

ANNUAL REPORT 2004



W. P. CAREY



Founded in 1973, W. P. Carey & Co. is a leading global investment firm that has long served as the pre-eminent 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 real estate investment funds. The Company currently owns or manages more than 650 commercial and industrial properties worldwide, representing approximately 90 million square feet and valued at approximately \$7 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 tenant companies.

Financial Highlights

	Twelve Months Ended December 31, 2004
Operations <i>(in thousands)</i>	
Total Revenues	\$ 227,774
Net Income	\$ 63,851
Cash Flows from Operating Activities	\$ 98,849
Funds from Operations (FFO) ⁽¹⁾	\$ 135,139
Per Share	
Diluted Earnings Per Share	\$ 1.64
Diluted Funds from Operations	\$ 3.47
Dividends Declared Per Share	\$ 1.76
Weighted Average Listed Shares Outstanding (Diluted)	38,904,725
Stock Data	
Price Range (January 2, 2004 through December 31, 2004)	\$ 25.22- \$ 35.98
Total Return for 2004 ⁽²⁾	21.82%
Number of Shareholders	29,645
Funds from Operations <i>(in thousands)</i> ⁽¹⁾	
Net income	\$ 63,851
Gain on sale of real estate	(92)
Funds from Operations of equity investees in excess of equity income	7,010
Depreciation, amortization, deferred taxes, stock compensation and other noncash charges	41,103
Funds from Operations applicable to minority investees in excess of minority income	(555)
Straight-line rent adjustments	1,724
Impairment loss on real estate	22,098
Funds from Operations	<u>\$ 135,139</u>

⁽¹⁾ Funds from Operations 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. The Company's calculation of FFO may differ from the calculation of similarly named measures by other companies and NAREIT and may not be comparable to such measures. FFO 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 2004 proved to be another successful year for W. P. Carey & Co. LLC as we welcomed more than 15,700 new investors to our Corporate Property Associates (CPA®) series of funds. In addition, this past year we completed the successful liquidation of Carey Institutional Properties (CIP®), our eleventh income-generating real estate fund, which upon its liquidation provided its investors with an 11.2% return on their initial investment.

From an investment standpoint, we had a very active year creating value for our CPA® fund investors. In 2004, we made 24 new investments totaling approximately \$890 million. We made investments with tenants across 18 industries and in 7 countries. Our ability to underwrite across industries and borders enables us to find what we believe to be the best risk/return investments for our investors. We believe that our brand name, market presence and the hard work of our investment team create attractive opportunities for our investors, even in an environment where a great deal of capital continues to flow into real estate finance and related areas. We are very proud of the investments we have made on behalf of the CPA® funds and remain significant shareholders in these funds.

Furthermore, we continue to create value for our investors through the efforts of, among others, our asset management and finance teams. In 2004, we took innovative approaches to several challenges and found creative solutions. Here are two examples:

- **CIP® Liquidation** Our finance team structured a complex but highly beneficial structure for the CPA® shareholders whereby investors could either take cash for their shares, although they would realize certain capital gains (especially given the strong performance of the fund), or exchange their shares for similar securities in CIP®'s affiliate, CPA®:15, preserving their tax basis and income stream. While the investors split roughly 50% - 50% as to whether they took

From left: Gordon F. DuGan, Chief Executive Officer and President, and Wm. Polk Carey, Chairman



shares or cash, of those who voted, 98% voted in favor of the transaction. This high shareholder approval rate is consistent with similar approval rates in the ten prior CPA® liquidations.

■ **Asset Management Activity** The asset management team is constantly seeking ways to increase and improve the quality of our real estate income. One significant project in 2004 was positioning the Red Bank Distribution property for sale. We have owned this 600,000 square foot industrial property in Cincinnati, OH since the late 1980's. This facility is an older industrial building that had been used, until recently, as a distribution and public storage facility. When our tenant vacated the facility, we were faced with a difficult task as we sought to re-lease or sell a property that had environmental issues and was located in a market that favored newer state-of-the art facilities. Despite these challenges, our asset management team was able to secure a grant from the State of Ohio for environmental remediation work and secured funds from the prior owners for environmental work. We have entered into an agreement to sell the 35-acre site at an attractive price upon completion of the environmental remediation. As a result of our efforts to significantly enhance the value of the site for our investors, W. P. Carey received an award from the Port of Greater Cincinnati Development Authority "in appreciation of our dedication and assistance in transforming a redevelopment vision into reality."

As we begin 2005, we have a number of significant challenges. Income for 2004 was substantially enhanced by non-recurring fees earned in connection with the CIP®- CPA®:15 merger. While the demand for income investments, especially those with the track record of our CPA® funds, is very strong, we have temporarily suspended raising capital for our latest offering, CPA®:16 – Global. We believe that this cautious approach to fundraising is the prudent course for the investors in CPA®:16 – Global. Furthermore, we have a 6% hurdle for incentive fees in CPA®:16 – Global which we are not currently meeting. While we are generating returns in excess of the hurdle on the investments we have made, the low returns on the cash balance bring down the overall return. Therefore, while assets under management continue to grow, payment of a significant portion of our fees from managing CPA®:16 – Global will be deferred until we meet the hurdle.

After 32 years in business, we are pleased to share our accomplishments with our investors, whose continued confidence and support has made our success a reality. We thank you and look forward to working on your behalf in the years to come.

Sincerely,



Wm. Polk Carey
Chairman



Gordon F. DuGan
Chief Executive Officer and President

THE
CORNERSTONE
OF OUR
SUCCESS

Human capital has always been one of the most important assets at W. P. Carey. While our business may be built on the bricks and mortar of companies around the world, it is our employees who make the difference. Their hard work and commitment to our investors and tenant companies have earned us a reputation that recently led one industry analyst to describe W. P. Carey as “best in class.” We feel that this description well describes our employees, who strive each day to ensure that W. P. Carey’s success is measured by the added value we provide to our investors and tenant companies. The individuals whose pictures appear in this year’s annual report are but a few of the employees who serve as the cornerstone of our success. For more than 30 years, their efforts have enabled W. P. Carey to successfully meet the investment needs of its investors and the financing needs of companies worldwide.



**CONTINUED GROWTH
IN 2004**

W. P. Carey had a successful year in 2004, investing a near record \$890 million. As a result, the value of our portfolio of properties under management or ownership increased 22%, from \$5.8 billion in 2003 to \$7.1 billion in 2004.

Among W. P. Carey's 2004 financial highlights were:

- Net income increased by \$1 million to \$63.9 million;
- Diluted earnings per share (EPS) declined by one cent to \$1.64;
- Funds from Operations (FFO) increased 28% to \$135.1 million or \$3.47 per diluted share;
- Total revenues increased 43% to \$227.8 million; and
- Cash Flows from Operating Activities increased 47% to \$98.8 million.



**ONE COMPANY—
TWO SUCCESSFUL
FRANCHISES**

Over the years, W. P. Carey has built a reputation as one of the pre-eminent providers of corporate financing

solutions and as manager of the Corporate Property Associates (CPA®) series of income-generating real estate investment funds. These two franchises, one providing capital to companies to grow their businesses and the other providing income to investors, continue to exhibit considerable growth and remain the foundation of our corporate business model. However, as we look toward the future and seek ways to increase value for our shareholders and tenant companies, we will review new opportunities, which include investing in new countries, new industries and new financing structures.



**A LEADER IN CORPORATE
FINANCING SOLUTIONS**

Our long-standing philosophy of providing our investors with a reliable stream of income is achieved largely as a result of our expertise in offering alternative financing solutions to companies through the sale-leaseback structure. W. P. Carey's Investment Group is comprised of professionals who are well versed in both credit and real estate analysis. They work diligently to evaluate a prospective tenant's industry, business plan, management team and real estate assets with the aim of providing them with customized, value-added financing solutions.

This past year, we completed 24 transactions, representing 18 different industries, in 7 countries, valued at \$890 million. While the current sale-leaseback environment remains extremely competitive, with an over-abundance of capital chasing deals and new competition entering the market, we remain focused on completing only those transactions that



will prove beneficial to our investors.

In 2004, companies utilized our financing for corporate growth, debt reduction, acquisition financing and leveraged buyouts. Our success in providing financing solutions was

matched by the creation of several long-term partnerships with our tenant companies. We believe these partnerships are critical to both the success of W. P. Carey and its tenant companies. It is not uncommon for a company or private equity firm that has completed one transaction with W. P. Carey to seek additional financing in future years.

One company with whom W. P. Carey has formed a close working relationship over the years is Universal Technical Institute, Inc. (NYSE: UTI), a leading provider of post-secondary automotive technical education. In 2004, we provided UTI with approximately \$25 million in financing to construct a new training facility in Rancho Cucamonga, CA. This transaction represented our sixth sale-leaseback with



UTI over the past five years, during which we acquired six facilities totaling more than 900,000 square feet, valued at more than \$84 million. In discussing our relationship and the importance of W. P. Carey's financing, UTI's Chairman Robert Hartman has commented, "Relationships are everything in business. Our sale-leaseback transactions with W. P. Carey have provided us with the financing we needed to build one of the leading technical training schools in the country." W. P. Carey is proud of its relationship with UTI and is pleased to have been a part of its success over the years.

While we continue to develop our relationships with our existing tenant companies, we are also making great strides in extending our financing franchise globally. Following the investment in properties in Canada and Sweden this past year, our international portfolio is now comprised of 61 properties, consisting of more than 13 million square feet, located in Belgium, Finland, France, Germany,



Ireland, the Netherlands, Thailand and the United Kingdom. Our International Investment Group consists of individuals with vast knowledge of the global markets.

W. P. Carey's corporate reputation precedes them internationally as a leading provider of alternative financing solutions to companies in the United States. Our transaction with Pohjola Non-Life Insurance Company Ltd., one of the largest Scandinavian insurance companies and financial institutions, is reflective of our success in introducing our financing expertise to a broader global community. Pohjola sought to sell a portion of its real estate investment portfolio and reinvest these funds in its core competencies. W. P. Carey, on behalf of its affiliates, CPA®:15 and CPA®:16 – Global, acquired Pohjola's corporate headquarters in Helsinki, Finland for \$110 million (Eur 83.6 million). At the conclusion of the transaction, Eero Heliövaara, President and CEO of Pohjola, said, "We had several parties, both



domestic and foreign, interested in acquiring this property. We chose W. P. Carey because the company has extensive experience in real estate investing and we are pleased with the results.”

Our efforts to complete our financing transactions on time and as proposed, as well as our desire to serve as long-term working partners to our tenant companies, continue to be the hallmarks of our success.

A TRACK RECORD OF SUCCESS— GENERATING INCOME FOR INVESTORS

The increased popularity of our income-generating investments was reflected this past year by our ability to raise more than \$511 million from retail investors on behalf of our affiliate, CPA®:16 – Global. At the end of 2004, we made the decision to temporarily suspend our fundraising efforts. We felt that it was our responsibility to raise only what we believed we could prudently invest in a timely fashion. We made this decision with the interest of our investors in mind and believe it is reflective of our long-term views on investing.

Our efforts to develop and manage real estate funds that remain attractive to investors are made possible by creating a track record that speaks to our success at providing investors with income and liquidity for more than 25 years. In 2004, with the overwhelming support of 98% of voting shareholders, we completed the liquidation of Carey Institutional Properties (CIP®), which provided its investors with a 11.2% return on their initial investment. This high level of investor support is consistent with the liquidation of W. P. Carey’s ten previous funds, which saw investor

support in excess of 95%. Following the liquidation of CIP®, eleven of W. P. Carey’s completed programs have gone full cycle to liquidity, providing investors with an average annual total return of approximately 12% and distributing nearly 700 quarterly distributions without a miss. We believe that our track record of providing high returns and liquidity to investors is one reason why the investor base of our CPA® funds has grown year after year, and now totals more than 100,000 investors.

The success and strength of our CPA® funds are further reflected by the December 31, 2004 independent third-party appraisals of our CPA®:12 and CPA®:14 portfolios, in which their net asset value per share rose from \$11.70 and \$11.30 in 2003 to \$12.40 and \$12.10 in 2004 respectively. This reflects 24% and 21% increases over the initial purchase price of \$10.00

per share. We are mindful that rising interest rates and other market conditions could have an adverse effect on their future valuations and that there can be no assurance that the amount ultimately received for the shares will equal the value determined by this process. Our other two funds, CPA®:15 and CPA®:16 – Global, have not yet reached the dates on which independent appraisals

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will begin; as such their estimated value per share has been determined to be \$10.00 as of December 31, 2004. This amount is based on the offering value of the shares.

This past year, due in large part to the liquidation of CIP®, our management business accounted for 65% of our total revenues while the rental income from our net leased portfolio of properties represented the

remaining 35%. We believe W. P. Carey's continued success, as well as its future success, is directly correlated to the strong performance of our CPA® funds. We recognize the value of aligning our interests with those of the CPA® funds' shareholders. To that end, we have developed a compensation plan that includes both performance hurdles (certain fees are subordinated to preferred returns to investors) as well as our ability to take payment of certain fees in shares of the CPA® REITs to build W. P. Carey's position alongside our CPA® shareholders. As a result, W. P. Carey currently holds more than 5 million outstanding shares across the CPA® series of funds.

MANAGING OUR GROWING PORTFOLIO

One of the most significant events affecting W. P. Carey's portfolio in recent years was our acquisition of 17 properties from our affiliate CIP® for approximately \$142 million in 2004. These properties, totaling



2.4 million square feet, consist of office, industrial, retail and warehouse facilities located in nine states and will further strengthen W. P. Carey's portfolio. This past year we were also able to reduce W. P. Carey's portfolio

vacancies by 1.1 million square feet and sold six properties for approximately \$6.9 million. Contractual rent increases with 24 tenants in 2004 totaled an additional \$957,285 in rental income. We are very pleased with the success our asset management group has had in making improvements to W. P. Carey's portfolio and the portfolios of our CPA® funds. By year-end, our portfolio of properties, owned and managed, increased 14% to 88.8 million square feet from 77.8 million square feet in 2003.

W. P. CAREY'S NEXT GENERATION OF LEADERS

Earlier this year, W. P. Carey's Board of Directors named Gordon DuGan Chief Executive Officer and



Thomas Zacharias Chief Operating Officer. These appointments, in line with our previously announced transition plan, reflect W. P. Carey's commitment to ensure the long-term success of the Company. And while W. P. Carey's Chairman and founder, Wm. Polk Carey, will remain an active force and continue to play a prominent role in guiding our future strategic direction, daily decisions regarding W. P. Carey's operations will be handled by Mr. DuGan.

Due in large part to the significant growth W. P. Carey and its affiliates have experienced over the years, both in terms of assets and investors, we are becoming an increasingly large and complex company with the attendant needs of such a company. Accordingly, Doug Barzelay has joined the firm as General Counsel, a position he has held with a large financial institution in the past in between practicing at two large law firms. Additionally, the depth and experience of the management of W. P. Carey today can be seen in the fact that we have 17 professionals considered to be partners of the company with an average age of 47 years.

**WELL POSITIONED FOR
FUTURE SUCCESS**

As we look to build upon our past successes, we are mindful of the competitive investment environment and will remain diligent in our investment practices. We will also continue to look for new investment opportunities and alternative ways in which we can provide financing to our tenant companies. In the

first quarter of 2005, we originated and structured a \$54 million first mortgage loan for affiliates of Rosemont, IL-based Reyes Holdings, L.L.C., one of the largest privately held food and beverage distributors in North America. The 10-year fixed rate first mortgage loan is secured by a beer distribution facility in Gardena, CA and three cold storage facilities located in Rogers, MN, Mt. Pleasant, PA and Oak Creek, WI, totaling 837,000 square feet.

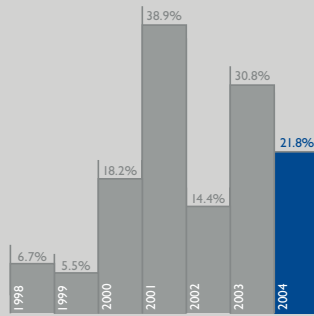
In 2004, we acquired a \$20 million interest in a first mortgage secured by the distribution facilities of Atlanta, GA-based BlueLinx Holdings Inc. (NYSE: BXC), the largest distributor of building products in the United States. The \$20 million represents the junior position in a \$165 million five-year floating rate first mortgage loan against BlueLinx's real estate portfolio, which consists of

61 distribution centers located throughout 36 states. These are examples of the alternative forms of financing we are able to structure for our tenant companies and we anticipate completing similar transactions in the future.

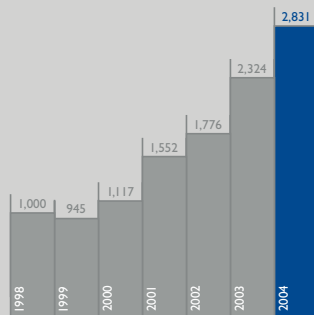
After 32 years in business, W. P. Carey has built a reputation of success that is second to none. We owe this success to our investors, tenant companies and our talented, dedicated family of employees. As we look to the future, we are pleased to have been able to surround ourselves with such a strong group and believe now, more than ever before, that W. P. Carey is well positioned for future success.

