC sold its properties leased to Peerless Chain Company and Wozniak, Inc., respectively. Annual rents from these leases were \$2,155. WPC received a settlement payment of \$290 from Wozniak for allowing to terminate its lease which term was scheduled to expire in December 2003. In the third and fourth quarters of 2003, WPC sold its properties leased to Datcon Instrument Company, Harcourt General, Inc., Penn Crusher Corporation, and its Oxnard, California property leased to Lockheed Martin Corporation and Merchants Home Delivery, Inc. Annual rental income from these properties was \$1,963. In November 2003, in consideration for agreeing to the early termination of a lease with Winn-Dixie Stores, Inc., WPC received a settlement payment of \$569. The lease was scheduled to expire in March 2008, and annual rental income under the lease was \$170. The results from these properties are reflected in discontinued operations in the accompanying consolidated financial statements.

Property expenses increased for the comparable periods ended December 31, 2003 and 2002. The increase in property expenses was due to increases in operating and maintenance expenses as a result of the expiration of the Thermadyne leases and the restructuring of the Faurecia Exhaust Systems, Inc. lease in 2002 because WPC now has the obligation for carrying costs at those properties as well as increases in costs at other non-net leased properties. There is also a greater likelihood of re-leasing on a multi-tenant basis than as single tenant net lease properties so there is no assurance that those costs will be absorbed by lessees in the future. While WPC considers single-tenant net leasing

to be its primary real estate ownership, several net leases have expired and the number of multi-tenant and operating properties in its portfolio has increased. The increase in property expenses was partially offset by a decrease in the provision for uncollected rents. The 2002 provision included approximately \$1,100 related to uncollected rents from a single lessee. WPC monitors the financial condition of its lessees on an ongoing basis and many of its leases require lessees to provide financial statements.

Over the past several years, WPC has pursued a strategy of selling its smaller properties as well as properties that do not generate significant cash flow and require more intensive asset management services. As of December 31, 2003, WPC has classified seven properties as held for sale. WPC's Cincinnati, Ohio property, formerly leased to Red Bank Distribution, Inc. is currently under contract for sale for \$10,088. Annual lease revenues from these properties approximate \$376.

Dr Pepper Bottling Company of Texas, WPC's largest tenant which contributes 6% of lease revenues, has provided written notice of its intent to exercise its purchase option. Dr Pepper is expected to make a decision as to whether to exercise the option within the next several weeks. In the event that Dr Pepper exercises its option, its purchase price will be determined by an appraisal process and will be based on the fair value of the Dr Pepper properties as encumbered by the lease. Factors included in valuing a property as encumbered by lease include remaining lease term, inclusive of all renewals, projected increases over the remaining terms and the applicable discount rate. In the event the property is sold, WPC would receive substantial consideration. Annual contractual rents from Dr Pepper are \$4,475.

Statement of Financial Accounting Standard ("SFAS") No. 144, "Accounting for the Impairment of Long-Lived Assets" requires that for disposal activities initiated after January 1, 2002, including the sale of properties, the revenues and expenses relating to the assets held for sale or sold be presented as a discontinued operation for all periods presented in the financial statements. Because WPC sells properties in the ordinary course of business, and may reinvest the proceeds of sale to purchase new properties, WPC evaluates its ability to fund distributions to shareholders by considering the combined effect of cash flows from continuing operations and from discontinued operations. WPC's income from discontinued operations was \$666 and \$686, respectively, for the comparable years ended December 31, 2003 and 2002. The results from discontinued operations included noncash impairment charges on properties held for sale of \$2,670 and \$9,125 for the years ended December 31, 2003 and 2002, respectively.

Livho's operations were initially transferred to a separate company as a strategy to protect WPC's tax status as a publicly-traded partnership. Livho's operating revenues include food and beverage revenues. During 2003, a bar at the hotel, which at one time was a significant source of revenues, was closed and underwent renovations. The renovations were recently completed and the bar re-opened in February 2004 as an Irish pub. The renovations were funded by WPC. Revenues from the hotel's food and beverage operations are expected to improve substantially as a result of the renovation.

Management Services Operations

Net operating income from WPC's management services operations for the year ended December 31, 2003, was \$39,994 as compared with \$37,732 for the year ended December 31, 2002. The increase for the comparable periods is primarily the result of an increase in asset-based fees and reimbursements earned and, to a lesser extent, a decrease in amortization of intangibles. This was partially offset by a decrease in transaction fees earned and an increase in general and administrative expenses.

Total revenues earned by the management services operations for the years ended December 31, 2003 and 2002 were \$88,060 and \$84,255, respectively. Transaction fees earned were \$34,957 and \$47,005 for the comparable years ended December 31, 2003 and 2002. Asset-based fees and reimbursements were \$53,103 and \$37,250 for the comparable years ended December 31, 2003 and 2002.

The increase in asset-based fees resulted from a substantial increase in the asset base of the CPA[®] REITs over the past year and that growth is also directly related to the ability of WPC to complete acquisitions on behalf of the CPA[®] REIT's. The asset-based management income includes fees based on the appraised value of real estate assets under management of three of the CPA[®] REITs and the historical cost of the real estate owned by CPA[®]:15. Based on assets under management of the CPA[®] REITs as of December 31, 2003, annualized management and performance fees under the advisory agreements are approximately \$40,000. As the real estate asset bases of CPA[®]:14, CPA[®]:15 and CPA[®]:16 – Global continue to increase, management and performance fees are projected to continue to increase. CPA[®]:14 completed a public offering in 2001 and still has cash that it raised from its offering that is available for investment. CPA[®]:15 fully subscribed its initial \$400,000 “best efforts” public offering in November 2002, and in August 2003 completed a second “best efforts” public offering which raised \$647,000. Management believes that the CPA[®] REITs are benefiting from several trends including the increasing use of sale-leaseback transactions by corporations as an alternative source of financing and individual investors seeking income-oriented investments.

Transaction fees include fees from structuring acquisitions and financing on behalf of the CPA[®] REITs. WPC structured \$725,000 and \$981,000 of acquisitions for the years ended December 31, 2003 and 2002, respectively. Acquisition activity is subject to fluctuations. WPC is facing increased competition for the acquisition of commercial properties. This competition is from insurance companies, credit companies, pension funds, private individuals, investment companies and other REITs. WPC also faces competition from institutions that provide or arrange for other types of commercial financing through private or public offerings of equity or debt or traditional bank financings. Currently, WPC is evaluating a number of proposed transactions on behalf of the CPA[®] REITs, and the CPA[®] REITs have significant cash balances available for investments. As of March 1, 2004, the CPA[®] REITs have approximately \$418,000 available for investment.

The shares of CPA[®]:16 – Global's “best efforts” public offering are being offered through Carey Financial Corporation, WPC's wholly-owned broker-dealer subsidiary. WPC's management has projected to raise between \$500,000 and \$750,000 in 2004 through this offering. If this offering is successful, it will provide WPC the resources to increase its transaction-based revenues and assets under management. WPC is attempting to further diversify the CPA[®]:14 and CPA[®]:15 portfolios and reduce their cash available for investment as the CPA[®]:16 – Global offering commences.

On April 1, 2003, WPC increased its ownership interest in W. P. Carey International LLC (“WPCI”) through WPCI's redemption of William Polk Carey's 90% interest. Mr. Carey is the Chairman and Co-Chief Executive Officer of WPC. As part of this transaction, WPC acquired a full interest in certain asset-based fees in which it previously had a 50% interest. Based on current assets outside of the United States annual asset-based fees will increase by more than \$200. Through this transaction, WPC also acquired the exclusive right to structure net lease transactions outside of the United States of America on behalf of the CPA[®] REITs. Management expects international assets under management to increase substantially over the coming years as WPC believes there are significant opportunities and there is a separate acquisitions team engaged on behalf of

WPCI. WPCI structured purchases in the United Kingdom, France and Germany in 2003 and completed a purchase in Belgium since December 31, 2003.

The decrease in amortization expense of \$1,918, to \$7,296 for the comparable years ended December 31, 2003 and 2002, was due to certain intangible assets becoming fully amortized during the fourth quarter of 2002 and second quarter of 2003. Amortization of intangibles is expected to be \$6,751 in 2004 and \$6,660 in 2005.

The increase in general and administrative costs for the comparable years ended December 31, 2003 and 2002 was due primarily to an increase in personnel costs and professional fees incurred in 2003. A portion of personnel costs is directly related to CPA® REIT capital raising and transactions activities. The portion of personnel costs necessary to administer the CPA® REITs is reimbursed to WPC by the CPA® REITs and is included in management income. The reimbursements of such costs are subject to certain limitations. Based on its ongoing evaluation of such limitations, WPC was able to recover additional deferred reimbursements of \$1,840 during 2003. Reimbursement for personnel-related costs for the years ended December 31, 2003 and 2002 was \$7,955 and \$6,565, respectively. Reimbursed amounts are also included in management revenues. \$907 of the increase in personnel costs related to charges for amortization of unearned compensation from share incentive plan awards to officers and employees of WPC and WPCI and totaled \$3,536 in 2003.

During 2003, WPC adopted a deferred compensation plan in which a portion of any officer's cash compensation in excess of designated amounts will be deferred with an award of share equivalents in the CPA® REITs. WPC believes that the awarding of the share equivalents along with the shares of CPA® REITs owned by WPC will further align the interests of WPC's officers and the REIT shareholders. This is also intended to benefit WPC as its ability to raise capital for advised entities is affected by WPC's efforts to increase value on behalf of CPA® REIT shareholders.

The provision for income taxes increased by \$1,033, to \$19,116 for the year ended December 31, 2003, of which \$9,478 represented deferred taxes. In 2003, approximately 93% of management revenues were earned by a taxable, wholly-owned subsidiary, as compared with 90% in 2002, and income tax expense is most affected by its earnings.

For the years ended December 31, 2003 and 2002 WPC recognized \$1,298 and \$289, respectively, of development fee management income in connection with managing the construction of a public high school in Los Angeles, California, which is accounted for under the percentage of completion method of accounting.

Year-Ended December 31, 2002 Compared to Year-Ended December 31, 2001

WPC reported net income of \$46,588 and \$35,761 for the years ended December 31, 2002 and 2001, respectively. The results were not fully comparable due to the adoption of SFAS No. 142 "Goodwill and other Intangibles" in 2002. SFAS No. 142 discontinued the amortization of goodwill and indefinite-lived intangibles assets and is not retroactively applicable to 2001. Amortization of goodwill for the year ended December 31, 2001 was \$3,147. The results for 2002 and 2001 include non-cash asset impairment charges of \$29,411 and \$12,643, respectively, representing the writedown of assets to estimated fair value. In addition, 2002 includes a gain of \$11,160 on the sale of the property in Los Angeles, California.

Income from continuing operations before gain on sale of real estate increased to \$33,251 from \$30,386, for the comparable years ended December 31, 2002 and 2001. In addition to the effect of the

change in the amortization of goodwill and indefinite-lived intangible assets, the gain on the sale of the Los Angeles property and non-cash asset impairment charges on real estate and investments from continuing operations of \$20,286 and \$9,643, for 2002 and 2001, respectively, the increase in income from continuing operations before gain on sale of real estate was due to increases in management income and a decrease in interest expense. These were partially offset by increases in general and administrative expenses and the provision for income taxes, and, to a lesser extent, decreases in other income, income from equity investments and lease revenues.

Net operating income from real estate operations was \$13,099 and \$30,586 in 2002 and 2001, respectively. Excluding impairment charges, operating income from real estate operations would have reflected a decrease of \$6,844 for the comparable years. The decrease in real estate operating income was primarily due to decreases in other income, income from equity investments and lease revenues. These were partially offset by a decrease in interest expense.

The increase in impairment charges was the result of WPC's annual review of the estimated residual values on its properties classified as net investments in direct financing leases. WPC determined that an other than temporary decline in estimated residual value had occurred, which resulted in the recognition of impairment charges on direct financing leases of \$14,880 in 2002. WPC also incurred impairment charges of \$4,596 and \$6,749 in 2002 and 2001, respectively, on its investment in the operating partnership units of MeriStar.

The results for 2001 included settlements totaling \$4,665 from (a) New Valley Corporation in the final settlement of a claim relating to termination of a lease in 1993 for WPC's property in Moorestown, New Jersey, and (b) Harcourt General Corporation, the guarantor of a lease with General Cinema Corporation for a property in Burnsville, Minnesota. The settlement with Harcourt General resulted from the termination of the General Cinema lease in connection with General Cinema's plan of reorganization. The Burnsville property was sold in January 2002.

The decrease in income from equity investments was primarily due to MeriStar's poor performance. WPC recorded a loss of \$3,019 on the MeriStar equity investment in 2002, compared with income of \$436 for 2001.

Lease revenues decreased by \$986 for the comparable years primarily as a result of the sale of properties during 2001, including the property leased to Duff-Norton, Inc. in July 2001 which had annual rents of \$1,164, the sale of four properties classified as held for sale as of December 31, 2001 (and not included in discontinued operations), the termination of WPC's lease with Thermadyne during 2002, and to a lesser extent, the reclassification of WPC's investment in the properties leased to Childtime as an equity investment during 2002 subsequent to its contribution of its 33.93% interest to a limited partnership. This was partially offset by a new lease in France with Bouygues Télécom, S.A. and an increase in rent from the expansion of the property leased to AT&T, both of which went into effect in the fourth quarter of 2001. Lease revenues also benefited from the acquisition of the BE Aerospace properties in the third quarter of 2002 as well as several rent increases on existing leases.

The decrease in interest expense for the comparable years was primarily attributable to lower average outstanding balances on WPC's \$185,000 credit facility and a decrease in interest rates during the comparable periods. WPC's credit facility is indexed to the London Inter-Bank Offered Rate ("LIBOR") and the LIBOR benchmark rate declined in 2001 and 2002. The average outstanding balance on the credit facility decreased by approximately \$34,000 and the average interest rate decreased to 3.24% from 5.40% for the comparable years. In June 2002, WPC paid off \$12,580 in mortgage bonds on the Alpena

and Petoskey hotel properties. The Alpena and Petoskey properties were subsequently sold in July 2003 and August 2002, respectively. The payoff of the bonds on the Alpena property resulted in an annual decrease in interest expense of more than \$500. The decrease in interest expense from the credit facility and the payoff of the Alpena and Petoskey mortgage bonds were partially offset by an increase in interest from mortgages placed on the Sprint Spectrum L.P. and Bouyges Telecom properties in 2001. In addition, during 2002 WPC obtained new financing of \$7,000 on a property leased to Quebecor, Inc. and \$9,200 on the newly-purchased BE Aerospace properties. A mortgage on the Quebecor property had been paid off in May 2001.

Property expenses decreased by \$443 for the comparable years. Property expenses for 2002 and 2001 include noncash charges of \$142 and \$1,321, respectively, in connection with the writeoff of accumulated straight-line rents as uncollectible in connection with the restructuring of the lease with Livho, Inc. Excluding the writeoffs, property expenses for the comparable years increased by \$736. The increase in property expense was due to increases in operating and maintenance costs. This was the result of the termination of the Thermadyne lease as well as an increase in costs related to properties that are either vacant or not subject to net leases, and charges of approximately \$200 to write off unamortized leasing costs in connection with a lease termination and the sale of a property.

Net operating income from WPC's management services operations for the years ended December 31, 2002 and 2001 was \$37,732 and \$8,047, respectively. Results for 2002 include noncash charges for amortization of intangible assets of \$7,280 and results for 2001 include amortization of goodwill and intangible assets of \$11,903. The increase in net operating income for the comparable periods of \$29,685 was primarily the result of an increase in transaction and asset-based fees, partially offset by an increase in general and administrative expenses.

Total revenues earned by the management services operations for the years ended December 31, 2002 and 2001 were \$84,255 and \$46,911, respectively. Management fee revenues were comprised of transaction fees of \$47,005 and \$17,160, respectively, and asset-based fees and reimbursements of \$37,250 and \$29,751, respectively, for the years ended December 31, 2002 and 2001. WPC and affiliates structured more than \$981,000 of acquisitions on behalf of the CPA[®] REITs in 2002 as compared with \$395,000 in 2001.

Total asset based management fees for the years ended December 31, 2002 and 2001 were \$26,453 and \$21,511, respectively. A portion of the CPA[®] REIT management fees is based on each CPA[®] REIT meeting specific performance criteria (the "performance fee") and is earned only if the criteria are achieved. The performance criterion for Corporate Property Associates 10 Incorporated ("CPA[®]:10") was satisfied during the second quarter of 2002, resulting in WPC's recognition of \$1,463 in performance fees for the period June 2000 through March 2002. The performance criterion for CPA[®]:14 was satisfied for the first time during the second quarter of 2001, resulting in WPC's recognition of \$3,112 for the period December 1997 through March 2001.

