

2006 Financial Highlights

	Year Ended December 31, <u>2006</u>
Operations (in thousands)	
Revenues	\$ 273,258
Net Income	86,303
Cash Flows from Operating Activities	119,940
Funds from Operations ⁽¹⁾	128,537
Per Share	
Diluted Earnings Per Share	\$ 2.22
Diluted Funds from Operations Per Share	3.29
Dividends Declared Per Share	1.82
Weighted Average Listed Shares Outstanding (Diluted)	39,093,897
Stock Data	
Price Range (January 2, 2006 through December 31, 2006)	\$ 24.10-31.00
Number of Shareholders	26,816
Funds from Operations (in thousands) ⁽¹⁾	
Net income	\$ 86,303
Gain on sale of real estate	(3,452)
Funds from Operations of equity investees in excess of equity income	9,802
Depreciation, amortization, deferred taxes and other non-cash charges	29,022
Funds from Operations applicable to minority investees in excess of minority income	(794)
Straight-line rent adjustments	3,152
Impairment loss on real estate	4,504
Funds from Operations	<u>\$ 128,537</u>

⁽¹⁾ W. P. Carey's 2006 Annual Report and the aforementioned financials contain references to W. P. Carey's definition of funds from operations (FFO), which is a non-GAAP financial measure. The National Association of Real Estate Investment Trusts (NAREIT) defines funds from operations as net income computed in accordance with generally accepted accounting principles (GAAP), excluding gains or losses from sales of property, plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. W. P. Carey calculates its FFO in accordance with this definition and then makes adjustments to add back certain non-cash charges to earnings, such as the amortization of intangibles, stock compensation and impairment charges on real estate, resulting in its FFO. W. P. Carey considers its definition of FFO to be an appropriate supplemental measure of operating performance because, by excluding these non-cash charges, it can be a helpful tool to assist in the comparison of the operating performance of W. P. Carey's real estate between periods, or as compared to different companies. W. P. Carey's definition of FFO should not be considered as an alternative to net income as an indication of its operating performance or to net cash provided by operating activities as a measure of its liquidity. FFO and adjusted FFO disclosed by other REITs may not be comparable to W. P. Carey's FFO calculation.



Dear Fellow Shareholders,

We are pleased to report that 2006 proved to be another successful year for W. P. Carey & Co. LLC. We provided liquidity for shareholders in one of our managed funds, raised \$550 million for CPA®:16 – Global and continued to expand our portfolio of owned and managed properties.

We had a very active year, investing \$720 million on behalf of our CPA® funds during 2006. We completed 25 transactions, representing ten industries in five countries. From pharmaceutical manufacturers to supermarkets to schools, trucking companies, retail stores and Do-It-Yourself retailers, our ability to finance any industry in any location enables us to pursue opportunities we believe will provide attractive risk-adjusted returns for investors of our CPA® series of managed funds. We are continually exploring new industries and locations to create viable investment opportunities for CPA® investors and to retain our position at the forefront of the net lease industry. In addition, we directly acquired an additional \$162 million in real estate, primarily the shorter-lease-term assets from CPA®:12.

We are very proud of the investments we have made this past year and throughout our history; in the last five years alone, *assets under management have grown at a compound annual rate of 26%* and the occupancy rate for our managed portfolio now stands at 99%. Our achievement in investments is only one piece of the W. P. Carey story, however. This year, our annual report will focus on three very important aspects of our tradition: **consistency, execution, and results.**





But first, a look at the following highlights from 2006:

- **CPA®:12 and CPA®:14 Merger**

On December 1, 2006, CPA®:12 merged with CPA®:14, with CPA®:14 being the surviving company. The merger represents the twelfth successful liquidation of a W. P. Carey fund since 1998 and provided investors in CPA®:12 with a 10.9% return on their initial investment. In conjunction with the merger, we earned \$46 million in revenues. To help facilitate the transaction, we also acquired 37 properties from CPA®:12 for approximately \$126 million. These properties, totaling approximately 1.7 million square feet, consist primarily of office, industrial, retail and warehouse facilities located in the United States and France, with remaining lease terms of seven years or less.

- **CPA®:16 – Global Offering**

In December 2006, CPA®:16 – Global completed its second public offering, raising \$550 million since March 2006, and bringing the total capital raised by this fund to \$1.1 billion.

- **Performance of our CPA® Funds**

Two of our managed funds, CPA®:14 and CPA®:15, received new appraisals at the end of 2006. Based on these appraisals, and including dividends paid, CPA®:14 and CPA®:15's total annual returns for 2006 were 16.3% and 14.7%, respectively.

- **WPC Shareholder Return**

We have always believed in investing for the long run, not in chasing short-term advantage. We are pleased that in 2006 our disciplined approach produced a total annual return, including dividend and share appreciation, of 26.7%.

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

Recently, three new directors have joined the W. P. Carey board, each of whom has brought talent, expertise, and years of experience in finance, accounting and investment to our company. Last year, we welcomed Mr. Charles E. Parente, who is also serving as chairman of the audit and strategic planning committees and Mr. Benjamin H. Griswold, IV, chairman of our compensation committee, to our board of directors. This year, we welcome Mr. Trevor Bond, who joined as independent director in April.

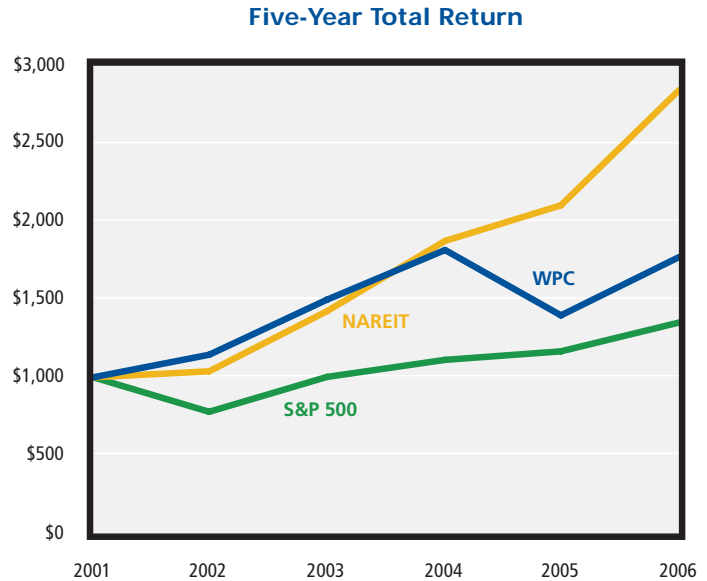
2007 is looking to be an exciting and productive year for W. P. Carey. We continue to seek and find attractive net lease investments that provide strong risk-adjusted returns. Our challenge will be to secure the most viable investments for our investors while maintaining the disciplined investment approach that has generated consistently superior returns for over thirty years.

We thank our board of directors for their dedication, wisdom, and guidance and we thank you – our investors, tenants, and employees – for your confidence and support as we anticipate new accomplishments and successes. It has been a pleasure working on your behalf in 2006 and we look forward to doing so again in 2007.

Sincerely,

Wm. Polk Carey
Chairman of the Board

Gordon F. DuGan
Chief Executive Officer and President





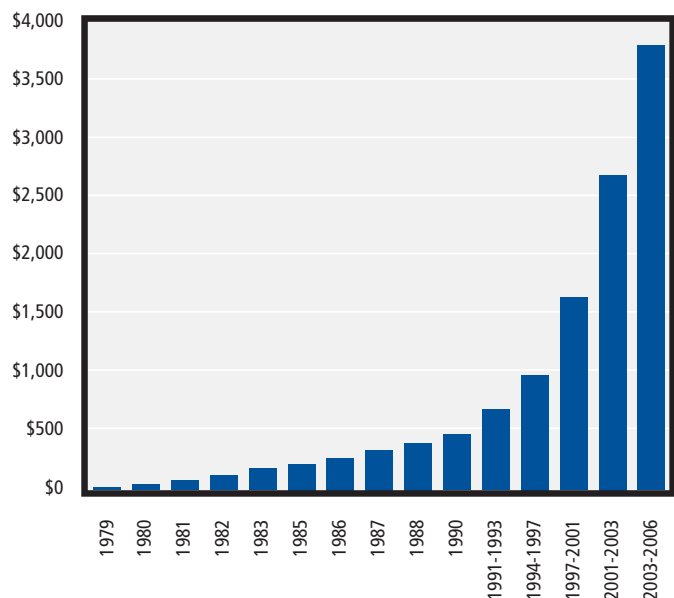
CONSISTENCY

Over the years, W. P. Carey has remained true to the core principles established at the founding of our company more than thirty years ago. Our expertise in real estate investment and structured finance has been our backbone since inception and will continue to guide us to future successes. It is our consistency – in sourcing transactions, raising capital and paying dividends to our investors – that has been the framework of our puzzle, the structural element that holds the other pieces together.

When our Chairman, Wm. Polk Carey, founded W. P. Carey in 1973, it was one of very few companies engaging in the net-lease of real estate assets. Back then, we were considered the pioneer of sale-leaseback transactions. Over the past 30 years, we have worked with more than 250 tenant companies and have built a portfolio for our managed entities and ourselves of close to 100 million square feet of real estate. Today, sale-leasebacks continue to be our bread and butter and we are a leader – the “first call” – among our peers. Although the climate is more competitive than ever, we continue to identify exceptional risk-adjusted opportunities both domestically and abroad.

W. P. Carey’s long tradition of selectively originating sale-leaseback transactions and actively managing these assets have produced attractive results for our CPA® investors. Twelve of the 15 CPA® funds have gone full cycle – the last one in 2006 – and have averaged an annual return of 11.56% over a 27-year period.

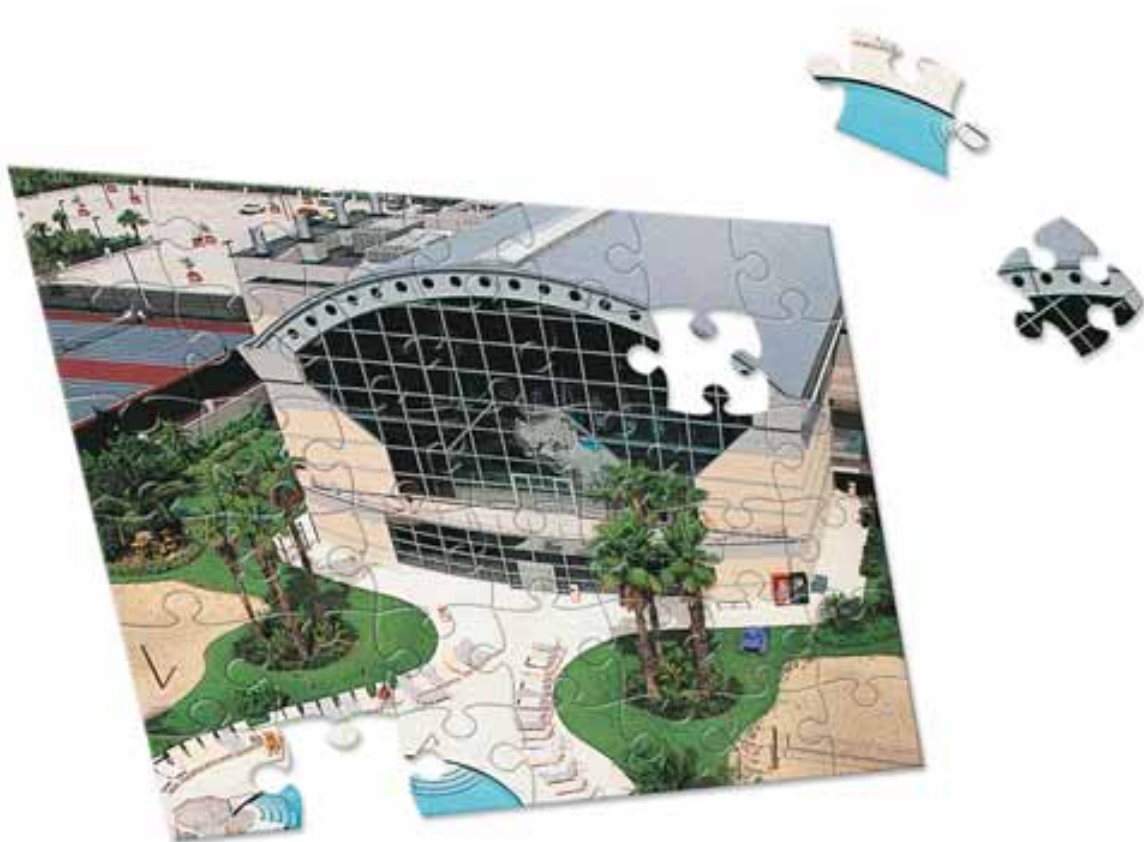
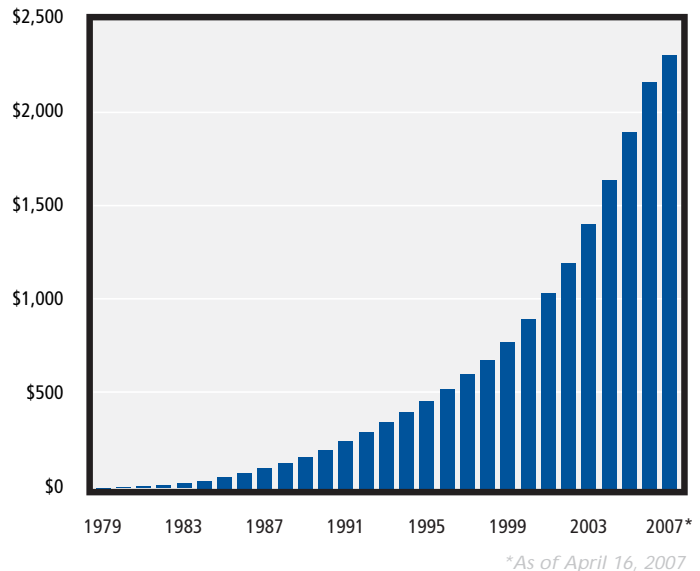
Cumulative Equity Raised
(Dollars in Millions)



Our track record, which is perhaps our most important asset, has enabled us to raise capital through all economic cycles, an achievement not shared by many. In 1979, we raised \$20 million for Corporate Property Associates; a quarter century later, from 2003 to 2006, we raised more than \$1.1 billion for CPA®:16 – Global. To date, we have raised nearly \$4 billion of equity in 15 funds and recently filed CPA®:17 – Global’s proposed \$2 billion offering, which we expect to launch later this year.