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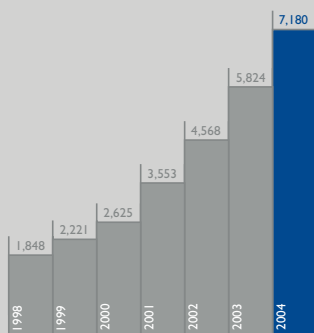
Results



Cumulative Shareholder Returns Since Inception

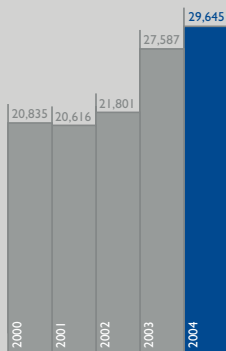


Value of \$1000 Invested from 1999 through 2004 at Year End

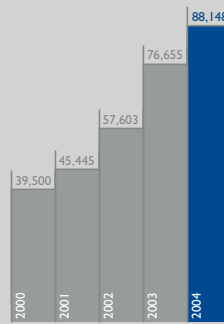


Total Assets Under Ownership or Management
\$ in millions

Results



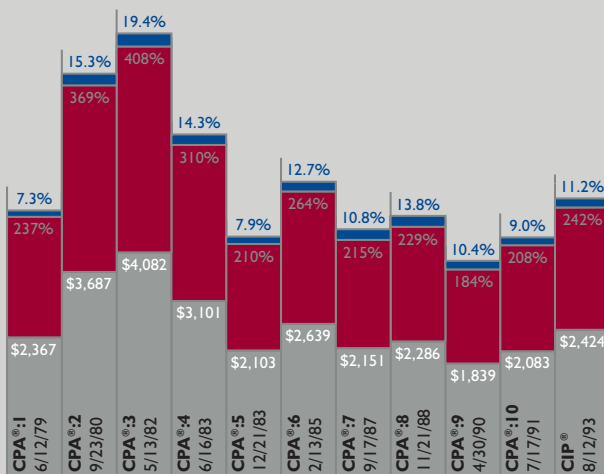
Growth in WPC Investors



Growth in CPA® Investors

Average Annual Return
% of Original Investment Received

End Value Plus Distributions
Fund / Date of Final Closing



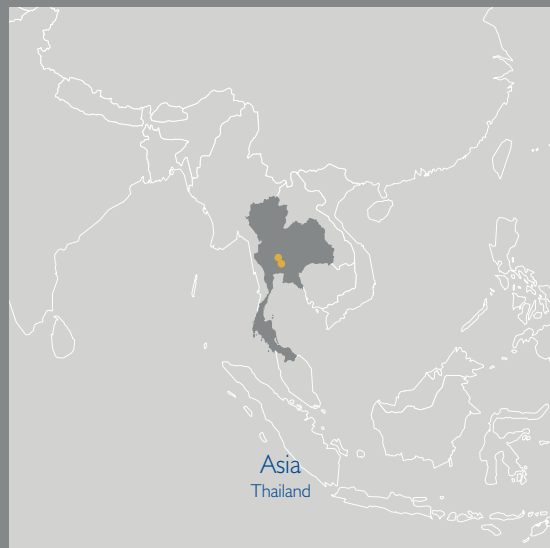
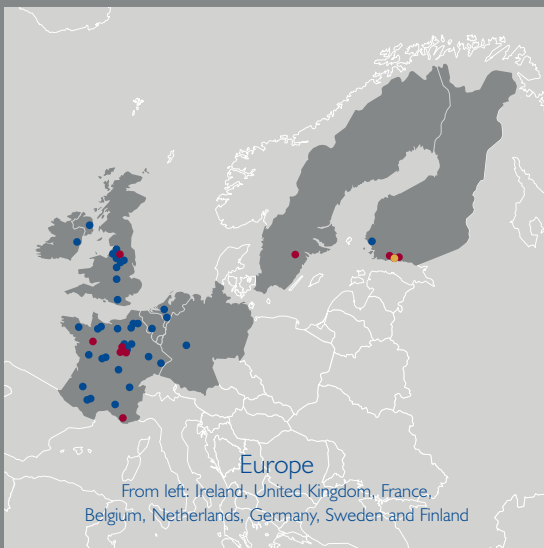
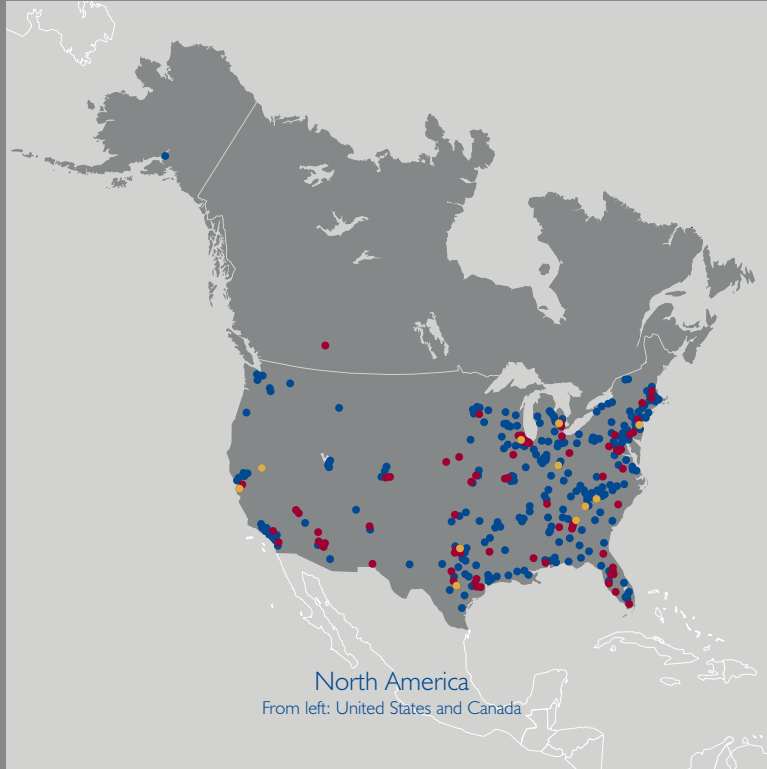
CPA® Program Track Record

The W. P. Carey Group Portfolio of Properties

Properties owned or managed by W. P. Carey & Co. LLC

2004 Investments

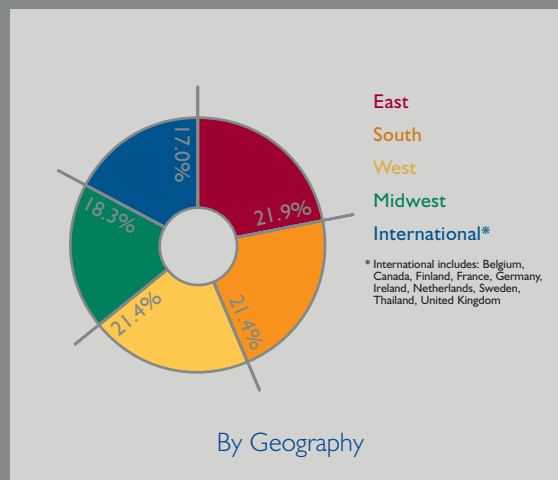
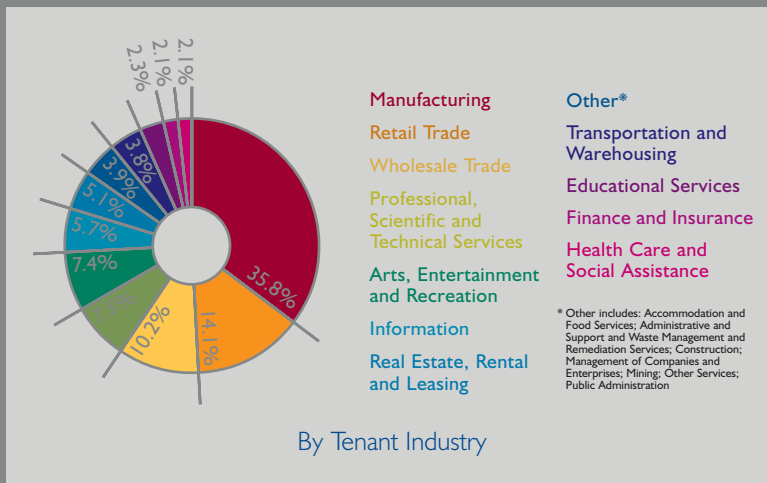
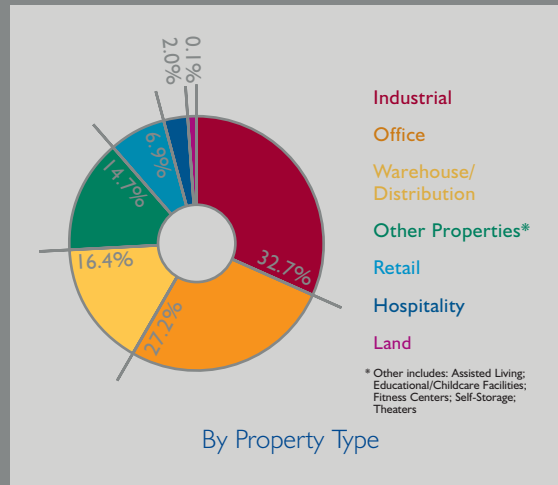
2005 Investments as of 3/31/05



Portfolio Diversification of Owned or Managed Properties

Based on Contractual Annualized Rent

Total Rent = \$560,238,338



**F I N A N C I A L
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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of our internal control over financial reporting as of December 31, 2004. In making this assessment, we used criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment, we concluded that, as of December 31, 2004, our internal control over financial reporting is effective based on those criteria.

Our assessment of the effectiveness of internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm who also audited our consolidated financial statements included herein.

Selected Financial Data

(In thousands except per share amounts)

	2004	2003	2002	2001	2000
Operating Data:					
Revenues ⁽¹⁾	\$ 227,774	\$159,238	\$152,404	\$120,493	\$101,469
Income (loss) from continuing operations ⁽²⁾	69,048	62,562	44,138	31,079	(12,688)
Basic earnings (loss) from continuing operations per share	1.85	1.71	1.24	.90	(.43)
Diluted earnings (loss) from continuing operations per share	1.77	1.64	1.21	.89	(.43)
Net income (loss)	63,851	62,878	46,588	35,761	(9,278)
Basic earnings (loss) per share	1.71	1.72	1.31	1.04	(.31)
Diluted earnings (loss) per share	1.64	1.65	1.28	1.02	(.31)
Cash dividends paid	65,073	62,978	60,708	58,048	49,957
Cash provided by operating activities	98,849	67,295	75,896	58,877	58,222
Cash dividends declared per share	1.76	1.73	1.72	1.70	1.69
Payment of mortgage principal ⁽³⁾	9,428	8,548	8,428	8,230	7,590
Balance Sheet Data:					
Real estate, net ⁽⁴⁾	\$ 485,505	\$421,543	\$440,193	\$435,629	\$433,867
Net investment in direct financing leases	190,644	182,452	189,339	258,041	287,876
Total assets	1,013,539	906,505	893,524	915,883	904,242
Long-term obligations ⁽⁵⁾	278,821	158,605	226,102	287,903	176,657

(1) Prior year amounts have been reclassified to conform to the current year presentation of excluding other interest income from revenues.

(2) Includes gain on sale of real estate in 2002 and 2001 and a loss on sale of real estate in 2000.

(3) Represents scheduled mortgage principal amortization paid.

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

(5) Represents mortgage and note obligations and deferred acquisition fee installments that are due after more than one year.

M A N A G E M E N T ' S D I S C U S S I O N A N D A N A L Y S I S O F
F I N A N C I A L C O N D I T I O N A N D R E S U L T S O F O P E R A T I O N S

(In thousands except share and per share amounts)

The following discussion and analysis of financial condition and results of operations of W. P. Carey & Co. LLC contain forward-looking statements and should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2004. As used in this Annual Report, the terms “the Company,” “we,” “us” and “our” include W. P. Carey and Co, LLC, its consolidated subsidiaries and predecessors, unless otherwise indicated. 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,” “seeks,” “plans” 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 our actual results, performance or achievement to be materially different from the results of operations or plan expressed or implied by such forward-looking statements. While we cannot predict all of the risks and uncertainties, they include, but are not limited to, those described in Item 1 of our Annual Report on Form 10-K. Accordingly, such information should not be regarded as representations that the results or conditions described in such statements or that our objectives and plans will be achieved.

Executive Overview

N A T U R E O F B U S I N E S S

As described in more detail in Item 1 of this Annual Report, we are a publicly traded limited liability company. Our stock is listed on the New York Stock Exchange. We operate in two operating segments, real estate operations, with investments in the United States and Europe, and management services operations. Within our management services operations, we are the advisor to the following affiliated publicly-owned, non-traded real estate investment trusts: Corporate Property Associates 12 Incorporated (“CPA[®]:12”), Corporate Property Associates 14 Incorporated (“CPA[®]:14”), Corporate Property Associates 15 Incorporated (“CPA[®]:15”), Corporate Property Associates 16 – Global Incorporated (“CPA[®]:16 – Global”) and, until its merger into CPA[®]:15 during 2004, Carey Institutional Properties Incorporated (“CIP[®]”), (collectively, the “CPA[®] REITs”). CPA[®]:16 – Global was formed in 2003.

H O W W E E A R N R E V E N U E

Revenues from the management services operations are earned by providing services to the CPA[®] REITs in connection with structuring and negotiating acquisition and debt placement transactions (transaction fees) and

providing on-going management of the portfolio (asset-based management and performance fees). Asset-based management and performance fees for the CPA® REITs are determined based on real estate assets under management. We may also earn incentive and disposition fees in connection with providing liquidity alternatives to CPA® REIT shareholders. As funds available to the CPA® REITs are invested in properties, the asset base for which we earn revenue increases. We may elect to collect performance fee revenue in cash or shares of the CPA® REITs at our option. The revenues and income of this business segment are subject to fluctuation because the volume and timing of transactions that are originated on behalf of the CPA® REITs are subject to various uncertainties including competition for net lease transactions, the requirement that each acquisition meet suitability standards and due diligence requirements including approval of each purchase of real estate by the investment committee and the ability to raise capital on behalf of the CPA® REITs. We typically start to evaluate liquidity alternatives for the CPA® REITs that we manage, 8 to 12 years after completion of the offering. Such events occur periodically and generally result in higher revenue being realized than in periods where there are no such events.

Revenues from our real estate operations are earned primarily from leasing real estate. We acquire and own commercial and industrial properties that are then leased to companies domestically and internationally, primarily on a net lease basis. Revenue from this business segment is subject to fluctuation because of lease expirations, lease terminations, the timing of new lease transactions, tenant defaults and sales of property.

HOW MANAGEMENT EVALUATES RESULTS OF OPERATIONS

Management evaluates our results with a primary focus on increasing and enhancing the value, quality and amount of the assets under management by our management services operations and seeking to increase value in our real estate operations through focusing efforts on underperforming assets through re-leasing efforts, including negotiation of lease renewals, or selectively selling such assets. The ability to increase assets under management by structuring acquisitions on behalf of the CPA® REITs is affected, among other things, by the CPA® REITs ability to raise capital. During 2004, we managed CPA®:16 – Global’s “best efforts” public offering. CPA®:16 – Global suspended this offering in December 2004 for an unspecified time and subsequently withdrew its offering. CPA®:16 – Global has filed a registration statement, which is not yet effective, for a second offering.

Management’s evaluation of operating results includes our ability to generate necessary cash flow in order to fund dividends to our shareholders. As a result, management’s assessment of operating results gives less emphasis to the effect of unrealized gains and losses, which may cause fluctuations in net income for comparable periods but have no impact on cash flow and to other noncash charges such as depreciation and impairment charges. In evaluating cash flow from operations, management includes equity distributions that are included in investing activities to the extent that the distributions in excess of equity income are the result of noncash charges such as depreciation and amortization. Management does not consider unrealized gains and losses from foreign currency when evaluating our ability to fund dividends. Management’s evaluation of our potential for generating cash flow is based on long-term assessments of both our real estate portfolio and our assets under management.

Our real estate operations consist of the investment in and the leasing of industrial and commercial real estate. Management's evaluation of the sources of lease revenues for the years ended December 31, 2004, 2003 and 2002 are as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Per Statements of Income:			
Rental income	\$46,472	\$43,992	\$44,304
Interest income from direct financing leases	21,322	20,655	22,298
Adjustments:			
Share of lease revenues applicable to minority interests	(1,597)	(1,316)	(766)
Share of lease revenues from equity investments	12,426	8,786	7,434
	<u>\$ 78,623</u>	<u>\$72,117</u>	<u>\$73,270</u>

For the years ended December 31, 2004, 2003 and 2002, we earned net lease revenues (i.e., rental income and interest income from direct financing leases) from over 100 lessees. A summary of net lease revenues including all current lease obligors with more than \$1,000 in 2004 annual revenues is as follows:

	For the Year Ended December 31,					
	2004	%	2003	%	2002	%
Dr Pepper Bottling Company of Texas	\$ 4,334	6%	\$ 4,290	6%	\$ 4,405	6%
Detroit Diesel Corporation	4,158	5	4,158	6	4,158	6
Bouygues Telecom, S.A. ^{(a) (b)}	3,619	5	3,193	4	2,952	4
Gibson Greetings, Inc., a wholly owned subsidiary of American Greetings, Inc.	3,578	5	3,593	5	4,149	6
Carrefour France, SA ^{(b) (d) (g)}	3,417	4	253	0	—	—
Federal Express Corporation ^(c)	2,933	4	2,903	4	2,876	4
America West Holdings Corp.	2,838	4	2,738	4	2,539	3
Orbital Sciences Corporation	2,747	4	2,655	4	2,655	4
Quebecor Printing Inc.	2,653	3	2,632	4	2,563	3
AutoZone, Inc.	2,362	3	2,393	3	2,411	3
Sybron International Corporation	2,286	3	2,083	3	2,164	3
CheckFree Holdings, Inc. ^(d)	2,180	3	2,128	3	2,108	3
Sybron Dental Specialties Inc.	1,770	2	1,613	2	1,613	2
Unisource Worldwide, Inc.	1,705	2	1,710	2	1,732	2
Information Resources, Inc. ^(d)	1,644	2	1,644	2	1,644	2
CSS Industries, Inc.	1,637	2	1,647	2	1,656	2
BE Aerospace, Inc.	1,585	2	1,620	2	433	1
Sprint Spectrum L.P.	1,425	2	1,425	2	1,425	2
Titan Corporation ^(e)	1,316	2	517	1	507	1
Eagle Hardware & Garden, Inc., a wholly owned subsidiary of Lowe's Companies Inc.	1,306	2	1,338	2	1,313	2
Brodart Co.	1,273	2	1,235	2	1,519	2
AT&T Corporation	1,259	2	1,259	2	1,259	2
United States Postal Service	1,233	2	1,233	2	1,233	2
BellSouth Telecommunications, Inc.	1,224	1	1,224	2	1,224	2
Hologic, Inc. ^(d)	1,136	1	1,136	2	382	1
Lockheed Martin Corporation	1,094	1	1,196	2	1,389	2
Cendant Operations, Inc.	1,093	1	1,075	1	1,075	1
Swat-Fame, Inc.	1,086	1	885	1	749	1
United Space Alliance	1,051	1	951	1	885	1
Anthony's Manufacturing Company, Inc.	1,019	1	1,019	1	1,019	1
Other ^{(b) (f)}	17,662	22	16,371	23	19,233	26
	<u>\$78,623</u>	<u>100%</u>	<u>\$72,117</u>	<u>100%</u>	<u>\$73,270</u>	<u>100%</u>

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

- (b) Revenue amounts are subject to fluctuations in foreign currency exchange rates.
- (c) Includes our 40% proportionate share of lease revenues from our equity ownership in one of the properties.
- (d) Represents our proportionate share of lease revenue from our equity investment.
- (e) Includes our 18.54% proportionate share of lease revenues from our equity ownership from the period January 1, 2004 through August 31, 2004, at which time we acquired the remaining 81.46% interest in the investment.
- (f) Includes proportionate share of lease revenues from our equity investments and net of proportionate share applicable to our minority interest owners.
- (g) The Carrefour France, SA interest was acquired in November 2003.