In April 2002, the shareholders of CPA[®]:10 and CIP[®], approved a merger agreement providing for the merger of CPA[®]:10 into CIP[®]. The merger, which was effective on May 1, 2002, did not result in a change in assets under management, so that the asset-based fees earned by WPC were not affected by the merger. As a result of the merger, WPC received \$248 in property disposition fees which were earned in April 2002 when subordination provisions in the CPA[®]:10 Advisory Agreement were met.

The provision for income tax expense for the year ended December 31, 2002 increased by \$9,724 over the comparable year ended December 31, 2001 and resulted from the growth of the management services

operations. Income tax expense increased because approximately 90% of management revenues were earned by a taxable, wholly-owned subsidiary which reflected a substantial increase in earnings for the comparable periods.

The increase in general and administrative expenses was attributable to the growth of the management services operations. A significant portion of the increase represents costs that vary with acquisition and asset management activity. The overall percentage increase in general and administrative expenses was significantly lower than the percentage increase in management revenues. Reimbursement for personnel-related costs, which is included in management income, for the comparable years ended December 31, 2002 and 2001 were \$6,565 and \$5,255, respectively. Of the increase in personnel costs for the comparable years, \$927 reflected an increase in the non-cash charges relating to WPC's share incentive plans. Equity awards are generally amortized over a four-year vesting period.

FINANCIAL CONDITION

WPC has pursued a strategy of deleveraging, that is, reducing its debt over the past several years. Between January 1, 2001 and December 31, 2003, combined limited recourse mortgage debt and amounts outstanding on its \$185,000 credit facility decreased from \$290,160 to \$209,193, a decrease of approximately 28%. Because \$128,125 of its \$180,193 of mortgage debt is fixed rate debt, WPC believes that it should not be greatly affected by changes in interest rates. WPC has substantially paid down the amounts outstanding on its credit facility, which has decreased from \$95,000 at November 31, 2001 to \$29,000, at December 31, 2003. During this period, the rates on the credit facility declined.

The revolving credit agreement has financial covenants that require WPC to maintain a minimum equity value and to meet or exceed certain operating and coverage ratios. The credit agreement matures in March 2004 and has been extended on a short term basis through June 1, 2004. WPC will either seek to extend or replace the credit facility. WPC believes that renewing or replacing the facility after the current term is likely. Amounts drawn on the credit facility bear interest at a rate indexed to the London Inter-Bank Offered Rate. As of March 5, 2004, the annual interest rate on the outstanding balance of \$30,000 is approximately 2.275%.

There has been no material change in WPC's financial condition since December 31, 2002. WPC's cash balances increased to \$24,359 from \$21,304 and overall debt decreased from \$235,000 to \$209,000. Management believes that WPC will generate sufficient cash from operations and, if necessary, from the proceeds of limited recourse mortgage loans, unsecured indebtedness and the issuance of additional equity securities to meet its short-term and long-term liquidity needs. WPC assesses its ability to access capital on an ongoing basis.

Cash flows from operating activities and distributions received from equity investments for the year ended December 31, 2003 of \$71,354 were primarily used to fund dividends to shareholders of \$62,978. Annual cash flow from operations is projected to continue to fund distributions; however, operating cash flow may fluctuate on a quarterly basis due to the timing of certain compensation costs that are paid and receipt of the annual installment of deferred acquisition fees and interest therein in the first quarter and the timing of the receipt of transaction-related fees. In 2003, WPC received deferred acquisition fees of \$1,495 in connection with structuring transactions on behalf of CPA[®]:12 and CPA[®]:14. The annual installment paid in January 2004, which included an initial installment

from CPA[®]:15, increased to \$6,900. The payments of the deferred acquisition fees by the CPA[®] REITs is subordinated to each CPA[®] REIT meeting certain specified performance criteria. Installments are applied to amounts due from affiliates when received.

Investing activities included using \$9,531 for purchases of equity investments and additional capital expenditures. The expenditures included using \$6,688 for the purchase of a 22.5% interest in the Carrefour properties, \$1,100 for the renovation of the restaurant and bar at the Livonia hotel and \$1,743 of capital expenditures at existing properties primarily related to leasehold improvements. Limited recourse mortgage financing was placed on the Hologic properties, which are accounted for as equity investments, and WPC received a capital distribution of \$6,582 representing WPC's proportionate share of the mortgage proceeds related to its 36% tenancy-in-common interest. In July, WPC made a capital contribution of \$1,496, to a limited partnership that WPC has an 18.54% equity ownership interest in, which net leases a property to The Titan Corporation. The partnership owns a property in California and the contribution, along with contributions from the other partners, was used to make a balloon payment to pay off the existing mortgage encumbering the property.

WPC received \$24,395 in connection with the sale of seven properties. A purchaser of one of the properties did not make a scheduled payment in March 2004 and WPC is evaluating the realizability of the \$2,250 carrying value of the notes received from the sale. A portion of the proceeds from the sales was used to partially pay down WPC's credit facility balance. In addition, WPC sold its Oxnard, California property and placed the net cash proceeds from the sale of \$7,171 in an escrow account for the purpose of entering into a Section 1031 noncash exchange which, under the Internal Revenue Code, would allow WPC to acquire like-kind real properties within a stated period in order to defer a taxable gain of approximately \$5,000. In January 2003, WPC paid an installment of deferred acquisition fees of \$524 to WPC's former management company relating to 1998 and 1999 property acquisitions. The remaining obligation as of December 31, 2003 is \$2,233. In connection with the acquisition of WPCI in April 2003, WPC acquired \$1,300 in cash.

In addition to paying dividends to shareholders, WPC's financing activities for 2003 included reducing its outstanding balance of its credit facility by \$20,000, paying off \$10,250 in limited recourse mortgage financing on five of its properties and making scheduled principal payment installments of \$8,548 on existing mortgages. In December 2003, WPC refinanced the existing mortgage on the Pantin property, and was able to obtain additional mortgage financing of \$5,080 under similar terms as the original mortgage. WPC uses limited recourse mortgages as a substantial portion of its long-term financing because a lender of a limited recourse mortgage loan has recourse only to the properties collateralizing its loan and not to any of WPC's other assets. As of December 31, 2003, approximately 52% of WPC's properties are encumbered with mortgage debt. WPC also raised \$7,789 from the issuance of shares primarily through WPC's dividend reinvestment and stock purchase plan. WPC issued additional shares pursuant to its merger agreement for the management services operations (400,000 shares valued at \$8,910 were issued during 2003 based on meeting one of the performance criteria as of December 31, 2002). In connection with the WPCI transaction, WPC cancelled 54,765 shares which had been owned by WPCI and made a payment of \$1,898 to William Polk Carey in connection with the redemption of his interests.

WPC expects to meet its capital requirements to fund future property acquisitions, construction costs on build-to-suit transactions, any capital expenditures on existing properties and scheduled debt maturities on limited recourse mortgages through use of its cash reserves or unused amounts on its

credit facility. WPC may issue additional shares in connection with purchases of real estate when it is consistent with the objectives of the seller. WPC is expected to incur capital expenditures on various properties throughout 2004 and early 2005 of approximately \$2,800, primarily related to tenant leasehold improvements, and for property improvements and upgrades to enhance a property's cash flow or marketability for re-leasing or sale. This includes approximately \$650 in funding to complete the renovation of the restaurant and bar at the Livonia hotel, which when completed, is expected to improve cash flow at the property and \$830 for the expected environmental costs to prepare the Red Bank property for sale to a third party. Additionally, WPC has entered into a product improvement plan in connection with renewing the franchise license with Holiday Inn at the Livonia hotel. The cost of the property improvements under the plan could be as much as \$3,500, however, WPC currently estimates to spend under \$1,000 over the next two years. WPC is evaluating redevelopment plans for the Broomfield property but has not determined the cost of such redevelopment.

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. There is \$14,984 in scheduled balloon payments on limited recourse mortgage notes due in 2004. WPC believes it has sufficient resources to pay off the loans in the event they are not refinanced. In addition, 71% of WPC's outstanding mortgage debt has fixed rates of interest that will partially protect WPC from increases in market rates from near-historical lows.

OFF-BALANCE SHEET AND AGGREGATE CONTRACTUAL AGREEMENTS

WPC has provided a guarantee of \$2,000 related to the development project in Los Angeles.

A summary of WPC's obligations, commitments and guarantees under contractual arrangements are as follows:

<i>In thousands</i>	Total	2004	2005	2006	2007	2008	Thereafter
Obligations:							
Limited recourse mortgage notes payable	\$180,193	\$23,296	\$8,062	\$22,410	\$15,109	\$9,699	\$101,617
Unsecured note payable	29,000	29,000					
Deferred acquisition fees	2,233	524	524	524	524	132	5
Commitments and Guarantees:							
Development project	2,000	2,000					
Share of minimum rents payable under office cost-sharing agreement	939	255	342	342			
	<u>\$214,365</u>	<u>\$55,075</u>	<u>\$8,928</u>	<u>\$23,276</u>	<u>\$15,633</u>	<u>\$9,831</u>	<u>\$101,622</u>

As of December 31, 2003, WPC was not involved in any material litigation. Following a broker-deal examination of Carey Financial Corporation ("Carey Financial"), WPC's wholly-owned broker-dealer subsidiary, by the staff of the United States Securities and Exchange Commission (the "SEC"), Carey Financial received a letter from the staff of the SEC, on or about March 4, 2004, alleging certain infractions by Carey Financial of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, and rules and regulations thereunder and of the National Association of Securities Dealers, Inc. The letter was delivered for the purpose of requiring Carey Financial to take corrective action and without regard to any other action the SEC may take with respect to the broker-dealer examination. It is not known at this time if the SEC intends to bring any enforcement action against Carey Financial. The infractions alleged are described in Note 20 to the accompanying consolidated financial statements.

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.

CRITICAL ACCOUNTING ESTIMATES

WPC makes certain judgments and uses certain estimates and assumptions when applying accounting principles generally accepted in the United States of America in the preparation of its consolidated financial statements that affect the reported amount of assets, liabilities, revenues and expenses. WPC believes its most critical accounting estimates relate to its provision for uncollected amounts from lessees, potential impairment of assets, identification of discontinued operations, classification of real estate assets, identification of intangible assets in connection with real estate asset acquisitions, determination of certain asset-based fees and determining the fair value of assets and liabilities which are "marked to market" but not actively traded in a public market. WPC's significant accounting policies are described in the notes to the consolidated financial statements. Certain policies, while significant, may not require the use of estimates.

The preparation of financial statements requires that management make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses. For instance, WPC must assess its ability to collect rent and other tenant-based receivables and determine an appropriate allowance for uncollected amounts. Because fewer than 30 lessees represent more than 75% of annual rents, WPC believes that it is necessary to evaluate specific situations rather than solely use statistical methods. WPC generally recognizes a provision for uncollected rents and other tenant receivables, which typically ranges between 0.5% and 2% of lease revenues (rental income and interest income from direct financings leases) and will measure its allowance against actual rent arrearages and adjust the percentage applied. Based on actual experience during 2003, WPC recorded a provision equal to approximately 1.2% of lease revenues.

For certain CPA[®] REIT's, the asset management and performance fees are based on an independent annual valuation of the underlying real estate assets of the CPA[®] REIT. The valuation uses estimates, including but not limited to, market rents, residual values and increases in the CPI and discount rates. Differences in the assumptions applied would affect the management revenue recognized by WPC. Additionally, a deferred compensation plan for certain officers is valued based on the results of the annual valuations. The effect of any changes in the annual valuations will be adjusted in the determination of net income.

WPC also uses estimates and judgments when evaluating whether long-lived assets are impaired. When events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, WPC performs projections of undiscounted cash flows, and if such cash flows are insufficient, the assets are adjusted (i.e., written down) to their estimated fair value. An analysis of whether a real estate asset has been impaired requires WPC to make its best estimate of market rents, residual values and holding periods. In its evaluations, WPC generally obtains market information from outside sources; however, such information requires management to determine whether the information received is appropriate to the circumstances. As WPC's investment objectives are to hold proper-

ties on a long-term basis, holding periods used in the analyses generally range from five to ten years. Depending on the assumptions made and estimates used, the future cash flow projected in the evaluation of long-lived assets can vary within a range of outcomes. WPC will consider the likelihood of possible outcomes in determining the best possible estimate of future cash flows. Because in most cases, each of WPC's properties is leased to one tenant, WPC is more likely to incur significant write-downs when circumstances change because of the possibility that a property will be vacated in its entirety and, therefore, it is different from the risks related to leasing and managing multi-tenant properties. Events or changes in circumstances can result in further noncash writedowns and impact the gain or loss ultimately realized upon sale of the assets.

WPC performs a review of its estimate of residual value of its direct financing leases at least annually to determine whether there has been an other than temporary decline in WPC's current estimate of residual value of the underlying real estate assets (i.e., the estimate of what WPC could realize upon sale of the property at the end of the lease term). If the review indicates a decline in residual value, that is other than temporary, a loss is recognized and the accounting for the direct financing lease will be revised to reflect the decrease in the expected yield using the changed estimate, that is, a portion of the future cash flow from the lessee will be recognized as a return of principal rather than as revenue.

Real estate accounted for under the operating method is stated at cost less accumulated depreciation. Costs directly related to the development of rental properties are capitalized. Capitalized development and construction costs include costs essential to the development of the property, development and construction costs, interest, property taxes, insurance, salaries and other projects costs incurred during the period of development. Interest capitalized for the years ended December 31, 2003, 2002 and 2001 was \$22, \$216 and \$443, respectively.

In connection with real estate asset acquisitions, WPC may determine that a portion of the purchase price is allocable to intangible assets for above-market and below-market leases, in-place lease intangibles and customer relationships.

Above-market and below-market leases intangibles will be based on the difference between the market rent and the contractual rents and will be discounted to a present value using an interest rate reflecting WPC's assessment of the risk associated with the lease acquired. WPC acquires properties subject to net leases and considers the credit of the lessee in negotiating the initial rent.

The total amount of other intangible assets will be allocated to in-place lease values and tenant relationship intangible values based on our evaluation of the specific characteristics of each tenant's lease and our overall relationship with each tenant. Characteristics we will consider in allocating these values include the nature and extent of the existing relationship with the tenant, prospects for developing new business with the tenant, the tenant's credit quality and the expectation of lease renewals among other factors. The aggregate value of other intangible assets acquired will be measured based on the difference between (i) the property valued with an in-place lease adjusted to market rental rates and (ii) the property valued as if vacant. Independent appraisals or our estimates will be used to determine these values.

When assets are identified by management as held for sale, WPC discontinues depreciating the assets and estimates the sales price, net of selling costs, of such assets. If in management's opinion, the net sales price of the assets which have been identified for sale, is less than the net book value of the assets, an impairment charge is recognized and a valuation allowance is established. If circumstances arise that previously were considered unlikely and, as a result, WPC decides not to

sell a property previously classified as held for sale, the property is reclassified as held and used. A property that is reclassified is measured and recorded individually at the lower of (a) its carrying amount before the property was classified as held for sale, adjusted for any depreciation expense that would have been recognized had the property been continuously classified as held and used, (b) the fair value at the date of the subsequent decision not to sell, or (c) the current carrying value. The results of operations and gain or loss on sales of real estate for properties sold or classified as held for sale after January 1, 2002 are reflected in the consolidated statements of operations as “Discontinued Operations” for all periods presented.

In connection with the net lease real estate asset management business, WPC earns transaction and asset-based fees. Transaction fees are primarily earned in connection with investment banking services provided in connection with structuring acquisitions, refinancing and dispositions on behalf of the affiliated real estate investment trusts. Transaction fees are earned upon consummation of a transaction, that is, when a purchase has been completed by the affiliate. Completion of a transaction includes determining that the purchaser and seller are bound by a contract and all substantive conditions of closing have been performed. When these conditions are met, acquisition-based services have been completed and the fees are recognized.

Asset-based management fees are earned when services are performed. A portion of the fees are subject to subordination provisions pursuant to the Advisory Agreements and are based on whether each CPA® REIT has met specific performance criteria on a quarterly basis. In connection with determining whether management and performance fees are recorded as revenue, management performs analyses on a quarterly basis to measure whether subordination provisions have been met. Revenue is only recognized for performance based fees when the specific performance criteria are achieved.