We are extremely proud of paying over \$2 billion through more than 700 distributions to our shareholders and the investors in our CPA® funds. We are pleased that we have been able to consistently deliver those results to our investors over time.

Cumulative Distributions Paid by WPC and our CPA® Funds
(Dollars in Millions)



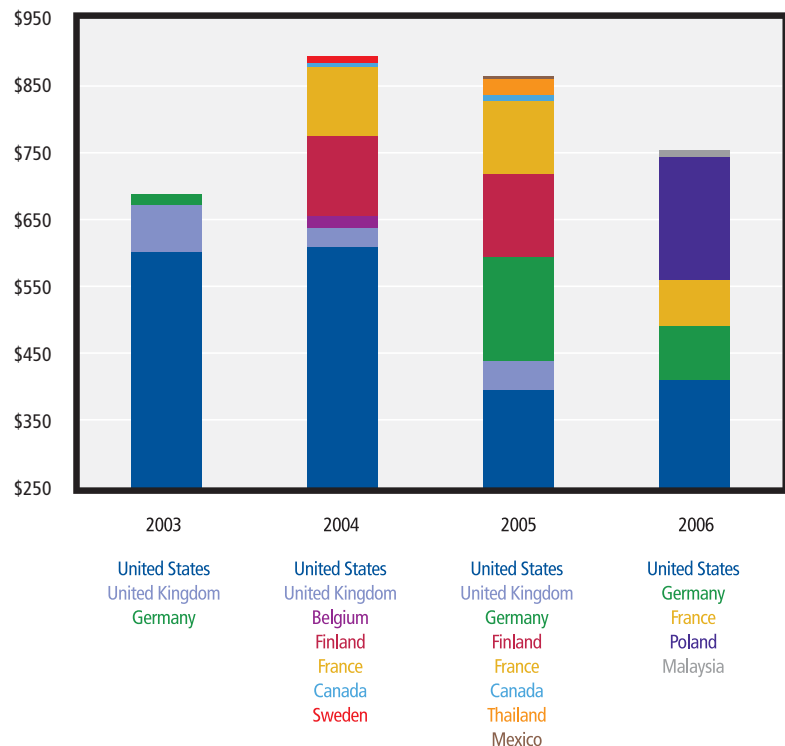
EXECUTION

Execution is finding the neighboring puzzle pieces and snapping them together one by one – raising funds for investment, structuring investments, actively managing our assets – until the picture in the puzzle is complete.

Over the last three decades, we have closed many transactions, both large and small. From one of our very first investments with The Gap, when it was still a small retailer of blue jeans in the late 1970's, to the funding we provided one of the first leveraged buyouts (Gibson Greetings) in 1982, to structuring a complex \$312 million transaction with U-Haul, we have worked with hundreds of companies, tailoring transactions to each company's individual needs. Many of these transactions lead the way to long-term relationships – a testament to our ability to design and execute complex financing structures and satisfy our diverse clientele.

This past year, we completed 25 transactions, valued at \$720 million, on behalf of our CPA® funds. These investments represented ten industries and five countries: the U.S., France, Germany, Poland and Malaysia. We continue to see significant opportunities internationally; last year 48% of our transactions were international and we closed our first deal in Malaysia. As with our domestic investments, we hope to cultivate these international relationships into longer term, multi-transaction partnerships.

Investment Volume
(Dollars in Millions)



Below are some investment highlights from 2006:

- On behalf of CPA[®]:15 and CPA[®]:16 – Global, we purchased several facilities from OBI AGI for \$183 million. Headquartered in Warsaw, Poland, OBI AG is the fourth largest Do-It-Yourself retailer in the world and operates stores in Poland, Austria, the Czech Republic, Germany, Hungary, Italy, Russia, and several other countries.

“We are committed to growing our operations throughout Central and Eastern Europe,” said Sergio Girolidi, CEO of OBI AG. *“In an effort to achieve these goals we reviewed several corporate financing options. We chose the sale-leaseback alternative with W. P. Carey because it made the most sense for our business strategy and will allow us to concentrate on our core competencies rather than our real estate. We are pleased to have completed this transaction and look forward to a future relationship with W. P. Carey.”*

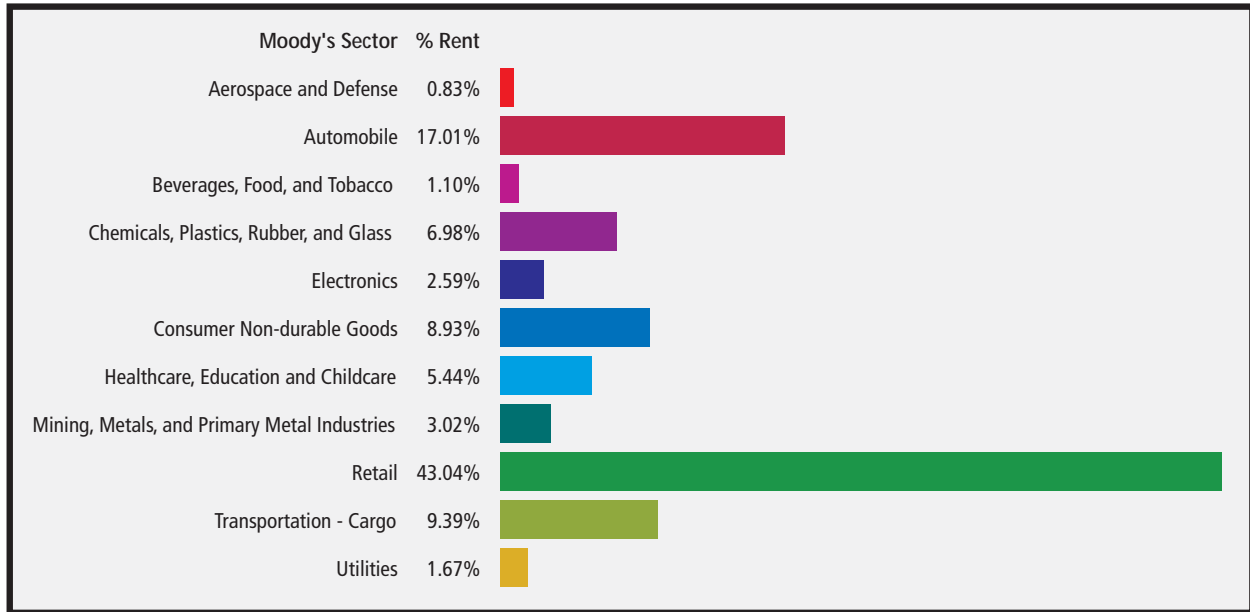
- CPA[®]:16 – Global committed approximately \$50 million in funding for the construction and development of a 255-room Hilton hotel in Bloomington, Minnesota. Anticipated to be completed in January 2008, the full-service hotel will feature several thousand square feet of meeting space, a business center, an indoor swimming pool, and a fitness center.
- In December, CPA[®]:16 – Global purchased a 61-property logistics portfolio for \$68 million through a sale-leaseback with Europe’s largest

commercial truck and industrial vehicle leasing company, French-owned Fraikin Group. Totaling more than one million square feet, the properties are situated throughout France, including prime locations in Paris, Lille, and Marseille. Founded more than 60 years ago, Fraikin serves the commercial fleet leasing needs of many of Europe’s most well-known companies in France, Spain, Poland, Switzerland, and Slovakia.

- We completed six private equity transactions in 2006, including a sale-leaseback transaction with Kings Super Markets, Inc., a premium food retailer with stores located primarily in northern New Jersey. The \$48 million, six-store sale-leaseback completed on behalf of CPA[®]:16 – Global helped fund the acquisition of the New Jersey supermarket chain by an investor group, consisting of Angelo, Gordon & Co., MTN Capital Partners LLC, and Bruce Weitz.

“W. P. Carey’s sale-leaseback was a key component in the financing of our acquisition of Kings Super Markets,” Brent Leffel, Managing Director at Angelo, Gordon, said. *“This was a difficult transaction given the three-week turnaround required to complete the sale-leaseback concurrently with our buyout. However, W. P. Carey was dependable and professional in its ability to close quickly. Angelo, Gordon looks forward to working with W. P. Carey again in the future on other deals.”*

2006 Transactions – Diversification by Industry
(Based on Current Annual Rents)



- While completing a \$312 million acquisition and lease-back of 78 U-Haul operated self-storage assets in April 2004, we became interested in the self-storage sector. It took more than one year to underwrite and complete the transaction, during which our investment team developed a strong knowledge of the industry. In 2006, we put that knowledge to use and acquired six self-storage properties worth \$24.8 million.

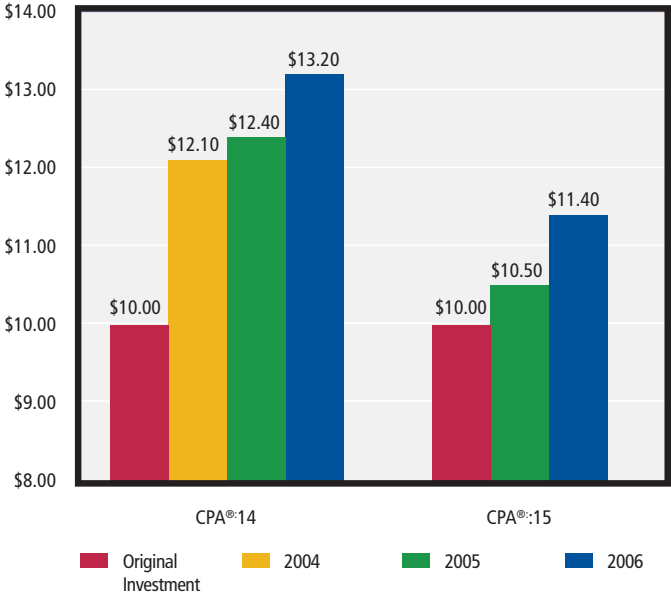
We strive to create and add value to our portfolio of owned and managed properties. Over the past several years, we have had occupancy rates well above industry averages. For 2006, we had an average of 99% occupancy in our portfolio of owned and managed assets – reflecting positively on our ability to restructure leases and sell or re-lease properties. This high occupancy rate translates to a stable revenue stream which, in turn, results in our ability to pay consistent dividends to our shareholders and to the investors in our CPA® funds.

RESULTS

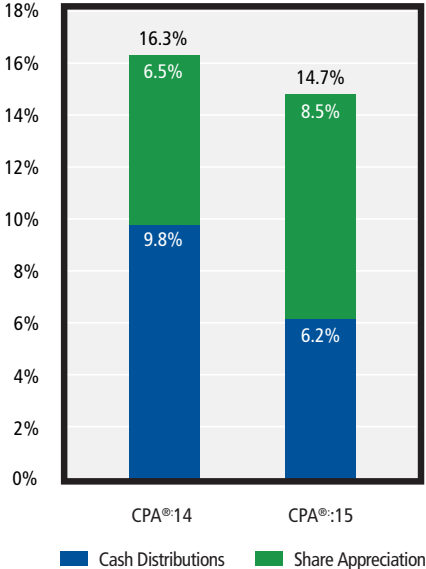
Results can be equated to the centerpiece of a puzzle – the piece that makes the picture complete. W. P. Carey’s results “piece” – the performance of our current CPA® funds, our growth in assets under management, and our strong balance sheet – fits right in with the rest of the puzzle to create the full picture and reflect the value of our enterprise as a whole.

We are focused on the performance of our CPA® funds as a critical part of our franchise. In 2006, CPA®:14’s total annual return, which includes both cash distributions as well as share appreciation, was 16.3% and CPA®:15’s was 14.7%. We are pleased with the performance of our funds but are also mindful that rising interest rates and other market conditions could have an adverse effect on their

Net Asset Value of Our CPA® Funds
(Dollars Per Share)



2006 Total Return of Our CPA® Funds



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. CPA®:16 – Global has not yet reached the date on which its independent appraisal will begin.