CURRENT DEVELOPMENTS AND TRENDS

Competition for investments remains strong. If general economic conditions continue to improve, inflation and interest rates, at least for the short term, are expected to continue to rise as well. Rising interest rates are expected to have the following impact on our business:

- Rising interest rates would likely cause a decline in the values of properties in our investment portfolio;
- Rising interest rates would likely cause an increase in the Consumer Price Index (“CPI”), which over time will result in increased revenue and partially offset the impact of declining property values;
- Rising interest rates would have an impact on debt costs as the line of credit under our credit facility is a variable rate obligation;
- Rising interest rates are expected to enable us to achieve higher rates of return on new investments, which would be partially offset by increased debt costs on these new investments associated with increased interest rates; and
- Rising interest rates could make other income-generating products more attractive to investors on a relative basis than our CPA® REITs.

Our objective is to increase shareholder value and earnings through prudent management of both our real estate assets and the real estate assets of the CPA® REITs, through the expansion of our management services business and opportunistic investments. We expect to evaluate a number of different opportunities in a variety of property types and geographic locations and to pursue the most attractive opportunities based upon our analysis of the risk/return tradeoffs.

We expect to continue investing in the international commercial real estate market, as we believe the international market provides for favorable opportunities relative to risk/return as compared to U.S. opportunities. In addition, financing terms are generally more favorable for international transactions. Financing terms for international transactions generally provide for lower interest rates and greater flexibility to finance the underlying property. These benefits are partially offset by shorter financing maturities. Investing in additional international properties is also expected to increase our exposure to fluctuations in foreign currency exchange rates (primarily the Euro).

For the year ended December 31, 2004, cash flows generated from operations and equity investments were sufficient to fund dividends paid and meet other obligations including paying scheduled mortgage principal payments and making distributions to minority interests which hold ownership interests in several of our properties. Such cash flows also provided partial funding for the purchase of interests in 17 properties from CIP® prior to the merger.

Results of Operations

We evaluate our results from operations by major business segment as follows:

REAL ESTATE OPERATIONS

This business segment includes the operations of properties under operating lease, properties under direct financing leases, real estate under construction and development, assets held for sale and equity investments in ventures accounted for under the equity method which are engaged in these activities. Because of our legal structure, these operations are not generally subject to federal income taxes; however, they may be subject to certain state, local and foreign taxes.

MANAGEMENT SERVICES OPERATIONS

This business segment includes management operations on a fee for services basis predominately from the CPA® REITs pursuant to the advisory agreements and to a lesser extent from third parties. This business line also includes interest on deferred fees and earnings from unconsolidated investments in the CPA® REITs accounted for under the equity method which were received in lieu of cash for certain fees. In connection with maintaining our status as a publicly traded partnership, these operations are performed in corporate subsidiaries and are subject to federal, state, local and foreign taxes as applicable. Our financial statements are prepared on a consolidated basis including these taxable operations and include a provision for current and deferred taxes on these operations.

A summary of comparative results of these business segments is as follows:

	Real Estate Operations					
	2004	2003	For the Year Change	2003	2002	Change
Lease revenue	\$ 67,794	\$ 62,847	\$ 4,947	\$ 62,847	\$ 64,077	\$ (1,230)
Other operating income	5,798	5,233	565	5,233	1,258	3,975
Total revenue	73,592	68,080	5,512	68,080	65,335	2,745
Depreciation and amortization	10,841	9,474	1,367	9,474	10,213	(739)
General and administrative expenses	3,561	1,893	1,668	1,893	1,456	437
Property expenses	5,651	5,854	(203)	5,854	5,281	573
Impairment charges and loan losses	7,048	1,480	5,568	1,480	20,510	(19,030)
Operating expenses	27,101	18,701	8,400	18,701	37,460	(18,759)
	46,491	49,379	(2,888)	49,379	27,875	21,504
Other interest income	270	248	22	248	542	(294)
Minority interest in (income) loss	(489)	(168)	(321)	(168)	120	(288)
Income (loss) from equity investments	3,665	3,149	516	3,149	(895)	4,044
Interest expense	(14,803)	(14,982)	179	(14,982)	(15,893)	911
Gain on foreign currency transactions	1,222	48	1,174	48	—	48
Gain on sales of real estate and securities	—	—	—	—	12,415	(12,415)
Income from continuing operations before income taxes	36,356	37,674	(1,318)	37,674	24,164	13,510
Provision for income taxes	(1,437)	(1,401)	(36)	(1,401)	(1,496)	95
Income from continuing operations	\$ 34,919	\$ 36,273	\$(1,354)	\$ 36,273	\$ 22,668	\$ 13,605

LEASE REVENUE

2004 VS. 2003 – For the comparable years ended December 31, 2004 and 2003, lease revenue (rental income and interest income from direct financing leases) increased by \$4,947. The increase was primarily attributable to revenue earned from the properties acquired from CIP® in September 2004 of \$3,559 and additional revenue from scheduled rent increases and new leases of \$1,638. Annual contractual lease revenues from the interests acquired from CIP® are \$11,321 for 2005. Our net leases generally have rent increases based on formulas indexed to increases in the CPI or other indices for the jurisdiction in which the property is located, sales overrides or other periodic increases, which are designed to increase lease revenues in the future.

In February 2005, Winn-Dixie Stores, Inc., a lessee of WPC's Bay Minette, Alabama property, indicated that it intends to terminate its lease in connection with its reorganization in Chapter 11 bankruptcy. Annual lease revenue from the Bay Minette property is \$128.

2003 VS. 2002 – For the comparable years ended December 31, 2003 and 2002, lease revenue decreased by \$1,230. Lease terminations and expirations in 2002 and 2003 reduced lease revenue by \$2,535 in 2003. 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 \$1,460. Lease revenues were also negatively affected by the reclassification of our ownership interest in Learning Care Group, Inc. (formerly Childtime Childcare, Inc.) as an equity investment in August 2002, which decreased lease revenue by \$256. These decreases were partially offset by revenue from a new lease with BE Aerospace, Inc. on properties purchased during the third quarter of 2002 which contributed revenue of \$1,187, the positive effect of increases in average foreign currency exchange rate for the Euro of approximately \$1,050, as well as new leases and several rent increases on existing leases of approximately \$775.

OTHER OPERATING INCOME

2004 VS. 2003 – Other operating income generally consists of lease termination payments and other non-rent related revenues including, but not limited to, settlements of claims against former lessees. We receive settlements in the ordinary course of business; however, the timing and amount of such settlements cannot always be estimated. For the comparable years ended December 31, 2004 and 2003, other operating income increased \$565 primarily due to increased bankruptcy claim distributions and other settlement income received from former lessees in 2004.

2003 VS. 2002 – For the comparable years ended December 31, 2003 and 2002, other operating income increased \$3,975 primarily due to the same reasons as stated above. In 2003, we received a lease termination settlement of \$2,250 from The Gap, Inc.

DEPRECIATION AND AMORTIZATION

2004 VS. 2003 – For the comparable years ended December 31, 2004 and 2003, depreciation and amortization expense increased \$1,367. The increase is primarily a result of depreciation and amortization expense recognized on the properties acquired from CIP®, which represented \$1,766, partially offset by a decrease in amortization of certain intangibles that became fully amortized in 2003. Annual depreciation and amortization expense for the properties acquired from CIP® is expected to be approximately \$6,050.

2003 VS. 2002 – For the comparable years ended December 31, 2003 and 2002, depreciation expense decreased \$739. The decrease is primarily the result of certain intangibles becoming fully amortized in 2003,

which resulted in a decrease of \$1,356. This decrease was partially offset by additional depreciation of \$228 related to the acquisition of the BE Aerospace properties in 2002, and increases in depreciation for capital improvements on existing properties and the effect of increases in average foreign currency exchange rates.

GENERAL AND ADMINISTRATIVE EXPENSES

2004 VS. 2003 – For the comparable years ended December 31, 2004 and 2003, general and administrative expenses increased \$1,668 primarily due to an increase in fees for auditing and consulting services related to ongoing securities law compliance, including the Sarbanes-Oxley Act, and internal audit fees, as well as an increase in legal fees related to the ongoing SEC investigation.

2003 VS. 2002 – For the comparable years ended December 31, 2003 and 2002, general and administrative expenses increased \$437 primarily due to increases in fees for accounting, auditing and consulting services including internal audit fees.

IMPAIRMENT CHARGES AND LOAN LOSSES

2004, 2003 and 2002 – For the comparable years ended December 31, 2004 and 2003, impairment charges and loan losses increased \$5,568. For the comparable years ended December 31, 2003 and 2002, impairment charges and loan losses decreased \$19,030. Impairment charges were recorded due to several factors including our decision to sell property at less than its carrying value, our determination that the property has experienced an other than temporary decline in value and for direct financing leases our assessment that the unguaranteed residual value of the underlying property had declined. The table below summarizes the impairment charges recorded in 2004, 2003 and 2002 for both assets held for use and assets held for sale:

Property	2004 Impairment Charges	2003 Impairment Charges	2002 Impairment Charges	Reason
Meristar operating partnership units			\$ 4,596	Evaluation determined that investment value has declined
Cincinnati, Ohio			4,588	Decline in unguaranteed residual value of property
Williamsport, Pennsylvania			3,486	Decline in unguaranteed residual value of property
Memphis, Tennessee	\$2,337			Decline in unguaranteed residual value of property
Winona, Minnesota	1,250			Loan loss related to sale of property
Various properties	2,911	\$1,480	7,840	Decline in unguaranteed residual value of properties or decline in asset value
Bay Minette, Alabama	550			Evaluation determined that property value has declined
Impairment charges from continuing operations	\$7,048	\$1,480	\$20,510	
Toledo, Ohio	\$4,700			Property sold for less than carrying value
Winona, Minnesota			\$ 4,000	Property sold for less than carrying value
Frankenmuth, Michigan	1,000			Property to be sold for less than carrying value
Lancaster, Pennsylvania		\$1,430		Property sold for less than carrying value
Various properties	1,850	1,530	4,901	Decided to sell property or property value has declined
Impairment charges from discontinued operations	\$7,550	\$2,960	\$ 8,901	

INCOME (LOSS) FROM EQUITY INVESTMENTS

2004 VS. 2003 – For the comparable years ended December 31, 2004 and 2003, income from equity investments increased \$516, primarily due to income of \$755 representing the full year impact from the acquisition of a 22.5% interest in eight Carrefour France, SA properties in France in November 2003, partially offset by a decrease in equity income in connection with acquiring a 50% interest in a general partnership and the remaining 81.46% interest in a limited partnership (both interests were acquired in connection with our acquisition of 17 properties from CIP®). We recorded a loss of \$136 related to the 50% interest in the general partnership for financial reporting purposes because of non-cash charges relating to the amortization of the difference between the fair value of the interest acquired and its underlying cost basis. Our share of annual cash flow (contractual lease revenues, net of property-level debt service) from our interest in the general partnership is projected to be \$712.

2003 VS. 2002 – For the comparable years ended December 31, 2003 and 2002, income from equity investments increased \$4,044, primarily due to the conversion of our ownership interest in MeriStar to publicly traded common stock in 2003. For the year ended December 31, 2002, we incurred a loss from the MeriStar investment of \$3,019, which was included in equity income. We now account for our investment in common stock of MeriStar as an available-for-sale security and, therefore record income as dividends are earned and no longer recognize our share of MeriStar's reported net income or loss. Equity income for 2003 was also affected by the acquisition, in December 2002, of a jointly controlled tenancy-in-common interest in the Hologic, Inc. properties, which contributed \$530 and increases in the earnings of our equity investees.

INTEREST EXPENSE

2004 VS. 2003 – For the comparable years ended December 31, 2004 and 2003, interest expense decreased by \$179. The decrease was partially due to a reduction in interest expense of \$1,371 as a result of paying off mortgages on two properties in 2004 and five properties in 2003 and reductions in mortgage notes payable balances, all of which provide for scheduled mortgage principal payments. The decrease was partially offset by increases in interest expense of \$615 related to the assumption of mortgages from our acquisition of 17 properties from CIP® and \$458 related to additional borrowings and higher interest rates related to our credit facility. The average outstanding balance and interest rate on our credit facility, which incurs annual interest at a variable rate, increased by approximately \$15,000 and 1.1%, respectively, for the comparable years. Annual debt service on mortgages assumed in our acquisition from CIP® is approximately \$3,148.

2003 VS. 2002 – For the comparable years ended December 31, 2003 and 2002, interest expense decreased by \$911 primarily due to a decrease in interest of \$1,323 on our credit facility arising from lower average outstanding balances during 2003, partially offset by an increase in mortgage interest expense of \$308. The increase in mortgage interest was due primarily to new mortgage financing placed on two of our properties during the third and fourth quarters of 2002, which contributed \$765, partially offset by decreases in interest expense on five mortgages that were paid off during 2003. The average outstanding balance on the credit facility decreased by approximately \$38,000 for the comparable years but was not affected by fluctuations caused by changes in the interest rate, as rates were relatively stable throughout 2003.

INCOME FROM CONTINUING OPERATIONS

2004 VS. 2003 – For the comparable years ended December 31, 2004 and 2003, income from continuing operations decreased \$1,354, primarily due to an increase in impairment charges of \$5,568 and increases in general and administrative expenses and depreciation and amortization, all of which are described above. These decreases were partially offset by an increase in total revenue of \$5,512, which is described above and an increase in gain on foreign currency transactions of \$1,174.

2003 VS. 2002 – For the comparable years ended December 31, 2003 and 2002, income from continuing operations increased \$13,605, primarily due to a decrease in impairment charges of \$19,030 and increases in total revenue of \$2,020, and equity income of \$4,044. These were partially offset by a decrease in gain on sales of real estate of \$12,415.

	Management Services Operations					
	2004	2003	For the Year Ended December 31, Change			
			2003	2002	2002	Change
Management income from affiliates	\$106,362	\$ 88,060	\$ 18,302	\$ 88,060	\$ 84,255	\$ 3,805
Incentive and subordinated disposition fees	42,095	—	42,095	—	—	—
Total revenue	148,457	88,060	60,397	88,060	84,255	3,805
Depreciation and amortization	9,366	7,123	2,243	7,123	7,575	(452)
General and administrative	47,424	41,802	5,622	41,802	41,133	669
Operating expenses	56,790	48,925	7,865	48,925	48,708	217
Income from continuing operations before other interest income, minority interest, equity income, interest expense and taxes	91,667	39,135	52,532	39,135	35,547	3,588
Other interest income	2,857	2,323	534	2,323	1,098	1,225
Minority interest in (income) loss	(1,010)	(202)	(808)	(202)	—	(202)
Income from equity investments	1,643	859	784	859	452	407
Interest expense	(35)	—	(35)	—	—	—
Income from continuing operations before taxes	95,122	42,115	53,007	42,115	37,097	5,018
Provision for income taxes	(51,537)	(17,715)	(33,822)	(17,715)	(16,587)	(1,128)
Income from continuing operations	\$ 43,585	\$ 24,400	\$ 19,185	\$ 24,400	\$ 20,510	\$ 3,890

MANAGEMENT INCOME FROM AFFILIATES

2004 VS. 2003 – For the comparable years ended December 31, 2004 and 2003, management income from affiliates increased \$18,302 primarily due to increases in transaction fees of \$10,687 and asset-based management and performance fees of \$8,607. Transaction fees included fees from structuring acquisitions and financing on behalf of the CPA® REITs and \$11,493 that we earned in connection with the merger between CIP® and CPA®:15 (“Merger”). We structured \$890,000 of acquisitions for the year ended December 31, 2004 as compared with \$725,000 in 2003. The transaction fees do not include \$7,535 from structuring acquisitions on behalf of CPA®:16 – Global as the fees are subject to subordination provisions that were not met as of December 31, 2004. Because CPA®:16 – Global’s proportion of total acquisition volume is expected to increase in 2005 relative to the

other CPA® REITs and its subordination provisions are not expected to be met during 2005, transaction based revenue for 2005 is likely to decrease. The increase in asset-based fees resulted from an approximately 41% increase in the asset base (including the asset base of the interests in properties we acquired from CIP® of the CPA® REITs since December 31, 2003. Annual asset-based fees related to the interests in properties we acquired from CIP® were approximately \$1,422, and we will no longer receive these asset-based fees. There will be no effect on annual asset-based fees related to the properties involved in the Merger.

Based on assets under management of the CPA® REITs as of December 31, 2004, annualized management and performance fees under the advisory agreements are approximately \$47,680. The asset based fees that we earn increase or decrease in direct relation to increases and decreases in the values of the real estate asset bases of the CPA® REITs. If the real estate asset bases of the CPA® REITs continue to increase, asset management fees are projected to increase. Currently, we are evaluating a number of proposed transactions on behalf of the CPA® REITs.

Acquisition activity is subject to fluctuations. We are facing increased competition for the acquisition of commercial and industrial properties. This competition is from insurance companies, credit companies, pension funds, private individuals, investment companies and other REITs. We also face 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.

A portion of the CPA® REIT transaction and management fees is based on each CPA® REIT meeting specific performance criteria and is earned only if the criteria are achieved. The performance criterion for CPA®:16 – Global has not yet been satisfied as of December 31, 2004, resulting in \$7,535 in transaction fees and \$819 in performance fees not being recognized. The performance criterion for CPA®:16 – Global is a cumulative preferred return of 6%. As of December 31, 2004, the cumulative distribution rate for CPA®:16 – Global is approximately 4.61%. Based on management's current assessment, CPA®:16 – Global is expected to meet the cumulative preferred return in 2006, at which time we will record and collect the cumulative unrecognized fees. There is no assurance that the preferred return will be achieved as projected.

2003 VS. 2002 – For the comparable years ended December 31, 2003 and 2002, management income from affiliates increased \$3,805 due to increases in asset-based management and performance fees of \$15,853, partially offset by a decrease in transaction fees of \$12,048. The increase in asset-based management and performance fees resulted from an increase in the asset base of the CPA® REITs during 2003 of approximately 30%. The decrease in transaction fees resulted from a decrease in structuring volume of acquisitions on behalf of the CPA® REITs of \$256,000 for the comparable years.

INCENTIVE AND SUBORDINATED DISPOSITION FEES

2004 VS. 2003 – In connection with the Merger, we earned incentive fees of \$23,681 and subordinated disposition fees of \$18,414 from CIP®. Incentive and disposition fees are earned in connection with events which provide liquidity or alternatives to the CPA® REIT shareholders. While we anticipate that such events will occur again, no liquidity events are currently being planned and the timing of such events cannot be predicted with any certainty.