WPC accounted for its acquisition of business operations of Carey Management in 2000 as a purchase. The excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill. WPC evaluates goodwill for possible impairment at least annually using a two-step process. To identify any impairment, WPC first compares the estimated fair value of the reporting unit (management services segment) with its carrying amount, including goodwill. WPC calculates the estimated fair value of the management services segment by applying a multiple, based on comparable companies, to earnings. If the fair value of the management services segment exceeds its carrying amount, goodwill is considered not impaired and no further analysis is required. If the carrying amount of the management services unit exceeds its estimated fair value, then the second step is performed to measure the amount of the impairment charge.

For the second step, WPC would determine the impairment charge by comparing the implied fair value of the goodwill with its carrying amount and record an impairment charge equal to the excess of the carrying amount over the fair value. The implied fair value of the goodwill is determined by allocating the estimated fair value of the management services segment to its assets and liabilities. The excess of the estimated fair value of the management services segment over the amounts assigned to its assets and liabilities is the implied fair value of the goodwill. WPC has performed its annual test for impairment of its management services segment, the reportable unit of measurement, and concluded that the goodwill is not impaired.

WPC accounts for its investments in unconsolidated joint ventures under the equity method of accounting as it may exercise significant influence, but does not control these entities. These investments are recorded initially at cost, as equity investments and subsequently adjusted for its proportionate share

of earnings and cash contributions and distributions. On a periodic basis, management assesses whether there are any indicators that the value of equity investments may be impaired and whether or not that impairment is other than temporary. An investment's value is impaired only if management's estimate of the net realizable value of the investment is less than the carrying value of the investment. To the extent impairment has occurred, the charge shall be measured as the excess of the carrying amount of the investment over the fair value of the investment.

Significant management judgment is required in developing WPC's provision for income taxes, including (i) the determination of partnership-level state and local taxes and foreign taxes, and (ii) for its taxable subsidiaries, estimating deferred tax assets and liabilities and any valuation allowance that might be required against the deferred tax assets. A valuation allowance is required if it is more likely than not that a portion or all of the deferred tax assets will not be realized. WPC has not recorded a valuation allowance based on management's belief that operating income of the taxable subsidiaries will be sufficient to realize the benefit of these assets over time. For interim periods, income tax expense for taxable subsidiaries is determined, in part, by applying an effective tax rate, which takes into account statutory federal, state and local tax rates.

ACCOUNTING PRONOUNCEMENTS

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," ("FIN 45") which changes the accounting for, and disclosure of certain guarantees. Beginning with transactions entered into after December 31, 2002, certain guarantees are required to be recorded at fair value, which is different from prior practice, under which a liability was recorded only when a loss was probable and reasonably estimable. In general, the change applies to contracts or indemnification agreements that contingently require WPC to make payments to a guaranteed third-party based on changes in an underlying asset, liability, or an equity security of the guaranteed party. The accounting provisions only apply for certain new transactions entered into and existing guarantee contracts modified after December 31, 2002. The adoption of the accounting provisions of FIN 45 did not have a material effect on WPC's financial statements. WPC has complied with the disclosure provisions.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," which amends SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation (i.e., recognition of a charge for issuance of stock options in the determination of income). However, SFAS No. 148 does not permit the use of the original SFAS No. 123 prospective method of transition for changes to the fair value based method made in fiscal years beginning after December 15, 2003. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation, description of transition method utilized and the effect of the method used on reported results. The annual disclosure provisions of SFAS No. 148 have been adopted.

On January 17, 2003, the FASB issued FIN 46, the primary objective of which is to provide guidance on the identification of entities for which control is achieved through means other than voting rights (VIE's) and to determine when and which business enterprise should consolidate the VIE (the "primary beneficiary"). This new model applies when either (i) the equity investors (if any) do not

have a controlling financial interest of (ii) the equity investment at risk is insufficient to finance that entity's activities without additional financial support. In addition, effective upon issuance, FIN 46 requires additional disclosures by the primary beneficiary and other significant variable interest holders. The provisions of FIN 46 apply immediately to VIE's created after January 31, 2003. In October 2003, the FASB issued FASB Staff Position 46-6, which deferred the effective date to December 31, 2003 for applying the provisions of FIN 46 for interests held by public companies in all VIE's created prior to February 1, 2003. Additionally, in December 2003, the FASB issued Interpretation No. 46 (R), "Consolidation of Variable Interest Entities (Revised December 2003)" ("FIN 46 (R)"). The provisions of FIN 46 (R) are effective as of March 31, 2004 for all non-special purpose entity ("non-SPE") interests held by public companies in all VIE's created prior to February 1, 2003. These deferral provisions did not defer the disclosure provisions of FIN 46.

WPC has evaluated its joint venture partnership investments established after January 31, 2003 and based upon its interpretation of FIN 46 and applied judgment, WPC has determined that it is not required to consolidate these joint ventures.

WPC continues to evaluate all of its investments in joint ventures and partnerships created prior to February 1, 2003 to determine whether any of these entities are VIE's and whether WPC is considered to be the primary beneficiary or a holder of a significant variable interest in a VIE. If it is determined that certain of these entities are VIE's, WPC will be required to consolidate these entities in which WPC is the primary beneficiary or make additional disclosures for entities in which WPC is determined to hold a significant variable interest in the VIE as of March 31, 2004.

Based on WPC's analysis of FIN 46, it has concluded that it is reasonably possible that its investments in real estate joint ventures and other real estate investments, created prior to February 1, 2003, may be investments in VIE's and is therefore subject to the disclosure provisions of FIN 46.

WPC's joint ventures and other real estate investments primarily consist of co-investments with other joint venture partners in commercial real estate properties and ownership of common stock in the CPA[®] REIT's, which are consistent with its core business. WPC's maximum loss exposure is the carrying value of its equity investments.

WPC has concluded that Livho is a variable interest entity that does not qualify for deferral with WPC as its primary beneficiary because WPC has provided it with significant financial support over the past several years in order to support Livho's operations and preserve the value of the property. As a VIE, Livho is consolidated in WPC's financial statements as of December 31, 2003. Livho operates a hotel as a Holiday Inn in Livonia, Michigan; its operations were transferred to a separate company as a strategy to protect WPC's tax status as a publicly-traded partnership. The real estate assets have historically been reflected in WPC's consolidated financial statements. Livho's operating revenues include food and beverage revenues. During 2003, a bar at the hotel, which at one time was a significant source of revenues, was closed and underwent renovations, which were funded by WPC. The renovations were recently completed and the bar re-opened in February 2004 as an Irish pub and it is expected that revenues from the food and beverage operations will improve substantially as a result of the renovation.

On April 30, 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging under SFAS No. 133. The statement (1) clarifies under what circumstances a contract with an initial

net investment meets the characteristics of a derivative instrument discussed in paragraph 6(b) of SFAS No. 133, (2) clarifies when a derivative contains a financing component, (3) amends the definition of an underlying to conform it to language used in FIN 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others”, and (4) amends certain other existing pronouncements. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not have a material effect on the financial statements.

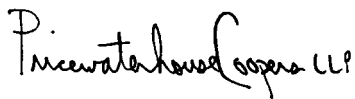
On May 30, 2003, the FASB issued SFAS No. 150 “Accounting for Certain Financial Instruments with Characteristics of both Liability and Equity.” SFAS No. 150 establishes standards to classify as liabilities certain financial instruments that are mandatorily redeemable or include an obligation to repurchase and expands disclosures required for such financial statements. Such financial instruments will be measured at fair value with changes in fair value included in the determination of net income. The FASB recently issued FSP 150-3, which defers the provisions of paragraphs 9 and 10 of SFAS No. 150 indefinitely as they apply to mandatorily redeemable noncontrolling interests associated with finite-lived entities. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. WPC consolidates WPCI and classifies the minority interests in this entity as a liability in accordance with SFAS No. 150 (see Note 3 to the accompanying consolidated financial statements). WPC has interests in five additional joint ventures located in France that are consolidated and have minority interests that are considered mandatorily redeemable noncontrolling interests with finite lives. In accordance with the deferral noted above, these minority interests have not been reflected as liabilities. The carrying value of these minority interests is \$1,852 at December 31, 2003, which approximates their estimated fair value at that date.

REPORT OF INDEPENDENT AUDITORS

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

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, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 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.

As discussed in Note 11 to the consolidated financial statements, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standard No. 142 "Goodwill and Other Intangibles", which requires that goodwill and indefinite-lived intangible assets are no longer amortized and are assessed for impairment annually. In addition, as discussed in Note 8 to the consolidated financial statements, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standard No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets", which requires that the results of operations, including any gain or loss on sale, relating to real estate that has been disposed of or is classified as held for sale after the initial adoption be reported in discontinued operations for all periods presented.



New York, New York
March 12, 2004

W. P. Carey & Co. LLC

CONSOLIDATED BALANCE SHEETS

In thousands except share amounts

	2003	December 31, 2002
ASSETS		
Real estate leased to others:		
Accounted for under the operating method, net of accumulated depreciation of \$45,021 and \$41,716 at December 31, 2003 and 2002	\$ 400,717	\$ 432,556
Net investment in direct financing leases	182,452	189,339
Real estate leased to others	583,169	621,895
Operating real estate, net of accumulated depreciation of \$5,805 and \$1,665 at December 31, 2003 and 2002	16,147	4,056
Real estate under construction and redevelopment	4,679	3,581
Equity investments	82,800	67,742
Assets held for sale	13,609	22,158
Cash and cash equivalents	24,359	21,304
Due from affiliates	50,917	40,241
Goodwill	63,607	49,874
Intangible assets, net of accumulated amortization of \$25,262 and \$18,543 at December 31, 2003 and 2002	38,528	44,567
Other assets, net of accumulated amortization of \$2,716 and \$1,927 at December 31, 2003 and 2002 and reserve for uncollected rent of \$2,600 and \$3,492 at December 31, 2003 and 2002	28,690	18,106
Total assets	<u>\$ 906,505</u>	<u>\$ 893,524</u>
LIABILITIES, MINORITY INTEREST AND MEMBERS' EQUITY		
Liabilities:		
Mortgage notes payable	\$ 180,193	\$ 186,049
Notes payable	29,000	49,000
Accrued interest	1,163	1,319
Dividends payable	15,987	15,486
Due to affiliates	20,444	12,874
Accounts payable and accrued expenses	16,249	17,931
Prepaid rental income and security deposits	4,267	3,951
Accrued income taxes	1,810	5,285
Deferred income taxes, net	29,532	19,763
Other liabilities	11,221	9,494
Total liabilities	<u>309,866</u>	<u>321,152</u>
Minority interest	<u>1,852</u>	<u>1,484</u>
Commitments and contingencies		
Members' Equity:		
Listed shares, no par value, 36,745,027 and 35,944,110 shares issued and outstanding at December 31, 2003 and 2002	709,724	690,594
Dividends in excess of accumulated earnings	(112,570)	(111,970)
Unearned compensation	(4,863)	(5,671)
Accumulated other comprehensive income (loss)	2,496	(2,065)
Total members' equity	<u>594,787</u>	<u>570,888</u>
Total liabilities, minority interest and members' equity	<u>\$ 906,505</u>	<u>\$ 893,524</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,		
	2003	2002	2001
REVENUES			
Management income from affiliates	\$ 88,060	\$ 84,255	\$ 46,911
Rental income	45,422	46,092	43,725
Interest income from direct financing leases	20,730	22,411	25,764
Other interest income	2,581	1,639	1,023
Other income	5,288	1,258	5,960
Revenues of other business operations	1,298	289	—
	<u>163,379</u>	<u>155,944</u>	<u>123,383</u>
EXPENSES			
Interest	15,116	16,134	19,001
Depreciation	10,741	10,111	9,221
Amortization	7,296	9,214	13,857
General and administrative	43,698	42,592	29,322
Property expenses	7,116	6,044	6,487
Charge on extinguishment of debt	350	—	—
Impairment charge on real estate and investments	1,480	20,286	9,643
Operating expenses of other business operations	—	—	46
	<u>85,797</u>	<u>104,381</u>	<u>87,577</u>
Income from continuing operations before minority interest, equity investments, gains and income taxes	77,582	51,563	35,806
Minority interest in (income) loss	(370)	120	68
Income (loss) from equity investments	4,008	(443)	2,827
	<u>81,220</u>	<u>51,240</u>	<u>38,701</u>
Income from continuing operations before gains and income taxes	81,220	51,240	38,701
Gain on foreign currency transactions and sale of securities	108	94	44
	<u>81,328</u>	<u>51,334</u>	<u>38,745</u>
Income from continuing operations before income taxes and gain on sale of real estate	81,328	51,334	38,745
Provision for income taxes	(19,116)	(18,083)	(8,359)
	<u>62,212</u>	<u>33,251</u>	<u>30,386</u>
Income from continuing operations before gain on sale of real estate	62,212	33,251	30,386
Discontinued operations:			
Income from operations of discontinued properties	2,098	7,447	6,471
Gain on sale of real estate	1,238	2,364	—
Impairment charges on properties held for sale	(2,670)	(9,125)	(3,000)
	<u>666</u>	<u>686</u>	<u>3,471</u>
Income from discontinued operations	666	686	3,471
Gain on sale of real estate	—	12,651	1,904
	<u>—</u>	<u>12,651</u>	<u>1,904</u>
Net income	<u>\$ 62,878</u>	<u>\$ 46,588</u>	<u>\$ 35,761</u>

W. P. Carey & Co. LLC

CONSOLIDATED STATEMENTS OF OPERATIONS (continued)

In thousands except share and per share amounts

	For the Years Ended December 31,		
	2003	2002	2001
Basic earnings per share:			
Income from continuing operations	\$1.70	\$1.29	\$.94
Discontinued operations	.02	.02	.10
Net income	<u>\$1.72</u>	<u>\$1.31</u>	<u>\$1.04</u>
Diluted earnings per share:			
Income from continuing operations	\$1.64	\$1.26	\$.92
Discontinued operations	.01	.02	.10
Net income	<u>\$1.65</u>	<u>\$1.28</u>	<u>\$1.02</u>
Weighted average shares outstanding:			
Basic	<u>36,566,338</u>	<u>35,530,334</u>	<u>34,465,217</u>
Diluted	<u>38,008,762</u>	<u>36,265,230</u>	<u>34,952,560</u>

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

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY*For the years ended December 31, 2001, 2002 and 2003**In thousands except share and per share amounts*

	Shares	Paid-in Capital	Dividends in Excess of Accumulated Earnings	Unearned Compensation	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2000	33,604,716	\$644,749	\$(74,260)	\$(5,291)		\$(3,125)	\$562,073
Cash proceeds on issuance of shares, net	422,032	6,496					6,496
Shares issued in connection with services rendered and properties acquired	6,825	134					134
Shares issued in connection with acquisition	651,964	10,956					10,956
Shares and options issued under share incentive plans	63,749	1,235		(1,235)			
Forfeitures	(6,850)	(117)		117			
Dividends declared			(58,701)				(58,701)
Tax benefit - share incentive plans		1,298					1,298
Amortization of unearned compensation				1,955			1,955
Net income			35,761		<u>\$35,761</u>		35,761
Other comprehensive income:							
Change in unrealized gains on marketable securities					130		
Foreign currency translation adjustment					<u>(437)</u>		
					<u>(307)</u>	(307)	(307)
Comprehensive income					<u>\$35,454</u>		
Balance at December 31, 2001	34,742,436	\$664,751	\$(97,200)	\$(4,454)		\$(3,432)	\$559,665

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

W. P. Carey & Co. LLC

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY (continued)

For the years ended December 31, 2001, 2002 and 2003

In thousands except share and per share amounts

	Shares	Paid-in Capital	Dividends in Excess of Accumulated Earnings	Unearned Compensation	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Total
Cash proceeds on issuance of shares, net	528,479	10,086					10,086
Shares issued in connection with services rendered	5,755	390					390
Shares issued in connection with acquisition	500,000	10,440					10,440
Shares and options issued under share incentive plans	170,768	3,913		(3,913)			
Forfeitures	(3,328)	(70)		70			
Dividends declared			(61,358)				(61,358)
Tax benefit – share incentive plans		1,084					1,084
Amortization of unearned compensation				2,626			2,626
Net income			46,588		<u>\$46,588</u>		46,588
Other comprehensive income:							
Change in unrealized gains on marketable securities					12		
Foreign currency translation adjustment					<u>1,355</u>		
					<u>1,367</u>	1,367	1,367
Comprehensive income					<u>\$47,955</u>		
Balance at December 31, 2002	<u>35,944,110</u>	<u>\$690,594</u>	<u>\$(111,970)</u>	<u>\$(5,671)</u>		<u>\$(2,065)</u>	<u>\$570,888</u>