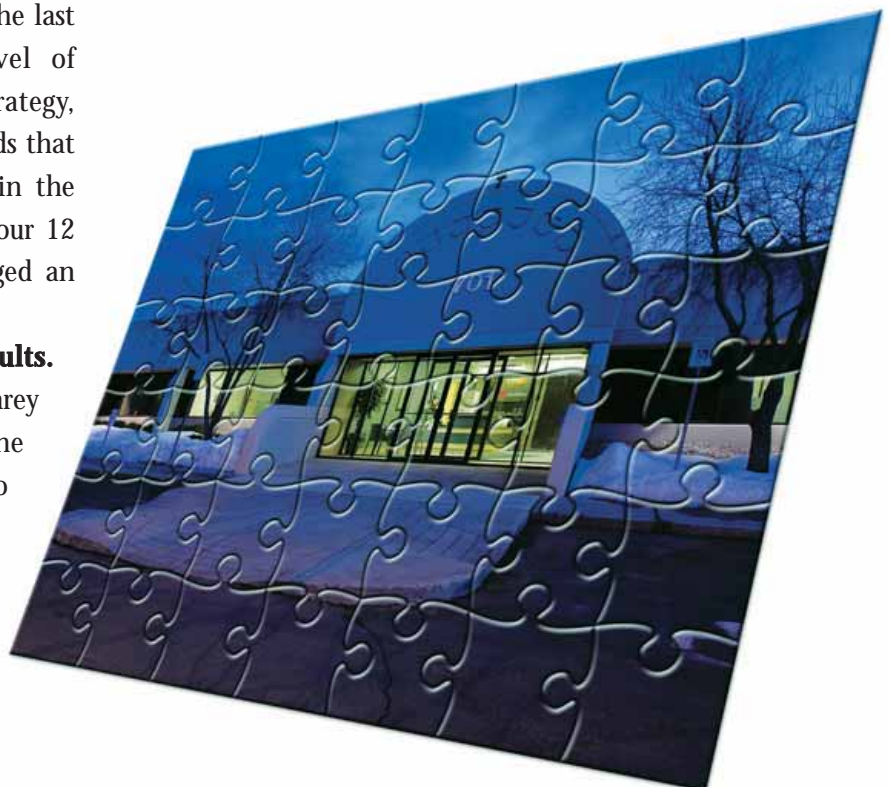
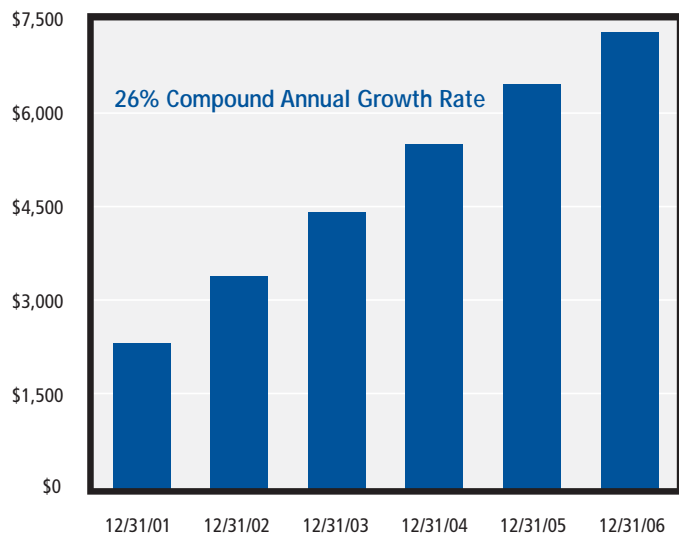
By the end of 2006, our CPA® assets under management reached a record \$7.3 billion, an increase of \$830 million – or 12.8% – from 2005 and up almost \$5 billion from 2001. In the last five years, our CPA® assets under management have grown at a compound annual rate of 26%. In 2006, approximately 60% of our revenues came from managing the assets of our CPA® funds. Therefore the growth in assets under management we have achieved and can sustain going forward is essential to the success of our enterprise.

W. P. Carey is very well positioned for the future: we have a strong cash flow, a low debt to equity ratio, and one of the strongest balance sheets in the industry. We have grown our business significantly in the last five years and maintained a level of discipline in our investment strategy, adding stability to our managed funds that has benefited our CPA® investors in the long-run; as mentioned previously, our 12 liquidated CPA® funds have averaged an annual return of 11.56%.

Consistency. Execution. Results.

Three pieces that make the W. P. Carey puzzle whole, the hallmarks of the W. P. Carey tradition. As we look to the future, we will continue to keep these three themes constant, as they are the building blocks of our broader success as a business and an organization.

CPA® Assets Under Management
(Dollars in Millions)



The W. P. Carey Group

North America

United States, Canada and Mexico

Europe

Belgium, Finland, France, Ireland, Germany, Poland,
Sweden, The Netherlands and United Kingdom

Asia

Malaysia and Thailand



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Forward-Looking Statements

This annual report, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, contains forward-looking statements that involve risks, uncertainties and assumptions. 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 1A - Risk Factors in 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.

As used in this annual report on Form 10-K, the terms “the Company,” “we,” “us” and “our” include W. P. Carey & Co. LLC, its consolidated subsidiaries and predecessors, unless otherwise indicated.

Selected Financial Data

<i>(In thousands except per share amounts)</i>	2006	2005	2004	2003	2002
Operating Data⁽¹⁾					
Revenues from continuing operations ⁽²⁾	\$ 273,258	\$ 168,784	\$ 219,552	\$ 151,379	\$ 144,006
Income from continuing operations	87,554	47,245	65,592	55,646	45,512
Basic earnings from continuing operations per share	2.32	1.25	1.75	1.52	1.23
Diluted earnings from continuing operations per share	2.25	1.21	1.68	1.45	1.20
Net income	86,303	48,604	65,841	62,878	46,588
Basic earnings per share	2.29	1.29	1.76	1.72	1.31
Diluted earnings per share	2.22	1.25	1.69	1.64	1.28
Cash provided by operating activities	119,940	52,707	98,849	67,295	75,896
Cash distributions paid	68,615	67,004	65,073	62,978	60,708
Cash distributions declared per share	1.82	1.79	1.76	1.73	1.72
Payment of mortgage principal ⁽³⁾	11,742	9,229	9,428	8,548	8,428
Balance Sheet Data					
Real estate, net ⁽⁴⁾	\$ 574,110	\$ 462,343	\$ 485,505	\$ 421,543	\$ 440,193
Net investment in direct financing leases	108,581	131,975	190,644	182,452	189,339
Total assets	1,093,010	983,262	1,013,539	906,505	893,524
Long-term obligations ⁽⁵⁾	279,314	247,298	294,629	211,426	237,806

(1) Certain prior year amounts have been reclassified from continuing operations to discontinued operations.

(2) Includes revenue earned in connection with CPA® REIT merger transactions in 2006 and 2004.

(3) Represents scheduled mortgage principal paid.

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

(5) Represents mortgage and note obligations and deferred acquisition revenue installments.

Management's Discussion and Analysis of Financial Condition and Results of Operations

(In thousands, except share and per share amounts)

Executive Overview

Business Overview

As described in more detail in Item 1 of our annual report on Form 10-K, we are a publicly traded limited liability company. Our stock is listed on the New York Stock Exchange. We operate in two operating segments, management services operations and real estate operations. Within our management services operations, we are currently the advisor to the following affiliated publicly-owned, non-traded, real estate investment trusts: Corporate Property Associates 14 Incorporated ("CPA[®]:14"), Corporate Property Associates 15 Incorporated ("CPA[®]:15") and Corporate Property Associates 16 – Global Incorporated ("CPA[®]:16 – Global") and served in this capacity for Corporate Property Associates 12 Incorporated ("CPA[®]:12") until its merger with CPA[®]:14 in December 2006 and Carey Institutional Properties Incorporated ("CIP[®]") until its merger with CPA[®]:15 in September 2004 (collectively, the "CPA[®] REITs").

Current Developments and Trends

Significant business developments that occurred during 2006 are detailed in the Significant Developments During 2006 section of Item 1 of our annual report on Form 10-K.

Current trends include:

During 2006, we continued to see intense competition in both the domestic and international markets for triple-net leased properties, as capital continued to flow into real estate, in general, and triple-net leased real estate, in particular. We believe that low long-term interest rates by historical standards have created greater investor demand for yield-based investments, such as triple-net leased real estate, thus creating increased capital flows and a more competitive investment environment. We currently expect these trends to continue in 2007 but currently believe that several factors may provide us with continued investment opportunities in 2007, both domestically and internationally. These factors include increased merger and acquisition activity, which may provide additional sale-leaseback opportunities as a source of funding, a continued desire of corporations to divest themselves of real estate holdings and increasing opportunities for sale-leaseback transactions in the international market, which continues to make up a large portion of our investment opportunities.

For the year ended December 31, 2006, international investments accounted for 48% of total investments made on behalf of the CPA[®] REITs. For the year ended December 31, 2005, international investments accounted for 54% of total investments. We currently expect international commercial real estate to continue to comprise a significant portion of the investments we make on behalf of the CPA[®] REITs, although the percentage of international investments in any given period may vary substantially.

Real estate valuations have risen significantly in recent years. We benefit from increases in the valuations of the CPA[®] REIT portfolios. To the extent that disposing of properties fits with our strategic plans, we may look to take advantage of the increase in real estate prices by selectively disposing of properties, particularly in the more mature portfolios that we manage.

Increases in long term interest rates would likely cause the value of our owned and managed assets to decrease, which would create lower revenues from managed assets and lower investment performance for the managed funds. Increases in interest rates may also have an impact on the credit quality of certain tenants. To the extent that the

Consumer Price Index (“CPI”) increases, additional rental income streams may be generated for leases with CPI adjustment triggers and partially offset the impact of declining property values. In addition, we constantly evaluate our debt exposure, and to the extent that opportunities exist to refinance and lock in lower interest rates over a longer term, we may be able to reduce our exposure to short term interest rate fluctuation.

Companies in automotive related industries (manufacturing, parts, services, etc.) continue to experience a challenging environment, which has resulted in several companies filing for bankruptcy protection in recent years. We currently have several automotive industry related tenants in the portfolios we manage, including our own portfolio. Some of these tenants have filed voluntary petitions of bankruptcy. As of December 31, 2006, tenants in the automotive industry in our portfolio and the portfolios we manage represented less than 1% of the asset carrying value of total real estate assets, respectively. If conditions in this industry worsen, additional tenants may file for bankruptcy protection and may disaffirm their leases as part of their bankruptcy reorganization plans. The net result of these trends may have an adverse impact on our asset management revenue. Despite these conditions, we continue to evaluate opportunities in these industries as we believe there still may be attractive investment opportunities.

How We Earn Revenue

As described in more detail in Item 1 of our annual report on Form 10-K, our management services operations earn revenue by providing services to the CPA® REITs in connection with structuring and negotiating investments and related debt placement (structuring revenue) and providing on-going management of the portfolio (asset-based management and performance revenue). The revenues 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 triple-net lease transactions, the requirement that each investment meet suitability standards and due diligence requirements, including approval of each investment by the investment committee, and the ability to raise capital on behalf of the CPA® REITs.

As described in more detail in Item 1 of our annual report on Form 10-K, our real estate operations earn revenue primarily from leasing real estate. We invest in and own commercial properties that we then lease to companies domestically and internationally, primarily on a triple-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. Because of our emphasis on growth of assets under management, we generally limit our direct acquisitions of properties, as described in Item 1 of our annual report on Form 10-K.

How Management Evaluates Results of Operations

Management evaluates our results of operations with a primary focus on increasing and enhancing the value, quality and amount of assets under management by our management services operations and seeking to increase value in our real estate operations. Management focuses its efforts on improving underperforming assets through re-leasing efforts, including negotiation of lease renewals, or selectively selling assets in order to increase value in our real estate portfolio. The ability to increase assets under management by structuring investments on behalf of the CPA® REITs is affected, among other things, by the CPA® REITs’ ability to raise capital and our ability to identify appropriate investments.

Management’s evaluation of operating results includes our ability to generate necessary cash flow in order to fund distributions to our shareholders. As a result, management’s assessment of operating results gives less emphasis to the effects of unrealized gains and losses, which may cause fluctuations in net income for comparable periods but have no impact on cash flows, and to other non-cash charges such as depreciation and impairment charges. Management does not consider unrealized gains and losses resulting from short-term foreign currency fluctuations when evaluat-

ing our ability to fund distributions. Management's evaluation of our potential for generating cash flow includes an assessment of the long-term sustainability of both our real estate portfolio and the assets we manage on behalf of the CPA® REITs.

Management considers cash flows from operations, cash flows from investing activities and cash flows from financing activities to be important measures in the evaluation of our results of operations, liquidity and capital resources. Cash flows from operations are sourced primarily by revenues earned from structuring investments and providing asset-based management services on behalf of the CPA® REITs we manage and long-term lease contracts from our real estate operations. Management's evaluation of the amount and expected fluctuation of cash flows from operations is essential in evaluating our ability to fund operating expenses, service debt and fund distributions to shareholders.

Management considers cash flows from operating activities plus cash distributions from equity investments in real estate in excess of equity income as a supplemental measure of liquidity in evaluating our ability to sustain distributions to shareholders. Management considers this measure useful as a supplemental measure to the extent the source of distributions in excess of equity income is the result of non-cash charges, such as depreciation and amortization, because it allows management to evaluate such cash flows from consolidated and unconsolidated investments in a comparable manner. In deriving this measure, cash distributions from equity investments in real estate that are sourced from sales of equity investee's assets or refinancing of debt are excluded because they are deemed to be returns of investment and not returns on investment.

Management focuses on measures of cash flows from investing activities and cash flows from financing activities in its evaluation of our capital resources. Investing activities typically consist of the acquisition or disposition of investments in real property and the funding of capital expenditures with respect to real properties. Cash flows from financing activities primarily consist of the payment of distributions to shareholders, borrowings and repayments under our lines of credit and the payment of mortgage principal amortization.

Results of Operations

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

MANAGEMENT SERVICES — This business segment includes management services performed for the CPA® REITs pursuant to advisory agreements. This business line also includes interest on deferred revenue and earnings from unconsolidated investments in the CPA® REITs accounted for under the equity method which were received in lieu of cash for certain payments due under the advisory agreements. In connection with maintaining our status as a publicly traded partnership, this business segment is carried out largely by corporate subsidiaries which 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.

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

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

Management Services Operations

	Years ended December 31,					
	2006	2005	Change	2005	2004	Change
Revenues						
Asset management revenue	\$ 57,633	\$ 52,332	\$ 5,301	\$ 52,332	\$ 45,806	\$ 6,526
Structuring revenue	22,506	28,197	(5,691)	28,197	33,675	(5,478)
Incentive, termination and subordinated disposition revenue from mergers	46,018	—	46,018	—	53,588	(53,588)
Reimbursed costs from affiliates	63,630	9,962	53,668	9,962	15,388	(5,426)
Other income	—	372	(372)	372	(1,303)	1,675
	<u>189,787</u>	<u>90,863</u>	<u>98,924</u>	<u>90,863</u>	<u>147,154</u>	<u>(56,291)</u>
Operating Expenses						
General and administrative	(35,742)	(39,458)	3,716	(39,458)	(30,107)	(9,351)
Reimbursable costs	(63,630)	(9,962)	(53,668)	(9,962)	(15,388)	5,426
Depreciation and amortization	(7,643)	(5,602)	(2,041)	(5,602)	(9,366)	3,764
	<u>(107,015)</u>	<u>(55,022)</u>	<u>(51,993)</u>	<u>(55,022)</u>	<u>(54,861)</u>	<u>(161)</u>
Other Income and Expenses						
Other interest income	2,853	3,176	(323)	3,176	2,822	354
Income from equity investments in real estate	5,002	2,092	2,910	2,092	1,643	449
Minority interest in loss (income)	892	235	657	235	(1,010)	1,245
Gain on foreign currency transactions and other gains, net	6,521	2,000	4,521	2,000	—	2,000
	<u>15,268</u>	<u>7,503</u>	<u>7,765</u>	<u>7,503</u>	<u>3,455</u>	<u>4,048</u>
Income from continuing operations before income taxes	98,040	43,344	54,696	43,344	95,748	(52,404)
Provision for income taxes	(44,710)	(18,662)	(26,048)	(18,662)	(49,546)	30,884
Net income from management services operations	<u>\$ 53,330</u>	<u>\$ 24,682</u>	<u>\$ 28,648</u>	<u>\$ 24,682</u>	<u>\$ 46,202</u>	<u>\$ (21,520)</u>

Asset Management Revenue

We earn asset management revenue (asset-based management and performance revenue) from the CPA® REITs based on assets under management. As funds available to the CPA® REITs are invested, the asset base for which we earn revenue increases. The asset management revenue that we earn may increase or decrease depending upon (i) increases in the CPA® REIT asset bases as a result of new investments; (ii) decreases in the CPA® REIT asset bases resulting from sales of investments; or (iii) increases or decreases in the asset valuations of CPA® REIT funds (which are not recorded for financial reporting purposes).