DEPRECIATION AND AMORTIZATION

2004 VS. 2003 – For the comparable years ended December 31, 2004 and 2003, depreciation and amortization expense increased by \$2,243 primarily due to accelerated amortization of certain intangible assets of \$2,798

related to the management contract with CIP[®], which was terminated as a result of the Merger. This increase was partially offset by a reduction in amortization expense on certain intangibles assets that became fully amortized during 2003.

2003 VS. 2002 – For the comparable years ended December 31, 2003 and 2002, depreciation and amortization expense decreased by \$452 primarily due to certain intangibles assets that became fully amortized during 2003.

GENERAL AND ADMINISTRATIVE

2004 VS. 2003 – For the comparable years ended December 31, 2004 and 2003, general and administrative expense increased by \$5,622, primarily due to an increase in personnel costs of \$3,903 and increases in fees for accounting, auditing and consulting services related to ongoing securities law compliance, including the Sarbanes-Oxley Act, as well as an increase in legal fees related to the ongoing SEC investigation. A portion of personnel costs is directly related to CPA[®] REIT fundraising and transaction activities. The increase in personnel costs was attributable to higher transaction volume of \$165,000 during the comparable years and a \$2,385 increase in personnel costs related to non-cash charges for compensation from share incentive plan awards to our officers and employees. Of the \$2,385 increase, \$2,155 reflects an increase in awards that fluctuate with changes in fair value because such awards are accounted for using variable plan accounting. These increases were partially offset by a decrease in capital raising activities. For the comparable years, there was a decrease in fund raising volume of approximately \$41,000.

2003 VS. 2002 – For the comparable years ended December 31, 2003 and 2002, general and administrative expense increased by \$669, primarily due to increases in fees for accounting, auditing and consulting services including internal audit fees.

OTHER INTEREST INCOME

2004 VS. 2003 – For the comparable years ended December 31, 2004 and 2003, other interest income increased \$534, due to an increase in interest income earned on deferred acquisition fees. 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 properties acquired. A portion of the fees applicable to the CPA[®] REITs is deferred and payable in equal annual installments over periods ranging from three to eight years, subject to each CPA[®] REIT meeting its preferred return. Unpaid installments bear interest at annual rates ranging from 5% to 7%.

2003 VS. 2002 – For the comparable years ended December 31, 2004 and 2003, other interest income increased \$1,225 due to the same factor as stated above.

INCOME FROM EQUITY INVESTMENTS

2004 VS. 2003 – For the comparable years ended December 31, 2004 and 2003, income from equity investments increased \$784, primarily due to an increase in our ownership of shares in the CPA[®] REITs as a result of receiving restricted shares in consideration for performance fees. In general, the CPA[®] REITs, like other REITs, have the ability to distribute amounts in excess of their net income because of depreciation and amortization, which are both non-cash expenses. Based on current distribution rates, our annual dividends from the CPA[®] REITs for 2005 are projected to be \$4,262.

2003 VS. 2002 – For the comparable years ended December 31, 2003 and 2002, income from equity investments increased \$407, due to the same factor as mentioned above.

PROVISION FOR INCOME TAXES

2004 VS. 2003 – For the comparable years ended December 31, 2004 and 2003, the provision for income taxes increased \$33,822 due to increased pre-tax earnings in 2004 as discussed above. Approximately 95% of our management revenue in 2004, which increased \$60,397 as compared to 2003, was earned by a taxable, wholly owned subsidiary. The effective income tax rate for 2004 was 54% as compared to 42% in 2003. The increase is primarily due to increases in state and local taxes, and increases in permanent differences, such as certain stock based compensation, which are not deductible for income tax purposes, but are recorded as expenses for financial reporting purposes.

2003 VS. 2002 – For the comparable years ended December 31, 2003 and 2002, the provision for income taxes increased by \$1,128 to \$17,715, of which \$9,478 represented deferred taxes and the reclassification of \$2,700 of tax benefits related to share incentive plans as a direct benefit to Partners' Capital. In 2003, approximately 91% of management revenues were earned by a taxable, wholly owned subsidiary, and income tax expense is most affected by its earnings.

INCOME FROM CONTINUING OPERATIONS

2004 VS. 2003 – For the comparable years ended December 31, 2004 and 2003, income from continuing operations increased \$19,185 primarily due to fees earned in connection with the Merger and increased management fees earned in connection with 2004 fundraising and acquisition activity on behalf of the CPA® REITs. These increases were primarily offset by an increase in the provision for income taxes. These variances are all described above.

2003 VS. 2002 – For the comparable years ended December 31, 2003 and 2002, income from continuing operations increased \$3,890 primarily due to an increase in management income from affiliates of \$3,805, and to a lesser extent an increase in equity income of \$407 and a decrease in depreciation and amortization expenses of \$452. These were partially offset by an increase in the provision for income taxes of \$1,128.

OTHER

In 2002, a wholly-owned indirect subsidiary of ours entered into a build-to-suit development management agreement with the Los Angeles United School District ("School District") with respect to the development and construction of a new high school. Income on the project is being recognized under the percentage of completion method of accounting. The School District and we are currently preparing for an arbitration proceeding relating to certain disagreements regarding the costs of the project and whether we are entitled to reimbursement for incurring these costs. Due to our disputes with the School District and the possibility that certain costs will not be reimbursed, we have revised our estimate of profit on the development project, and recognized a loss in development income of \$1,303 for the year ended December 31, 2004 as compared with development income of \$1,298 for the comparable year ended December 31, 2003. We currently project that we will recognize an overall profit under our development management agreement. In addition, during 2004 we incurred an impairment charge of \$7,500 related to our hotel operations in Livonia, Michigan. The impairment charge was the result of decline in this property's value.

Financial Condition

USES OF CASH DURING THE YEAR

There has been no material change in our financial condition since December 31, 2003. Cash and cash equivalents totaled \$16,715 as of December 31, 2004, a decrease of \$7,644 from the December 31, 2003 balance. We believe that we 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 our short-term and long-term liquidity needs. We assess our ability to access capital on an ongoing basis. Our use of cash during the year is described below.

OPERATING ACTIVITIES

Cash flows from operating activities and distributions received from equity investments for the year ended December 31, 2004 of \$105,782 were sufficient to fund dividends to shareholders of \$65,073. During 2004, we received fees of \$36,679 in connection with structuring acquisition transactions and fees of \$24,215 from providing asset-based management services on behalf of the CPA® REITs. We also benefited from the Merger, which generated cash receipts for us of \$23,681 related to incentive fees and \$22,679 related to disposition fees. In January 2004, we received \$5,978 from the annual installment of deferred acquisition fees. The next installment of deferred acquisition fees was paid in January 2005 and approximated \$8,950. The installments are subject to certain subordination provisions. CPA®:16 – Global has not yet met the subordination provisions and is not expected to pay any deferred amounts in 2005. Our real estate operations provided cash flows (contractual lease revenues, net of property-level debt service) of approximately \$47,800. Annual cash flow from operations is projected to continue to fund distributions; however, operating cash flow fluctuates 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 thereon in the first quarter and the timing of the receipt of transaction-related fees.

INVESTING ACTIVITIES

Our investing activities are generally comprised of real estate transactions (purchases and sales) and capitalized property related costs. During the year, we used \$111,230 to purchase 17 properties from CIP®. Substantially all cash used for this purchase came from borrowings under our credit facility and fees received from the merger. In connection with this purchase, we also assumed existing limited recourse mortgages on the properties of \$27,003. Other investing activities included \$4,094 to fulfill obligations related to the November 2003 purchase of our 22.5% interest in the eight Carrefour, S.A. properties in France and \$1,596 of capital expenditures at several existing properties. In January 2004, we paid our annual installment of deferred acquisition fees of \$524 to our former management company relating to 1998 and 1999 property acquisitions. The remaining obligation is \$1,709. We intend to use cash from operations to fund the remaining obligation.

Cash proceeds from investing activities in 2004 included the receipt of \$7,185 in June 2004 related to the release of an escrow account in connection with a property sale in 2003 and \$6,548 from the sales of seven properties. Over the past several years, we have pursued a strategy of selling our smaller properties as well as properties that do not generate significant cash flow and require more intensive asset management services. During 2004, we sold properties located in Toledo, Ohio; Kenbridge, Virginia; McMinnville, Tennessee;

Panama City, Florida; Leeds, Alabama and Garland, Texas, all of which required intensive asset management services. As of December 31, 2004, we have classified four additional properties as held for sale.

FINANCING ACTIVITIES

During 2004 we paid dividends of \$65,073, an increase over prior year dividends paid. We entered into a new \$225,000 credit facility in 2004 (see Cash Resources below). Gross borrowings under the new credit facility approximated \$203,000 and were used primarily to fund the acquisition of 17 properties from CIP® (\$70,000), pay taxes related to management fees earned in connection with the Merger (\$25,000), pay down the prior credit facility (\$30,000), which expired in 2004, and for several other purposes in the normal course of business, such as other loan payments and dividend payments. During 2004, we made repayments of \$130,000 on outstanding credit facility balances. The majority of the repayments were made using cash received in the normal course of business, with the remainder coming from the new facility to pay down the prior facility and cash receipts of \$11,000 from the sales of various properties. We also used \$9,962 to satisfy the limited recourse mortgage financing on our Erlanger, Kentucky properties, and also paid down \$9,428 on existing principal balances. In addition, we raised \$6,649 from the issuance of shares primarily through our Distribution Reinvestment and Share Purchase Plan.

In the case of limited recourse mortgage financing that does not fully amortize over its term or is currently due, we are responsible for the balloon payment only to the extent of our interest in the encumbered property because the holder has recourse only to the collateral. In the event that balloon payments come due, we may seek to refinance the loans, restructure the debt with the existing lenders or evaluate our ability to satisfy the obligation from our existing resources including our revolving line of credit. To the extent the remaining initial lease term on any property remains in place for a number of years beyond the balloon payment date, we believe that the ability to refinance balloon payment obligations is enhanced. We also evaluate all our 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. We believe we have sufficient resources to pay off the loans in the event they are not refinanced. In addition, approximately 72% of our outstanding mortgage debt has fixed rates of interest so that debt service obligations will not significantly increase from increases in interest rates.

CASH RESOURCES

As of December 31, 2004, we have \$16,715 in cash and cash equivalents, which can be used for working capital needs and other commitments and may be used for future real estate purchases. We entered into a new credit facility in May 2004, which is also available to meet working capital needs and other commitments. In addition, debt may be incurred on unleveraged properties with a carrying value of \$370,381 as of December 31, 2004 and any proceeds may be used to finance future real estate purchases.

In May 2004, we entered into a credit facility for a \$175,000 revolving line of credit with J.P. Morgan Chase Bank and eight other banks. The line of credit, which matures in May 2007, provides us a one-time right to increase the amount available under the line of credit to \$225,000. Advances are prepayable at any time. Advances from the line of credit bear interest at an annual rate indexed to either (i) the one, two, three or six-month London Inter-Bank Offered Rate, 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 a rate indexed to the Federal Funds Effective Rate. The revolving credit agreement has financial covenants that require us, among

other things, to maintain a minimum equity value and to meet or exceed certain operating and coverage ratios. We are in compliance with these covenants as of December 31, 2004.

	December 31, 2004		December 31, 2003	
	Maximum Available	Outstanding Balance	Maximum Available	Outstanding Balance
Credit Facility	\$225,000	\$102,000	\$225,000	\$29,000

CASH REQUIREMENTS

During the next twelve months, cash requirements will include paying dividends to shareholders, scheduled mortgage principal payments, making distributions to minority partners as well as other normal recurring operating expenses. In addition, there is \$4,893 in scheduled balloon payments on our share of limited recourse mortgage loans due during 2005. We may also seek to use our cash to purchase new properties or other investments to further diversify our portfolio and maintain cash balances sufficient to meet working capital needs. We may issue additional shares in connection with purchases of real estate when it is consistent with the objectives of the seller.

We have budgeted capital expenditures of up to approximately \$3,575 at various properties during 2005. The capital expenditures will primarily be for tenant and property improvements in order to enhance a property's cash flow or marketability for re-leasing or sale. This includes expected environmental remediation costs of \$1,500 to be funded to prepare the Red Bank property for sale to a third party. We have received a grant from an agency of the State of Ohio, which will reimburse us for certain environmental costs at Red Bank. In addition, we have entered into an agreement to share certain other of the expected environmental costs with a third party which operated a business at the property prior to our ownership. Additionally, we have commenced negotiating a property improvement plan in connection with renewing the franchise license with Holiday Inn at the Livonia hotel. We currently estimate that we may spend less than \$1,000 over the next two years if we intend to continue to operate the hotel under the Holiday Inn brand.

We expect to meet our 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 our cash reserves or unused amounts on its credit facility.

Off-Balance Sheet and Aggregate Contractual Agreements

The table below summarizes our contractual obligations as of December 31, 2004 and the effect that such obligations are expected to have on our liquidity and cash flow in future periods.

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 years
Limited recourse mortgage notes payable ⁽¹⁾	\$251,156	\$26,856	\$ 71,342	\$64,566	\$88,392
Unsecured note payable ⁽¹⁾	110,720	—	110,720	—	—
Deferred acquisition fees ⁽¹⁾	1,931	627	1,159	145	—
Development project ⁽²⁾	2,000	2,000	—	—	—
Operating leases ⁽³⁾	8,086	646	1,513	1,535	4,392
	<u>\$373,893</u>	<u>\$30,129</u>	<u>\$184,734</u>	<u>\$66,246</u>	<u>\$92,784</u>

(1) Amounts are inclusive of principal and interest.

(2) We have provided a guarantee of \$2,000 related to the development project in Los Angeles.

(3) Operating lease obligations consist primarily of our share of minimum rents payable under an office cost-sharing agreement. Amounts related to our foreign operations are based on the exchange rate of the Euro as of December 31, 2004.

As of December 31, 2004, we have no material capital lease obligations, either individually or in the aggregate.

We and Carey Financial Corporation (“Carey Financial”), our wholly-owned broker-dealer subsidiary, are currently subject to an SEC investigation into payments made to third party broker dealers in connection with the distribution of REITs managed by us and other matters. Although no regulatory action has been initiated against us or Carey Financial in connection with the matters being investigated, it is possible that the Commission may pursue an action in the future. The potential timing of any such action and the nature of the relief or remedies the Commission may seek cannot be predicted at this time. If such an action is brought, it could materially affect our cash requirements.

In connection with the purchase of many of our properties, we required the sellers to perform environmental reviews. We believe, based on the results of such reviews, that our 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, our leases generally require tenants to indemnify us 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 us to extend leases until such time as a tenant has satisfied its environmental obligations. Certain of our leases allow us to require financial assurances from tenants such as performance bonds or letters of credit if the costs of remediating environmental conditions are, in our estimation, in excess of specified amounts. Accordingly, we believe that the ultimate resolution of environmental matters should not have a material adverse effect on our financial condition, liquidity or results of operations.

Critical Accounting Estimates

A summary of our significant accounting policies is described in Note 2 to the consolidated financial statements. Many of these accounting policies require certain judgment and the use of certain estimates and assumptions when applying these policies in the preparation of our consolidated financial statements. On a quarterly basis, we evaluate these estimates and judgments based on historical experience as well as other factors that we believe to be reasonable under the circumstances. These estimates are subject to change in the future if underlying assumptions or factors change. Certain accounting policies, while significant, may not require the use of estimates. Those accounting policies that require significant estimation and/or judgment are listed below.

CLASSIFICATION OF REAL ESTATE ASSETS

We classify our directly owned leased assets for financial reporting purposes as either real estate leased under the operating method or net investment in direct financing leases at the inception of a lease. This classification is based on several criteria, including, but not limited to, estimates of the remaining economic life of the leased assets and the calculation of the present value of future minimum rents. In determining the classification of a lease, we use estimates of remaining economic life provided by third party appraisals of the leased assets. The calculation of the present value of future minimum rents includes determining a lease’s implicit interest rate, which

requires an estimate of the residual value of leased assets as of the end of the non-cancelable lease term. Different estimates of residual value result in different implicit interest rates and could possibly affect the financial reporting classification of leased assets. The contractual terms of our leases are not necessarily different for operating and direct financing leases; however the classification is based on accounting pronouncements which are intended to indicate whether the risks and rewards of ownership are retained by the lessor or substantially transferred to the lessee. Management believes that it retains certain risks of ownership regardless of accounting classification. Assets classified as net investment in direct financing leases are not depreciated and, therefore, the classification of assets may have a significant impact on net income even though it has no effect on cash flows.

IDENTIFICATION OF TANGIBLE AND INTANGIBLE ASSETS IN CONNECTION WITH REAL ESTATE ACQUISITIONS

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

The value attributed to tangible assets is determined in part using a discount cash flow model which is intended to approximate what a third party would pay to purchase the property as vacant and rent at current “market” rates. In applying the model, we assume that the disinterested party would sell the property at the end of a market lease term. Assumptions used in the model are property-specific as it is available; however, when certain necessary information is not available, we will use available regional and property-type information. Assumptions and estimates include a discount rate or internal rate of return, marketing period necessary to put a lease in place, carrying costs during the marketing period, leasing commissions and tenant improvements allowances, market rents and growth factors of such rents, market lease term and a cap rate to be applied to an estimate of market rent at the end of the market lease term.

Above-market and below-market lease intangibles are based on the difference between the market rent and the contractual rents and are discounted to a present value using an interest rate reflecting our current assessment of the risk associated with the lease acquired. We acquire properties subject to net leases and consider the credit of the lessee in negotiating the initial rent.

The total amount of other intangibles is 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 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. Intangibles for above-market and below-market leases, in-place lease intangibles and tenant relationships are amortized over their estimated useful lives. In the event that a lease is terminated, the unamortized portion of each intangible, including market rate adjustments, in-place lease values and tenant relationship values, are charged to expense.

Factors considered include the estimated carrying costs of the property during a hypothetical expected lease-up period, current market conditions and costs to execute similar leases. 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 assessments of specific market conditions. Estimated costs to execute leases include 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.

IMPAIRMENTS

Impairment charges may be recognized on long-lived assets, including but not limited to, real estate, direct financing leases, assets held for sale, goodwill and equity investments. Estimates and judgments are used when evaluating whether these assets are impaired. When events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, we perform 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 us to make our best estimate of market rents, residual values and holding periods. In our evaluations, we generally obtain market information from outside sources; however, such information requires us to determine whether the information received is appropriate to the circumstances. As our investment objective is to hold properties 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. We will consider the likelihood of possible outcomes in determining the best possible estimate of future cash flows. Because in most cases, each of our properties is leased to one tenant, we are more likely to incur significant writedowns 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.