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

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY (continued)*For the years ended December 31, 2001, 2002 and 2003**In thousands except share and per share amounts*

	Shares	Paid-in Capital	Dividends in Excess of Accumulated Earnings	Unearned Compensation	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Total
Cash proceeds on issuance of shares, net	412,012	7,789					7,789
Shares issued in connection with services rendered and properties acquired	5,846	160					160
Shares issued in connection with acquisition	400,000	8,909					8,909
Shares and options issued under share incentive plans	47,550	1,212		(2,827)			(1,615)
Forfeitures	(9,726)	(132)		99			(33)
Dividends declared			(63,478)				(63,478)
Tax benefit – share incentive plans		2,700					2,700
Amortization of unearned compensation				3,536			3,536
Repurchase of shares	(54,765)	(1,508)					(1,508)
Net income			62,878		\$62,878		62,878
Other comprehensive income:							
Change in unrealized gains on marketable securities					2,567		
Foreign currency translation adjustment					1,994		
					4,561	4,561	4,561
Comprehensive income					\$67,439		
Balance at December 31, 2003	36,745,027	\$709,724	\$(112,570)	\$(4,863)		\$2,496	\$594,787

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

W. P. Carey & Co. LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands

	For the Years Ended December 31,		
	2003	2002	2001
Cash flows from operating activities:			
Net income	\$ 62,878	\$ 46,588	\$ 35,761
Adjustments to reconcile net income to net cash provided by operating activities:			
Income from discontinued operations, including gain on sale	(3,336)	(9,811)	(6,471)
Depreciation and amortization	18,914	20,162	23,879
Equity income (loss) in excess of distributions	(23)	(54)	(232)
Loss (gain) on sales of real estate and securities, net	578	(12,745)	(1,948)
Minority interest in income (loss)	370	(120)	(68)
Straight-line rent adjustments and amortization of deferred income	7	(760)	(1,365)
Management income received in shares of affiliates	(18,599)	(13,439)	(11,489)
Unrealized gain on foreign currency transactions	(130)	—	—
Impairment charges on securities, real estate and properties held for sale	4,150	29,411	12,643
Deferred income tax provision	9,769	13,155	5,272
Costs paid by issuance of shares	215	500	278
Tax benefit – share incentive plans	2,700	1,084	1,298
Amortization of unearned compensation	3,536	2,626	1,955
Increase in structuring fees receivable	(13,424)	(18,529)	(6,915)
Net changes in operating assets and liabilities, net of assets and liabilities acquired on acquisition	(2,345)	11,233	(1,497)
Net cash provided by continuing operations	65,260	69,301	51,101
Net cash provided by discontinued operations	2,591	6,595	7,776
Net cash provided by operating activities	67,851	75,896	58,877
Cash flows from investing activities:			
Distributions received from equity investments in excess of equity income	3,503	5,560	2,768
Capital distributions from equity investment, net of contributions (\$1,496 in 2003)	5,086	1,255	—
Purchases of real estate, equity investments and securities	(6,688)	(13,172)	(23,290)
Additional capital expenditures	(2,843)	(811)	(3,953)
Payment of deferred acquisition fees	(524)	(524)	(520)
Release of funds from escrow from sale of real estate	—	9,366	—
Proceeds from sales of real estate, equity investments and securities	24,395	50,247	11,627
Cash acquired on acquisition of subsidiary	1,300	—	—
Net cash provided by (used in) investing activities	24,229	51,921	(13,368)
Cash flows from financing activities:			
Dividends paid	(62,978)	(60,708)	(58,048)
Payment of accrued preferred distributions	—	(1,423)	—
Contributions from minority interest	—	636	204
Payments of mortgage principal	(8,548)	(8,428)	(8,230)
Proceeds from mortgages and notes payable	82,683	79,200	97,627
Prepayments of mortgage principal and notes payable	(107,854)	(134,316)	(82,665)
Payment of financing costs	(391)	(308)	(1,874)
Proceeds from issuance of shares	7,789	10,086	6,496
Repurchase of shares	—	—	(325)
Net cash used in financing activities	(89,299)	(115,261)	(46,815)
Effect of exchange rate changes on cash	274	(122)	11
Net increase (decrease) in cash and cash equivalents	3,055	12,434	(1,295)
Cash and cash equivalents, beginning of year	21,304	8,870	10,165
Cash and cash equivalents, end of year	\$ 24,359	\$ 21,304	\$ 8,870

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)*Amounts in thousands except share and per share amounts*

Noncash operating, investing and financing activities:

- A. In connection with the acquisition of Carey Management LLC in June 2000, the Company had an obligation to issue up to an additional 2,000,000 shares over four years if specified performance criteria were achieved. As of December 31, 2003, 1,400,000 shares have been issued. Based on the performance criteria 500,000 shares were issued for both of the years ended December 31, 2001 and 2000 (\$10,440 and \$8,145, respectively). For the year ended December 31, 2002, the Company met one criterion and 400,000 shares (\$8,910) were issued. For the year ended December 31, 2003, the Company met the FFO Target and the cumulative Stock Performance Target, and as a result 500,000 shares (\$13,734) will be issued in 2004. The amounts attributable to the 1,900,000 shares are included in goodwill. Accounts payable to affiliates as of December 31, 2003 and 2002 included \$13,734 and \$8,910, respectively for shares that were to be issued subsequent to year end.

Effective January 1, 2001, the consolidated CPA® Partnerships became wholly-owned subsidiaries of the Company when 151,964 shares (\$2,811) were issued in consideration for acquiring the remaining special partner interests.

- B. The Company issued 5,846, 5,755 and 6,825 restricted shares valued at \$160 in 2003 and \$134 in 2002 and 2001, to certain directors, officers, and employees and affiliates in consideration of service rendered. Restricted shares and stock options valued at \$3,697, \$3,913 and \$1,235 in 2003, 2002 and 2001, respectively, issued to officers and employees and was recorded as unearned compensation of which \$99, \$70 and \$117, respectively, was forfeited in 2003, 2002 and 2001. Included in compensation expense for the years ended December 31, 2003, 2002 and 2001 were \$3,536, \$2,626 and \$1,955, respectively, relating to equity awards from the Company's share incentive plans.
- C. As partial consideration for the sale of a property in 2003, the Company received notes receivable with a fair value of \$2,250. The Company received a note receivable in 2001 of \$700 in partial consideration for a sale of property.

In December 2003, the Company sold a property located in California and placed the net proceeds of \$7,171 in an escrow account for the purpose of entering into a Section 1031 noncash exchange which, under the Internal Revenue Code, would allow the Company to acquire like-kind property, and defer a taxable gain. In 2002, \$15,174 was placed in an escrow account from the sale of properties and was subsequently used for the purchase of properties. During 2002, \$9,366 was released from an escrow account from the sale of a property in 2001.

- D. In 2002, the Company contributed its tenancy-in-common interest in properties leased to Childtime Childcare, Inc. to a limited partnership which is accounted for under the equity method. Assets and liabilities were contributed to the limited partnerships as follows:

Land	\$ 1,674
Net investment in direct financing lease	2,413
Other assets, net	1
Mortgage payable	(1,134)
Equity investment	<u>\$ 2,954</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Amounts in thousands except share and per share amounts

- E. During 2001 the Company purchased an equity interest in an affiliate, W. P. Carey International LLC (“WPCI”), in consideration for issuing a promissory note of \$1,000. The promissory note was satisfied in 2002 through the issuance of 54,765 shares of the Company to WPCI.

In April 2003, the Company’s ownership interest in WPCI increased from 10% to 100% at which time WPCI transferred the 54,765 shares back to the Company and WPCI redeemed the interests of William P. Carey, Chairman and Co-Chief Executive Officer of the Company, who had owned a 90% interest in WPCI. As a result of increasing its interest in WPCI to 100%, the Company acquired assets and liabilities of WPCI as follows: (see Note 3)

Intangible assets (management contracts)	\$ 679
Equity investments	324
Due to affiliates (including \$1,898 due to William P. Carey)	(2,559)
Other assets and liabilities, net	<u>256</u>
Net cash acquired	<u>\$ 1,300</u>

Supplemental cash flows information:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Interest paid, net of amounts capitalized	\$14,395	\$16,400	\$22,144
Income taxes paid	<u>\$ 9,074</u>	<u>\$ 1,695</u>	<u>\$ 1,615</u>
Interest capitalized	<u>\$ 22</u>	<u>\$ 216</u>	<u>\$ 443</u>

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The consolidated financial statements include W. P. Carey & Co. LLC, its wholly-owned and majority-owned controlled subsidiaries and a variable interest entity (“VIE”) in which it is the primary beneficiary (see Note 3) (“the Company”). All material inter-entity transactions have been eliminated.

The consolidated financial statements include the accounts of Corporate Property Associates 16 – Global Incorporated (“CPA[®]:16 – Global”), and Corporate Property Associates International Incorporated (“CPAI”) which were formed in June and July 2003, respectively. As of December 31, 2003, the Company owns 20,000 shares each of CPA[®]:16 – Global and CPAI, representing 100% of the outstanding common stock of each company. Effective December 12, 2003, CPA[®]:16 – Global commenced a “best efforts” public offering for up to 1,100,000 shares. CPAI has filed a registration statement with the SEC for a public offering to sell up to 27,500,000 shares of common stock. Upon issuance of common stock by CPA[®]:16 – Global and CPAI, the Company will no longer have voting control but will retain significant influence, and, expects to account for its investment under the equity method in the future. As of March 5, 2004, CPA[®]:16 – Global has issued 6,386,336 shares pursuant to its public offering.

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; intangible assets and goodwill; classification of real estate leased to others; identification of any intangible assets in connection with real estate asset acquisitions, valuation of CPA[®] REIT interests as the basis of determining certain fee income and compensation costs and the allowance for uncollected rents. Actual results could differ from those estimates.

Real Estate Leased to Others

Certain of the Company’s real estate is leased to others on a net lease basis, whereby the tenant is generally responsible for all operating expenses relating to the property, including property taxes, insurance, maintenance, repairs, renewals and improvements. Expenditures for maintenance and repairs including routine betterments are charged to operations as incurred. Significant renovations that increase the useful life of the properties are capitalized. For the years ended December 31, 2003, lessees were responsible for the direct payment of real estate taxes of approximately \$6,901.

The Company diversifies its real estate investments among various corporate tenants engaged in different industries, by property type and geographically. 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 (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.

In connection with the Company's acquisition of properties, purchase costs are allocated to the tangible and intangible assets and liabilities acquired based on their estimated fair values. The value of the tangible assets, consisting of land, buildings and tenant improvements, are determined as if vacant. Intangible assets including the above-market or below-market value of leases, the value of in-place leases and the value of tenant relationships are recorded at their relative fair values.

Above-market and below-market in-place lease values for owned properties are recorded based on the present value (using an interest rate reflecting the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the leases negotiated and in-place at the time of acquisition of the properties and (ii) management's estimate of fair market lease rates for the property or equivalent property, measured over a period equal to the remaining non-cancelable term of the lease. The capitalized above-market lease value is amortized as a reduction of rental income over the remaining non-cancelable term of each lease. The capitalized below-market lease value is amortized as an increase to rental income over the initial term and any fixed rate renewal periods in the respective leases.

The total amount of other intangible assets are allocated to in-place lease values and tenant relationship intangible values based on management's evaluation of the specific characteristics of each tenant's lease and the Company's overall relationship with each tenant. Characteristics that are considered in allocating these values include the nature and extent of the existing relationship with the tenant, prospects for developing new business with the tenant, the tenant's credit quality and the expectation of lease renewals among other factors. The aggregate value of other intangible assets acquired will be measured based on the difference between (i) the property valued with an in-place lease adjusted to market rental rates and (ii) the property valued as if vacant. Independent appraisals or management's estimates are used to determine these values.

Factors considered in the analysis include the estimated carrying costs of the property during a hypothetical expected lease-up period, current market conditions and costs to execute similar leases. The Company also considers information obtained about a property in connection with its pre-acquisition due diligence. Estimated carrying costs include real estate taxes, insurance, other property operating costs and estimates of lost rentals at market rates during the hypothetical expected lease-up periods, based on management's assessment of specific market conditions. Estimated costs to execute leases including commissions and legal costs to the extent that such costs are not already incurred with a new lease that has been negotiated in connection with the purchase of the property are also considered.

The value of in-place leases will be amortized to expense over the remaining initial term of each lease. The value of tenant relationship intangibles will be amortized to expense over the initial and renewal terms of the leases but no amortization period for intangible assets will exceed the remaining depreciable life of the building.

Substantially all of the Company's leases provide for either scheduled rent increases, periodic rent increases based on formulas indexed to increases in the Consumer Price Index ("CPI") or sales overrides. Rents from sales overrides (percentage rents) are recognized as reported by the lessees, that is, after the level of sales requiring a rental payment to the Company is reached.

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 as incurred.

Real Estate Under Construction and Redevelopment

For properties under construction, operating expenses including interest charges and other property expenses, including real estate taxes, are capitalized rather than expensed and rentals received are recorded as a reduction of capitalized project (i.e., construction) costs.

Interest is capitalized by applying the interest rate applicable to outstanding borrowings to the average amount of accumulated expenditures for properties under construction during the period.

Equity Investments

The Company's interests in entities in which the entity is not considered to be a VIE or the Company is not deemed to be the primary beneficiary, and the Company's ownership is 50% or less and has the ability to exercise significant influence and jointly-controlled tenancy-in-common interests are accounted for under the equity method, i.e. at cost, increased or decreased by the Company's 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. Assets are classified as held for sale when the Company has committed to a plan to actively market a property for sale and expects that a sale will be completed within one year. The results of operations and the related gain or loss on sale of properties classified as held for sale by the Company after December 31, 2001, are included in discontinued operations (see Note 8).

If circumstances arise that previously were considered unlikely and, as a result, the Company decides not to sell a property previously classified as held for sale, the property is reclassified as held and used. A property that is reclassified is measured and recorded individually at the lower of (a) its carrying amount before the property was classified as held for sale, adjusted for any depreciation expense that would have been recognized had the property been continuously classified as held and used, (b) the fair value at the date of the subsequent decision not to sell, or (c) the current carrying value.

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.

Goodwill and 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 costs allocated to trade names and advisory contracts with the CPA® REITs. Effective January 1, 2002, goodwill and indefinite-lived intangible assets are no longer amortized and workforce has been reclassified as goodwill. Intangible assets are being amortized over their estimated useful lives, which range from 2½ to 16½ years (see Note 11).

Impairments

When events or changes in circumstances indicate that the carrying amount may not be recoverable, the Company assesses the recoverability of its long-lived assets and certain intangible assets based on projections of undiscounted cash flows, without interest charges, over the life of such assets. In the event that such cash flows are insufficient, the assets are adjusted to their estimated fair value. The Company performs a review of its estimate of residual value of its direct financing leases at least annually to determine whether there has been an other than temporary decline in the Company's current estimate of residual value of the underlying real estate assets (i.e., the estimate of what the Company could realize upon sale of the property at the end of the lease term). If the review indicates a decline in residual value that is other than temporary, a loss is recognized and the accounting for the direct financing lease will be revised to reflect the decrease in the expected yield using the changed estimate, that is, a portion of the future cash flow from the lessee will be recognized as a return of principal rather than as revenue.

The Company tests goodwill for impairment at least annually using a two-step process. To identify any impairments, the Company first compares the estimated fair value of the reporting unit (management services segment) with its carrying amount, including goodwill. The Company calculates the estimated fair value of the management services segment by applying a multiple, based on comparable companies, to earnings. If the fair value of the management services segment exceeds its carrying amount, goodwill is considered not impaired. If the carrying amount of the management services unit exceeds its estimated fair value, then the second step is performed to measure the amount of impairment loss.

For the second step, the Company would compare the implied fair value of the goodwill with its carrying amount and record an impairment charge for the excess of the carrying amount over the fair value. The implied fair value of the goodwill is determined by allocating the estimated fair value of the management services segment to its assets and liabilities. The excess of the estimated fair value of the management services segment over the amounts assigned to its assets and liabilities is the implied fair value of the goodwill. In accordance with the requirements of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangibles," the Company performed its annual tests for impairment of its management services segment, the reportable unit of measurement, and concluded that the goodwill is not impaired.