2006 VS. 2005 — For the years ended December 31, 2006 and 2005, asset management revenue increased \$5,301 primarily due to a net increase in our assets under management as a result of recent investment activity of

the CPA® REITs, including the investment by CPA®:16 – Global of proceeds from its public offerings, as well as increases in the annual asset valuations of the CPA® REITs, including CPA®:15, which had its initial appraisal in December 2005. The acquisition of properties from CPA®:12 (the “CPA®:12 Acquisition”) for \$126,006 prior to its merger with CPA®:14 (the “CPA®:12/14 Merger”) in December 2006 had minimal impact on our asset management revenue for 2006, but will result in a decrease in these revenues of approximately \$1,300 in 2007.

A portion of the CPA® REIT asset management revenue 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 had not yet been satisfied as of December 31, 2006, resulting in our deferral of \$5,527 in performance revenue for the year ended December 31, 2006. Since the inception of CPA®:16 – Global, we have deferred cumulative performance revenue of \$10,045. We will only be able to recognize this revenue if the performance criterion is met. The performance criterion for CPA®:16 – Global is a cumulative, non-compounded distribution return to shareholders of 6%. As of December 31, 2006, CPA®:16 – Global’s current distribution rate was 6.44% and its cumulative distribution return was 5.87%. Based on our current assessment, CPA®:16 – Global is expected to meet the cumulative performance criterion during the second quarter of 2007, at which time we would recognize the cumulative deferred revenue. There is no assurance that the performance criterion will be achieved as projected as it is dependent on, among other factors, the performance of properties that CPA®:16 – Global invests in generating income in excess of the performance criterion as well as on the distribution rates that may be set by CPA®:16 – Global’s board of directors. If the performance criterion is achieved, deferred incentive and commission compensation related to achievement of the performance criterion in the amount of approximately \$5,900 (exclusive of interest) as of December 31, 2006, would become payable by us to certain employees.

2005 VS. 2004 — For the years ended December 31, 2005 and 2004, asset management revenue increased \$6,526 primarily due to an increase of \$7,475 in revenue arising from an increase in assets under management, as described above. This increase was partially offset by a decrease of \$949 in asset management revenues as a result of the acquisition of properties from CIP® (the “CIP® Acquisition”) for \$142,161 prior to its merger with CPA®:15 (the “CIP®/CPA®:15 Merger”) in September 2004.

Structuring Revenue

Structuring revenue includes current and deferred acquisition revenue from structuring investments and financing on behalf of the CPA® REITs. Investment activity is subject to significant period-to-period variation. As described above in the Current Developments and Trends section above, we continue to face intense competition for investments in commercial properties both domestically and internationally.

2006 VS. 2005 — For the years ended December 31, 2006 and 2005, structuring revenue decreased \$5,691, primarily due to a reduction in investment volume and a change in the mix of investment volume between the CPA® REITs. We structured investments totaling \$720,000 and \$865,000 for the years ended December 31, 2006 and 2005, respectively. Approximately 76% of these investments were structured for CPA®:16 – Global in 2006 as compared with approximately 68% for 2005. As CPA®:16 – Global has not achieved its performance criterion, no deferred acquisition revenue was recorded for these investments. The increase in the percentage of investments structured on behalf of CPA®:16 – Global resulted in a larger deferral of revenue until CPA®:16 – Global’s performance criterion is achieved. The reduction in structuring revenue was partially offset by our having charged a reduced fee on an investment completed on behalf of CPA®:16 – Global during the first quarter of 2005.

As discussed above, a portion of the CPA® REIT structuring revenue 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, 2006, resulting in our deferral of \$10,809 in structuring rev-

enue for the year ended December 31, 2006. Since the inception of CPA[®]:16 – Global, we have deferred cumulative structuring revenue of \$28,517 and interest thereon of \$1,928. We will only be able to recognize this revenue if the performance criterion is met. The current status and anticipated future achievement of the performance criterion is discussed above. Given that we expect CPA[®]:16 – Global to represent a significant portion of our 2007 investment volume relative to the other CPA[®] REITs, structuring revenue in 2007 is likely to continue to decrease until the performance criterion is met, which we currently anticipate occurring in the second quarter of 2007.

2005 VS. 2004 — For the years ended December 31, 2005 and 2004, structuring revenue decreased \$5,478 primarily due to the same reasons described above. We structured approximately \$865,000 of investments for the year ended December 31, 2005 as compared with approximately \$890,000 in 2004. Approximately 68% of investments structured during the year ended December 31, 2005 related to CPA[®]:16 – Global as compared with approximately 45% in 2004. The increase in the percentage of investments structured on behalf of CPA[®]:16 – Global resulted in a larger deferral of revenue until CPA[®]:16 – Global's performance criterion is achieved.

Incentive, Termination and Subordinated Disposition Revenue from Mergers

Incentive, termination and disposition revenues are generally earned in connection with events which provide liquidity or alternatives to the CPA[®] REIT shareholders. These events do not occur every year and no such event occurred in 2005.

2006 VS. 2005 — In connection with the CPA[®]:12/14 Merger in December 2006, we earned termination revenue of \$25,379 and subordinated disposition revenue of \$24,418 from CPA[®]:12. Subordinated disposition revenue of \$3,779 due from CPA[®]:12 related to properties we acquired from CPA[®]:12 was not recognized as income but reduced the cost of the properties we acquired.

We agreed to waive any structuring revenue due from CPA[®]:14 under its advisory agreement with us in connection with this merger. We also agreed to waive any disposition revenues that may subsequently be payable by CPA[®]:14 to us upon a sale of the assets they acquired from CPA[®]:12 in the merger.

2005 VS. 2004 — In connection with the CIP[®]/CPA[®]:15 Merger in September 2004, we earned incentive revenue of \$23,681, subordinated disposition revenue of \$18,414 and structuring revenue of \$11,493 from CIP[®]. Subordinated disposition revenue of \$4,265 due from CIP[®] related to properties we acquired from CIP[®] was not recognized as income but reduced the cost of the properties we acquired.

Reimbursed and Reimbursable Costs

Reimbursed costs from affiliates (revenue) and reimbursable costs (expenses) represent costs incurred by us on behalf of the CPA[®] REITs, primarily broker-dealer commissions and marketing and personnel costs, which are reimbursed by the CPA[®] REITs. Revenue from reimbursed costs from affiliates is offset by corresponding charges to reimbursable costs and as such there is no impact on net income related to this income.

2006 VS. 2005 — For the years ended December 31, 2006 and 2005, reimbursed and reimbursable costs increased \$53,668, primarily due to broker-dealer commissions and marketing costs related to CPA[®]:16 – Global's second public offering, which commenced in March 2006 and was completed in December 2006.

2005 VS. 2004 — For the years ended December 31, 2005 and 2004, reimbursed and reimbursable costs decreased \$5,426, primarily due to broker-dealer commissions related to CPA[®]:16 – Global's initial public offering. This offering was terminated in March 2005, and as a result we incurred and were reimbursed less in 2005 than in 2004.

General and Administrative

2006 VS. 2005 — For the years ended December 31, 2006 and 2005, general and administrative expenses decreased \$3,716 primarily due to reductions in business development expenses of \$2,884 and professional fees of \$2,148. These decreases were partially offset by an increase in compensation related costs of \$1,307.

The decrease in business development related expenses was primarily the result of reductions in advertising costs and costs associated with potential investment opportunities that were ultimately not pursued. In addition, during 2005 we wrote off approximately \$811 of costs due to the withdrawal of Corporate Property Associates International Incorporated's ("CPAI") registration statement related to its proposed public offering of common stock. The decrease in professional fees was primarily due to reduced legal related costs related to ongoing securities law compliance, including compliance with the Sarbanes-Oxley Act, costs associated with the ongoing SEC investigation and legal expenses associated with our settlement in 2005 for a build-to-suit development management agreement with the Los Angeles Unified School District. The increase in compensation related costs was primarily due to severance costs of \$2,100 recognized in 2006 related to several former employees.

2005 VS. 2004 — For the years ended December 31, 2005 and 2004, general and administrative expenses increased \$9,351 primarily due to increases in professional fees of \$4,114, business development related expenses of \$2,862 and other office expenses of \$2,205.

The increase in professional fees was primarily related to ongoing securities law compliance, including increased costs of compliance with the Sarbanes-Oxley Act, an increase in costs associated with the ongoing SEC investigation and legal expenses associated with the district settlement referred to above and other legal matters. The increase in business development expenses is a combination of increased advertising expenses and increased costs associated with potential investment opportunities that were ultimately not pursued. Also included in business development expenses for 2005 is the write-off of approximately \$811 in CPAI registration statement costs as described above. The increase in office expenses is mainly attributable to the consolidation, since January 1, 2005, of the results of operations of a limited partnership that was previously established to administer an office sharing agreement. As a result, rental and other office sharing expenses have increased compared with 2004, although this increase is partially offset by a corresponding decrease in minority interest in income.

Depreciation and Amortization

2006 VS. 2005 — For the years ended December 31, 2006 and 2005, depreciation and amortization expense increased by \$2,041. The increase is primarily due to accelerated amortization on intangible assets related to a management contract with CPA[®]:12, which was terminated as a result of the CPA[®]:12/14 Merger.

2005 VS. 2004 — For the years ended December 31, 2005 and 2004, depreciation and amortization expense decreased by \$3,764. The decrease is primarily due to \$2,798 of accelerated amortization and \$1,445 of scheduled amortization in 2004 on certain intangible assets related to a management contract with CIP[®] that was terminated as a result of the CIP[®]/CPA[®]:15 Merger and resulted in no corresponding amortization expense in 2005. These decreases were partially offset by additional depreciation expense in 2005 as a result of an increase in our average fixed asset base as a result of assets acquired in the CIP[®] Acquisition.

Income from Equity Investments in Real Estate

Income from equity investments in real estate represents our proportionate share of net income (revenues less expenses) from our investments in the CPA[®] REITs in which we have a non-controlling interest but exercise significant influence.

2006 VS. 2005 — For the years ended December 31, 2006 and 2005, income from equity investments in real estate increased by \$2,910, primarily due to the recognition of our share of the overall increase in net income of the CPA® REITs compared to 2005. The increase is also the result of receiving restricted shares in consideration for base asset management and performance revenue from certain of the CPA® REITs.

2005 VS. 2004 — For the years ended December 31, 2005 and 2004, income from equity investments in real estate increased \$449, primarily due to an increase in our ownership of shares in the CPA® REITs as a result of receiving restricted shares in consideration for base asset management and performance revenue from certain of the CPA® REITs.

Gain on Foreign Currency Transactions and Other Gains, Net

2006 — We recognized a gain of \$6,521 during 2006, in accordance with SFAS 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities”, from the disposal of our interests in CPA®:12 in the CPA®:12/14 Merger. We owned 2,134,140 shares of CPA®:12 at the time of the merger and elected to receive \$9,861 in cash and 1,022,800 shares of CPA®:14 stock (see Merger of CPA®:12 and CPA®:14 in Item 1 of our annual report on Form 10-K).

2005 — We recognized a non-cash gain of \$2,000 during 2005 as a result of entering into a settlement agreement with the Los Angeles Unified School District and certain other parties in connection with a build-to-suit development management agreement. The income represents the deferral of a portion of the gain on sale of land to the district in 2002.

Provision for Income Taxes

2006 VS. 2005 — For the years ended December 31, 2006 and 2005, the provision for income taxes increased \$26,048 due to increased pre-tax earnings in 2006 primarily as a result of the revenue earned in connection with the CPA®:12/14 Merger. Approximately 78% of our management revenue in 2006 was earned by a taxable, wholly owned subsidiary. The effective tax rate for 2006 was 46% as compared to 43% in 2005.

2005 VS. 2004 — For the years ended December 31, 2005 and 2004, the provision for income taxes decreased \$30,884 due to decreased pre-tax earnings in 2005 primarily as a result of revenue earned in 2004 in connection with the CIP®/CPA®:15 Merger and a decrease in the effective tax rate. Approximately 86% of our management revenue in 2005 was earned by a taxable, wholly owned subsidiary. The effective tax rate for 2005 was 43% as compared to 52% in 2004. The decrease is primarily due to a significant portion of our 2004 revenue being earned in states with higher tax rates.

Net Income from Management Services Operations

2006 VS. 2005 — For the years ended December 31, 2006 and 2005, net income from management services operations increased by \$28,648, primarily due to revenue we earned in 2006 totaling approximately \$25,000, net of taxes, in connection with the CPA®:12/14 Merger. In accordance with SFAS 140, we recognized a gain of \$6,521 on the disposal of our shares in CPA®:12. An increase in asset management revenue resulting primarily from the growth in assets under management was offset by a reduction in structuring revenue primarily due to lower investment volume in 2006 as compared to 2005. These variances are described above.