We perform a review of our estimate of residual value of our direct financing leases at least annually to determine whether there has been an other than temporary decline in the current estimate of residual value of the underlying real estate assets (i.e., the estimate of what we 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. While an evaluation of potential impairment of real estate accounted for under the operating method is determined by a change in circumstances, the evaluation of a direct financing lease can be affected by changes in long-term market conditions even though the obligations of the lessee are being met. Changes in circumstances include, but are not limited to, vacancy of a property not subject to a lease and termination of a lease. We may also assess properties for impairment because a lessee is experiencing financial difficulty and because management expects that there is a reasonable probability that the lease will be terminated in a bankruptcy organization or a property remains vacant for a period that exceeds the period anticipated in a prior impairment evaluation.

We accounted for our acquisition of business operations of Carey Management LLC in 2000 as a purchase. The excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill. We evaluate goodwill for possible impairment at least annually using a two-step process. To identify any impairment, we

first compare the estimated fair value of the reporting unit (management services segment) with our carrying amount, including goodwill. We calculate 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, we 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. We have performed our annual test for impairment of our management services segment, the reportable unit of measurement, and concluded that the goodwill is not impaired.

Investments in unconsolidated joint ventures are accounted for under the equity method and are recorded initially at cost, as equity investments and subsequently adjusted for our proportionate share of earnings and cash contributions and distributions. On a periodic basis, we assess whether there are any indicators that the value of equity investments may be impaired and whether or not that impairment is other than temporary. 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.

When we identify assets as held for sale, we discontinue depreciating the assets and estimate the sales price, net of selling costs, of such assets. If in our 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. To the extent that a purchase and sale agreement has been entered into, the allowance is based on the negotiated sales price. To the extent that we have adopted a plan to sell an asset but have not entered into a sales agreement, we will make judgments of the net sales price based on current market information. Accordingly, the initial assessment may be greater or less than the purchase price subsequently committed to and may result in a further adjustment to the fair value of the property. If circumstances arise that previously were considered unlikely and, as a result, we decide 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.

PROVISION FOR UNCOLLECTED AMOUNTS FROM LESSEES

On an ongoing basis, we assess our ability to collect rent and other tenant-based receivables and determine an appropriate allowance for uncollected amounts. Because our real estate operations have a limited number of lessees (fewer than 30 lessees represent more than 75% of annual rental income), we believe that it is necessary to evaluate the collectibility of these receivables based on the facts and circumstances of each situation rather than solely use statistical methods. We generally recognize a provision for uncollected rents and other tenant receivables that typically range between 0.5% and 2% of lease revenues (rental income and interest income from direct financings

leases) and will measure our allowance against actual rent arrearages and adjust the percentage applied. For amounts in arrears, we make subjective judgments based on our knowledge of a lessee's circumstances and may reserve for the entire receivable amount from a lessee because there has been significant or continuing deterioration in the lessee's ability to meet its lease obligations. Based on actual experience during 2004, we did not record a provision, as it was determined that our current allowance for uncollectible accounts was sufficient.

DETERMINATION OF CERTAIN ASSET BASED MANAGEMENT AND PERFORMANCE FEES

We earn asset-based management and performance fees for providing property management, leasing, advisory and other services to the CPA® REIT's. For certain CPA® REIT's, these fees are based on third party annual valuations 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 amount of revenue that we recognize. 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 affect both revenue and compensation expense and therefore the determination of net income.

INCOME TAXES

Significant judgment is required in developing our provision for income taxes, including (i) the determination of partnership-level state and local taxes and foreign taxes, and (ii) for our 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. We have not recorded a valuation allowance based on our current 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.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (Revised 2004), "Share-Based Payment" ("FAS 123R"), which requires that the fair value of all stock and other equity-based compensation be treated as an expense that is reflected in the income statement. Note 1 to the consolidated financial statements of this Annual Report on Form 10-K contains pro forma disclosures regarding the effect on net income and earnings per share as if we had applied the fair value method of accounting for stock-based compensation. Depending on the model used to calculate stock-based compensation expense in the future and other requirements of FAS 123R, the pro forma disclosure may not be indicative of the stock-based compensation expense that will be recognized in our future financial statements. FAS 123R is effective for periods beginning after June 15, 2005, and allows two different methods of transition. We expect to implement FAS 123R beginning with the third quarter of fiscal 2005, which begins on July 1, 2005. We are currently evaluating this new standard and models that may be used to calculate future stock-based compensation expense.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," ("FAS 148") which amends SFAS No. 123, Accounting for Stock Based Compensation. FAS 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, FAS No. 148 does not permit the use of the original FAS 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 FAS 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 FAS No. 148 have been adopted.

In May 2003, the FASB issued SFAS No. 150 “Accounting for Certain Financial Instruments with Characteristics of both Liability and Equity” (“FAS 150”). FAS 150 establishes standards to classify as liabilities certain financial instruments that are mandatorily redeemable or include an obligation to repurchase and expands financial statement disclosure requirements. Such financial instruments will be measured at fair value with changes in fair value included in the determination of net income. FAS 150 was effective for financial instruments entered into or modified after May 31, 2003, and otherwise effective at the beginning of the first interim period beginning after June 15, 2003.

In November 2003, the FASB issued FASB Staff Position 150-3 (“FSP 150-3”), which defers the classification and measurement provisions of FAS 150 indefinitely as they apply to mandatorily redeemable non-controlling interests associated with finite-lived entities. We have interests in five joint ventures that are consolidated and have minority interests that have finite lives and were considered mandatorily redeemable non-controlling interests prior to the issuance of FSP 150-3. As a result of the deferral provisions of FSP 150-3, these minority interests have not been reflected as liabilities. The carrying value of these minority interests approximates their estimated fair value as of December 31, 2004. We adopted FAS 150 in July 2003 and it did not have a significant impact on our consolidated financial statements.

**R E P O R T O F I N D E P E N D E N T R E G I S T E R E D
P U B L I C A C C O U N T I N G F I R M**

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

We have completed an integrated audit of W. P. Carey & Co. LLC's 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

C O N S O L I D A T E D F I N A N C I A L S T A T E M E N T S

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' 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, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements 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.

I N T E R N A L C O N T R O L O V E R F I N A N C I A L R E P O R T I N G

Also, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control – Integrated Framework issued by the COSO. The Company's management is responsible for

maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

New York, New York

March 15, 2005

Consolidated Balance Sheets

(In thousands except share amounts)

	2004	December 31, 2003
Assets		
Real estate leased to others:		
Accounted for under the operating method, net of accumulated depreciation of \$53,914 and \$45,021 at December 31, 2004 and 2003	\$ 476,365	\$ 400,717
Net investment in direct financing leases	190,644	182,452
Real estate leased to others	667,009	583,169
Operating real estate, net of accumulated depreciation of \$6,983 and \$5,805 at December 31, 2004 and 2003	9,140	16,147
Real estate under construction and redevelopment	—	4,679
Equity investments	110,379	82,800
Assets held for sale	12,802	13,609
Cash and cash equivalents	16,715	24,359
Due from affiliates	63,471	50,917
Goodwill	63,607	63,607
Intangible assets, net of accumulated amortization of \$35,610 and \$25,262 at December 31, 2004 and 2003	50,501	38,528
Other assets, net of accumulated amortization of \$1,494 and \$2,716 and reserve for uncollected rent of \$2,601 and \$2,600 at December 31, 2004 and 2003	19,915	28,690
Total assets	\$1,013,539	\$ 906,505
Liabilities, Minority Interest and Members' Equity		
Liabilities:		
Mortgage notes payable	\$ 190,698	\$ 180,193
Notes payable	102,000	29,000
Accrued interest	1,389	1,163
Dividends payable	16,626	15,987
Due to affiliates	2,033	20,444
Accounts payable and accrued expenses	19,838	16,249
Prepaid rental income and security deposits	4,881	4,267
Accrued income taxes	3,909	1,810
Deferred income taxes, net	40,349	29,532
Other liabilities	11,748	11,221
Total liabilities	393,471	309,866
Minority interest	1,407	1,852
Commitments and contingencies		
Members' Equity:		
Listed shares, no par value, 37,523,462 and 36,745,027 shares issued and outstanding at December 31, 2004 and 2003	734,658	709,724
Dividends in excess of accumulated earnings	(114,431)	(112,570)
Unearned compensation	(5,366)	(4,863)
Accumulated other comprehensive income	3,800	2,496
Total members' equity	618,661	594,787
Total liabilities, minority interest and members' equity	\$1,013,539	\$ 906,505

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

Consolidated Statements of Income

(In thousands except share and per share amounts)

	For the Year Ended December 31,		
	2004	2003	2002
Revenues			
Management income from affiliates	\$ 106,362	\$ 88,060	\$ 84,255
Incentive and subordinated disposition fees	42,095	—	—
Rental income	46,472	43,992	44,304
Interest income from direct financing leases	21,322	20,655	22,298
Other operating income	5,798	5,233	1,258
Revenues of other business operations	5,725	1,298	289
	<u>227,774</u>	<u>159,238</u>	<u>152,404</u>
Operating Expenses			
Depreciation	11,311	10,432	9,767
Amortization	10,074	7,296	9,208
General and administrative	50,985	43,698	42,592
Property expenses	5,893	5,929	5,945
Impairment charge on real estate and investments and loan losses	14,548	1,480	20,510
Operating expenses of other business operations	6,261	—	—
	<u>99,072</u>	<u>68,835</u>	<u>88,022</u>
Income from continuing operations before other interest income, minority interest, equity investments, interest expense, gains and losses and income taxes	128,702	90,403	64,382
Other interest income	3,127	2,571	1,640
Minority interest in (income) loss	(1,499)	(370)	120
Income (loss) from equity investments	5,308	4,008	(443)
Interest expense	(14,838)	(14,982)	(15,893)
Gain on foreign currency transactions and sale of securities	1,222	48	94
Income from continuing operations before income taxes and gain on sale of real estate	<u>122,022</u>	<u>81,678</u>	<u>49,900</u>
Provision for income taxes	(52,974)	(19,116)	(18,083)
Income from continuing operations before gain on sale of real estate	<u>69,048</u>	<u>62,562</u>	<u>31,817</u>
Discontinued operations:			
Income from operations of discontinued properties	2,263	2,038	8,657
Gain on sale of real estate	90	1,238	2,694
Impairment charges on properties held for sale	(7,550)	(2,960)	(8,901)
(Loss) income from discontinued operations	<u>(5,197)</u>	<u>316</u>	<u>2,450</u>
Gain on sale of real estate	—	—	12,321
Net income	<u>\$ 63,851</u>	<u>\$ 62,878</u>	<u>\$ 46,588</u>

W. P. CAREY & CO. LLC

Consolidated Statements of Income *(continued)*

(In thousands except share and per share amounts)

	For the Year Ended December 31,		
	2004	2003	2002
Basic earnings (loss) per share:			
Income from continuing operations	\$ 1.85	\$ 1.71	\$ 1.24
(Loss) income from discontinued operations	(.14)	.01	.07
Net income	<u>\$ 1.71</u>	<u>\$ 1.72</u>	<u>\$ 1.31</u>
Diluted earnings (loss) per share:			
Income from continuing operations	\$ 1.77	\$ 1.64	\$ 1.21
(Loss) income from discontinued operations	(.13)	.01	.07
Net income	<u>\$ 1.64</u>	<u>\$ 1.65</u>	<u>\$ 1.28</u>
Weighted average shares outstanding:			
Basic	37,417,918	36,566,338	35,530,334
Diluted	<u>38,904,725</u>	<u>38,008,762</u>	<u>36,265,230</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
Balance at December 31, 2001	34,742,436	\$664,751	\$ (97,200)	\$(4,454)
Cash proceeds on issuance of shares, net	528,479	10,086		
Shares issued in connection with services rendered	5,755	390		
Shares issued in connection with prior acquisition	500,000	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)	
Tax benefit – share incentive plans		1,084		
Amortization of unearned compensation				2,626
Net income			46,588	
Other comprehensive income:				
Change in unrealized gains on marketable securities				
Foreign currency translation adjustment				
Comprehensive income:				
Balance at December 31, 2002	35,944,110	\$690,594	\$(111,970)	\$(5,671)
Cash proceeds on issuance of shares, net	412,012	7,789		
Shares issued in connection with services rendered and properties acquired	5,846	160		
Shares issued in connection with prior acquisition	400,000	8,909		
Shares and options issued under share incentive plans	47,550	1,212		(2,827)
Forfeitures	(9,726)	(132)		99
Dividends declared			(63,478)	
Tax benefit – share incentive plans		2,700		
Amortization of unearned compensation				3,536
Repurchase of shares	(54,765)	(1,508)		
Net income			62,878	
Other comprehensive income:				
Change in unrealized gains on marketable securities				
Foreign currency translation adjustment				
Comprehensive income:				
Balance at December 31, 2003	36,745,027	\$709,724	\$(112,570)	\$(4,863)
Cash proceeds on issuance of shares, net	274,262	6,649		
Shares issued in connection with services rendered	8,938	271		
Shares issued in connection with prior acquisition	500,000	13,734		
Shares and options issued under share incentive plans	118,683	3,538		(4,409)
Forfeitures	(32,869)	(138)		138
Dividends declared			(65,712)	
Tax benefit – share incentive plans		3,423		
Amortization of unearned compensation				3,768
Repurchase and retirement of shares	(90,579)	(2,543)		
Net income			63,851	
Other comprehensive income:				
Change in unrealized gains on marketable securities				
Foreign currency translation adjustment				
Comprehensive income:				
Balance at December 31, 2004	37,523,462	\$734,658	\$(114,431)	\$(5,366)

Consolidated Statements of Members' Equity (continued)

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

(In thousands except share and per share amounts)

	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2001		\$(3,432)	\$559,665
Cash proceeds on issuance of shares, net			10,086
Shares issued in connection with services rendered			390
Shares issued in connection with prior acquisition			10,440
Shares and options issued under share incentive plans			
Forfeitures			
Dividends declared			(61,358)
Tax benefit – share incentive plans			1,084
Amortization of unearned compensation			2,626
Net income	\$46,588		46,588
Other comprehensive income:			
Change in unrealized gains on marketable securities	12		
Foreign currency translation adjustment	1,355		
	<u>1,367</u>	1,367	1,367
Comprehensive income:	<u>\$47,955</u>		
Balance at December 31, 2002		\$(2,065)	\$570,888
Cash proceeds on issuance of shares, net			7,789
Shares issued in connection with services rendered and properties acquired			160
Shares issued in connection with prior acquisition			8,909
Shares and options issued under share incentive plans			(1,615)
Forfeitures			(33)
Dividends declared			(63,478)
Tax benefit – share incentive plans			2,700
Amortization of unearned compensation			3,536
Repurchase of shares			(1,508)
Net income	\$62,878		62,878
Other comprehensive income:			
Change in unrealized gains on marketable securities	2,567		
Foreign currency translation adjustment	1,994		
	<u>4,561</u>	4,561	4,561
Comprehensive income:	<u>\$67,439</u>		
Balance at December 31, 2003		\$ 2,496	\$594,787
Cash proceeds on issuance of shares, net			6,649
Shares issued in connection with services rendered			271
Shares issued in connection with prior acquisition			13,734
Shares and options issued under share incentive plans			(871)
Forfeitures			
Dividends declared			(65,712)
Tax benefit – share incentive plans			3,423
Amortization of unearned compensation			3,768
Repurchase and retirement of shares			(2,543)
Net income	\$63,851		63,851
Other comprehensive income:			
Change in unrealized gains on marketable securities	1,467		
Foreign currency translation adjustment	(163)		
	<u>1,304</u>	1,304	1,304
Comprehensive income:	<u>\$65,155</u>		
Balance at December 31, 2004		\$ 3,800	\$618,661

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

Consolidated Statements of Cash Flows

(In thousands except share and per share amounts)

	For the Year Ended December 31,		
	2004	2003	2002
Cash flows from operating activities:			
Net income	\$ 63,851	\$ 62,878	\$ 46,588
Adjustments to reconcile net income to net cash provided by continuing operating activities:			
Loss (income) from discontinued operations, including impairment charges and gain on sale	5,197	(316)	(2,450)
Depreciation and amortization of intangibles assets and deferred financing costs	22,096	18,589	19,811
Equity income in excess of distributions	(793)	(23)	(54)
Loss (gain) on sales of real estate and securities, net	—	578	(12,415)
Minority interest in income (loss)	1,499	370	(120)
Straight-line rent adjustments and amortization of deferred income and rent related intangibles	1,732	925	(719)
Management income received in shares of affiliates	(20,999)	(18,599)	(13,439)
Unrealized gain on foreign currency transactions	(790)	(130)	—
Impairment charges on securities and real estate and loan losses	14,548	1,480	20,510
Deferred income tax provision	10,817	9,769	13,155
Realized gain on foreign currency transaction	(430)	(556)	—
Costs paid by issuance of shares	168	215	500
Increase (decrease) in accrued taxes payable	2,099	(3,475)	2,265
Tax benefit – share incentive plans	3,423	2,700	1,084
Amortization of unearned compensation	3,768	3,536	2,626
Deferred acquisition fees received	5,978	1,495	916
Increase in structuring fees receivable	(14,860)	(13,424)	(18,529)
Net changes in operating assets and liabilities	(372)	(655)	8,004
Net cash provided by continuing operations	96,932	65,357	67,733
Net cash provided by discontinued operations	1,917	1,938	8,163
Net cash provided by operating activities	98,849	67,295	75,896
Cash flows from investing activities:			
Distributions received from equity investments in excess of equity income	6,933	3,503	5,560
Capital distributions from equity investment	—	6,582	1,255
Purchases of real estate and contributions to equity investments	(115,522)	(8,184)	(13,172)
Additional capital expenditures	(1,596)	(2,843)	(811)
Payment of deferred acquisition fees to affiliate	(524)	(524)	(524)
Release of funds from escrow in connection with the sale of a property	7,185	—	9,366
Proceeds from sales of real estate and investments	6,548	24,395	50,247
Cash acquired on acquisition of subsidiary	—	1,300	—
Net cash (used in) provided by investing activities	(96,976)	24,229	51,921
Cash flows from financing activities:			
Dividends paid	(65,073)	(62,978)	(60,708)
Payment of accrued preferred distributions	—	—	(1,423)
Contributions from minority interest	—	—	636
Distributions to minority interests	(1,101)	—	—
Payments of mortgage principal	(9,428)	(8,548)	(8,428)
Proceeds from mortgages and credit facility	170,000	82,683	79,200
Prepayments of mortgage principal and credit facility	(106,962)	(107,854)	(134,316)
Payment of financing costs	(1,238)	(391)	(308)
Proceeds from issuance of shares	6,649	7,789	10,086
Retirement of shares	(2,543)	—	—
Net cash used in financing activities	(9,696)	(89,299)	(115,261)
Effect of exchange rate changes on cash	179	830	(122)
Net (decrease) increase in cash and cash equivalents	(7,644)	3,055	12,434
Cash and cash equivalents, beginning of year	24,359	21,304	8,870
Cash and cash equivalents, end of year	\$ 16,715	\$ 24,359	\$ 21,304

Consolidated Statements of Cash Flows *(continued)**(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, 2004, 1,900,000 shares have been issued and our obligation has been satisfied. Based on the performance criteria 500,000 shares were issued for the years ended December 31, 2003, 2001 and 2000 (\$13,734, \$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. The amounts attributable to the 1,900,000 shares are included in goodwill. Accounts payable to affiliates as of December 31, 2003 includes \$13,734 for shares that were issued in 2004.
- B. The Company issued 8,938, 5,846 and 5,755 restricted shares valued at \$271 in 2004, \$160 in 2003 and \$134 in 2002, to certain directors, officers, and employees and affiliates in consideration of service rendered. Restricted shares and stock options valued at \$3,538, \$3,697 and \$3,913 in 2004, 2003 and 2002, respectively, issued to officers and employees and was recorded as unearned compensation of which \$138, \$99 and \$70, respectively, was forfeited in 2004, 2003 and 2002. Included in compensation expense for the years ended December 31, 2004, 2003 and 2002 were \$3,768, \$3,536 and \$2,626, respectively, relating to equity awards from the Company's share incentive plans.
- C. During 2004, the Company acquired interests in 17 properties from Carey Institutional Properties Incorporated with a fair value of \$142,161, for approximately \$115,158 in cash and the assumption of approximately \$27,003 in limited recourse mortgage notes payable. The fair value of the assumed mortgages was \$27,756.
- D. As partial consideration for the sale of a property in 2003, the Company received notes receivable with a fair value of \$2,250.