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 owns interests in several real estate investments in France. The functional currency for these investments is the Euro. The translation from the Euro 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. The cumulative translation adjustment as of December 31, 2003 and 2002 was a gain of \$679 and a loss of \$1,315, respectively.

Foreign currency transactions may produce receivables or payables that are fixed in terms of the amount of foreign currency that will be received or paid. A change in the exchange rates between the functional currency and the currency in which a transaction is denominated increases or decreases the expected amount of functional currency cash flows upon settlement of that transaction. That increase or decrease in the expected functional currency cash flows is a foreign currency transaction gain or loss that generally will be included in determining net income for the period in which the exchange rate changes. Likewise, a transaction gain or loss (measured from the transaction date or the most recent intervening balance sheet date) whichever is later, realized upon settlement of a foreign currency transaction generally will be included in net income for the period in which the transaction is settled. Foreign currency transactions that are (i) designated as, and are effective as, economic hedges of a net investment and (ii) inter-company foreign currency transactions that are of a long-term nature (that is, settlement is not planned or anticipated in the foreseeable future), when the entities to the transactions are consolidated or accounted for by the equity method in the Company's financial statements will not be included in determining net income but will be accounted for in the same manner as foreign currency translation adjustments and reported as a component of other comprehensive income as part of shareholder's equity. The contributions to the equity investments were funded in part through subordinated debt. Foreign currency intercompany transactions that are scheduled for settlement, consisting primarily of accrued interest and the translation to the reporting currency of intercompany subordinated debt with scheduled principal payments, are included in the determination of net income, and, for the year ended December 31, 2003, the Company recognized unrealized gains of \$130 from such transactions. In 2003, the Company recognized realized gains of \$556 on foreign currency transactions in connection with the transfer of cash from foreign operating subsidiaries to the parent company.

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, 2003 and 2002 were held in the custody of three financial institutions and which 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, notes receivable, deferred charges, escrow balances held by lenders, restricted cash balances and marketable securities. Included in other liabilities are accrued interest, accounts payable and accrued expenses, security deposits and other amounts held on behalf of tenants deferred rent, deferred revenue and minority interests that are subject to redemption. Deferred charges include costs incurred in connection with debt financing and refinancing and are amortized and included in interest expense over the terms of the related debt obligations. Deferred rent receivable is primarily the aggregate difference for operating method leases between scheduled rents which vary during the lease term and rent recognized on a straight-line basis. The minority interests subject to redemption are recorded at fair value based on a cash flow model with changes in fair value reflected in the determination of net income.

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 \$3,660 and \$1,364 as of December 31, 2003 and 2002, respectively, and reflected a fair value of \$5,479 and \$639 at December 31, 2003 and 2002, respectively.

Due to Affiliates

Included in due to affiliates are deferred acquisition fees and amounts related to issuable shares for meeting the performance criteria in connection with the acquisition of Carey Management. Deferred acquisition fees 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. The fees are payable in eight equal annual installments each January 1 following the first anniversary of the date a property was purchased.

Revenue Recognition

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 dispositions and the placement of mortgage financing obtained by publicly registered real estate investment trusts formed by the Company (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 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 (the “performance fees”) may be collected in cash or shares of the CPA[®] REIT at the option of the Company. During 2003, 2002 and 2001, the Company elected to receive its earned performance 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 criteria of the CPA[®] REIT is achieved. As of December 31, 2003, \$831 of transaction fees are recorded as deferred revenue in other liabilities.

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, subject to limitations on a CPA[®] REIT’s ability to incur offering costs.

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. For these subsidiaries, the provision for federal income taxes is based on the results of those consolidated corporate subsidiaries that do not pass through any share of income or loss to members. The Company is also subject to certain state and local taxes and foreign taxes.

Deferred income taxes are provided for the corporate subsidiaries 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 18).

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

Basic and diluted earnings per share were calculated as follows:

	For the Years Ended December 31,		
	2003	2002	2001
Net income	\$62,878	\$46,588	\$35,761
Weighted average shares – basic	36,566,338	35,530,334	34,465,217
Effect of dilutive securities – stock options and warrants	1,442,424	734,896	487,343
Weighted average shares – diluted	38,008,762	36,265,230	34,952,560
Basic earnings per share:			
Income from continuing operations	\$ 1.70	\$ 1.29	\$.94
Discontinued operations	.02	.02	.10
Net income	\$ 1.72	\$ 1.31	\$ 1.04
Diluted earnings per share:			
Income from continuing operations	\$ 1.64	\$ 1.26	\$.92
Discontinued operations	.01	.02	.10
Net income	\$ 1.65	\$ 1.28	\$ 1.02

For the year ended 2001, 725,930 share options and warrants were anti-dilutive because the exercise prices of the options were higher than the average share price.

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 for fixed plans 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 transferability and a risk of forfeiture. The forfeiture provisions on the awards expire annually, over their respective vesting periods. 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 over the applicable vesting periods.

Grants of restricted stock and options of a subsidiary were awarded to certain of its officers. The awards are subject to redemption in 2012 and, therefore are being accounted for as a variable plan. The awards were initially recorded in unearned compensation and changes in fair value subsequent to the grant date are included in the determination of net income. The unearned compensation is being amortized over the vesting periods.

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.

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 and restricted stock awarded under the Company's share incentive plans and amortized to expense over their respective vesting periods in accordance with the provisions of SFAS No. 123, pro forma net income would have been as follows:

	2003	Years Ended December 31,	
		2002	2001
Net income as reported	\$62,878	\$46,588	\$35,761
Add: Stock-based compensation included in net income, as reported, net of related tax effects	2,282	1,709	1,349
Less: Stock-based compensation determined under fair value based methods for all awards, net of related tax effects	(3,144)	(2,887)	(2,391)
Pro forma net income	<u>\$62,016</u>	<u>\$45,410</u>	<u>\$34,719</u>
Net income per common share as reported:			
Basic	\$ 1.72	\$ 1.31	\$ 1.04
Diluted	\$ 1.65	\$ 1.28	\$ 1.02
Pro forma net income per common share:			
Basic	\$ 1.70	\$ 1.28	\$ 1.01
Diluted	\$ 1.63	\$ 1.25	\$.99

The Company's non-qualified deferred compensation plan provides that each participating officer's cash compensation in excess of designated amounts is deferred and he or she is awarded an interest that is intended to correspond to the per share value of a CPA® REIT designated at the time of such award. The value of the award is adjusted at least annually to reflect changes based on the underlying appraised value of a share of common stock of the CPA® REIT. The deferred compensation plan is a variable plan and changes in the fair value of the interests are included in the determination of net income.

Reclassification

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

Accounting Pronouncements

In November 2002, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," ("FIN 45") which changes the accounting for, and disclosure of certain guarantees. Beginning with transactions entered into after December 31, 2002, certain guarantees are required to be recorded at fair value, which is different from prior practice, under which a liability was recorded only when a loss was probable and reasonably estimable. In general, the change applies to contracts or indemnification agreements that contingently require the Company to make payments to a guaranteed third-party based on changes in an underlying asset, liability, or an equity security of the

guaranteed party. The accounting provisions only apply for certain new transactions entered into and existing guarantee contracts modified after December 31, 2002. The adoption of the accounting provisions of FIN 45 did not have a material effect on the Company's financial statements. The Company has complied with the disclosure provisions.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," which amends SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation (i.e., recognition of a charge for issuance of stock options in the determination of income). However, SFAS No. 148 does not permit the use of the original SFAS No. 123 prospective method of transition for changes to the fair value based method made in fiscal years beginning after December 15, 2003. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation, description of transition method utilized and the effect of the method used on reported results. The annual disclosure provisions of SFAS No. 148 have been adopted.

On January 17, 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), the primary objective of which is to provide guidance on the identification of entities for which control is achieved through means other than voting rights (VIE's) and to determine when and which business enterprise should consolidate the VIE (the "primary beneficiary"). This new model applies when either (i) the equity investors (if any) do not have a controlling financial interest or (ii) the equity investment at risk is insufficient to finance that entity's activities without additional financial support. In addition, effective upon issuance, FIN 46 requires additional disclosures by the primary beneficiary and other significant variable interest holders. The provisions of FIN 46 apply immediately to VIE's created after January 31, 2003. In October 2003, the FASB issued Staff Position 46-6, which deferred the effective date to December 31, 2003 for applying the provisions of FIN 46 for interests held by public companies in all VIE's created prior to February 1, 2003. Additionally, in December 2003, the FASB issued Interpretation No. 46 (R), "Consolidation of Variable Interest Entities (Revised December 2003)" ("FIN 46 (R)"). The provisions of FIN 46 (R) are effective as of March 31, 2004 for all non-special purpose entity ("non-SPE") interests held by public companies in all VIE's created prior to February 1, 2003. These deferral provisions did not defer the disclosure provisions of FIN 46.

The Company has evaluated its joint venture partnership investments established after January 31, 2003 and based upon its interpretation of FIN 46 and applied judgment, the Company has determined that it is not required to consolidate these joint ventures.

The Company continues to evaluate all of its investments in joint ventures and partnerships created prior to February 1, 2003 to determine whether any of these entities are VIE's and whether the Company is considered to be the primary beneficiary or a holder of a significant variable interest in a VIE. If it is determined that certain of these entities are VIE's, the Company will be required to consolidate these entities in which the Company is the primary beneficiary or make additional disclosures for entities in which the Company is determined to hold a significant variable interest in the VIE as of March 31, 2004.

Based on the Company's analysis of FIN 46, it has concluded that it is reasonably possible that its investments in real estate joint ventures and other real estate investments, created prior to February 1, 2003, may be investments in VIE's and is therefore subject to the disclosure provisions of FIN 46.

The Company's joint ventures and other real estate investments primarily consist of co-investments with other joint venture partners in commercial real estate properties and ownership of common stock in the CPA® REIT's, which are consistent with its core business. The Company's maximum loss exposure is the carrying value of its equity investments.

The Company has concluded that Livho is a VIE, that does not qualify for the deferral, with the Company as its primary beneficiary, because the Company has provided it with significant financial support over the past several years in order to support Livho's operations and preserve the value of the property. As a VIE, Livho is consolidated in the Company's financial statements as of December 31, 2003. Livho operates a hotel as a Holiday Inn in Livonia, Michigan; its operations were transferred to a separate company as a strategy to protect the Company's tax status as a publicly-traded partnership. The real estate assets have historically been reflected in the Company's consolidated financial statements. Livho's operating revenues include food and beverage revenues. During 2003, a bar at the hotel, which at one time was a significant source of revenues, was closed and underwent renovations, which were funded by the Company. The renovations were recently completed and the bar re-opened in February 2004. The results of operations of Livho approximate the rental revenues earned from Livho less allowances provided for.

On April 30, 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging under SFAS No. 133. The statement (1) clarifies under what circumstances a contract with an initial net investment meets the characteristics of a derivative instrument discussed in paragraph 6(b) of SFAS No. 133, (2) clarifies when a derivative contains a financing component, (3) amends the definition of an underlying to conform it to language used in FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", and (4) amends certain other existing pronouncements. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not have a material effect on the financial statements.

On May 30, 2003, the FASB issued SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liability and Equity." SFAS No. 150 establishes standards to classify as liabilities certain financial instruments that are mandatorily redeemable or include an obligation to repurchase and expands disclosures required for such financial statements. Such financial instruments will be measured at fair value with changes in fair value included in the determination of net income. The FASB recently issued FSP 150-3, which defers the provisions of paragraphs 9 and 10 of SFAS No. 150 indefinitely as they apply to mandatorily redeemable noncontrolling interests associated with finite-lived entities. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company consolidates WPCI and classifies the minority interests in this entity as a liability in accordance with SFAS No. 150 (see Note 3). The Company has interests in five additional joint ventures located in France that are consolidated and have minority interests that are considered mandatorily redeemable noncontrolling interests with finite lives. In accordance with the deferral noted above, these minority interests have not been reflected as liabilities. The carrying value of these minority interests is \$1,852 at December 31, 2003, which approximates their estimated fair value at that date.

2. ORGANIZATION

The Company commenced operations in January 1, 1998 by combining the limited partnership interests in nine CPA[®] Partnerships, at which time the Company listed on the New York Stock Exchange. On June 28, 2000, the Company acquired the net lease real estate management operations of Carey Management LLC (“Carey Management”) from William P. Carey, Chairman and Co-Chief Executives Officer of the Company, subsequent to receiving shareholder approval. The assets acquired included the Advisory Agreements with four affiliated CPA[®] REITs, the Company’s Management Agreement, the stock of an affiliated broker-dealer, investments in the common stock of the CPA[®] 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 shares with an additional 2,000,000 shares issuable over four years if specified performance criteria were achieved through a period ended December 31, 2003 (of which 1,400,000 shares have been issued and 500,000 shares will be issued in 2004 representing an aggregate value of \$41,229). The initial 8,000,000 shares issued were restricted from resale for a period of up to three years and the additional shares are subject to Section 144 regulations. The acquisition of the interests in Carey Management was accounted for as a purchase and was recorded at the fair value of the initial 8,000,000 shares issued. 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 minority interests in the CPA[®] Partnerships and the value of restricted shares and options issued in respect of the interests of certain officers in a non-qualified deferred compensation plan of Carey Management.

The purchase price was 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 (reclassified to goodwill on January 1, 2002), were determined pursuant to an independent valuation. The value of the Advisory Agreements and the Management Agreement were 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 value of additional shares issued under the acquisition agreement is recognized as additional purchase price and recorded as goodwill. Issuances based on performance criteria are valued based on the market price of the shares on the date when the performance criteria are achieved.

Effective January 1, 2001, the Company acquired the remaining minority interest in the CPA[®] Partnerships held by the remaining partner of the CPA[®] Partnerships, William P. Carey, Chairman of the Company, through the issuances of 151,964 shares (\$2,811). The acquisition price was determined pursuant to an independent valuation of the CPA[®] Partnerships as of December 31, 2000.

3. TRANSACTIONS WITH RELATED PARTIES

The Company earns fees as the Advisor to the CPA[®] REITs: Carey Institutional Properties Incorporated (“CIP[®]”), Corporate Property Associates 12 Incorporated (“CPA[®]:12”), Corporate Property Associates 14 Incorporated (“CPA[®]:14”), Corporate Property Associates 15 Incorporated (“CPA[®]:15”) and CPA[®]:16 – Global (collectively, the “CPA[®] REITs”). Through April 30, 2002, the Company also earned fees as Advisor to Corporate Property Associates 10 Incorporated (“CPA[®]:10”). Effective May 1, 2002, CPA[®]:10 was merged into CIP[®]. 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 trans-

action-related services. The Company earns an asset management fee of $\frac{1}{2}$ of 1% per annum of Average Invested Assets, as defined in the Advisory Agreements, for each CPA[®] REIT and, based upon specific performance criteria for each REIT, may 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. Prior to April 2002, the Company had not recognized any performance fees under its Advisory Agreement with CPA[®]:10 since the Company's management operations were acquired in June 2000. In April 2002, CPA[®]:10 met its "preferred return" at which time the performance criterion was met and the Company earned a performance fee of \$1,463, including \$267 relating to 2002. The performance criteria for CPA[®]:14 were initially satisfied in 2001, resulting in the Company's recognition of \$2,459 for the period December 1997 through December 31, 2000 which had been deferred. For the years ended December 31, 2003, 2002 and 2001, asset-based fees and reimbursements earned were \$53,103, \$37,250 and \$29,751, respectively.

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 (four years for CPA[®]:15), subject to each CPA[®] REIT meeting its "preferred return." Unpaid installments bear interest at annual rates ranging from 6% to 7%. The Company's broker-dealer subsidiary earns fees in connection with the public offerings of the CPA[®] REITs. 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. The Company earned disposition fees of \$248 from CPA[®]:10, representing a percentage of the sales proceeds from CPA[®]:10 property sales for the period from June 28, 2000 (the date which Carey Management's operations were acquired) through April 30, 2002, the date that CPA[®]:10 and CIP[®] merged. For the years ended December 31, 2003, 2002 and 2001, the Company earned transaction fees of \$34,957, \$47,005 and \$17,160, respectively.

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. The Company is obligated to pay deferred acquisition fees in equal annual installments over a period of no less than eight years. As of December 31, 2003 and 2002, unpaid deferred acquisition fees were \$2,234 and \$2,758, respectively, and bear interest at an annual rate of 6%. Installments of \$524, were paid in both 2003 and 2002, and \$520 was paid in January 2001.