2005 VS. 2004 — For the years ended December 31, 2005 and 2004, net income from management services operations decreased \$21,520 primarily due to the revenue we earned in 2004 related to the CIP®/CPA®:15 Merger. The net of tax impact of revenue earned from this merger approximated \$27,000. A reduction in structuring revenue as a result of lower investment volume in 2005 as compared to 2004 and an increase in the percentage

of investments structured for CPA[®]:16 – Global also contributed to the decrease in net income from management services operations in 2005, as did the increase in general and administrative expenses described above. These decreases were partially offset by the increased income from other business operations and decreased depreciation and amortization expense as described above.

Real Estate Operations

	Years ended December 31,					
	2006	2005	Change	2005	2004	Change
Revenues						
Lease revenues	\$ 74,090	\$ 67,215	\$ 6,875	\$ 67,215	\$ 59,747	\$ 7,468
Other real estate income	9,381	10,706	(1,325)	10,706	12,651	(1,945)
	<u>83,471</u>	<u>77,921</u>	<u>5,550</u>	<u>77,921</u>	<u>72,398</u>	<u>5,523</u>
Operating Expenses						
General and administrative	(5,752)	(5,761)	9	(5,761)	(5,490)	(271)
Depreciation and amortization	(18,405)	(15,350)	(3,055)	(15,350)	(11,807)	(3,543)
Property expenses	(7,046)	(6,932)	(114)	(6,932)	(5,329)	(1,603)
Impairment charges and loan losses	(1,147)	(5,704)	4,557	(5,704)	(12,899)	7,195
Other real estate expenses	(5,881)	(6,327)	446	(6,327)	(6,261)	(66)
	<u>(38,231)</u>	<u>(40,074)</u>	<u>1,843</u>	<u>(40,074)</u>	<u>(41,786)</u>	<u>1,712</u>
Other Income and Expenses						
Other interest income	580	335	245	335	270	65
Income from equity investments in real estate	2,606	3,090	(484)	3,090	3,665	(575)
Minority interest in income	(1,704)	(499)	(1,205)	(499)	(489)	(10)
Gain (loss) on sale of securities, foreign currency transactions and other gains, net	6,422	(695)	7,117	(695)	1,222	(1,917)
Interest expense	(18,139)	(16,787)	(1,352)	(16,787)	(14,453)	(2,334)
	<u>(10,235)</u>	<u>(14,556)</u>	<u>4,321</u>	<u>(14,556)</u>	<u>(9,785)</u>	<u>(4,771)</u>
Income from continuing operations before income taxes	35,005	23,291	11,714	23,291	20,827	2,464
Provision for income taxes	(781)	(728)	(53)	(728)	(1,437)	709
Income from continuing operations	<u>34,224</u>	<u>22,563</u>	<u>11,661</u>	<u>22,563</u>	<u>19,390</u>	<u>3,173</u>
(Loss) income from discontinued operations	<u>(1,251)</u>	<u>1,359</u>	<u>(2,610)</u>	<u>1,359</u>	<u>249</u>	<u>1,110</u>
Net income from real estate operations	<u>\$ 32,973</u>	<u>\$ 23,922</u>	<u>\$ 9,051</u>	<u>\$ 23,922</u>	<u>\$ 19,639</u>	<u>\$ 4,283</u>

The presentation of results of operations for our real estate operations for the year ended December 31, 2006 was affected by our adoption of EITF 04-05 effective January 1, 2006. As a result of adopting EITF 04-05, we now consolidate an investment in a property leased to CheckFree Holdings Corporation Inc. that was previously accounted for as an equity investment in real estate. This contributed to the increases described below for lease revenues, depreciation and amortization and interest expense. This also resulted in a decrease of \$1,129 in income from equity investments in real estate and an increase of \$949 in minority interest in income as compared to 2005.

Our real estate operations consist of the investment in and the leasing of commercial real estate. Management's evaluation of the sources of lease revenues for the years ended December 31, 2006, 2005 and 2004, are as follows:

	Years ended December 31,		
	2006	2005	2004
Rental income	\$ 60,640	\$ 51,764	\$ 44,236
Interest income from direct financing leases	13,450	15,451	15,511
	<u>\$ 74,090</u>	<u>\$ 67,215</u>	<u>\$ 59,747</u>

We earned net lease revenues (i.e., rental income and interest income from direct financing leases) from our direct ownership of real estate from the following lease obligations:

	Years ended December 31,		
	2006	2005	2004
Bouygues Telecom, S.A. ^{(a) (b)}	\$ 4,786	\$ 4,674	\$ 4,436
Detroit Diesel Corporation ⁽ⁱ⁾	4,615	4,396	4,158
CheckFree Holdings Corporation Inc. ^{(b) (c)}	4,604	—	—
Dr Pepper Bottling Company of Texas	4,444	4,382	4,334
Orbital Sciences Corporation ^(d)	3,023	3,023	2,747
Titan Corporation ^(e)	2,912	2,898	965
America West Holdings Corp.	2,838	2,838	2,838
AutoZone, Inc.	2,320	2,326	2,362
Quebecor Printing, Inc. ⁽ⁱ⁾	1,941	1,941	1,523
Sybron Dental Specialties Inc.	1,770	1,770	1,770
Unisource Worldwide, Inc.	1,694	1,609	1,705
BE Aerospace, Inc.	1,575	1,580	1,585
CSS Industries, Inc. ⁽ⁱ⁾	1,570	1,380	1,637
Eagle Hardware & Garden, Inc., a wholly owned subsidiary of Lowe's Companies Inc. ⁽ⁱ⁾	1,543	1,549	1,306
Lucent Technologies, Inc. ^(e)	1,518	1,518	524
Sprint Spectrum, L.P.	1,425	1,425	1,425
Enviro Works, Inc. ^(e)	1,326	1,254	433
AT&T Corporation	1,259	1,259	1,259
BellSouth Telecommunications, Inc.	1,224	1,224	1,224
Werner Corporation ^(g)	1,206	—	—
United States Postal Service	1,175	1,233	1,233
Omnicom Group Inc. ^(e)	1,168	1,140	378
Swat-Fame, Inc. ^{(i) (j)}	1,120	1,239	1,086
Other ^{(a) (b) (e) (h)}	23,034	22,557	20,819
	<u>\$ 74,090</u>	<u>\$ 67,215</u>	<u>\$ 59,747</u>

- (a) Revenue amounts are subject to fluctuations in foreign currency exchange rates.
- (b) Lease revenues applicable to minority interests in the consolidated amounts above total \$4,030, \$1,677 and \$1,597 as of December 31, 2006, 2005 and 2004, respectively.
- (c) Property is consolidated beginning January 1, 2006 as a result of implementation of EITF 04-05.
- (d) Increase is due to rent increase in 2004.
- (e) Includes the CIP® real estate interests acquired in September 2004.
- (f) Decrease in 2005 due to a reduction in the estimated residual value of property under direct finance lease. Property reclassified as an operating lease from a direct financing lease in January 2006.
- (g) New tenant at existing property.
- (h) Includes the CPA®:12 real estate interests acquired in December 2006.
- (i) Increase is due to rent increase in 2005.
- (j) Tenant vacated a portion of this property in September 2006.

We recognize income from equity investments in real estate of which lease revenues are a significant component. Our ownership interests range from 33% to 60%. Our share of net lease revenues in the following lease obligations is as follows:

	Years ended December 31,		
	2006	2005	2004
Carrefour France, SA ^{(a) (g)}	\$ 4,054	\$ 3,496	\$ 3,417
Federal Express Corporation	2,727	2,697	2,668
Information Resources, Inc.	1,863	1,698	1,644
Sicor, Inc. ^(c)	1,671	1,671	557
Hologic, Inc.	1,141	1,136	1,136
Childtime Childcare, Inc.	512	472	472
Consolidated Systems, Inc. ^(f)	287	—	—
Medica – France, SA ^{(a) (b)}	173	—	—
The Retail Distribution Group ^(b)	26	—	—
CheckFree Holdings Corporation Inc. ^(d)	—	2,247	2,180
Titan Corporation ^(e)	—	—	354
	<u>\$ 12,454</u>	<u>\$ 13,417</u>	<u>\$ 12,428</u>

- (a) Revenue amounts are subject to fluctuations in foreign currency exchange rates.
- (b) Includes the CPA®:12 real estate interests acquired in December 2006.
- (c) Includes the CIP® real estate interests acquired in September 2004.
- (d) Property is consolidated beginning January 1, 2006 as a result of implementation of EITF 04-05.
- (e) We acquired the remaining interest in this property with the September 2004 acquisition of CIP® real estate interests.
- (f) We acquired our interest in this property in 2006.
- (g) We increased our interest in this property in December 2006 as a result of the CPA®:12 Acquisition.

Lease Revenues

2006 VS. 2005 — For the years ended December 31, 2006 and 2005, lease revenues (rental income and interest income from direct financing leases) increased by \$6,875 primarily due to the consolidation of an investment that we previously accounted for as an equity investment in real estate, rent increases and new lease activity at existing properties and to a lesser extent, revenue earned from properties acquired in the CPA®:12 Acquisition in December

2006. As a result of adopting EITF 04-05 effective January 1, 2006, we recognized revenue of \$4,605 from the consolidation of our investment in a property leased to CheckFree Holdings. Rent increases and rent from new tenants at existing properties contributed \$2,402 while lease revenue from the CPA[®]:12 Acquisition contributed \$405 of the increase. These increases were partially offset by a lease expiration in July 2006.

2005 VS. 2004 — For the years ended December 31, 2005 and 2004, lease revenues increased \$7,468 primarily due to \$7,126 in revenue from properties acquired in the CIP[®] Acquisition in September 2004, \$1,530 in rent increases from existing tenants and \$448 of rent increases from new tenants at existing properties. These increases were partially offset by a reduction in rent of \$1,272 primarily due to lease expirations at certain properties and a reduction of \$734 in interest income from direct financing leases for financial reporting purposes as a result of reducing estimated residual values on several leases.

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.

Other Real Estate Income

Other real estate income generally consists of revenue from other business operations of Livho, Inc., a Holiday Inn hotel franchise that we operate at our property in Livonia, Michigan and from our domestic self-storage properties as well as lease termination payments and other non-rent related revenues from real estate operations 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.

2006 VS. 2005 — For the years ended December 31, 2006 and 2005, other operating income decreased by \$1,325, primarily due to the receipt of bankruptcy proceeds of \$1,169 during the year ended December 31, 2005.

2005 VS. 2004 — For the years ended December 31, 2005 and 2004, other operating income decreased by \$1,945. The decrease is primarily due to a reduction of \$2,620 in settlement proceeds received from outstanding bankruptcy claims which were partially offset by an increase of \$570 in reimbursable tenant costs. Actual recoveries of reimbursable tenant costs are recorded as both revenue and expense and therefore have no impact on net income.

Depreciation and Amortization

2006 VS. 2005 — For the years ended December 31, 2006 and 2005, depreciation and amortization expense increased by \$3,055 primarily due to depreciation of \$1,744 from the reclassification of a property as an operating lease that we previously accounted for as a direct financing lease and depreciation of \$935 related to the consolidation of our investment in the CheckFree Holdings property that we previously accounted for as an equity investment in real estate. Depreciation and amortization from assets acquired in the CPA[®]:12 Acquisition contributed an additional \$309 of the increase.

2005 VS. 2004 — For the years ended December 31, 2005 and 2004, depreciation and amortization expense increased by \$3,543. The increase is primarily due to \$4,292 of depreciation and amortization expense related to the CIP[®] Acquisition in September 2004.

Property Expenses

2006 VS. 2005 — For the years ended December 31, 2006 and 2005, property expenses remained relatively unchanged at \$7,046 and \$6,932, respectively.

2005 VS. 2004 — For the years ended December 31, 2005 and 2004, property expenses increased \$1,603 primarily due to increases in property related expenses such as legal and professional fees at specific properties and increases in reimbursable tenant costs. Actual recoveries of reimbursable tenant costs are recorded as both revenue and expense and therefore have no impact on net income.

Impairment Charges and Loan Losses

For the years ended December 31, 2006, 2005 and 2004, we recorded impairment charges and loan losses related to our continuing real estate operations totaling \$1,147, \$5,704 and \$12,899, respectively. The table below summarizes the impairment charges recorded for the past three fiscal years for both assets held for use and assets held for sale:

Property	2006 Impairment Charges	2005 Impairment Charges	2004 Impairment Charges	Reason
West Mifflin, Pennsylvania	\$ 817	\$ 2,684	\$ —	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
Livonia, Michigan	—	1,130	7,500	Decline in asset value
Various properties	330	1,890	1,812	Decline in unguaranteed residual value of properties or decline in asset value
Impairment charges and loan losses from continuing operations	<u>\$ 1,147</u>	<u>\$ 5,704</u>	<u>\$ 12,899</u>	
Amberly Village, Ohio	\$ 3,200	\$ 9,450	\$ —	Property sold for less than carrying value
Toledo, Ohio	—	—	4,700	Property sold for less than carrying value
Berea, Kentucky	—	5,241	1,099	Property sold for less than carrying value
Frankenmuth, Michigan	—	—	1,000	Property sold for less than carrying value
Various properties	157	1,375	2,400	Property sold / to be sold for less than carrying value or property value has declined
Impairment charges and loan losses from discontinued operations	<u>\$ 3,357</u>	<u>\$ 16,066</u>	<u>\$ 9,199</u>	

Income from Equity Investments in Real Estate

2006 VS. 2005 — For the years ended December 31, 2006 and 2005, income from equity investments in real estate decreased \$484, primarily due to a decrease of \$1,129 related to the consolidation of our investment in the CheckFree Holdings property that we previously accounted for as an equity investment in real estate. This decrease was partially offset by increases resulting from equity investments in real estate acquired during the year as well as the impact of rent increases at existing properties.

2005 VS. 2004 — For the years ended December 31, 2005 and 2004, income from equity investments in real estate decreased \$575, primarily due to the full year effect of an acquisition in September 2004 of a 50% interest in a general partnership and the remaining 81.46% interest in a limited partnership. In 2005, we recorded an increase of \$244 in the loss related to the 50% interest in the general partnership. In addition, income from equity investments in real estate also decreased \$303 as a result of the acquisition of the remaining interests in a limited partnership which, subsequent to the acquisition, is accounted for as a consolidated subsidiary.