During 2004, \$7,185 was released from an escrow account from the sale of a property in 2003. During 2002, \$9,366 was released from an escrow account from the sale of a property in 2001.

- E. In 2002, the Company contributed its tenancy-in-common interest in properties leased to Learning Care Group, 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	<u>(1,134)</u>
Equity investment	<u>\$ 2,954</u>

Consolidated Statements of Cash Flows *(continued)**In thousands except share and per share amounts*

- F. 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>2004</u>	<u>2003</u>	<u>2002</u>
Interest paid, net of amounts capitalized	\$13,901	\$14,395	\$16,400
Income taxes paid	\$36,944	\$ 9,074	\$ 1,695
Interest capitalized	\$ —	\$ 22	\$ 216

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

NOTES TO
CONSOLIDATED
FINANCIAL
STATEMENTS

*(In thousands except share and
per share amounts)*

1. ORGANIZATION

W. P. Carey & Co. LLC (the “Company”) is a real estate investment, management and advisory company that invests in commercial properties leased to companies domestically and internationally, and earns fees as the advisor to affiliated real estate investment trusts (“CPA® REITs”) that each make similar investments. Under the advisory agreements with the CPA® REITs, the Company performs services related to the day-to-day management of the CPA® REITs and transaction-related services. The Company owns and manages commercial and industrial properties located in 34 states and Europe, net leased to more than 107 tenants. As of December 31, 2004, the Company’s portfolio consisted of 168 properties in the United States and 15 properties in Europe and totaled more than 19.4 million square feet. In addition, the Company manages over 765 net leased properties on behalf of the CPA® REITs: Corporate Property Associates 12 Incorporated (“CPA®:12”), Corporate Property Associates 14 Incorporated (“CPA®:14”), Corporate Property Associates 15 Incorporated (“CPA®:15”), Corporate Property Associates 16 – Global Incorporated (“CPA®:16 – Global”) and Carey Institutional Properties Incorporated (“CIP®”) until its merger into CPA®:15 during 2004.

The Company commenced operations on 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 from William P. Carey (“Carey”), Chairman and Co-Chief Executive 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, 2004 (of which 1,900,000 shares were issued 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 a third party 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The consolidated financial statements include the Company, its wholly owned and majority owned controlled subsidiaries and a variable interest entity ("VIE") in which it is the primary beneficiary. All material inter-entity transactions have been eliminated.

For acquisitions of an interest in an entity, the Company evaluates the entity to determine if the entity is deemed a VIE, and if the Company is deemed to be the primary beneficiary, in accordance with FASB Interpretation No. 46(R), "Consolidation of Variable Interest Entities" ("FIN 46(R)"). Entities that meet one or more of the criteria listed below are considered VIEs.

- The Company's equity investment is not sufficient to allow the entity to finance its activities without additional third party financing;
- The Company does not have the direct or indirect ability to make decisions about the entity's business;
- The Company is not obligated to absorb the expected losses of the entity;
- The Company does not have the right to receive the expected residual returns of the entity; and
- The Company's voting rights are not proportionate to its economic interests, and substantially all of the entity's activities either involve or are conducted on behalf of an investor that has disproportionately few voting rights.

The Company consolidates the entities that are VIEs and the Company is deemed to be the primary beneficiary of the VIE. For entities where the Company is not deemed to be the primary beneficiary or the entity is not deemed a VIE and the Company's ownership is 50% or less and has the ability to exercise significant influence as well as 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. The Company will reconsider its determination of whether an entity is a VIE and who the primary beneficiary is if certain events occur that are likely to cause a change in the original determinations.

Beginning in 2004, the Company accounts for its interest in CPA®:16 – Global under the equity method. For 2003, the accounts of CPA®:16 – Global, which was formed in June 2003, were included in the Company's consolidated financial statements, as the Company owned all of CPA®:16 – Global's outstanding common stock. Effective December 12, 2003, CPA®:16 – Global commenced a "best efforts" public offering for up to 1,100,000 shares. CPA®:16 – Global temporarily suspended this offering in December 2004 and subsequently withdrew it.

The consolidated financial statements also include the accounts of Corporate Property Associates International Incorporated (“CPAI”), which was formed in July 2003. The Company owns all of CPAI’s outstanding common stock. CPAI has filed a registration statement with the Securities and Exchange Commission (“SEC”) for a public offering to sell up to 27,500,000 shares of common stock.

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. Actual results could differ from those estimates.

Reclassification

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

Purchase Price Allocation

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 value of leases, the value of in-place leases and the value of tenant relationships are recorded at their relative fair values. Below-market value of leases are also recorded at their relative fair values and are recorded as liabilities in the accompanying financial statements.

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 intangibles 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. Third party appraisals or management’s estimates are used to determine these values. Intangibles for above-market and below-market leases, in-place lease intangibles and tenant relationships are amortized over their estimated useful lives. In the event that a lease is terminated the unamortized portion of each intangible, including market rate adjustments, in-place lease values and tenant relationship values, is charged to expense.

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 are amortized to expense over the remaining initial term of each lease. The value of tenant relationship intangibles are amortized to expense over the initial and expected renewal terms of the leases but no amortization periods for intangibles will exceed the remaining depreciable life of the building.

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.

Cash Equivalents

The Company considers all short-term, highly liquid investments that are both readily convertible to cash and have a maturity of three months or less at the time of purchase to be cash equivalents. Items classified as cash equivalents include money market funds. Substantially all of the Company's cash and cash equivalents at December 31, 2004 and 2003 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.

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 LLC ("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.

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, including unamortized below-market rent intangibles,

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 using the effective interest method. 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. 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.

Accumulated Other Comprehensive Income

As of December 31, 2004 and 2003, accumulated other comprehensive income reflected in the members' equity is comprised of the following:

	As of December 31,	
	2004	2003
Unrealized gains on marketable securities	\$3,285	\$1,818
Foreign currency translation adjustment	515	678
Accumulated other comprehensive income	<u>\$3,800</u>	<u>\$2,496</u>

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 year ended December 31, 2004, lessees were responsible for the direct payment of real estate taxes of approximately \$7,119.

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. 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.

The leases are accounted for under either the direct financing or operating methods. Such methods are described below:

Direct financing method – Leases accounted for under the direct financing method are recorded at their net investment (see 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 (see Note 4).

On an ongoing basis, the Company assesses its ability to collect rent and other tenant-based receivables and determines an appropriate allowance for uncollected amounts. Because the real estate operations has a limited number of lessees, the Company believes that it is necessary to evaluate the collectibility of these receivables based on the facts and circumstances of each situation rather than solely use statistical methods. The Company generally recognizes a provision for uncollected rents and other tenant receivables that 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. For amounts in arrears, the Company makes subjective judgments based on its knowledge of a lessee's circumstances and may reserve for the entire receivable amount from a lessee because there has been significant or continuing deterioration in the lessee's ability to meet its lease obligations.

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 2004, 2003 and 2002, the Company elected to receive its earned performance fees in CPA® REIT shares. Performance fees of CIP® in the amount of \$1,494 were received in cash in 2004.

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 and contractual limitations are not exceeded. As of December 31, 2004, \$800 of transaction fees are recorded as deferred revenue in other liabilities, as a limitation which provides that certain transaction fees cannot exceed 4.5% of the aggregate cost of properties of a CPA® REIT was exceeded. In addition, CPA®:16 – Global did not meet the preferred return criterion, as defined in the Advisory Agreements, and therefore, the Company's recognition of performance fees of \$819 and deferred acquisition fees of \$7,535 were not recognized and has been deferred until the preferred return criterion is met.

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.

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).

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 impairment, 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 ("FAS") 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.

Investments in unconsolidated joint ventures are accounted for under the equity method and are recorded initially at cost, and subsequently adjusted for our proportionate share of earnings and cash contributions and distributions. On a periodic basis, we assess whether there are any indicators that the value of equity investments may be impaired and whether or not that impairment is other than temporary. 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.

When the Company identifies assets as held for sale, it discontinues depreciating the assets and estimates the sales price, net of selling costs, of such assets. If in the Company'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. To the extent that a purchase and sale agreement has been entered into, the allowance is based on the negotiated sales price. To the extent that the Company has adopted a plan to sell an asset but has not entered into a sales agreement, it will make judgments of the net sales price based on current market information. Accordingly, the initial assessment may be greater or less than the purchase price subsequently committed to and may result in a further adjustment to the fair value of the property. 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.

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 (see below). 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 FAS 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 FAS No. 123, pro forma net income would have been as follows:

	For the Year Ended December 31,		
	2004	2003	2002
Net income as reported	\$63,851	\$62,878	\$46,588
Add: Stock based compensation included in net income, as reported, net of related tax effects	2,264	2,282	1,709
Less: Stock based compensation determined under fair value based methods for all awards, net of related tax effects	(2,853)	(3,144)	(2,887)
Pro forma net income	<u>\$63,262</u>	<u>\$62,016</u>	<u>\$45,410</u>
Earnings per common share as reported:			
Basic	\$ 1.71	\$ 1.72	\$ 1.31
Diluted	\$ 1.64	\$ 1.65	\$ 1.28
Pro forma earnings per common share:			
Basic	\$ 1.69	\$ 1.70	\$ 1.28
Diluted	\$ 1.63	\$ 1.63	\$ 1.25

The per share weighted average fair value of share options and warrants granted during 2004 under the Company's Incentive Plan were estimated to range from \$1.96 to \$2.47 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 3.63% to 3.92%, volatility factors ranging from 20.66% to 21.56%, dividend yields ranging from 7.79% to 8.19% and expected lives ranging from 7 to 7.13 years.

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 2.60% 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 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.

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, 2004 and 2003 were gains of \$515 and \$678, 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 years ended December 31, 2004 and 2003, the Company recognized unrealized gains of \$790 and \$130, respectively, from such transactions. In 2004 and 2003, the Company recognized realized gains of \$430 and \$556, respectively, on foreign currency transactions in connection with the transfer of cash from foreign operating subsidiaries to the parent company.

Income Taxes

The Company has elected to be treated as a partnership for federal income tax purposes. The Company's real estate operations are conducted through partnership or limited liability companies electing to be treated as partnerships for Federal income tax purposes. As partnerships, the Company and its partnership subsidiaries are generally not directly subject to tax and the taxable income or loss of these operations are included in the income tax returns of the members; accordingly, no provision for income tax expense or benefit is reflected in the accompanying financial statements. These operations are subject to certain state, local and foreign taxes.

The Company conducts its management services operations through a wholly owned taxable corporation. These operations are subject to federal, state, local and foreign taxes as applicable. The Company's financial statements are prepared on a consolidated basis including this taxable subsidiary and include a provision for current and deferred taxes on these operations.

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 17).

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 are included in discontinued operations (see Note 7).

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.

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 Year Ended December 31,		
	2004	2003	2002
Net income	\$ 63,851	\$ 62,878	\$ 46,588
Weighted average shares – basic	37,417,918	36,566,338	35,530,334
Effect of dilutive securities – stock options and warrants	1,486,807	1,442,424	734,896
Weighted average shares – diluted	38,904,725	38,008,762	36,265,230

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (Revised 2004), “Share-Based Payment” (“FAS 123R”), which requires that the fair value of all stock and other equity-based compensation be treated as an expense that is reflected in the income statement. Depending on the model used to calculate stock-based compensation expense in the future and other requirements of FAS 123R, the pro forma disclosure may not be indicative of the stock-based compensation expense that will be recognized in our future financial statements. FAS 123R is effective for periods beginning after June 15, 2005, and allows two different methods of transition. We expect to implement FAS 123R beginning with the third quarter of fiscal 2005, which begins on July 1, 2005. We are currently evaluating this new standard and models that may be used to calculate future stock-based compensation expense.

In December 2002, the FASB issued SFAS No. 148, “Accounting for Stock-Based Compensation – Transition and Disclosure,” (“FAS 148”) which amends SFAS No. 123, Accounting for Stock Based Compensation. FAS 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, FAS No. 148 does not permit the use of the original FAS 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 FAS 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 FAS No. 148 have been adopted.

In May 2003, the FASB issued SFAS No. 150 “Accounting for Certain Financial Instruments with Characteristics of both Liability and Equity” (“FAS 150”). FAS 150 establishes standards to classify as liabilities certain financial instruments that are mandatorily redeemable or include an obligation to repurchase and expands financial statement disclosure requirements. Such financial instruments will be measured at fair value with changes in fair

value included in the determination of net income. FAS 150 was effective for financial instruments entered into or modified after May 31, 2003, and otherwise effective at the beginning of the first interim period beginning after June 15, 2003.

In November 2003, the FASB issued FASB Staff Position 150-3 (“FSP 150-3”), which defers the classification and measurement provisions of FAS 150 indefinitely as they apply to mandatorily redeemable non-controlling interests associated with finite-lived entities. We have interests in five joint ventures that are consolidated and have minority interests that have finite lives and were considered mandatorily redeemable non-controlling interests prior to the issuance of FSP 150-3. As a result of the deferral provisions of FSP 150-3, these minority interests have not been reflected as liabilities. We adopted FAS 150 in July 2003 and it did not have a significant impact on our consolidated financial statements.

3. TRANSACTIONS WITH RELATED PARTIES

The Company earns fees as the advisor (“Advisor”) to CPA[®]:12, CPA[®]:14, CPA[®]:15, CPA[®]:16 – Global and through September 1, 2004, CIP[®]. Effective September 1, 2004, CIP[®] was merged into CPA[®]:15. Under the advisory agreements with the CPA[®] REITs, the Company performs various services, including but not limited to the day-to-day management of the CPA[®] REITs and transaction-related services. The Company earns an asset management fee of 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. Effective in 2005, the advisory agreement was amended to allow the Company to elect to receive restricted stock for any fee due from each CPA[®] REIT. For the years ended December 31, 2004, 2003 and 2002, asset-based fees and reimbursements earned were \$61,193, \$53,103 and \$37,250, respectively. For the year ended December 31, 2004, CPA[®]:16 – Global did not meet the preferred return criterion (a non-compounded cumulative distribution return of 6%), as defined in the Advisory Agreements, and therefore, the Company’s recognition of performance fees of \$819 will only be recorded if the preferred return criterion is met.

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 ranging from three to eight years, subject to each CPA[®] REIT meeting its “preferred return.” Unpaid installments bear interest at annual rates ranging from 5% to 7%. The Company may also earn fees related to the disposition of properties, subject to subordination provisions and will only be recognized as such subordination provisions are achieved. For the years ended December 31, 2004, 2003 and 2002, the Company earned transaction fees of \$33,677, \$34,957 and \$47,005, respectively. CPA[®]:16 – Global has not met its preferred return and for year ended December 31, 2004, cumulative deferred acquisition fees of \$7,535 and interest thereon of \$171, were not recognized, and will be recognized if CPA[®]:16 – Global meets the preferred return criterion.

In July 2004, the boards of directors of CIP[®] and CPA[®]:15 each approved a definitive agreement under which CPA[®]:15 would acquire CIP[®]’s business in a stock-for-stock merger (the “Merger”). The Merger was approved by the shareholders of CIP[®] and CPA[®]:15 in August 2004, and completed on September 1, 2004. In connection with providing a liquidity event for CIP[®] shareholders, CIP[®] paid the Company incentive fees of \$23,681 and disposition fees of \$22,679. Disposition fees relating to the interests in the properties acquired by the Company of \$4,265 were not earned and have been applied, for financial reporting purposes, as a reduction in the cost basis of such

interests. The Company also recognized transaction fees of \$11,493 in connection with CPA[®]:15's acquisition of properties in connection with the Merger.

Prior to the Merger, the Company acquired interests in 17 properties from CIP[®] with a fair value of \$142,161 for \$115,158 in cash and the assumption of \$27,003 in limited recourse mortgage notes payable, (the "Acquisition"). The amounts are inclusive of the Company's pro rata share of equity interests acquired in the transaction. The fair value of the assumed mortgages was \$27,756. The purchase price of the properties was based on a third party valuation of each of CIP[®]'s properties. The properties are primarily single tenant net-leased properties, with remaining lease terms ranging from 19 months to over ten years. Seven of the properties are encumbered with limited recourse mortgage financing with fixed rates of interest ranging from 7.5% to 10% and maturity dates ranging from December 2007 to June 2012.

The Company owns interests in entities, which range from 22.50% 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 participates in an agreement with certain affiliates, including the CPA[®] REITs 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 \$531, \$529 and \$545 in 2004, 2003 and 2002, respectively. The Company's share of minimum lease payments on the office lease as of December 31, 2004 is \$7,137 through 2016.

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, 2004 and 2003, unpaid deferred acquisition fees were \$1,709 and \$2,234, respectively, and bear interest at an annual rate of 6%. Installments of \$524, were paid in 2004, 2003 and 2002.