The Company owns interests in entities, which range from 18.54% to 50%, a jointly-controlled 36% tenancy-in-common interest in two properties subject to a net lease with the remaining interests held by affiliates and owns common stock in each of the CPA[®] REITs. The Company has a significant influence in these investments, which are accounted for under the equity method of accounting.

The Company is the general partner in a limited partnership that leases the Company's home office spaces and a participates 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 \$529, \$545 and \$528 in 2003, 2002 and 2001, respectively. The Company's share of minimum lease payments on the office lease is currently \$939 through 2006.

A person who serves as a director and an officer of the Company is the sole shareholder of Livho, Inc. (“Livho”), a lessee of the Company (see Note 14). As of December 31, 2003, the Company is consolidating the accounts of Livho in its financial statements because the Company has determined that Livho does not qualify for the FIN 46 deferral (see Note 1 – Accounting Pronouncements) and that Livho’s equity is insufficient to finance its activities and the Company has restructured its lease with Livho in several instances.

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.

Prior to April 1, 2003, the Company owned a 10% interest in W.P. Carey International LLC (“WPCI”), a company that structures net lease transactions on behalf of the CPA® REITs outside of the United States of America. The remaining 90% interest in WPCI was owned by William P. Carey (“Carey”), Chairman and Co-Chief Executive Officer of the Company. The Company’s Board of Directors approved a transaction, which resulted in the Company’s acquisition of 100% of the ownership of WPCI through the redemption of Carey’s interest on April 1, 2003. WPCI distributed 492,881 shares of the Company and \$1,898 of cash to Carey, equivalent to his contributions to WPCI. The Company accounted for the acquisition as a purchase and reflected the assets acquired and liabilities assumed at their estimated fair value (see Note 16). Prior to the redemption, the Company accounted for its investment in WPCI under the equity method of accounting. As a result of this transaction, the Company through WPCI has acquired exclusive rights to structure net lease transactions outside of the United States of America on behalf of the CPA® REITs.

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:

	2003	December 31, 2002
Land	\$ 77,170	\$ 83,545
Buildings and improvements	368,568	390,727
	445,738	474,272
Less: Accumulated depreciation	45,021	41,716
	<u>\$400,717</u>	<u>\$432,556</u>

The scheduled future minimum rents, exclusive of renewals, under non-cancelable operating leases are as follows:

Year ended December 31,	
2004	\$ 40,939
2005	38,933
2006	36,285
2007	33,741
2008	30,183
Thereafter through 2019	123,628
Total	<u>\$303,709</u>

Contingent rentals (including percentage rents and CPI-based increases) were \$1,427, \$1,550 and \$1,253 in 2003, 2002 and 2001, respectively.

5. NET INVESTMENT IN DIRECT FINANCING LEASES

Net investment in direct financing leases is summarized as follows:

	2003	December 31, 2002
Minimum lease payments receivable	\$173,120	\$199,309
Unguaranteed residual value	179,869	185,487
	352,989	384,796
Less: Unearned income	170,537	195,457
	<u>\$182,452</u>	<u>\$189,339</u>

The scheduled future minimum rents, exclusive of renewals, under noncancelable direct financing leases are as follows:

Year ended December 31,

2004	\$ 19,762
2005	19,822
2006	18,671
2007	17,180
2008	16,359
Thereafter through 2022	<u>81,326</u>
Total	<u>\$173,120</u>

Contingent rentals (including percentage rents and CPI-based increases) were approximately \$2,189, \$2,710 and \$2,331 in 2003, 2002 and 2001, respectively.

6. ACQUISITION OF REAL ESTATE INTEREST

In November 2003, the Company, purchased a 45% equity interest in an existing limited liability company, whose remaining interests are owned by CPA[®]:12 and CPA[®]:15, respectively. The limited liability company owns a 50% interest in a limited partnership that owns eight properties located in France. The remaining 50% interests in the limited partnership are owned by CPA[®]:12 and CPA[®]:15. The Company's net purchase price for its interests was \$9,744, which effectively gives the Company a 22.5% interest in the underlying properties. The purchase price was based on current independent appraisal of the properties, net of mortgage debt. The properties are leased to affiliates of Carrefour, S.A ("Carrefour"). The leases have nine-year terms, expiring between December 2011 and November 2012, at an aggregate annual rent of Euro 11,799 (\$14,809 as of December 31, 2003), with annual rent increases based on a formula indexed to increases in the INSEE, a French construction cost index. As of December 31, 2003, limited recourse mortgage debt of Euro 96,697 (\$121,422 as of December 31, 2003) is outstanding on the properties. The Carrefour loans provide for quarterly payments of interest at an annual interest rate of 5.55% and stated principal payments with scheduled increases over their terms. The loans mature in December 2014 at which time balloon payments are scheduled.

7. EQUITY INVESTMENTS

The Company owns equity interests as a limited partner in three limited partnerships, three limited liability companies and a jointly-controlled 36% tenancy-in-common interest in two properties subject to a master lease with the remaining interests owned by affiliates and all of which net lease real estate on a single-tenant basis.

The Company also owns common stock in four CPA® REITs with which it has advisory agreements. 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 CPA® REITs. The CPA® REITs are publicly registered and their audited consolidated financial statements are filed with the United States Securities and Exchange Commission in Annual Reports on Form 10-K. In connection with earning performance fees the Company has elected to receive restricted shares of common stock in the CPA® REITs rather than cash in consideration for such fees. As of December 31, 2003, the Company ownership in the CPA® REITs is as follows:

	Shares	% of Outstanding Shares
CIP®	876,006	3.00 %
CPA®:12	933,764	2.98 %
CPA®:14	1,731,681	2.59 %
CPA®:15	382,298	0.36 %

Combined financial information of the affiliated equity investees is summarized as follows:

	2003	December 31, 2002
Assets (primarily real estate)	\$4,062,295	\$3,229,071
Liabilities (primarily mortgage notes payable)	1,976,216	1,685,003
Owner's equity	\$2,086,079	\$1,544,068

	2003	Year Ended December 31,	
		2002	2001
Revenue (primarily rental revenue)	\$ 318,035	\$ 226,167	\$ 173,627
Expenses (primarily interest on mortgages, depreciation and impairment charges)	(278,863)	(172,282)	(128,574)
Minority interest in income	(8,779)	(4,344)	(3,556)
Income from equity investments	41,249	21,220	16,399
Gain (loss) on sales	10,239	(216)	4,378
Income from continuing operations	81,881	70,545	62,274
Income (loss) from discontinued operations	443	(900)	(665)
Gain (loss) on sale of real estate	235	(317)	9,566
Net income	\$ 82,559	\$ 69,328	\$ 71,175

As a result of the Company converting its 708,269 units of the operating partnership ("OP units") of MeriStar Hospitality Corporation ("MeriStar"), a publicly traded real estate investment trust which primarily owns hotels, to 708,269 shares of common stock, the Company is accounting for its investment as an available for sale marketable security. As a result, the Company no longer recognizes its share of MeriStar's net income and is recognizing income from dividends earned from the MeriStar

investment and changes in the fair value of the shares is reflected in other comprehensive income. Prior to the conversion in 2003, the Company accounted for its investment in MeriStar operating partnership units under the equity method of accounting.

8. DISCONTINUED OPERATIONS

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", effective for financial statements issued for fiscal years beginning after December 15, 2001, the results of operations, impairments and gain or loss on sales of real estate for properties sold or held for sale are to be reflected in the consolidated statements of operations as "Discontinued Operations" for all periods presented. The provisions of SFAS No. 144 are effective for disposal activities initiated by the Company's commitment to a plan of disposition after the date it is initially applied (January 1, 2002). Properties held for sale as of December 31, 2001 are not included in "Discontinued Operations". The results of operations and the related gain or loss on sale of properties sold in 2002 (see Note 9) that were held for sale as of December 31, 2001 are not included in "Discontinued Operations."

Property sales and impairment charges in 2003, 2002 and 2001 that are included in "Discontinued Operations" are as follows:

2003

In February 2003, the Company sold its property in Winona, Minnesota to the lessee, Peerless Chain Company ("Peerless") for \$8,550, consisting of cash of \$6,300 and notes receivable with a fair value of \$2,250, which mature between 2006 and 2008. The Company also received a note receivable from Peerless of approximately \$1,700 for unpaid rents which was previously included in the allowance for uncollected rents. The Company recognized a gain on sale of \$46. The Company previously recognized an impairment charge of \$4,000 on the Peerless property, which was held for sale in 2002.

In July 2003, the Company sold a property in Lancaster, Pennsylvania for \$5,000 and recognized a loss on sale of \$29. Prior to the sale, the property value was written down to reflect the estimated net sales proceeds and an impairment charge on properties held for sale of \$1,430 was recognized and included in discontinued operations for the year ended December 31, 2003.

In December 2003, the Company sold a property located in Oxnard, California for \$7,500, and recognized a gain of \$414. The Company placed the net proceeds of the sale in an escrow account for the purpose of entering into a Section 1031 noncash exchange which, under the Internal Revenue Code, would allow the Company to acquire like-kind property, and defer a taxable gain until the new property is sold, upon satisfaction of certain conditions.

During 2003, the Company sold properties in Broomall, Pennsylvania; Cuyahoga Falls, Ohio; Canton, Michigan; Alpena, Michigan; Apache Junction, Arizona and Schiller Park, Illinois for net sales proceeds of \$12,986 and recognized net gain on sales of \$807.

The Company owns a property in Leeds, Alabama currently leased to Winn-Dixie Stores, Inc. ("Winn-Dixie"). Winn-Dixie no longer occupies the property but has continued to satisfy their rental obligations under a lease, which expires in March 2004. Based on the Company's intention to sell the property, the property has been written down to its estimated fair value less cost to sell, and the Company recognized an impairment charge on properties held for sale of \$690 in 2003.

In connection with the anticipated sale of the Company's McMinnville, Tennessee property within the next twelve months, the Company has recognized an impairment charge on properties held for

sale of \$550 on the writedown of the property to its anticipated sales price, less estimated costs to sell, for the period ended December 31, 2003.

2002

In July 2002, the Company sold six properties leased to Saint-Gobain Corporation located in New Haven, Connecticut; Mickelton, NJ; Aurora, Ohio; Mantua, Ohio and Bristol, Rhode Island for \$26,000 and recognized a gain on sale of \$1,796. The sales proceeds were placed in an escrow account for the purposes of entering into a Section 1031 noncash exchange, which was completed as a result of purchasing replacement properties in September and December 2002.

During 2002, the Company also sold properties in Petoskey, Michigan; Colville, Washington; McMinnville, Tennessee; College Station, Texas and Glendale, Arizona for an aggregate of \$4,743 and recognized a net gain on sales of \$568.

The Company recognized impairment charges of \$5,125 on other properties, which were sold in either 2002 or 2003 or held for sale as of December 31, 2003.

2001

The Company owns a property in Cincinnati, Ohio. In November 2001, the Company evicted the tenant due to its inability to meet its lease obligations and the Company assumed the management of public warehousing operations at the property, at which time the Company recognized an impairment charge on properties held for sale of \$2,000 on the writedown of the property to its estimated fair value.

The Company owns two properties located in Frankenmuth, Michigan and McMinnville, Tennessee leased to one tenant. The tenant terminated its master lease for the two properties in connection with its petition of voluntary bankruptcy in 1999. The Company recognized an impairment charge on properties held for sale on the McMinnville property of \$500 in 2001.

The Company recognized impairment charges of \$500 on other properties during 2001, which were either sold in 2003 or held for sale as of December 31, 2003.

Other Information

The effect of suspending depreciation expense as a result of the classification of certain properties as held for sale was \$259, \$116 and \$13 for the years ended December 31, 2003, 2002 and 2001, respectively.

As of December 31, 2003, the operations of sixteen properties, which have been sold during 2003 or are held for sale as of December 31, 2003, are included as “Discontinued Operations.” Amounts reflected in Discontinued Operations for the years ended December 31, 2003, 2002 and 2001 are as follows:

	2003	Years Ended December 31,	
		2002	2001
REVENUES:			
Rental income	\$1,810	\$ 4,282	\$ 4,039
Interest income from direct financing leases	590	3,593	6,044
Revenues of other business operations	1,694	4,769	5,944
Other income	1,427	2,338	2
	<u>5,521</u>	<u>14,982</u>	<u>16,029</u>
EXPENSES:			
Interest expense	—	1,108	2,596
Depreciation and amortization	442	1,201	1,313
Property expenses	1,457	1,093	552
General and administrative	—	48	24
Provision for income taxes – state and local	35	117	448
Operating expenses of other business operations	1,489	3,968	4,625
Impairment charge on real estate	2,670	9,125	3,000
	<u>6,093</u>	<u>16,660</u>	<u>12,558</u>
(Loss) income before gain on sales	<u>(572)</u>	<u>(1,678)</u>	<u>3,471</u>
Gains on sale of real estate	1,238	2,364	—
Income from discontinued operations	<u>\$ 666</u>	<u>\$ 686</u>	<u>\$ 3,471</u>

9. SALES OF REAL ESTATE

The results of operations and the related gain or loss on properties, which were not held for sale as of December 31, 2001 and sold in 2003 and 2002, are included in “Discontinued Operations.” (see Note 8)

2002

At December 31, 2001, the Company’s 18.3 acre property in Los Angeles, California was classified as held for sale. In June 2002, the Company sold the property to the Los Angeles Unified School District (the “School District”) for \$24,000, less costs, and recognized a gain on sale of \$11,160. Subsequent to the sale of the property, a subsidiary of the Company entered into a build-to-suit development management agreement with the School District with respect to the development and construction of a new high school on the property. The subsidiary, in turn, engaged a general contractor to undertake the construction project. Under the build-to-suit agreement, the subsidiary’s role is that of a development manager pursuant to provisions of the California Education Code. Under the construction agreement with the general contractor, a subsidiary is acting as a conduit for the payments made by School District and is only obligated to make payments to the general contractor based on payments received, except for a maximum guarantee of up to \$2,000 for nonpayment. The guarantee ends upon completion of construction.

Due to the Company’s continuing involvement with the development management agreement of the property, the recognition of gain on sale and the subsequent development management fee income on the build-to-suit project are being recognized using a blended profit margin under the percentage of completion method of accounting. The build-to-suit development agreement provides for fees of

up to \$4,700 and an early completion incentive fee of \$2,000 if the project is completed before September 1, 2004. Incentive fees, which are contingent, are not included in the percentage of completion calculation. In addition, approximately \$2,000 of the gain on sale has been deferred and will be recognized only when the Company is released from its \$2,000 guarantee commitment. For the years ended December 31, 2003 and 2002, the Company recognized \$1,298 and \$289, respectively, of build-to-suit development fee management income.

During 2002, the Company also sold properties in Fredericksburg, Virginia; Urbana, Illinois; Maumelle, Arkansas; Burnsville, Minnesota; Frankenmuth, Michigan; and Casa Grande for an aggregate of \$10,594 and recognized a net gain on sales of \$1,481.

2001

In July 2001, the Company sold a property located in Forrest City, Arkansas for approximately \$9,400, and recognized a gain of \$304. The sales proceeds were placed in an escrow account for the purposes of entering into a Section 1031 noncash exchange. In January 2002, the funds in the escrow account were transferred to the Company and the proposed noncash exchange was not completed.

During 2001, the Company sold nine other properties and an equity investment in a real estate partnership for \$12,061 (including \$11,361 in cash and a note receivable of \$700) and recognized a combined net gain of \$1,600 on the sales.

10. IMPAIRMENT CHARGES ON REAL ESTATE AND OTHER INVESTMENTS

In connection with the Company's annual review of the estimated residual values on its properties classified as net investments in direct financing leases, the Company determined that an other than temporary decline in estimated residual value had occurred at several properties, and the accounting for the direct financing leases was revised using the changed estimates. The resulting changes in estimates resulted in the recognition of impairment charges of \$1,208 and \$14,880 in 2003 and 2002, respectively.

Other significant impairment charges are as follows:

2003

The Company recognized an impairment charge of \$272 on its assessment of the recoverability of debentures received in connection with a bankruptcy settlement with a former lessee.

2002

Because of a continued and prolonged weakness in the hospitality industry, and a substantial decrease in MeriStar's earnings, the Company concluded that the underlying value of its investment in the OP Units had undergone an other than temporary decline. Accordingly, the Company wrote down its equity investment in MeriStar by \$4,596 and \$6,749 in 2002 and 2001, respectively, to reflect the investment at its estimated fair value. In 2003, the Company converted the OP units to shares of MeriStar common stock (see Note 7).

The Company recognized impairment charges of \$810 on other properties during 2002.