Gain (Loss) on Sale of Securities, Foreign Currency Transactions and Other Gains, net

2006 VS. 2005 — For the year ended December 31, 2006, we recognized net gains on the sale of securities, foreign currency transactions and other gains of \$6,422 as compared with a net loss of \$695 for 2005. The net gain for 2006 is comprised primarily of a realized gain of \$4,800 from the sale of our common stock holdings of Meristar Hospitality Corp. as well as net gains on foreign currency transactions as we benefited from the relative weakening of the U.S. dollar against the Euro in 2006. The net loss for 2005 is comprised primarily of net losses on foreign currency transactions due to the relative strengthening of the U.S. dollar against the Euro in 2005.

2005 VS. 2004 — For the year ended December 31, 2005, we recognized net losses on the sale of securities, foreign currency transactions and other gains of \$695 as compared with a net gain of \$1,222 for 2004 primarily due to foreign currency exchange movements. As described above, the net loss in 2005 is due to the relative strengthening of the U.S. dollar against the Euro in 2005, whereas the net gain in 2004 is primarily the result of the relative weakening of the U.S. dollar against the Euro in 2004.

Interest Expense

2006 VS. 2005 — For the years ended December 31, 2006 and 2005, interest expense increased \$1,352, primarily due to an increase of \$2,604 from the full year impact of new mortgage financing at existing properties that were obtained during 2005 and \$1,721 related to the consolidation of our investment in the CheckFree Holdings property that we previously accounted for as an equity investment in real estate. These increases were partially offset by a reduction in interest payments of \$2,640 related to our credit facility and a reduction in interest payments from making scheduled principal payments. The reduction in interest expense on the unsecured credit facility resulted from lower average outstanding balances during the comparable periods on our facility partially offset by rising interest rates. The average outstanding balance on our unsecured facility decreased by approximately \$65,000 whereas the average annual interest rate increased approximately 1.9% compared with 2005.

Debt balances obtained on the properties acquired in the December 2006 CPA[®]:12 Acquisition and financing obtained on self-storage assets acquired in December 2006 did not have a significant impact on interest expense in 2006.

2005 VS. 2004 — For the years ended December 31, 2005 and 2004, interest expense increased \$2,334, primarily due to an increase of \$2,134 related to higher average outstanding borrowings and higher variable interest rates related to our credit facility, \$1,165 related to debt balances outstanding on the properties acquired in the CIP[®] Acquisition in September 2004 and \$526 related to new mortgage debt at existing properties. These increases were partially offset by lower interest payments resulting from paying off mortgage balances and scheduled principal payments. The average outstanding balance and annual variable interest rate on our unsecured facility increased by approximately \$31,000 and 1.8%, respectively, for the comparable years.

Income from Continuing Operations

2006 VS. 2005 — For the years ended December 31, 2006 and 2005, income from continuing operations increased \$11,661 primarily due to realized gains totaling \$4,800 on the sale of our Meristar common stock holdings and a reduction in impairment charges of \$4,557, as well as increases in lease revenues of \$2,402, primarily from rent increases and rent from new tenants at existing properties. These variances are described above.

2005 VS. 2004 — For the years ended December 31, 2005 and 2004, income from continuing operations increased by \$3,173, primarily due to a decrease in impairment charges of \$7,195 and the accretive impact on net income as a result of the CIP® Acquisition. These increases were partially offset by the negative impact of foreign currency translations, additional interest expense incurred on our unsecured line of credit and a reduction in other real estate income. These variances are all described above.

Discontinued Operations

2006 — For the year ended December 31, 2006, we incurred a loss from discontinued operations of \$1,251 primarily due to a net loss of \$1,346 from the operations of discontinued properties. Gains totaling \$3,452 from the sales of properties were almost entirely offset by impairment charges on these properties totaling \$3,357 during 2006.

2005 — For the year ended December 31, 2005, we earned income from discontinued operations of \$1,359 primarily from gains on sales of several properties totaling \$10,474 and income of \$6,951 from the operations of discontinued properties, largely offset by impairment charges totaling \$16,066 on several of these properties.

2004 — For the year ended December 31, 2004, we earned income from discontinued operations of \$249, which is comprised primarily of income earned from discontinued operations of \$9,359 that were largely offset by impairment charges incurred on these properties totaling \$9,199.

Impairment charges for 2006, 2005 and 2004 are described in Impairment Charges and Loan Losses above.

The effect of suspending depreciation expense as a result of the classification of properties as held for sale was \$238, \$235 and \$381 for the years ended December 31, 2006, 2005 and 2004, respectively.

Financial Condition

Uses of Cash during the Year

There has been no material change in our financial condition since December 31, 2005. Cash and cash equivalents totaled \$22,108 as of December 31, 2006, an increase of \$9,094 from the December 31, 2005 balance. We believe that we will generate sufficient cash from operations and, if necessary, from the proceeds of limited recourse mortgage loans, unused capacity on our credit facility, 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

During 2006, cash flow from operations was sufficient to fund distributions to shareholders of \$68,615. Our real estate operations provided cash flows (contractual lease revenues, net of property-level debt service) of approximately \$49,250. Operating cash flow fluctuates on a quarterly basis due to factors that include the timing of the receipt of transaction-related revenue, the timing of certain compensation costs that are paid and receipt of the annual installment of deferred acquisition revenue and interest thereon in the first quarter.

During 2006, we received revenue of \$26,053 from providing asset-based management services on behalf of the CPA® REITs, exclusive of that portion of such revenue being satisfied by the CPA® REITs through the issuance of

their restricted common stock rather than paying cash (see below). We also received revenue of \$19,047 in connection with structuring investments on behalf of the CPA® REITs and termination and subordinated disposition revenue totaling \$46,018 from CPA®:12 for services provided in connection with the CPA®:12/14 Merger. In January 2006, we received \$15,474 related to the annual installment of deferred acquisition revenue from CPA®:12, CPA®:14 and CPA®:15, all of which have met their performance criteria, including interest. The next installment of deferred acquisition revenue was received in January 2007 from CPA®:14 and CPA®:15 and amounted to \$16,701, including interest. CPA®:16 – Global has not yet met the performance criterion and we currently anticipate that the deferred amounts for CPA®:16 – Global will be recognized by us and paid by them during the first half of 2007. In 2006, we elected to receive all performance revenue from the CPA® REITs as well as the asset management revenue payable by CPA®:16 – Global in restricted shares rather than cash. However, for 2006 we elected to receive the base asset management revenue from CPA®:12 in cash (rather than in stock, as in the prior year) which benefited operating cash flows by \$3,353.

For 2007, we have elected to continue to receive all performance revenue from the CPA® REITs as well as the asset management revenue payable by CPA®:16 – Global in restricted shares rather than cash. We expect that the election to receive restricted shares will continue to have a negative impact on cash flows during 2007, as this election is annual.

We estimate that the properties we acquired from CPA®:12 will generate annual lease revenue and cash flow, inclusive of minority interest, of approximately \$4,900 and \$3,900, respectively, and annual equity income of approximately \$900. This additional cash flow will be partially offset by lower annual asset management revenue approximating \$1,300. There are no scheduled balloon payments on any of the properties acquired from CPA®:12 until 2009. In addition, we expect that income taxes related to asset management revenue earned on the assets purchased by CPA®:14 in the merger will increase as such revenue will now be earned by one of our taxable subsidiaries.

Investing Activities

Our investing activities are generally comprised of real estate transactions (purchases and sales) and capitalized property related costs. During 2006, we used \$102,049 to make acquisitions including our purchase of interests in 37 properties from CPA®:12 in December 2006, several acquisitions by a wholly owned subsidiary of self-storage properties and an equity investment with an affiliate. We also received net proceeds of \$50,053 from the sales of several domestic properties and the sale of our CPA®:12 and Meristar holdings.

During 2006, we provided our affiliate, CPA®:15, with \$84,000 to fund the early repayment of a mortgage obligation. This loan was used to facilitate the completion of the sale of one of its properties and was repaid within the next few business days. In connection with the CPA®:12/14 Merger in December 2006, we provided our affiliate, CPA®:14, with \$24,000. The loan was used to fund its merger obligations and was repaid within the next few business days. We also received distributions from the CPA® REITs totaling \$15,711 as a result of our ownership of shares in the CPA® REITs, with \$10,709 included in cash flows from investing activities, representing an amount in excess of the income recognized on the CPA® REIT investments for financial reporting purposes.

Based on current distribution rates and our current investment in the CPA® REITS, our annual distributions from the CPA® REITs for 2007 are projected to be approximately \$7,400.

Financing Activities

During 2006, we paid distributions to shareholders of \$68,615, an increase over the prior year. In addition to paying distributions, our financing activities included making scheduled mortgage principal payments totaling \$11,742 and paying down the outstanding balance on our unsecured credit facility by \$13,000. Gross borrowings under the unse-

cured credit facility were \$123,000, which were used for several purposes in the normal course of business, and repayments were \$136,000. In December 2006, a wholly owned subsidiary entered into a \$105,000 secured credit facility to finance the acquisition of domestic self-storage properties. Gross borrowings under the secured credit facility were \$15,501. In addition, we obtained \$36,000 of mortgage financing including \$30,000 related to the refinancing of an investment leased to CheckFree Holdings that we now consolidate in accordance with EITF 04-05. Also during 2006, we received \$4,031 from the release of escrow funds that we deposited during 2005 in connection with obtaining mortgage financing on several investments and raised \$8,660 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 generally has recourse only to the collateral. When balloon payments come due, we may seek to refinance the loan, restructure the debt with the existing lenders or evaluate our ability to satisfy the obligation from our existing resources including our unsecured 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 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 if they are not refinanced.

Summary of Financing

The table below summarizes our mortgage notes payable and credit facilities as of December 31, 2006 and 2005, respectively.

	2006	December 31, 2005
Balance		
Fixed rate	\$ 208,665	\$ 181,116
Variable rate ⁽¹⁾	69,988	64,997
Total	<u>\$ 278,653</u>	<u>\$ 246,113</u>
Percent of total debt		
Fixed rate	75%	74%
Variable rate ⁽¹⁾	25%	26%
	<u>100%</u>	<u>100%</u>
Weighted average interest rate at end of period		
Fixed rate	6.50%	6.60%
Variable rate ⁽¹⁾	5.46%	5.28%

(1) Includes amounts outstanding under our secured credit facility totaling \$15,501 at December 31, 2006 and amounts outstanding under our unsecured credit facility totaling \$2,000 and \$15,000 at December 31, 2006 and 2005, respectively. Variable rate mortgage notes are primarily comprised of notes subject to future interest rate resets.

Cash Resources

As of December 31, 2006, our cash resources consisted of the following:

- Cash and cash equivalents totaling \$22,108, of which \$3,181 was held in foreign bank accounts to maintain local capital requirements;
- Unsecured credit facility with unused capacity of up to \$173,000, which may also be used to loan funds to our affiliates;
- Unleveraged properties with a carrying value of \$269,321, subject to meeting certain financial ratios on our unsecured credit facility; and
- Secured credit facility with unused capacity of up to \$89,499, available to a wholly owned subsidiary to finance self-storage acquisitions.

Our cash resources can be used for working capital needs and other commitments and may be used for future investments. We continue to evaluate fixed-rate financing options, such as obtaining limited recourse financing on our unleveraged properties. Any financing obtained may be used for working capital objectives and may be used to pay down existing debt balances. A summary of our secured and unsecured credit facilities is provided below:

	December 31, 2006		December 31, 2005	
	Maximum Available	Outstanding Balance	Maximum Available	Outstanding Balance
Unsecured credit facility	\$ 175,000	\$ 2,000	\$ 225,000	\$ 15,000
Secured credit facility	105,000	15,501	—	—

Unsecured credit facility

The unsecured credit facility has financial covenants requiring 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, 2006. Advances are prepayable at any time. The unsecured credit facility expires in May 2007, however, we can, at our option, renew this facility for an additional year on substantially the same terms. We are currently negotiating a renewal or replacement of this facility. We do not believe that any failure to renew or replace this facility would materially effect our operations.

Amounts drawn on the credit facility bear interest at a rate of either (i) the one, two, three or six-month LIBOR, plus a spread which ranges from 0.6% to 1.45% depending on leverage or corporate credit rating or (ii) the greater of the bank's Prime Rate and the Federal Funds Effective Rate, plus .50%, plus a spread of up to .125% depending on our leverage ratio.

Secured credit facility

In December 2006, Carey Storage Fund, a wholly owned subsidiary, entered into a credit facility for up to \$105,000 with Morgan Stanley Mortgage Capital Inc. that matures in December 2008. The facility is collateralized by any self-storage real estate assets acquired with proceeds from the facility. Advances from this facility bear interest at an annual rate of the one-month LIBOR, plus a spread that ranges from 1.75% to 2.35% depending on the aggregate debt yield for the collateralized asset pool. Advances can be prepaid at any time, however advances prepaid prior to March 8, 2008 are subject to a prepayment penalty of 1.25% of the principal amount of the loan being prepaid. This facility has financial covenants requiring Carey Storage Fund, among other things, to meet or exceed certain operating and coverage ratios. For 2006, Carey Storage Fund has received a covenant compliance waiver from the lender due to its limited operating history as of December 31, 2006.

Cash Requirements

During 2007, cash requirements will include paying distributions to shareholders, scheduled mortgage principal payments, including mortgage balloon payments totaling \$15,541 with \$6,041 due in August 2007 and \$9,500 due in December 2007, making distributions to minority partners as well as other normal recurring operating expenses. We may also seek to use our cash to invest in new properties and maintain cash balances sufficient to meet working capital needs. We may issue additional shares in connection with investments when it is consistent with the objectives of the seller.

We have budgeted capital expenditures of up to approximately \$2,700 at various properties during 2007. 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.

We expect to meet our capital requirements to fund future investments, any capital expenditures on existing properties and scheduled debt maturities on limited recourse mortgages through use of our cash reserves or unused amounts on our unsecured credit facility.