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. Effective December 31, 2003, the Company consolidates the accounts of Livho in its consolidated financial statements in accordance with FIN 46(R).

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 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 Carey. 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. 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.

The following consolidated pro forma financial information has been presented as if acquisition of interests in 16 properties from CIP® by the Company had occurred on January 1, 2004 and 2003 for the years ended December 31, 2004 and 2003, respectively. No pro forma effect is given to a property acquired which is currently held for sale and included in discontinued operations. The pro forma financial information is not necessarily indicative of what the actual results would have been, nor does it purport to represent the results of operations for future periods.

	For the Year Ended December 31,	
	2004	2003
	(Unaudited)	(Unaudited)
Pro forma total revenues	\$234,870	\$170,147
Pro forma net income	64,616	64,614
Pro forma earnings per share:		
Basic	\$ 1.73	\$ 1.77
Diluted	\$ 1.66	\$ 1.70

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:

	As of December 31,	
	2004	2003
Land	\$ 93,926	\$ 77,170
Buildings and improvements	436,353	368,568
	530,279	445,738
Less: Accumulated depreciation	53,914	45,021
	<u>\$476,365</u>	<u>\$400,717</u>

The scheduled future minimum rents, exclusive of renewals and expenses paid by tenants, under non-cancelable operating leases are as follows:

Year Ended December 31,	
2005	\$ 49,941
2006	47,513
2007	41,319
2008	35,727
2009	31,298
Thereafter through 2021	104,477

Contingent rentals (including percentage rents and CPI-based increases) were \$2,137, \$1,427 and \$1,550 in 2004, 2003 and 2002, respectively.

5. NET INVESTMENT IN DIRECT FINANCING LEASES

Net investment in direct financing leases is summarized as follows:

	As of December 31,	
	2004	2003
Minimum lease payments receivable	\$ 158,864	\$ 173,120
Unguaranteed residual value	162,724	179,869
	321,588	352,989
Less: Unearned income	(130,944)	(170,537)
	\$ 190,644	\$ 182,452

Scheduled future minimum rents, exclusive of renewals and expenses paid by tenants, under noncancelable direct financing leases are as follows:

Year Ended December 31,	
2005	\$21,822
2006	20,381
2007	18,510
2008	16,636
2009	15,873
Thereafter through 2022	65,642

Contingent rentals (including percentage rents and CPI-based increases) were approximately \$2,382, \$2,189 and \$2,710 in 2004, 2003 and 2002, respectively.

6. EQUITY INVESTMENTS

The Company owns equity interests as a limited partner in two limited partnerships, four 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.

In connection with the Acquisition, the Company increased its 18.54% interest in a limited partnership, which leases property to Titan Corporation, to 100%. The Company accounted for its 18.54% interest as an equity investment, and as a result of acquiring the controlling ownership interest as of September 1, 2004, the Company consolidates this interest as of such date. The Company also acquired CIP's 50% noncontrolling interest in a limited partnership, which leases property to Sicom, Inc., and is accounting for this interest under the equity method of accounting.

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 SEC 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. In connection with the Merger, the Company elected to receive 1,098,367 shares of common stock in CPA®:15, in exchange for its CIP® shares, a portion of which are still restricted.

As of December 31, 2004, the Company's ownership in the CPA® REITs is as follows:

	Shares	% of outstanding Shares
CPA®:12	1,242,519	3.91%
CPA®:14	2,465,236	3.57%
CPA®:15	2,129,361	1.69%
CPA®:16 – Global	20,000	0.04%

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

	As of December 31,	
	2004	2003
Assets (primarily real estate)	\$5,189,736	\$3,535,954
Liabilities (primarily mortgage notes payable)	2,372,468	1,719,459
Owner's equity	\$2,817,268	\$1,816,495
Company's share of equity investees' net assets	<u>\$ 110,379</u>	<u>\$ 82,800</u>

	For the Year Ended December 31,		
	2004	2003	2002
Revenue (primarily rental income and interest income from direct financing leases)	\$ 349,023	\$ 263,719	\$175,031
Expenses (primarily depreciation and property expenses)	(145,194)	(141,964)	(68,237)
Other interest income	7,927	6,204	4,832
Minority interest in income	(12,986)	(5,720)	(3,286)
Income from equity investments	38,439	30,650	12,354
Interest expense	(130,302)	(95,128)	(65,136)
Gain (loss) on sales	7,464	9,316	(92)
Income from continuing operations	114,371	67,077	55,466
(Loss) income from discontinued operations	(483)	(114)	1,753
Gain on sale of real estate	2,232	—	333
Impairment charge on real estate	(5,150)	(1,000)	—
Net income	<u>\$ 110,970</u>	<u>\$ 65,963</u>	<u>\$ 57,552</u>
Company's share of net income (loss) from equity investments	<u>\$ 5,308</u>	<u>\$ 4,008</u>	<u>\$ (443)</u>

Until January 1, 2003, the Company owned interests in the operating partnership (“OP units”) of MeriStar Hospitality Corporation (“MeriStar”), a publicly traded real estate investment trust accounted as an equity investment. Effective January 1, 2003, the OP units were converted to shares of MeriStar common stock at which time the Company started accounting for its interest as an available-for-sale security.

For the year ended December 31, 2002, MeriStar reported revenues of \$865,693 expenses of \$799,278 and a net loss of \$161,248. The Company's share of the loss for 2002 was \$3,019.

7. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144"), 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 FAS 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 14) that were held for sale as of December 31, 2001 are not included in "Discontinued Operations."

Property sales and impairment charges in 2004, 2003 and 2002 that are included in "Discontinued Operations" are as follows:

2004

In July 2004, the Company sold its Leeds, Alabama and Toledo, Ohio properties for \$4,625. The Company previously recognized an impairment charge on properties held for sale of \$690 in 2003 to write down the Leeds property to the estimated net sales proceeds from the anticipated sale. The \$4,700 impairment charge recorded in 2004 on the Toledo property is described in Note 13. The results of operations from the Leeds and Toledo properties are included in discontinued operations.

In December 2004, the Company entered into an agreement with an auctioneer to sell its Frankenmuth, Michigan property, at auction. In March 2005, the Company sold this property to a third party for \$1,700. The Company recognized an impairment charge of \$1,000 to write down the property value to the estimated net sales proceeds anticipated from the sale (see Note 13). The property has been classified as held for sale as of December 31, 2004, and the results of its operations have been included in discontinued operations.

During 2004, the Company sold properties in Kenbridge, Virginia; McMinnville, Tennessee; Panama City, Florida and Garland, Texas for \$2,256 and recognized net gain on sales of \$85.

2003

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.

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 connection with the anticipated sale of the Company's McMinnville, Tennessee property the Company 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. The property was sold in July 2004.

The Company incurred other charges of \$690 during 2003 in connection with a property's decline in value and a \$290 charge related to the early retirement of a mortgage obligation.

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.

OTHER INFORMATION

The effect of suspending depreciation expense as a result of the classification of certain properties as held for sale was \$381, \$259 and \$116 for the years ended December 31, 2004, 2003 and 2002, respectively.

As of December 31, 2004, the operations of ten properties, which have been sold during 2004 or are held for sale as of December 31, 2004, are included as "Discontinued Operations." Amounts reflected in Discontinued Operations for the years ended December 31, 2004, 2003 and 2002 are as follows:

	For the Year Ended December 31,		
	2004	2003	2002
Revenues			
Rental income	\$ 1,248	\$ 3,240	\$ 6,070
Interest income from direct financing leases	42	665	3,705
Revenues of other business operations	—	1,694	4,769
Other income	2,767	915	2,250
	<u>4,057</u>	<u>6,514</u>	<u>16,794</u>
Expenses			
Depreciation and amortization	200	751	1,552
Property expenses	1,559	2,634	1,192
General and administrative	—	—	48
Provision for income taxes – state and local	—	35	117
Operating expenses of other business operations	35	1,489	4,209
Impairment charge on real estate	7,550	2,960	8,901
	<u>9,344</u>	<u>7,869</u>	<u>16,019</u>
(Loss) income before other interest income, gains on sale and interest expense	(5,287)	(1,355)	775
Other interest income	—	567	89
Gains on sale of real estate	90	1,238	2,694
Interest expense	—	(134)	(1,108)
(Loss) income from discontinued operations	<u>\$(5,197)</u>	<u>\$ 316</u>	<u>\$ 2,450</u>

In March 2005, the Company sold its Denton, Texas property for \$2,000 which approximated the property's

carrying value. The Property had been classified as held for sale as of December 31, 2004 in the accompanying financial statements.

8. GOODWILL AND INTANGIBLES

In connection with its acquisition of properties, the Company has recorded above-market rent, in-place lease and tenant relationship intangibles of \$22,321. Included in other liabilities allocated to the purchase cost of the Acquisition is a below-market rent intangible of \$2,009. These intangibles are being amortized over periods ranging from 19 months to 27½ years. Amortization of below-market and above-market rent intangibles are recorded as an adjustment to revenue.

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. Intangibles are being amortized over their estimated useful lives, which range from 2½ to 16½ years. The Company performs an annual evaluation of testing for impairment of goodwill. Based on its evaluation, the Company concluded that its goodwill is not impaired.

Goodwill and intangibles are summarized as follows:

	As of December 31,	
	2004	2003
Amortized intangibles:		
Management contracts	\$ 59,815	\$ 59,815
Less: accumulated amortization	(34,089)	(25,262)
	25,726	34,553
Lease intangibles:		
In-place lease	13,630	—
Tenant relationship	4,863	—
Above-market rent	3,828	—
Less: accumulated amortization	(1,521)	—
	20,800	—
Unamortized goodwill and indefinite-lived intangibles:		
Trade name	3,975	3,975
Goodwill	63,607	63,607
	\$114,108	\$102,135
Below-market rent	\$ (2,009)	\$ —
Less: accumulated amortization	45	—
	\$ (1,964)	\$ —

Amortization of intangibles was \$10,304, \$7,277 and \$9,194 for the years ended December 31, 2004, 2003 and 2002, respectively. The remaining unamortized management contract for CIP® was accelerated to expense as a result of the Merger.

Scheduled net amortization of intangibles for each of the next five years is as follows: \$9,648 in 2005, \$9,406 in 2006, \$7,295 in 2007, \$4,211 in 2008 and \$4,184 in 2009.

9. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company estimates that the fair value of mortgage notes payable and other notes payable was \$294,121 and \$210,000 at December 31, 2004 and 2003, 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 carrying value of the combined debt was \$292,698 and \$209,193 at December 31, 2004 and 2003, respectively. 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.

Marketable securities had a carrying value of \$3,655 and \$3,660 as of December 31, 2004 and 2003, respectively, and a fair value of \$6,940 and \$5,479 as of December 31, 2004 and 2003, respectively. The Company's other assets and liabilities, including minority interests, had fair values that approximated their carrying values at December 31, 2004 and 2003, respectively.

10. 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 \$313,689 at December 31, 2004.

The interest rates on the variable rate debt as of December 31, 2004 ranged from 3.5375% to 6.44% and mature from 2007 to 2016. The interest rates on the fixed rate debt as of December 31, 2004 ranged from 6.11% to 10.125%, and mature from 2005 to 2018.

Scheduled principal payments for the mortgage notes and notes payable during each of the next five years following December 31, 2004 and thereafter are as follows:

Year Ending December 31,	Total Debt	Fixed Rate Debt	Variable Rate Debt
2005	\$ 14,355	\$ 11,885	\$ 2,470
2006	23,926	21,159	2,767
2007	128,587	23,526	105,061 ^(a)
2008	11,507	8,128	3,379
2009	38,622	35,045	3,577
Thereafter through 2018	75,701	36,659	39,042
Total	<u>\$292,698</u>	<u>\$136,402</u>	<u>\$156,296</u>

(a) Includes maturity of credit facility in May 2007.

On May 27, 2004, the Company entered into a credit facility for a \$175,000 line of credit with J.P. Morgan Chase Bank and eight other banks. A prior line of credit of \$185,000 matured in March 2004 and was extended on a short-term basis. The line of credit, which matures in May 2007, provides the Company a one-time right to increase the amount available under the line of credit up to \$225,000.

Advances from the line of credit bear interest at an annual rate indexed to either (i) the one, two, three or six-month London Inter-Bank Offered Rate, 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 a rate indexed to the Federal Funds Effective Rate. Advances are prepayable at any time. The revolving credit agreement has financial covenants that require, among other things, the Company to (i) maintain minimum equity value of \$550,000 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. The Company is in compliance with these covenants. As of December 31, 2004, the Company had \$102,000 drawn from the credit facility.

At December 31, 2004 the average interest rate on advances on the line of credit was 3.5375%. At December 31, 2003 the average interest rate on advances on the prior line of credit was 2.34%. 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.

11. DIVIDENDS PAYABLE

The Company declared a quarterly dividend of \$.442 per share on December 13, 2004 payable on January 15, 2005 to shareholders of record as of December 31, 2004.

12. COMMITMENTS AND CONTINGENCIES

As of December 31, 2004, the Company was not involved in any material litigation.

In March 2004, following a broker-dealer examination of Carey Financial Corporation ("Carey Financial"), the Company's wholly-owned broker-dealer subsidiary, by the staff of the SEC, Carey Financial received a letter from the staff of the SEC alleging certain infractions by Carey Financial of the Securities Act of 1933, the Securities Exchange Act of 1934, the rules and regulations thereunder and those of the National Association of Securities Dealers, Inc. ("NASD").

The staff alleged that in connection with a public offering of shares of CPA[®]:15, Carey Financial and its retail distributors sold certain securities without an effective registration statement. Specifically, the staff alleged that the delivery of investor funds into escrow after completion of the first phase of the offering (the "Phase I Offering"), completed in the fourth quarter of 2002 but before a registration statement with respect to the second phase of the offering (the "Phase II Offering") became effective in the first quarter of 2003, constituted sales of securities in violation of Section 5 of the Securities Act of 1933. In addition, in the March 2004 letter the staff raised issues about whether actions taken in connection with the Phase II offering were adequately disclosed to investors in the Phase I Offering. In the event the Commission pursues these allegations, or if affected CPA[®]:15 investors bring a similar private action, 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, as a consequence of investor funds being returned by CPA[®]:15, Carey Financial would be required to return to CPA[®]:15 the commissions paid by CPA[®]:15 on purchases actually rescinded. Further, as part of any action against the Company, the SEC could seek disgorgement of any such commissions or different or additional penalties or relief, including without limitation, injunctive relief and/or civil monetary penalties, irrespective of the outcome of any rescission offer. The Company cannot predict the potential effect such a rescission offer or SEC action may ultimately have on the operations of Carey Financial or the Company. There can be no assurance that the effect, if any, would not be material.

The staff also alleged in the March 2004 letter that the prospectus delivered with respect to the Phase I

Offering contained material misrepresentations and omissions in violation of Section 17 of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder in that the prospectus failed to disclose that (i) the proceeds of the Phase I Offering would be used to advance commissions and expenses payable with respect to the Phase II Offering, and (ii) the payment of dividends to Phase II shareholders whose funds had been held in escrow pending effectiveness of the registration statement resulted in significantly higher annualized rates of return than were being earned by Phase I shareholders. Carey Financial has reimbursed CPA[®]:15 for the interest cost of advancing the commissions that were later recovered by CPA[®]:15 from the Phase II Offering proceeds.

In June 2004, the Division of Enforcement of the SEC (“Enforcement Staff”) commenced an investigation into compliance with the registration requirements of the Securities Act of 1933 in connection with the public offerings of shares of CPA[®]:15 during 2002 and 2003. In December 2004, the scope of the Enforcement Staff’s inquiries broadened to include broker-dealer compensation arrangements in connection with CPA[®]:15 and other REITs managed by the Company, as well as the disclosure of such arrangements. At that time the Company and Carey Financial received a subpoena from the Enforcement Staff seeking documents relating to payments by the Company, Carey Financial, and REITs managed by the Company to (or requests for payment received from) any broker-dealer, excluding selling commissions and selected dealer fees. The Company and Carey Financial subsequently received additional subpoenas and requests for information from the Enforcement Staff seeking, among other things, information relating to any revenue sharing agreements or payments (defined to include any payment to a broker-dealer, excluding selling commissions and selected dealer fees) made by the Company, Carey Financial or any Company-managed REIT in connection with the distribution of Company-managed REITs or the retention or maintenance of REIT assets. Other information sought by the SEC includes information concerning the accounting treatment and disclosure of any such payments, communications with third parties (including other REIT issuers) concerning revenue sharing, and documents concerning the calculation of underwriting compensation in connection with the REIT offerings under applicable NASD rules.

In response to the Enforcement Staff’s subpoenas and requests, the Company and Carey Financial have produced documents relating to payments made to certain broker-dealers both during and after the offering process, for certain of the REITs managed by the Company (including Corporate Property Associates 10 Incorporated, CIP[®], CPA[®]:12, CPA[®]:14, and CPA[®]:15), in addition to selling commissions and selected dealer fees. The expenses associated with these payments, which were made during the period from early 2000 through the end of 2003, were borne by the REITs. The Company is continuing to gather information relating to these types of payments made to broker-dealers and supply it to the SEC.

The Company and Carey Financial are cooperating fully with this investigation and are in the process of providing information to the Enforcement Staff in response to the subpoenas and requests. Although no regulatory action has been initiated against the Company or Carey Financial in connection with the matters being investigated, it is possible that the SEC may pursue an action against either of them in the future. The potential timing of any such action and the nature of the relief or remedies the SEC may seek cannot be predicted at this time. If such an action is brought, it could have a material adverse effect on the Company.

13. IMPAIRMENT CHARGES AND LOAN LOSSES

The Company incurred impairment charges of \$22,098, \$4,440 and \$29,411 for the years ended December 31, 2004, 2003 and 2002, respectively, of which \$7,550, \$2,960 and \$8,901 are included in Discontinued Operations for each respective year.

2004

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 due to market conditions, 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 \$5,248 in 2004.

The Company owns a property that is leased to Livho, Inc. ("Livho"), which operates the property as a Holiday Inn hotel in Livonia, Michigan. The Company has provided Livho with significant financial support over the past several years in order to support the hotel's operations. The Livonia hotel's financial performance has continued to perform below projections even after certain additional investments in the property were placed in service. The Company performed an impairment valuation of the Livonia property and has determined that the value of the Livonia property has undergone an other than temporary decline in value, and accordingly, has recognized an impairment charge of \$7,500 for 2004.

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, and recognized a gain on sale of \$46. 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 previously recognized an impairment charge of \$4,000, in 2002, on the Peerless property, which was classified as held for sale in 2002. During 2004, installment payments due under the notes were not paid, however, the Company received a \$1,000 settlement payment from the former lessee and has determined that the remaining amounts will not be recovered. The remaining balance on the notes of \$1,250 has been written off as a loan loss.