2001

The Company owned a property in Burnsville, Minnesota. During 2000, the tenant filed a petition of voluntary bankruptcy, and in March 2001 the lease was terminated. During 2000, the property had been written down to its estimated fair value and an impairment charge of \$1,500 was recognized. In 2001, the Company entered into an agreement to sell the property for \$2,200. In connection with the proposed sale of the property, the Company recognized an impairment charge of \$763 in 2001 to write down the property to the anticipated sales price, less estimated costs to sell. The sale was completed in January 2002. In connection with termination of the lease, the Company received \$2,450 as a settlement from the lease guarantor, of which \$2,145 was included in other income in 2001.

In 2001 the Company also recorded an impairment charge of \$850 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.

The results of operations and the impairment charges on the properties classified as assets held for sale subsequent to December 31, 2001 are included in discontinued operations (see Note 8).

11. GOODWILL AND INTANGIBLE ASSETS

With the acquisition of real estate management operations in 2000, the Company allocated a portion of the purchase price to goodwill and identifiable intangible assets. In adopting SFAS No. 142, the Company discontinued its amortization of existing goodwill and indefinite-lived assets and performed its annual evaluation of testing for impairment of goodwill. Based on its evaluation, the Company concluded that its goodwill is not impaired.

Goodwill and intangible assets as of December 31, 2003 and 2002 are summarized as follows:

	2003	December 31, 2002
Amortized intangible assets		
Management contracts	\$ 59,815	\$59,135
Less: accumulated amortization	25,262	18,543
	<u>34,553</u>	<u>40,592</u>
Unamortized goodwill and indefinite-lived intangible assets:		
Trade name	3,975	3,975
Goodwill	63,607	49,874
	<u>\$102,135</u>	<u>\$94,441</u>

Included in goodwill is \$3,389 which prior to January 1, 2002 was recorded as workforce. Trade name had previously been amortized using a ten-year life; however, upon adoption of SFAS No. 142, trade name was determined to have an indefinite useful life because it is expected to generate cash flows indefinitely.

A summary of the effect of amortization of goodwill and intangible assets on reported earnings for the years ended December 31, 2003, 2002 and 2001 are as follows:

	2003	2002	2001
Goodwill amortization	—	—	\$ 4,127
Trade name amortization	—	—	470
Management contracts amortization	\$ 6,718	\$ 7,280	7,306
Net income	\$62,878	\$46,588	\$35,761
	2003	2002	2001
Reported net income	\$62,878	\$46,588	\$35,761
Add back: Goodwill amortization	—	—	4,127
Trade name amortization	—	—	470
Adjusted net income	\$62,878	\$46,588	\$40,358
Basic earnings per share:			
Reported net income	\$ 1.72	\$ 1.31	\$ 1.04
Add back: Goodwill amortization	—	—	.11
Trade name amortization	—	—	.01
Adjusted basic earnings per share	\$ 1.72	\$ 1.31	\$ 1.16
Diluted earnings per share:			
Reported net income	\$ 1.65	\$ 1.28	\$ 1.02
Add back: Goodwill amortization	—	—	.11
Trade name amortization	—	—	.01
Adjusted diluted earnings per share	\$ 1.65	\$ 1.28	\$ 1.14

Amortization of intangibles for the next five years is estimated to be \$6,751 in 2004; \$6,660 in 2005; \$4,584 in 2006, \$4,508 in 2007, and \$2,773 in 2008.

12. 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 \$285,093.

The interest rate on the variable rate debt as of December 31, 2003 ranged from 2.34% to 6.44% and mature from 2004 to 2016. The interest rate on the fixed rate debt as of December 31, 2003 ranged from 6.11% to 9.13% and mature from 2004 to 2013.

Scheduled principal payments for the mortgage notes and notes payable during each of the next five years following December 31, 2003 and thereafter are as follows:

Year Ending December 31,	Total Debt	Fixed Rate Debt	Variable Rate Debt
2004	\$ 52,296	\$ 21,145	\$31,151
2005	8,062	5,790	2,272
2006	22,410	19,864	2,546
2007	15,109	12,293	2,816
2008	9,699	6,590	3,109
Thereafter	101,617	62,443	39,174
Total	\$209,193	\$128,125	\$81,068

The Company has a credit facility of \$185,000 pursuant to a revolving credit agreement in which numerous lenders participate. The revolving credit agreement has a remaining term through March 2004. The Company has extended the facility on a short-term basis through June 1, 2004 and will either seek to extend or replace the credit facility. As of December 31, 2003, the Company had \$29,000 drawn from the credit facility. As of March 5, 2004, the outstanding balance was \$30,000.

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, 2003 and 2002, the average interest rate on advances on the line of credit was 2.34% and 2.59%, respectively. In addition, the Company pays 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.

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.

13. DIVIDENDS PAYABLE

The Company declared a quarterly dividend of \$.435 per share on December 10, 2003 payable on January 15, 2004 to shareholders of record as of December 31, 2003.

14. LEASE REVENUES

The Company's operations include the investment in and the leasing of industrial and commercial real estate. The financial reporting sources of the lease revenues for the years ended December 31, 2003, 2002 and 2001 are as follows:

	2003	2002	2001
Per Statements of Income:			
Rental income	\$45,422	\$46,092	\$43,725
Interest income from direct financing leases	20,730	22,411	25,764
Adjustment:			
Share of leasing revenues applicable to minority interests	(1,316)	(766)	(536)
Share of leasing revenues from equity investments	8,786	7,434	6,820
	<u>\$73,622</u>	<u>\$75,171</u>	<u>\$75,773</u>

For the years ended December 31, 2003, 2002 and 2001, the Company earned its net leasing revenues (i.e., rental income and interest income from direct financing leases) from over 90 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,					
	2003	%	2002	%	2001	%
Dr Pepper Bottling Company of Texas	\$ 4,290	6%	\$ 4,405	6%	\$ 4,354	6%
Detroit Diesel Corporation	4,158	6	4,158	5	4,118	5
Gibson Greetings, Inc., a wholly-owned subsidiary of American Greetings, Inc.	3,593	5	4,149	5	4,107	5
Bouygues Télécom, S.A. ^(a)	3,193	4	2,952	4	1,181	2
Federal Express Corporation ^(b)	2,903	4	2,876	4	2,836	4
America West Holdings Corp.	2,738	4	2,539	3	2,539	3
Orbital Sciences Corporation	2,655	4	2,655	3	2,655	4
Quebecor Printing Inc.	2,632	4	2,563	3	2,559	3
AutoZone, Inc.	2,393	3	2,411	3	2,400	3
CheckFree Holdings, Inc. ^(c)	2,128	3	2,108	3	2,088	3
Sybron International Corporation	2,083	3	2,164	3	2,164	3
Livho, Inc. ^(d)	1,800	2	2,520	3	2,568	3
Unisource Worldwide, Inc.	1,710	2	1,732	2	1,734	2
CSS Industries, Inc.	1,647	2	1,656	2	1,609	2
Information Resources, Inc. ^(c)	1,644	2	1,644	2	1,644	2
BE Aerospace, Inc.	1,620	2	433	1	—	0
Sybron Dental Specialties Inc.	1,613	2	1,613	2	1,613	2
Faurecia Exhaust Systems, Inc. (formerly AP Parts Manufacturing Company)	1,597	2	1,657	2	1,617	2
Sprint Spectrum L.P.	1,425	2	1,425	2	1,380	2
Eagle Hardware & Garden, Inc., a wholly-owned subsidiary of Lowe's Companies Inc.	1,338	2	1,313	2	1,186	2
AT&T Corporation	1,259	2	1,259	2	886	1
Brodart Co.	1,235	2	1,519	2	1,519	2
United States Postal Service	1,233	2	1,233	2	1,165	2
BellSouth Telecommunications, Inc.	1,224	2	1,224	2	1,224	2
Lockheed Martin Corporation	1,172	2	1,331	2	1,617	2
Hologic, Inc.	1,136	1	382	1	—	0
Cendant Operations, Inc.	1,075	1	1,075	1	1,075	1
Anthony's Manufacturing Company, Inc.	1,019	1	1,019	1	988	1
Other ^(e)	17,109	23	19,156	27	22,947	31
	<u>\$73,622</u>	<u>100%</u>	<u>\$75,171</u>	<u>100%</u>	<u>\$75,773</u>	<u>100%</u>

(a) Net of proportionate share applicable to its minority interest owners.

(b) Includes the Company's 40% proportionate share of lease revenues from its equity ownership in one of the properties.

(c) Represents the Company's proportionate share of lease revenue from its equity investment.

(d) Effective January 1, 2004, the hotel operations of Livho will be consolidated in the Company's financial statements.

(e) Includes proportionate share of lease revenues from the Company's equity investments and net of proportionate share applicable to its minority interest owners.

15. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company estimates that the fair value of mortgage notes payable and other notes payable was \$210,000 and \$238,000 at December 31, 2003 and 2002, respectively. The carrying value of the combined debt was \$209,193 and \$235,049 at December 31, 2003 and 2002, respectively. The fair value of fixed rate debt instruments was evaluated using a discounted cash flow model with rates that take into account the credit of the tenants and interest rate risk. The fair value of the 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.

16. STOCK OPTIONS, RESTRICTED STOCK AND WARRANTS

In January 1998, the predecessor of Carey Management (see Note 2) 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 of 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. Both plans were approved by a vote of the shareholders.

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. Share options have been granted as follows: 122,000 in 2003 at exercise prices ranging from \$25.01 to \$31.79 per share, 877,337 in 2002 at exercise prices ranging from \$22.73 to \$24.01 per share and 465,000 in 2001 at exercise prices ranging from \$16.875 to \$21.86 per share. The options granted under the Incentive Plan have a 10-year term and vest over periods ranging from three to ten years from the date of grant. The vesting of grants is accelerated upon a change in control of the Company and under certain other conditions.

The Directors' Plan provides for similar terms as the Incentive Plan. Options granted under the Directors' Plan have a 10-year term and vest over three years from the date of grant. No share options were granted in 2003, 2002 and 2001.

Share option and warrant activity for the Company's Incentive Plan and Directors' Plan is as follows:

	2003		2002		Years Ended December 31, 2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	4,979,862	\$20.26	4,320,815	\$19.88	4,114,254	\$19.57
Granted	122,000	\$26.24	877,337	\$23.03	465,000	\$18.66
Exercised	(251,113)	\$14.29	(192,617)	\$12.69	(229,105)	\$12.21
Forfeited	(37,847)	\$19.14	(25,673)	\$19.17	(29,334)	\$16.62
Outstanding at end of year	4,812,902	\$21.20	4,979,862	\$20.26	4,320,815	\$19.88
Options exercisable at end of year	4,108,073	\$20.95	3,611,115	\$20.31	3,403,724	\$20.88

Stock options outstanding for the Company's Incentive Plan and Directors' Plan as of December 31, 2003 are as follows:

Range of Exercise prices	Options Outstanding			Options Exercisable	
	Options Outstanding at December 31, 2003	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable at December 31, 2003	Weighted Average Exercise Price
\$7.69	39,946	6.50	\$ 7.69	39,946	\$ 7.69
\$16.25 to \$31.79	4,772,956	6.03	\$21.31	4,068,127	\$21.08
	4,812,902	6.03	\$21.20	4,108,073	\$20.95

At December 31, 2002 and 2001, the range of exercise prices and weighted-average remaining contractual life of outstanding share options and warrants was \$7.69 to \$24.01 and 6.9 years, and \$7.69 to \$23.00 and 8.32 years, respectively.

The per share weighted average fair value of share options and warrants granted during 2003 under the Company's Incentive Plan were estimated to range from \$1.51 to \$2.28 using a Black-Scholes option pricing formula based on the date of grant. The more significant assumptions underlying the determination of the weighted average fair values included risk-free interest rates ranging from 2.6% to 3.69%, volatility factors ranging from 21.35% to 21.89%, dividend yields ranging from 8.26% to 8.51% and expected lives ranging from 4.56 to 7.5 years.

The per share weighted average fair value of share options and warrants granted during 2002 under the Company's Incentive Plan were estimated to be \$1.26 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 1.73%, a volatility factor of 21.83%, a dividend yield of 8.59% and an expected life of 2.99 years.

The per share weighted average fair value of share options and warrants granted during 2001 under the Company's Incentive Plan were estimated to be \$1.70 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 4.87%, a volatility factor of 22.51%, a dividend yield of 8.04% and an expected life of 3.21 years.

On June 30, 2003, WPCI granted an incentive award to certain officers of WPCI consisting of 1,500,000 restricted shares, representing an approximate 13% interest in WPCI, and 1,500,000 options for WPCI common stock with a combined fair value of \$2,485 at that date. Both the options and restricted stock are vesting ratably over five years. The options are exercisable at \$1 per share for a period of ten years. The awards are subject to redemption in 2012 if certain conditions are met and, therefore, the fair value of the awards has been recorded as minority interest and included in other liabilities in the accompanying consolidated financial statements. Any redemption will be subject to an independent valuation of WPCI. The awards were also initially recorded in unearned compensation as a component of shareholders' equity. The awards are being accounted for as a variable plan and any subsequent changes in the fair value of the minority interest subsequent to the grant date will be included in the determination of net income based on the vesting period. The combined estimated fair value of the options and restricted stock as of December 31, 2003 is \$1,615. The

unearned compensation is being amortized over the vesting periods and \$577 has been amortized into compensation expense for the period ended December 31, 2003.

The per share fair value of the 1,500,000 share options granted by WPCI during 2003 was estimated to be \$.303 using a Black-Scholes option pricing formula. The more significant assumptions underlying the determination of the average fair value included a risk-free interest rate of 4.55% and an expected life of 12 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 and restricted stock awarded under the Company's various share incentive plans and amortized to expense over their respective vesting periods in accordance with the provisions of SFAS No. 123, pro forma net income would have been as follows:

	2003	Years Ended December 31,	
		2002	2001
Net income as reported	\$62,878	\$46,588	\$35,761
Add: Stock-based compensation included in net income, as reported, net of related tax effects	2,282	1,709	1,349
Less: Stock-based compensation determined under fair value based methods for all awards, net of related tax effects	(3,144)	(2,887)	(2,391)
Pro forma net income	<u>\$62,016</u>	<u>\$45,410</u>	<u>\$34,719</u>
Net income per common share as reported:			
Basic	\$ 1.72	\$ 1.31	\$ 1.04
Diluted	\$ 1.65	\$ 1.28	\$ 1.02
Pro forma net income per common share:			
Basic	\$ 1.70	\$ 1.28	\$ 1.01
Diluted	\$ 1.63	\$ 1.25	\$.99

17. 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:

Year Ended:	Management	Real Estate	Other⁽¹⁾	Total Company
Revenues:				
2003	\$ 88,060	\$ 74,021	\$ 1,298	\$163,379
2002	84,255	71,400	289	155,944
2001	46,911	76,472	—	123,383
Operating, interest, depreciation and amortization expenses (excluding income taxes):				
2003	\$ 48,925	\$ 36,872	—	\$ 85,797
2002	46,975	57,406	—	104,381
2001	39,298	48,279	—	87,577
Income (loss) from equity investments:				
2003	\$ 859	\$ 3,149	—	\$ 4,008
2002	452	(895)	—	(443)
2001	434	2,393	—	2,827
Net operating income ^{(2) (3)} :				
2003	\$ 39,994	\$ 40,298	\$ 1,298	\$ 81,590
2002	37,732	13,099	289	51,120
2001	8,047	30,586	—	38,633
Total assets as of:				
December 31, 2003	\$200,674	\$688,847	\$16,984	\$906,505
December 31, 2002	167,415	721,919	4,190	893,524
Total long-lived assets as of:				
December 31, 2003	\$ 75,433	\$629,767	\$16,147	\$721,347
December 31, 2002	70,089	663,721	4,056	737,866

(1) Primarily consists of the Company's other business operations.

(2) Management net operating income includes charges for amortization of intangibles of \$6,718 and \$7,280 in 2003 and 2002, respectively and amortization of intangibles and goodwill of \$11,903 in 2001.

(3) Net operating income excludes gains and losses on sales, foreign currency transactions, provision for income taxes, minority interest and discontinued operations.