Aggregate Contractual Agreements

The table below summarizes our contractual obligations as of December 31, 2006 and the effect that these 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
Mortgage notes payable – Principal	\$ 261,152	\$ 26,274	\$ 55,560	\$ 46,152	\$ 133,166
Mortgage notes payable – Interest ⁽¹⁾	81,691	15,693	25,915	17,824	22,259
Unsecured credit facility – Principal	2,000	2,000	—	—	—
Unsecured credit facility – Interest ⁽¹⁾	43	43	—	—	—
Secured credit facility – Principal	15,501	—	15,501	—	—
Secured credit facility – Interest ⁽¹⁾	2,276	1,173	1,103	—	—
Deferred acquisition compensation due to affiliates – Principal	661	524	137	—	—
Deferred acquisition compensation due to affiliates – Interest	48	40	8	—	—
Operating leases ⁽²⁾	27,732	2,439	5,697	5,569	14,027
Other commitments ⁽³⁾	900	150	300	300	150
	<u>\$ 392,004</u>	<u>\$ 48,336</u>	<u>\$ 104,221</u>	<u>\$ 69,845</u>	<u>\$ 169,602</u>

(1) Interest on variable rate debt obligations was calculated using the variable interest rate as of December 31, 2006.

(2) Operating lease obligations consist primarily of the total minimum rents payable on the lease for our principal offices. We are reimbursed by affiliates for their share of the future minimum rents under an office cost-sharing agreement. These amounts are allocated among the entities based on gross revenues and are adjusted quarterly.

(3) Represents a commitment to contribute capital to an investment in India.

Amounts related to our foreign operations are based on the exchange rate of the Euro as of December 31, 2006.

We have employment contracts with several senior executives. These contracts provide for severance payments in the event of termination under certain conditions, including change of control.

As of December 31, 2006, we have no material capital lease obligations for which we are the lessee, 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, we expect that the Commission may pursue an action in the future. The potential timing of any action and the nature of the relief or remedies the Commission may seek cannot be predicted at this time. If an action is brought, it could materially affect our cash requirements. See Item 3 – Legal Proceedings in our annual report on Form 10-K for a discussion of this investigation.

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 these 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.

Subsequent Events

In January and February 2007, Carey Storage acquired three domestic self-storage properties for approximately \$19,600. In connection with these acquisitions, Carey Storage drew down \$11,580 from its secured credit facility. Carey Storage incurs a fixed annual interest rate equal to the one-month LIBOR plus a spread which ranges from 1.75% to 2.35% on all borrowings under this facility. All amounts drawn under this facility are due in December 2008.

We formed Corporate Property Associates 17 – Global Incorporated (“CPA[®]:17”) in February 2007 for the purpose of investing in a diversified portfolio of income-producing commercial properties and other real estate related assets, both domestically and outside the United States. We filed a registration statement on Form S-11 with the SEC during February 2007 to raise up to \$2,500,000 of common stock of CPA[®]:17 (including amounts under its dividend reinvestment plan) and expect to commence fundraising during 2007.

Critical Accounting Estimates

Our significant accounting policies are 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 or when significant lease items are amended as either real estate leased under operating leases 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 but are written down to expected residual value over the lease term, 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 values 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 discounted 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 expectation of lease renewals, nature and extent of the existing relationship with the tenant, prospects for developing new business with the tenant and the tenant's credit quality, 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, expectation of funding tenant improvements 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.

Basis of Consolidation

The accompanying consolidated financial statements include all of our accounts and those of our majority owned and/or controlled subsidiaries. The portion of these entities not owned by us is presented as minority interest as of and during the periods consolidated. All material inter-entity transactions have been eliminated.

When we obtain an economic interest in an entity, we evaluate the entity to determine if the entity is deemed a variable interest entity ("VIE"), and if we are deemed to be the primary beneficiary, in accordance with FASB Interpretation No. 46(R), "Consolidation of Variable Interest Entities" ("FIN 46(R)"). We consolidate (i) entities that are VIEs and of which we are deemed to be the primary beneficiary and (ii) entities that are non-VIEs which we control. Entities that we account for under the equity method (i.e. at cost, increased or decreased by our share of earnings or losses, less distributions) include (i) entities that are VIEs and of which we are not deemed to be the primary beneficiary and (ii) entities that are non-VIEs which we do not control, but over which we have the ability to exercise significant influence. We will reconsider our 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.

In determining whether we control a non-VIE, our consideration includes using the Emerging Issues Task Force ("EITF") Consensus on Issue No. 04-05, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights" ("EITF 04-05"). The scope of EITF 04-05 is limited to limited partnerships or similar entities that are not variable interest entities under FIN 46(R). The EITF reached a consensus that the general partners in a limited partnership (or similar entity) are presumed to control the entity regardless of the level of their ownership and, accordingly, may be required to consolidate the entity. This presumption may be overcome if the agreements provide the limited partners with either (a) the substantive ability to dissolve (liquidate) the limited partnership or otherwise remove the general partners without cause or (b) substantive participating rights. If it is deemed that the limited partners' rights overcome the presumption of control by a general partner of the limited partnership, the general partner shall account for its investment in the limited partnership using the equity method of accounting. As a result of adopting the provisions of EITF 04-05 effective January 1, 2006, we now consolidate a limited liability company that leases property to CheckFree Holdings Corporation Inc., that was previously accounted for under the equity method of accounting. The consolidation of this entity did not have a material impact on our financial position or results of operations.

The consolidated financial statements also include the accounts of Corporate Property Associates International Incorporated ("CPAI"), which was formed in July 2003. We own all of CPAI's outstanding common stock. During

2005, CPAI withdrew its registration statement with the SEC for a public offering of its common stock and as a result, we wrote off approximately \$811 in organization costs.

We have several interests in 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 Staff Position No. 150-3 ("FSP FAS 150-3"). As a result of the deferral provisions of FSP 150-3, these minority interests have been reflected as liabilities.

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 in real estate. 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 these 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 non-cash 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 operating leases 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 proceeding or a property remains vacant for a period that exceeds the period anticipated in a prior impairment evaluation.

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 in real estate 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 in real estate 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 or (b) the fair value at the date of the subsequent decision not to sell.

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 segment has a limited number of lessees (23 lessees represented approximately 70% of annual rental income during 2006), 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 using statistical methods. We generally recognize a provision for uncollected rents and other tenant receivables and measure our allowance against actual arrearages. 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.

Determination of Certain Asset Based Management and Performance Revenue

We earn asset-based management and performance revenue for providing property management, leasing, advisory and other services to the CPA® REIT's. For certain CPA® REIT's, this revenue is 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. The Company's taxable subsidiary currently has a net deferred tax liability in all significant tax jurisdictions. 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

SFAS 123(R)

In December 2004, the FASB issued Statement No. 123(R), "Share-Based Payment" ("SFAS 123(R)"). We adopted SFAS 123(R) on January 1, 2006 using the modified prospective application method. Our stock based compensation accounting policy and transition method are discussed in detail in Note 2 to the consolidated financial statements. The impact of adopting SFAS 123(R) in 2006 is discussed in Note 14. Results for fiscal years 2005 and prior have not been restated.

FIN 47

In March 2005, the FASB issued Interpretation No. 47 "Accounting for Conditional Asset Retirement Obligations" ("FIN 47"). FIN 47 requires an entity to recognize a liability for a conditional asset retirement obligation when incurred if the liability can be reasonably estimated. FIN 47 clarifies that the term "Conditional Asset Retirement Obligation" refers to a legal obligation (pursuant to existing laws or by contract) to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. We adopted FIN 47 as required effective December 31, 2005 and the initial application of this Interpretation did not have a material effect on our financial position or results of operations.

EITF 04-05

In June 2005, the Emerging Issues Task Force issued EITF 04-05, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights" ("EITF 04-05"). The scope of EITF 04-05 is limited to limited partnerships or similar entities that are not variable interest entities under FIN 46(R). The Task Force reached a consensus that the general partners in a limited partnership (or similar entity) are presumed to control the entity regardless of the level of their ownership and, accordingly, may be required to consolidate the entity. This presumption may be overcome if the agreements provide the limited partners with either (a) the substantive ability to dissolve (liquidate) the limited partnership or

otherwise remove the general partners without cause or (b) substantive participating rights. If it is deemed that the limited partners' rights overcome the presumption of control by a general partner of the limited partnership, the general partner shall account for its investment in the limited partnership using the equity method of accounting. EITF 04-05 was effective immediately for all arrangements created or modified after June 29, 2005. For all other arrangements, we adopted EITF 04-05 effective January 1, 2006. As a result of adopting EITF 04-05, we now consolidate a limited liability company that leases property to CheckFree Holdings Corporation Inc., which was previously accounted for under the equity method of accounting.

FSP FAS 13-1

In October 2005, the FASB issued Staff Position No. 13-1 "Accounting for Rental Costs Incurred during a Construction Period" ("FSP FAS 13-1"). FSP FAS 13-1 addresses the accounting for rental costs associated with operating leases that are incurred during the construction period. FSP FAS 13-1 makes no distinction between the right to use a leased asset during the construction period and the right to use that asset after the construction period. Therefore, rental costs associated with ground or building operating leases that are incurred during a construction period shall be recognized as rental expense, allocated over the lease term in accordance with SFAS No. 13 and Technical Bulletin 85-3. We adopted FSP FAS 13-1 as required on January 1, 2006 and the initial application of this Staff Position did not have a material impact on our financial position or results of operations.

SFAS 155

In February 2006, the FASB issued Statement No. 155, "Accounting for Certain Hybrid Financial Instruments an Amendment of FASB No. 133 and 140" ("SFAS 155"). The purpose of SFAS 155 is to simplify the accounting for certain hybrid financial instruments by permitting fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS 155 also eliminates the restriction on passive derivative instruments that a qualifying special-purpose entity may hold. We must adopt SFAS 155 effective January 1, 2007 and do not believe that this adoption will have a material impact on our financial position or results of operations.

FIN 48

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in income tax positions. This Interpretation requires that we do not recognize in our consolidated financial statements the impact of a tax position that fails to meet the more likely than not recognition threshold based on the technical merits of the position. We must adopt FIN 48 effective January 1, 2007. We are currently evaluating the impact of adopting FIN 48 on our consolidated financial statements.

SAB 108

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements.

Traditionally, there have been two widely-recognized methods for quantifying the effects of financial statement misstatements: the "rollover" method and the "iron curtain" method. The rollover method focuses primarily on the impact of a misstatement on the income statement – including the reversing effect of prior year misstatements – but

its use can lead to the accumulation of misstatements in the balance sheet. The iron curtain method, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. We currently use the iron curtain method for quantifying identified financial statement misstatements.

In SAB 108, the SEC staff established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of our financial statements and the related financial statement disclosures. This model is commonly referred to as a “dual approach” because it requires quantification of errors under both the iron curtain and rollover methods. SAB 108 permits existing public companies to initially apply its provisions either by (i) restating prior financial statements as if the “dual approach” had always been used or (ii) recording the cumulative effect of initially applying the “dual approach” as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings. Use of the “cumulative effect” transition method requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose. We adopted SAB 108 effective December 31, 2006 using the cumulative effect transition method. The adoption of SAB 108 had no impact on our financial position or results of operations.

SFAS 157

In September 2006, the FASB issued Statement No. 157, “Fair Value Measurements” (“SFAS 157”). SFAS 157 provides guidance for using fair value to measure assets and liabilities. This statement clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability. SFAS 157 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data. SFAS 157 applies whenever other standards require assets or liabilities to be measured at fair value. This statement is effective for our 2008 fiscal year, although early adoption is permitted. We believe that the adoption of SFAS 157 will not have a material effect on our financial position or results of operations.

Quantitative and Qualitative Disclosures About Market Risk

In thousands

Market Risks

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates and equity prices. In pursuing our business plan, the primary risks to which we are exposed are interest rate risk and foreign currency exchange risk.

We are exposed to the impact of interest rate changes primarily through our borrowing activities. We attempt to obtain mortgage financing on a long-term, fixed-rate basis to mitigate this exposure. Because we transact business in France, we are also exposed to foreign exchange rate movements. We manage foreign exchange rate movements by generally placing both our debt obligation to the lender and the tenant's rental obligation to us in the local currency.

We do not generally use derivative financial instruments to manage interest rate risk or foreign exchange rate risk exposure and do not use derivative instruments to hedge credit/market risks or for speculative purposes.

Interest Rate Risk

The value of our real estate and related fixed debt obligations are subject to fluctuations based on changes in interest rates. The value of our real estate is also subject to fluctuations based on local and regional economic conditions and changes in the creditworthiness of lessees, all of which may affect our ability to refinance property-level mortgage debt when balloon payments are scheduled.

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions, and other factors beyond our control. An increase in interest rates would likely cause the value of our owned and managed assets to decrease, which would create lower revenues from managed assets and lower investment performance for the managed funds. Increases in interest rates may also have an impact on the credit quality of certain tenants.

The following table presents principal cash flows based upon expected maturity dates and scheduled amortization payments of our debt obligations and the related weighted-average interest rates by expected maturity dates for the fixed rate debt. Annual interest rates on fixed rate debt as of December 31, 2006 ranged from 4.87% to 10.13%. The annual interest rates on variable rate debt as of December 31, 2006 ranged from 3.86% to 7.57%. Both our secured and unsecured lines of credit bear interest at variable rates based on LIBOR plus a spread, which can range from 0.6% to 2.35%.

	2007	2008	2009	2010	2011	Thereafter	Total	Fair value
Fixed rate debt	\$ 23,340	\$ 8,390	\$ 35,473	\$ 13,175	\$ 25,712	\$ 102,575	\$ 208,665	\$ 204,637
Weighted average interest rate	7.77%	7.26%	7.28%	7.33%	7.32%	5.55%		
Variable rate debt	\$ 4,934	\$ 23,743	\$ 3,455	\$ 3,553	\$ 3,711	\$ 30,592	\$ 69,988	\$ 69,988

Annual interest expense would increase or decrease on variable rate debt by approximately \$700 for each 1% increase or decrease in interest rates. A change in interest rates of 1% would increase or decrease the fair value of our fixed rate debt at December 31, 2006 by approximately \$5,772.