As a result of entering into a commitment to sell a property in Toledo, Ohio in June 2004, recognized an impairment charge on properties held for sale of \$4,700, which is included in discontinued operations. The charge was based on the property's sales price, less estimated costs to sell. The property was sold in July 2004 for \$4,175 and a gain on sale of \$6 was recognized.

The Company recognized impairment charges on other properties classified as held for sale as of December 31, 2004, or sold during 2004, of \$2,850, which are included in discontinued operations, and an impairment charge of \$550 on real estate held for use.

2003

In addition to impairment charges totaling \$1,208 related to the Company's annual review of the estimated residual values on its properties classified as net investments in direct financing leases, 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.

The company recognized impairment charges on other properties held for sale as of December 31, 2003, or sold during 2003, of \$2,960, which are included in discontinued operations. The impairments are discussed further in Note 7.

2002

The Company recorded impairment charges totaling \$14,880 related to its annual review of the estimated residual values on its properties classified as net investments in direct financing leases.

Prior to the Company converting its 708,269 OP units of MeriStar to 708,269 shares of common stock in 2003, the Company accounted for its investment as an available for sale marketable security. 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 in 2002, to reflect the investment at its estimated fair value.

The Company recognized impairment charges of \$4,900 on other properties, which were sold in either 2002 or 2003 or held for sale as of December 31, 2002.

14. 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 2004, 2003 and 2002, are included in "Discontinued Operations." (see Note 7)

2003

In December 2003, the Company sold a property in Oxnard, California for \$7,500, and recognized a gain of \$414. The Company placed proceeds of the sale in an escrow account with the intention 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 2004, \$7,185 was released from the escrow account, when an exchange was not completed.

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. The Company and the School District are currently preparing for an arbitration proceeding relating to certain disagreements regarding the costs of the project and whether the Company is entitled to reimbursement for incurring these costs. The recognition of income on the project is being recognized using a blended profit margin under the percentage of completion method of accounting. Due to its disputes with the District and a change in estimate of profit on the development project, the Company has recognized a loss in development income of \$1,303 and income of \$1,298, for the years ended December 31, 2004 and 2003, respectively.

During 2002, the Company also sold properties in Fredericksburg, Virginia; Urbana, Illinois; Maumelle, Arkansas; Burnsville, Minnesota; and Casa Grande for an aggregate of \$10,238 and recognized a net gain on sales of \$1,151.

15. 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: 513,171 in 2004 at exercise prices ranging from \$22.59 to \$35.16, 122,000 in 2003 at exercise prices ranging from \$25.01 to \$31.79 per share and 877,337 in 2002 at exercise prices ranging from \$22.73 to \$24.01 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. During 2004, 12,000 share options were granted at exercise prices ranging from \$24.50 to \$30.25 per share. No share options were granted in 2003 and 2002.

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

	2004		For the Year Ended December 31, 2003			
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	4,812,902	\$20.95	4,979,862	\$20.26	4,320,815	\$19.88
Granted	525,171	\$29.68	122,000	\$26.24	877,337	\$23.03
Exercised	(146,121)	\$21.09	(251,113)	\$14.29	(192,617)	\$12.69
Forfeited	(26,335)	\$24.18	(37,847)	\$19.14	(25,673)	\$19.17
Outstanding at end of year	<u>5,165,617</u>	\$22.05	<u>4,812,902</u>	\$21.20	<u>4,979,862</u>	\$20.26
Options exercisable at end of year	<u>4,287,999</u>	\$20.97	<u>4,108,073</u>	\$20.95	<u>3,611,115</u>	\$20.31

Stock options outstanding for the Company's Incentive Plan and Directors' Plan as of December 31, 2004 are as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options Outstanding at December 31, 2004	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable at December 31, 2004	Weighted Average Exercise Price
\$7.69	39,946	5.50	\$ 7.69	39,946	\$ 7.69
\$16.25 to \$35.16	<u>5,125,671</u>	5.40	\$22.16	<u>4,248,053</u>	\$21.09
	<u>5,165,617</u>	5.41	\$22.05	<u>4,287,999</u>	\$20.97

At December 31, 2003 and 2002, the range of exercise prices and weighted-average remaining contractual life of outstanding share options and warrants was \$7.69 to \$31.79 and 6.03 years, and \$7.69 to \$24.01 and 6.9 years, respectively.

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 were issued in 2003 and are vesting ratably over five years. The options are exercisable at \$1 per share for a period of ten years from the initial vesting date. The vested restricted stock and stock received upon the exercise of options of WPCI by minority interest holders may be redeemed commencing in 2012 or thereafter solely in exchange for shares of the Company. Any redemption will be subject to a third party valuation of WPCI. The fair value of the awards has been recorded as minority interest and included in other liabilities in the accompanying consolidated financial statements. 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 in accordance with APB No. 25 because the number of Company shares to be issued upon a redemption will not be known until a redemption occurs. Subsequent changes in the fair value of the minority interest subsequent to the grant date are included in the determination of net income based on the vesting period and valued quarterly. As a result of an increase in fair value, \$2,155 was incurred as compensation expense for the year ended December 31, 2004. The combined estimated fair value of the options and restricted stock as of December 31, 2004 and 2003 is \$5,691 and \$1,615, respectively. The unearned compensation is being amortized over the vesting periods and \$1,094 and \$577 and has been amortized into compensation expense for the years ended December 31, 2004 and 2003, respectively.

The per share fair value of the 1,500,000 share options granted by WPCI during 2003 was estimated to be \$1.593 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 4.42% and an expected life of 11 years.

16. EMPLOYEE INCENTIVE AND BENEFIT PLANS 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 years ended December 31, 2004 and 2003 was \$2,826 and \$2,028, respectively.

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 \$31 annually per participant. For the years ended December 31, 2004, 2003 and 2002, amounts expensed by the Company for contributions to the trust were \$1,988, \$1,926 and \$1,677, respectively. Annual contributions represent an amount equivalent to 15% of each eligible participant's compensation for that period.

17. INCOME TAXES

The components of the Company's provision for income taxes for the years ended December 31, 2004, 2003 and 2002 are as follows:

	2004	2003	2002
Federal:			
Current	\$26,330	\$ 5,694	\$ 2,436
Deferred	7,497	5,749	8,756
	<u>33,827</u>	<u>11,443</u>	<u>11,192</u>
State, local and foreign:			
Current	15,827	3,944	2,492
Deferred	3,320	3,729	4,399
	<u>19,147</u>	<u>7,673</u>	<u>6,891</u>
Total provision	<u>\$52,974</u>	<u>\$19,116</u>	<u>\$18,083</u>

Deferred income taxes as of December 31, 2004 and 2003 consist of the following:

	<u>2004</u>	<u>2003</u>
Deferred tax assets:		
Unearned and deferred compensation	\$ 3,436	\$ 2,063
Other liabilities	—	1,121
	<u>3,436</u>	<u>3,184</u>
Deferred tax liabilities:		
Receivables from affiliates	22,939	19,067
Investments	18,974	12,894
Other	1,872	755
	<u>43,785</u>	<u>32,716</u>
Net deferred tax liability	<u>\$40,349</u>	<u>\$29,532</u>

The difference between the tax provision and the tax benefit recorded at the statutory rate at December 31, 2004, 2003 and 2002 is as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Pre-tax income from taxable subsidiaries	\$98,707	\$41,820	\$35,296
Federal provision at statutory tax rate (35%)	34,547	14,219	12,001
State and local taxes, net of federal benefit	11,695	3,950	3,617
Amortization of intangible assets	2,210	1,625	1,886
Other	3,215	(2,225)	(517)
	<u>51,667</u>	<u>17,569</u>	<u>16,987</u>
Tax provision – taxable subsidiaries	51,667	17,569	16,987
Other state, local and foreign taxes	1,307	1,547	1,096
Total tax provision	<u>\$52,974</u>	<u>\$19,116</u>	<u>\$18,083</u>

18. SEGMENT REPORTING

The Company evaluates its results from operations by major business segment as follows:

Real Estate Operations

This business segment includes the operations of properties under operating lease, properties under direct financing leases, real estate under construction and development, assets held for sale and equity investments in ventures accounted for under the equity method which are engaged in these activities. Because of the Company's and its subsidiaries legal structure, these operations are not generally subject to federal income taxes however, they may be subject to certain state, local and foreign taxes.

Management Services Operations

This business segment includes management operations on a fee for services basis predominately from the CPA® REITs pursuant to the Advisory Agreements and to a lesser extent from third parties. This business line also includes interest on deferred fees and earnings from unconsolidated investments in the CPA® REITs accounted for under the equity method which were received in-lieu of cash for certain fees. These operations are performed in corporate subsidiaries and are subject to federal, state, local and foreign taxes as applicable. The Company's financial statements are prepared on a consolidated basis including these taxable operations and include a provision for current and deferred taxes on these operations.

A summary of comparative results of these business segments is as follows:

Year Ended:	Management	Real Estate	Other ⁽¹⁾	Total Company
Revenues:				
2004	\$148,457	\$ 73,592	\$ 5,725	\$ 227,774
2003	88,060	68,080	3,098	159,238
2002	84,255	65,335	2,814	152,404
Operating expenses:				
2004	\$ (56,790)	\$ (27,101)	\$ (15,181)	\$ (99,072)
2003	(48,925)	(18,701)	(1,209)	(68,835)
2002	(48,708)	(37,460)	(1,854)	(88,022)
Interest expense:				
2004	\$ (35)	\$ (14,803)	\$ —	\$ (14,838)
2003	—	(14,982)	—	(14,982)
2002	—	(15,893)	—	(15,893)
Other, net ⁽²⁾ :				
2004	\$ 3,490	\$ 4,668	\$ —	\$ 8,158
2003	2,980	3,277	—	6,257
2002	1,550	12,182	—	13,732
Provision for income taxes:				
2004	\$ (51,537)	\$ (1,437)	\$ —	\$ (52,974)
2003	(17,715)	(1,401)	—	(19,116)
2002	(16,587)	(1,496)	—	(18,083)
Income (loss) from continuing operations:				
2004	\$ 43,585	\$ 34,919	\$ (9,456)	\$ 69,048
2003	24,400	36,273	1,889	62,562
2002	20,510	22,668	960	44,138
Total assets as of:				
December 31, 2004	\$237,889	\$766,184	\$ 9,466	\$1,013,539
December 31, 2003	200,674	688,848	16,983	906,505
Total long-lived assets as of:				
December 31, 2004	\$ 83,018	\$740,895	\$ 9,140	\$ 833,053
December 31, 2003	75,433	629,767	16,147	721,347

(1) Primarily consists of the Company's other business operations, which includes its hotel operations and the School District build-to-suit development project. The results of operations for the period ended December 31, 2004 include a loss in development income related to the build-to-suit project of \$1,303.

(2) Includes interest income, minority interest, income from equity investments and gains and losses on sales and foreign currency transactions.

For 2004, geographic information for the real estate operations segment is as follows:

	Domestic	International ⁽¹⁾	Total Real Estate
Revenues	\$ 65,910	\$ 7,682	\$ 73,592
Operating expenses	(24,117)	(2,984)	(27,101)
Interest expense	(11,458)	(3,345)	(14,803)
Other, net ⁽²⁾	2,545	2,123	4,668
Provision for income taxes	(806)	(631)	(1,437)
Income from continuing operations	32,076	2,843	34,919
Total assets	696,378	69,806	766,184
Total long-lived assets	676,192	64,703	740,895

For 2003, geographic information for the real estate operations segment is as follows:

	Domestic	International ⁽¹⁾	Total Real Estate
Revenues	\$ 61,678	\$ 6,402	\$ 68,080
Operating expenses	(16,108)	(2,593)	(18,701)
Interest expense	(11,569)	(3,413)	(14,982)
Other, net ⁽²⁾	2,608	669	3,277
Provision for income taxes	(893)	(508)	(1,401)
Income from continuing operations	35,716	557	36,273
Total assets	619,367	69,481	688,848
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 ⁽¹⁾	Total Real Estate
Revenues	\$ 60,037	\$ 5,298	\$ 65,335
Operating expenses	(35,625)	(1,835)	(37,460)
Interest expense	(12,880)	(3,013)	(15,893)
Other, net ⁽²⁾	11,335	847	12,182
Provision for income taxes	(1,066)	(430)	(1,496)
Income from continuing operations	21,801	867	22,668

(1) The company's international operations consist of investments in France.

(2) Includes interest income, minority interest, income from equity investments and gains and losses on sales and foreign currency transactions.

19. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	Three Months Ended			
	March 31, 2004	June 30, 2004	September 30, 2004	December 31, 2004
Revenues ⁽²⁾	\$36,973	\$53,359	\$99,179	\$38,263
Expenses ⁽²⁾	20,878	22,555	30,689	24,950
Net income	11,092	15,480	35,154	2,125
Earnings per share –				
Basic	.30	.41	.94	.06
Diluted	.29	.40	.90	.05
Dividends declared per share	.4360	.4380	.4400	.4420

	Three Months Ended			
	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003
Revenues ⁽¹⁾⁽²⁾	\$44,869	\$34,944	\$43,055	\$36,370
Expenses ⁽¹⁾⁽²⁾	18,962	16,065	17,848	15,960
Net income	17,273	12,974	14,047	18,584
Earnings per share –				
Basic	.48	.35	.38	.51
Diluted	.46	.34	.37	.48
Dividends declared per share	.4320	.4330	.4340	.4350

(1) 2003 amounts have been reclassified to conform to the current year presentation of excluding interest income and interest expense from the revenues and expenses line items above, respectively.

(2) Certain amounts from previous quarters have been reclassified to discontinued operations (see Note 7).

Market for The Company's Common Stock and Related Stockholder Matters

Listed Shares are listed on the New York Stock Exchange. As of December 31, 2004 there were 29,645 holders of record of the Shares of the Company.

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 2004 and 2003 are as follows:

Cash Dividends Declared Per Share	2004	2003
First quarter	\$.4360	\$.4320
Second quarter	.4380	.4330
Third quarter	.4400	.4340
Fourth quarter	.4420	.4350
Total:	<u>\$1.7560</u>	<u>\$1.7340</u>

LISTED SHARES

The high, low and closing prices on the New York Stock Exchange for a Listed Share for each fiscal quarter of 2003 and 2004 were as follows (in dollars):

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
2004	High	Low	Close
First Quarter	\$30.99	\$29.01	\$30.95
Second Quarter	30.99	25.22	29.78
Third Quarter	31.00	29.00	29.86
Fourth Quarter	35.98	29.76	35.16

In accordance with the rules of the New York Stock Exchange ("NYSE"), each of William P. Carey and Gordon F. DuGan, our Co-Chief Executive Officers, have certified, without qualification, that he is not aware of any violation by the Company of the NYSE's corporate governance listing standards. Further, Messrs. Carey and DuGan have filed with the SEC, as Exhibit 31.1 to the Company's most recently filed Form 10-K, the Sarbanes-Oxley Act Section 302 certification regarding the quality of the Company's public disclosure.

W. P. CAREY & CO. LLC

Report on Form 10-K

The Company will supply to any shareholder, upon written request and without charge, a copy of the Annual Report on Form 10-K for the year ended December 31, 2004 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.

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

Senior Officers

Wm. Polk Carey
Chairman and Board Member

Gordon F. DuGan
President, Chief Executive Officer and
Board Member

George E. Stoddard
Co-Chief Investment Officer and
Board Member

John D. Miller
Co-Chief Investment Officer

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

Claude Fernandez
Managing Director and Chief
Accounting Officer

Jan F. Kärst
Managing Director – Investments

Edward V. LaPuma
Managing Director – Investments

W. Sean Sovak
Managing Director – Investments

Anne Coolidge Taylor
Managing Director – Investments

Thomas E. Zacharias
Managing Director – Asset Management
and Chief Operating Officer

Douglas E. Barzelay
General Counsel

Benjamin P. Harris
Executive Director – Investments

Susan C. Hyde
Executive Director and Director
of Investor Relations

Michael D. Roberts
Executive Director and Controller

Donna M. Neiley
Senior Vice President – Asset Management

Jason E. Fox
Director – Investments

P. Edward Kaplan Jr.
Director – Investments

Gino M. Sabatini
Director – Investments

L. Janusz Hooker
First Vice President – Investments

Robert C. Kehoe
First Vice President – Finance

Jeffrey S. Lefleur
First Vice President – Investments

Mykolas Rambus
First Vice President and Chief
Information Officer

Thomas J. Ridings Jr.
First Vice President – Accounting

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

Joseph W. Sanchez
First Vice President – Accounting

Gagan S. Singh
First Vice President – Finance

David G. Termine
First Vice President – Accounting

Corporate Information

Auditors
Pricewaterhouse 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
June 8, 2005 at 2:00 p.m.
Waldorf=Astoria Hotel
New York, New York
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 at www.sec.gov
or by writing the Executive Offices at the
address above.

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:

March 31, 1998	0.4125
June 30, 1998	0.4125
September 30, 1998	0.4125
December 31, 1998	0.4125
March 31, 1999	0.4175
June 30, 1999	0.4175
September 30, 1999	0.4175
December 31, 1999	0.4175
March 31, 2000	0.4225
June 30, 2000	0.4225
September 30, 2000	0.4225
December 31, 2000	0.4225

March 31, 2001	0.4225
June 30, 2001	0.4250
September 30, 2001	0.4260
December 31, 2001	0.4270
March 31, 2002	0.4280
June 30, 2002	0.4290
September 30, 2002	0.4300
December 31, 2002	0.4310
March 31, 2003	0.4320
June 30, 2003	0.4330
September 30, 2003	0.4340
December 31, 2003	0.4350
March 31, 2004	0.4360
June 30, 2004	0.4380
September 30, 2004	0.4400
December 31, 2004	0.4420
March 31, 2005	0.4440

Board of Directors

Wm. Polk Carey
Chairman

Gordon F. DuGan
Chief Executive Officer and President

Francis J. Carey
Chairman of the Executive
Committee, Chief Ethics Officer

George E. Stoddard
Chairman of the Investment
Committee, Co-Chief Investment
Officer and Senior Managing Director

Below from left, seated: R. Winssinger,
W. Carey, C. Townsend; standing: R. Verni,
N. Coolidge, K. von Köller, G. Stoddard,
L. Klein, F. Carey, E. Faber and G. DuGan.

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.
Lead Director of the Board and
Chairman of the Compensation
Committee; Former Head of
Corporate Finance, Morgan
Stanley & Co.

Ralph F. Verni
Former President and Chief Executive
Officer, 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.



W. P. CAREY

W. P. Carey & Co. LLC

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NYSE: WPC