The Company acquired its first international real estate investment in 1998. For 2003, geographic information for the real estate operations segment is as follows:

	Domestic	International	Total Real Estate
Revenues	\$ 66,797	\$ 7,224	\$ 74,021
Operating, interest, depreciation and amortization expenses (excluding income taxes)	30,867	6,005	36,872
Income from equity investments	3,142	7	3,149
Net operating income ⁽¹⁾	39,072	1,226	40,298
Total assets	619,366	69,481	688,847
Total long-lived assets	568,407	61,360	629,767

For 2002, geographic information for the real estate operations segment is as follows:

	Domestic	International	Total Real Estate
Revenues	\$ 65,375	\$ 6,025	\$ 71,400
Operating, interest, depreciation and amortization expenses (excluding income taxes)	52,677	4,729	57,406
Income from equity investments	(895)	—	(895)
Net operating income ⁽¹⁾	11,803	1,296	13,099
Total assets	666,281	55,638	721,919
Total long-lived assets	610,923	52,798	663,721

For 2001, geographic information for the real estate operations segment is as follows:

	Domestic	International	Total Real Estate
Revenues	\$ 72,711	\$ 3,761	\$ 76,472
Operating, interest, depreciation and amortization expenses (excluding income taxes)	44,854	3,425	48,279
Income from equity investments	2,393	—	2,393
Net operating income ⁽¹⁾	30,250	336	30,586
Total assets	733,406	49,578	782,984
Total long-lived assets	675,919	45,976	721,895

(1) Net operating income excludes gains and losses on sales, foreign currency transactions, provision for income taxes, minority interest and discontinued operations.

18. INCOME TAXES

The components of the Company's provision for income taxes for the years ended December 31, 2003, 2002 and 2001 are as follows:

	2003	2002	2001
Federal:			
Current	\$ 5,694	\$ 2,436	\$ (191)
Deferred	5,749	8,756	4,783
	<u>11,443</u>	<u>11,192</u>	<u>4,592</u>
State and local:			
Current	3,944	2,492	1,980
Deferred	3,729	4,399	1,787
	<u>7,673</u>	<u>6,891</u>	<u>3,767</u>
Total provision	<u>\$19,116</u>	<u>\$18,083</u>	<u>\$8,359</u>

Deferred income taxes as of December 31, 2003 and 2002 consist of the following:

	2003	2002
Deferred tax assets:		
Unearned compensation	\$ 863	\$ 834
Other long-term liabilities	2,321	245
	<u>3,184</u>	<u>1,079</u>
Deferred tax liabilities:		
Receivables from affiliates	19,067	13,533
Investments	12,894	7,309
Other	755	—
	<u>32,716</u>	<u>20,842</u>
Net deferred tax liability	<u>\$29,532</u>	<u>\$19,763</u>

The difference between the tax provision and the tax benefit recorded at the statutory rate at December 31, 2003, 2002 and 2001 is as follows:

	2003	2002	2001
Pre-tax income from taxable subsidiaries	\$41,820	\$35,296	\$3,236
Federal provision at statutory tax rate (34%)	14,219	12,001	1,100
State and local taxes, net of federal benefit	3,935	3,617	1,137
Amortization of intangible assets	1,625	1,886	3,458
Other	(2,210)	(517)	794
Tax provision – taxable subsidiaries	<u>17,569</u>	<u>16,987</u>	<u>6,489</u>
Other state and local taxes	1,547	1,096	1,870
Total tax provision	<u>\$19,116</u>	<u>\$18,083</u>	<u>\$8,359</u>

19. EMPLOYEE BENEFIT PLANS AND INCENTIVE COMPENSATION

During 2003, the Company adopted a non-qualified deferred compensation plan under which a portion of any participating officer's cash compensation in excess of designated amounts will be deferred and the officer will be awarded a Partnership Equity Plan Unit ("PEP Unit"). The value of each PEP Unit is intended to correspond to the value of a share of the CPA[®] REIT designated at the time of such award. Redemption will occur at the earlier of a liquidity event of the underlying CPA[®] REIT or twelve years from the date of award. The award is fully vested upon grant, and the Company may terminate the plan at any time. The value of each PEP Unit will be adjusted to reflect the underlying appraised value of the CPA[®] REIT. Additionally, each PEP Unit will be entitled to a distribution equal to the distribution rate of the CPA[®] REIT. All issuances of PEP Units, changes in the fair value of PEP Units and distributions paid are included in compensation expense of the Company. Compensation expense under this plan for the year ended December 31, 2003 was \$2,028.

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 compensation, limited to \$30 annually per participant. For the years ended December 31, 2003, 2002 and 2001, amounts expensed by the Company for contributions to the trust were \$1,926, \$1,677 and \$1,388, respectively. Annual contributions represent an amount equivalent to 15% of each eligible participant's compensation for that period.

20. COMMITMENTS AND CONTINGENCIES

As of December 31, 2003, the Company was not involved in any material litigation.

Following a broker-dealer examination of Carey Financial Corporation ("Carey Financial"), the Company's wholly-owned broker-dealer subsidiary, by the staff of the Securities and Exchange Commission, Carey Financial received a letter from the staff of the Securities and Exchange Commission, on or about March 4, 2004, alleging certain infractions by Carey Financial of Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended and the rules and regulations thereunder and of the National Association of Securities Dealers, Inc. ("NASD"). The letter was delivered for the purpose of requiring Carey Financial to take corrective action and without regard to any other action the Commission may take with respect to the broker-dealer examination. It is not known at this time if the Commission intends to bring any action against Carey Financial. The infractions alleged are described below.

The staff alleges that in connection with two public offerings of shares of CPA[®]:15, Carey Financial and its retail distributors sold certain securities without an effective registration statement. Specifically, the staff alleges that CPA[®]:15 and Carey Financial oversold the amount of securities registered in the first offering (the "Phase I Offering") completed in the fourth quarter of 2002 and sold securities with respect to the second offering (the "Phase II" Offering) before a registration statement with respect to such offering became effective in the first quarter of 2003. It appears to be the staff's position that, notwithstanding the fact that pending effectiveness of the registration statement investor funds were delivered into escrow and not to CPA[®]:15 or Carey Financial, such delivery involved sales of securities in violation of Section 5 of the Securities Act of 1933. In the event the

Commission brings an action with respect to these allegations, CPA[®]:15 might be required to offer the affected investors the opportunity to receive a return of their investment. It cannot be determined at this time if investor funds were returned whether Carey Financial would be required to return net commissions paid by CPA[®]:15 on purchases ultimately rescinded or if so required, the amount of net commissions which would be due, as that amount would be contingent on the number of purchases actually rescinded. Further, as part of an action the Commission could seek disgorgement of any such commissions, irrespective of the outcome of any rescission offer. As such, the Company cannot predict the potential effect such a rescission offer or any action may ultimately have on the operations of Carey Financial or, the Company. There can be no assurance such effect, if any, would not be material.

The staff also alleges that the prospectus delivered with respect to the Phase I Offering contained material misstatements and omissions because that prospectus did not disclose that the proceeds of the Phase I Offering would be used to advance commissions and expenses payable with respect to the Phase II Offering. The staff claims that the failure to disclose this use of funds constitutes a misstatement of a material fact in violation of Section 17(a) of the Securities Act of 1933, Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934. Carey Financial has reimbursed CPA[®]:15 for the interest cost of advancing the commissions that were later recovered from the Phase II Offering proceeds. It cannot be determined at this time what remedy, if any, would be pursued by the Commission if any action were to be brought by the Commission with respect to these allegations. As such, the Company cannot predict the potential effect such an action may ultimately have on the operations of Carey Financial or the Company. There can be no assurance such effect, if any, would not be material.

The staff also alleges that the CPA[®]:15 offering documents contained material misstatements and omissions because they did not include a discussion of the manner in which dividends would be paid to the initial investors in the Phase II Offering. The staff letter asserts that the payment of dividends to the Phase II shareholders resulted in significantly higher annualized rates of return to the initial Phase II shareholders than was being earned by the Phase I shareholders, and that the Company failed to disclose to the Phase I shareholders the various rates of return. The staff claims that the failure to make this disclosure constitutes a misstatement of a material fact in violation of Section 17 of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934. It cannot be determined at this time what remedy, if any, would be pursued by the Commission if any action were to be brought by the Commission with respect to these allegations. There can be no assurance that if the Commission brought an action against Carey Financial that the remedy would not be material.

In addition to the allegations with respect to the CPA[®]:15 offerings, the staff alleges that Carey Financial violated Section 15(b)(7) of the Securities Exchange Act of 1934 and Rule 15b-7 promulgated thereunder and NASD Rule 1031(a) and NASD Conduct Rule 3060. In addition to all of the above, the staff has alleged that each of these actions constituted a violation of NASD Conduct Rules 3010(a) and (b). The Company is in the process of ascertaining the specific factual details forming the basis for these allegations. The Company is unable to predict at this time the potential outcome of any formal action against Carey Financial or the potential effect such an action may have on the operations of Carey Financial or the Company.

21. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	March 31, 2003	June 30, 2003	September 30, 2003	Three Months Ended December 31, 2003
Revenues	\$45,859	\$35,966	\$44,098	\$37,456
Expenses	23,453	20,379	22,142	19,823
Income from continuing operations ⁽¹⁾	16,302	13,842	14,515	17,553
Income from continuing operations per share –				
Basic	.45	.38	.38	.48
Diluted	.44	.37	.36	.46
Net income	17,273	12,974	14,047	18,584
Net income per share –				
Basic	.48	.35	.38	.51
Diluted	.46	.34	.37	.49
Dividends declared per share	.4320	.4330	.4340	.4350

Certain prior quarter amounts have been reflected as discontinued operations in accordance with Statement of Financial Accounting Standard No. 144 “Accounting for Impairment or Disposal of Long-Lived Assets”.

(1) Includes impairment charges on real estate and investments of \$1,208 for the three-month period ended December 31, 2003, respectively.

	March 31, 2002	June 30, 2002	September 30, 2002	Three Months Ended December 31, 2002
Revenues	\$31,688	\$36,418	\$36,277	\$51,561
Expenses	17,633	19,384	21,151	46,213
Income (loss) from continuing operations ⁽¹⁾	12,471	24,468	11,524	(2,561)
Income (loss) from continuing operations per share –				
Basic	.35	.69	.32	(.07)
Diluted	.35	.68	.32	(.07)
Net income (loss)	13,729	23,593	12,985	(3,719)
Net income (loss) per share –				
Basic	.39	.66	.36	(.10)
Diluted	.38	.65	.36	(.10)
Dividends declared per share	.4280	.4290	.4300	.4310

Certain prior quarter amounts have been reflected as discontinued operations in accordance with Statement of Financial Accounting Standard No. 144 “Accounting for Impairment or Disposal of Long-Lived Assets”.

(1) Includes impairment charges on real estate and investments of \$20,286 for the three-month period ended December 31, 2002.

W. P. Carey & Co. LLC

MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

Listed Shares are listed on the New York Stock Exchange. Trading commenced on January 21, 1998.

As of December 31, 2003 there were 27,587 shareholders of record.

DIVIDEND POLICY

Quarterly cash dividends are usually declared in December, March, June and September and paid in January, April, July and October. Quarterly cash dividends declared per share in 2003, 2002 and 2001 are as follows:

Quarter	2003	2002	2001
1	\$.4320	\$.4280	\$.4225
2	.4330	.4290	.4250
3	.4340	.4300	.4260
4	.4350	.4310	.4270
Total:	\$1.7340	\$1.7180	\$1.7005

LISTED SHARES

The high, low and closing prices on the New York Stock Exchange for a Listed Share for each fiscal quarter of 2001, 2002, and 2003 were as follows (in dollars):

2001	High	Low	Close
First Quarter	\$20.60	\$18.26	\$19.35
Second Quarter	21.80	18.50	18.50
Third Quarter	22.05	19.25	21.35
Fourth Quarter	23.80	20.00	23.20
2002	High	Low	Close
First Quarter	\$24.40	\$22.78	\$23.24
Second Quarter	24.15	22.30	22.50
Third Quarter	25.90	21.28	24.80
Fourth Quarter	25.40	22.95	24.75
2003	High	Low	Close
First Quarter	\$25.35	\$24.15	\$25.00
Second Quarter	30.50	24.81	29.94
Third Quarter	33.70	27.13	31.75
Fourth Quarter	33.14	29.10	30.52

W. P. Carey & Co. LLC

REPORT ON FORM 10-K

The Advisor will supply to any shareholder, upon written request and without charge, a copy of the Annual Report on Form 10-K (“10-K”) for the year ended December 31, 2003 as filed with the Securities and Exchange Commission (“SEC”). The 10-K may also be obtained through the SEC’s EDGAR database at www.sec.gov.

DIRECTORS

Wm. Polk Carey
Chairman and Co-CEO

Gordon F. DuGan
President and Co-CEO

Francis J. Carey
Vice Chairman

George E. Stoddard
Chief Investment Officer

Nathaniel S. Coolidge
Chairman of the Audit Committee;
Former Head of Bond and
Corporate Finance Department,
John Hancock Mutual Life
Insurance Company

Eberhard Faber, IV
Chairman of the Nomination and the
Corporate Governance Committees;
Former Director of the Federal
Reserve Bank of Philadelphia

Dr. Lawrence R. Klein
Chairman of the Economic Policy
Committee; Nobel Laureate in
Economics, Benjamin Franklin
Professor Economics (Emeritus),
University of Pennsylvania

Charles C. Townsend, Jr.
Chairman of the Compensation
Committee; Former Head of
Corporate Finance,
Morgan Stanley & Co.

Ralph F. Verni
Former President and CEO,
State Street Research &
Management

Dr. Karsten Von Köller
Former Chairman and Member
of the Board of Managing Directors,
Eurohypo AG

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. Hoenemeyer
Vice Chairman of the Investment
Committee; Former Vice Chairman
and Chief Investment Officer,
The Prudential Insurance
Company of America

Nathaniel S. Coolidge
Member

Dr. Lawrence R. Klein
Member

Ralph F. Verni
Member

Dr. Karsten Von Köller
Member

OFFICERS

Wm. Polk Carey
Chairman, Co-CEO and Director

Francis J. Carey
Vice Chairman and Director

Gordon F. DuGan
President, Co-CEO and Director

George E. Stoddard
Chief Investment Officer
and Director

John J. Park
Chief Financial Officer,
Managing Director and Treasurer

Claude Fernandez
Managing Director and
Chief Accounting Officer

Stephen H. Hamrick
Managing Director and
National Marketing Director

Anne R. Coolidge
Managing Director — Investment

Edward V. LaPuma
Managing Director — Investment

W. Sean Sovak
Managing Director

Thomas E. Zacharias
Managing Director —
Asset Management

Debra E. Bigler
Executive Director — Marketing

David S. Eberle
Executive Director — Marketing

Benjamin P. Harris
Executive Director — Investment

Susan C. Hyde
Executive Director and
Director of Investor Relations

Ted G. Lagreid
Executive Director — Marketing

David W. Marvin
Executive Director — Marketing

Michael D. Roberts
Executive Director and Controller

Gordon J. Whiting
Executive Director — Investment

Donna M. Neiley
Senior Vice President —
Asset Management

James J. Longden
Director — Investment (UK)

Gino Sabatini
Director — Investment

Robert C. Kehoe
First Vice President — Finance

Mykolas Rambus
First Vice President and
Chief Information Officer

C. Curtis Ritter
First Vice President and
Director of Corporate
Communications

Gagan Singh
First Vice President — Finance

David G. Termine
First Vice President — Accounting

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
1-800-WP CAREY

Transfer Agent
Mellon Investor Services L.L.C.
85 Challenger Road
Ridgefield Park, NJ 07660
1-888-200-8690

Annual Meeting
Thursday, June 10, 2004, 10:30 A.M.
The Waldorf = Astoria Hotel
Park Avenue & 50th Street
New York City

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
address at left.

Website
www.wpcarey.com

E-Mail
ir@wpcarey.com

Trading Information
Shares of W. P. Carey & Co. LLC
trade on the New York Stock
Exchange 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:

Record Date	
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

Record Date, continued	
March 31, 2000	\$.4225
June 30, 2000	\$.4225
September 30, 2000	\$.4225
December 31, 2000	\$.4225

March 30, 2001	\$.4225
June 30, 2001	\$.4250
September 30, 2001	\$.4260
December 31, 2001	\$.4270

March 29, 2002	\$.4280
June 28, 2002	\$.4290
September 30, 2002	\$.4300
December 31, 2002	\$.4310

March 31, 2003	\$.4320
June 30, 2003	\$.4330
September 30, 2003	\$.4340
December 31, 2003	\$.4350

March 31, 2004	\$.4360
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W. P. CAREY

W. P. Carey & Co. LLC

50 Rockefeller Plaza, New York, NY 10020

212-492-1100

NYSE: WPC

IR@wpcarey.com

www.wpcarey.com