Foreign Currency Exchange Rate Risk

We have foreign operations in France and as such are subject to risk from the effects of exchange rate movements of the Euro, which may affect future costs and cash flows. We are a net receiver of the Euro (we receive more cash than we pay out) and therefore our foreign operations benefit from a weaker U.S. dollar and are adversely affected by a stronger U.S. dollar relative to the Euro. For the year ended December 31, 2006, we recognized a gain of \$488 in foreign currency transaction gains in connection with the transfer of cash from foreign operating subsidiaries to the parent company. The cash received was subsequently converted into dollars. In addition, for the year ended December 31, 2006, we recognized net unrealized foreign currency gains of \$1,003. The cumulative foreign currency translation adjustment reflects a loss of \$36 as of December 31, 2006. To date, we have not entered into any foreign currency forward exchange contracts or other derivative financial instruments to hedge the effects of adverse fluctuations in foreign currency exchange rates.

Scheduled future minimum rents, exclusive of renewals, under non-cancelable operating leases and scheduled principal payments for mortgage notes payable for our foreign operations during each of the next five years and thereafter are as follows:

	2007	2008	2009	2010	2011	Thereafter	Total
Future minimum rents ⁽¹⁾	\$ 7,344	\$ 6,904	\$ 6,251	\$ 4,456	\$ 3,884	\$ 5,044	\$ 33,883
Mortgage notes payable ⁽¹⁾	\$ 2,934	\$ 3,242	\$ 3,455	\$ 3,553	\$ 3,712	\$ 30,591	\$ 47,487

(1) Based on the December 31, 2006 exchange rate for the Euro.

Report of Independent Registered Public Accounting Firm

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

We have completed integrated audits of W. P. Carey & Co. LLC's consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

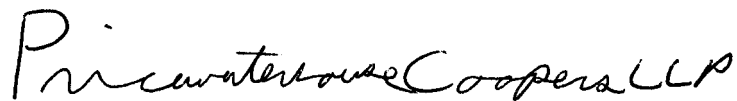
In our opinion, the consolidated balance sheets and the related consolidated statements of income, comprehensive income, members' equity and cash flows present fairly, in all material respects, the financial position of W. P. Carey & Co. LLC and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 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.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on the Internal Control Over Financial Reporting appearing under Item 9A in the company's annual report on Form 10-K, that the Company maintained effective internal control over financial reporting as of December 31, 2006 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, 2006, 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
February 26, 2007

Consolidated Balance Sheets

in thousands, except share amounts

	December 31,	
	2006	2005
Assets		
Real estate, net	\$ 540,504	\$ 454,478
Net investment in direct financing leases	108,581	131,975
Equity investments in real estate	166,147	134,567
Operating real estate, net	33,606	7,865
Assets held for sale	1,269	18,815
Cash and cash equivalents	22,108	13,014
Due from affiliates	88,884	82,933
Goodwill	63,607	63,607
Intangible assets, net	43,742	40,700
Other assets, net	24,562	35,308
Total assets	<u>\$ 1,093,010</u>	<u>\$ 983,262</u>
Liabilities and Members' Equity		
Liabilities:		
Limited recourse mortgage notes payable	\$ 261,152	\$ 226,701
Limited recourse mortgage notes payable on assets held for sale	—	4,412
Unsecured credit facility	2,000	15,000
Secured credit facility	15,501	—
Accrued interest	1,974	2,036
Distributions payable	17,481	16,963
Due to affiliates	1,239	2,994
Deferred revenue	40,490	23,085
Accounts payable and accrued expenses	32,073	23,002
Prepaid and deferred rental income and security deposits	5,548	4,414
Accrued income taxes	21,935	634
Deferred income taxes, net	41,527	39,908
Other liabilities	12,340	12,956
Total liabilities	<u>453,260</u>	<u>372,105</u>
Minority interest in consolidated entities	7,765	3,689
Commitments and contingencies (Note 11)		
Members' equity:		
Listed shares, no par value, 100,000,000 shares authorized; 38,262,157 and 37,706,247 shares issued and outstanding, respectively	745,969	740,593
Distributions in excess of accumulated earnings	(114,008)	(131,178)
Unearned compensation	—	(5,119)
Accumulated other comprehensive income	24	3,172
Total members' equity	<u>631,985</u>	<u>607,468</u>
Total liabilities and members' equity	<u>\$ 1,093,010</u>	<u>\$ 983,262</u>

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

Consolidated Statements of Income

in thousands, except share and per share amounts

	For the years ended December 31,		
	2006	2005	2004
Revenues			
Asset management revenue	\$ 57,633	\$ 52,332	\$ 45,806
Structuring revenue	22,506	28,197	33,675
Incentive, termination and subordinated disposition revenue from mergers	46,018	—	53,588
Reimbursed costs from affiliates	63,630	9,962	15,388
Lease revenues	74,090	67,215	59,747
Other real estate income	9,381	11,078	11,348
	<u>273,258</u>	<u>168,784</u>	<u>219,552</u>
Operating Expenses			
General and administrative	(41,494)	(45,219)	(35,597)
Reimbursable costs	(63,630)	(9,962)	(15,388)
Depreciation and amortization	(26,048)	(20,952)	(21,173)
Property expenses	(7,046)	(6,932)	(5,329)
Impairment charges and loan losses	(1,147)	(5,704)	(12,899)
Other real estate expenses	(5,881)	(6,327)	(6,261)
	<u>(145,246)</u>	<u>(95,096)</u>	<u>(96,647)</u>
Other Income and Expenses			
Other interest income	3,433	3,511	3,092
Income from equity investments in real estate	7,608	5,182	5,308
Minority interest in income	(812)	(264)	(1,499)
Gain on sale of securities, foreign currency transactions and other gains, net	12,943	1,305	1,222
Interest expense	(18,139)	(16,787)	(14,453)
	<u>5,033</u>	<u>(7,053)</u>	<u>(6,330)</u>
Income from continuing operations before income taxes	133,045	66,635	116,575
Provision for income taxes	(45,491)	(19,390)	(50,983)
Income from continuing operations	<u>87,554</u>	<u>47,245</u>	<u>65,592</u>
Discontinued Operations			
(Loss) income from operations of discontinued properties	(1,346)	6,951	9,359
Gain on sale of real estate, net	3,452	10,474	89
Impairment charges on assets held for sale	(3,357)	(16,066)	(9,199)
(Loss) income from discontinued operations	<u>(1,251)</u>	<u>1,359</u>	<u>249</u>
Net income	<u>\$ 86,303</u>	<u>\$ 48,604</u>	<u>\$ 65,841</u>
Basic Earnings (Loss) Per Share			
Income from continuing operations	\$ 2.32	\$ 1.25	\$ 1.75
(Loss) income from discontinued operations	(0.03)	0.04	0.01
Net income	<u>\$ 2.29</u>	<u>\$ 1.29</u>	<u>\$ 1.76</u>
Diluted Earnings (Loss) Per Share			
Income from continuing operations	\$ 2.25	\$ 1.21	\$ 1.68
(Loss) income from discontinued operations	(0.03)	0.04	0.01
Net income	<u>\$ 2.22</u>	<u>\$ 1.25</u>	<u>\$ 1.69</u>
Distributions Declared Per Share	<u>\$ 1.82</u>	<u>\$ 1.79</u>	<u>\$ 1.76</u>
Weighted Average Shares Outstanding			
Basic	37,668,920	37,688,835	37,417,918
Diluted	<u>39,093,897</u>	<u>39,020,801</u>	<u>38,961,748</u>

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

Consolidated Statements of Comprehensive Income

in thousands

	For the years ended December 31,		
	2006	2005	2004
Net income	\$ 86,303	\$ 48,604	\$ 65,841
Other comprehensive income:			
Change in unrealized appreciation on marketable securities, net of taxes of \$379 in 2006, \$327 in 2005 and \$1,098 in 2004	799	722	1,467
Reversal of unrealized appreciation on sale of marketable securities, net of taxes of \$2,254 in 2006	(4,746)	—	—
Foreign currency translation adjustment, net of taxes of \$379 in 2006, \$611 in 2005 and \$122 in 2004	799	(1,350)	(163)
	<u>(3,148)</u>	<u>(628)</u>	<u>1,304</u>
Comprehensive income	<u>\$ 83,155</u>	<u>\$ 47,976</u>	<u>\$ 67,145</u>

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

Consolidated Statements of Members' Equity

in thousands, except share and per share amounts

	For the years ended December 31, 2006, 2005 and 2004					
	Shares	Paid-in Capital	Distributions in Excess of Accumulated Earnings	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2004	36,745,027	\$ 709,724	\$ (112,570)	\$ (4,863)	\$ 2,496	\$ 594,787
Cash proceeds on issuance of shares, net	274,262	6,649				6,649
Shares issued in connection with services rendered	8,938	271				271
Shares issued in connection with prior acquisition	500,000	13,734				13,734
Shares and options issued under share incentive plans	118,683	3,538		(4,409)		(871)
Forfeitures of shares	(32,869)	(138)		138		—
Distributions declared			(65,712)			(65,712)
Tax benefit – share incentive plans		3,423				3,423
Amortization of unearned compensation				3,768		3,768
Repurchase and retirement of shares	(90,579)	(2,543)				(2,543)
Net income			65,841			65,841
Change in other comprehensive income					1,304	1,304
Balance at December 31, 2004	37,523,462	734,658	(112,441)	(5,366)	3,800	620,651
Cash proceeds on issuance of shares, net	182,273	4,400				4,400
Shares issued in connection with services rendered	7,288	217				217
Shares and options issued under share incentive plans	101,300	3,422		(3,422)		—
Forfeitures of shares	(14,301)	(502)		459		(43)
Distributions declared			(67,341)			(67,341)
Tax benefit – share incentive plans		604				604
Amortization of unearned compensation				3,210		3,210
Repurchase and retirement of shares	(93,775)	(2,206)				(2,206)
Net income			48,604			48,604
Change in other comprehensive income					(628)	(628)
Balance at December 31, 2005	37,706,247	740,593	(131,178)	(5,119)	3,172	607,468
Reclassification of unearned compensation on adoption of SFAS 123(R)		(5,119)		5,119		—
Reclassification of prepayment for services rendered paid in shares on adoption of SFAS 123(R)		(307)				(307)
Cash proceeds on issuance of shares, net	521,494	8,400				8,400
Shares issued in connection with services rendered	9,804	260				260
Shares and options issued under share incentive plans	123,900					—
Forfeitures of shares	(26,263)	(168)				(168)
Distributions declared			(69,133)			(69,133)
Tax benefit – share incentive plans		626				626
Stock based compensation expense under SFAS 123(R)		3,621				3,621
Repurchase and retirement of shares	(73,025)	(1,937)				(1,937)
Net income			86,303			86,303
Change in other comprehensive income					(3,148)	(3,148)
Balance at December 31, 2006	38,262,157	\$ 745,969	\$ (114,008)	\$ —	\$ 24	\$ 631,985

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

Consolidated Statements of Cash Flows

in thousands

	For the years ended December 31,		
	2006	2005	2004
Cash Flows from Operating Activities			
Net income	\$ 86,303	\$ 48,604	\$ 65,841
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization including intangible assets and deferred financing costs	27,207	21,942	22,546
Income from equity investments in real estate in excess of distributions received	(160)	479	(793)
Gains on sale of real estate and investments, net	(14,774)	(10,570)	(90)
Recognition of deferred gain on completion of development project	—	(2,000)	—
Minority interest in income	812	264	1,499
Straight-line rent adjustments	3,152	3,776	1,732
Management income received in shares of affiliates	(31,020)	(31,858)	(20,999)
Unrealized (gain) loss on foreign currency transactions, warrants and securities	(1,128)	779	(790)
Impairment charges and loan losses	4,504	21,770	22,098
Deferred income taxes	1,620	1,549	8,827
Realized (gain) loss on foreign currency transactions	(488)	19	(430)
Costs paid by issuance of shares	—	201	168
Increase (decrease) in accrued income taxes	21,301	(3,274)	2,099
Decrease in prepaid income taxes	1,390	—	—
Tax charge – share incentive plan	—	604	3,423
Stock-based compensation expense	3,453	3,936	3,768
Deferred acquisition revenue received	12,543	8,961	5,978
Increase in structuring revenue receivable	(3,459)	(5,304)	(14,860)
Net changes in other operating assets and liabilities	8,684	(7,171)	(1,168)
Net cash provided by operating activities	119,940	52,707	98,849
Cash Flows from Investing Activities			
Distributions received from equity investments in real estate in excess of equity income	13,286	6,164	6,933
Purchases of real estate and equity investments in real estate	(102,049)	—	(115,522)
Capital expenditures	(4,937)	(2,975)	(1,596)
Purchase of investment	(150)	(465)	—
Loans to affiliates	(108,000)	—	—
Proceeds from repayment of loans to affiliates	108,000	—	—
Proceeds from sales of property and investments	50,053	45,542	6,548
Release of funds from escrow in connection with the sale of property	10,134	—	7,185
Funds placed in escrow in connection with the sale of property	(10,374)	—	—
Payment of deferred acquisition revenue to affiliate	(524)	(524)	(524)
Net cash (used in) provided by investing activities	(44,561)	47,742	(96,976)
Cash Flows from Financing Activities			
Distributions paid	(68,615)	(67,004)	(65,073)
Contributions from minority interests	2,345	1,539	—
Distributions to minority interests	(6,226)	(355)	(1,101)
Scheduled payments of mortgage principal	(11,742)	(9,229)	(9,428)
Proceeds from mortgages and credit facility	174,501	121,764	170,000
Prepayments of mortgage principal and credit facility	(166,660)	(151,893)	(106,962)
Release of funds from escrow in connection with the financing of properties	4,031	—	—
Payment of financing costs	(1,601)	(797)	(1,238)
Proceeds from issuance of shares	8,660	4,400	6,649
Excess tax benefits associated with stock based compensation awards	626	—	—
Repurchase and retirement of shares	(1,937)	(2,206)	(2,543)
Net cash used in financing activities	(66,618)	(103,781)	(9,696)
Effect of exchange rate changes on cash	333	(369)	179
Net increase (decrease) in cash and cash equivalents	9,094	(3,701)	(7,644)
Cash and cash equivalents, beginning of year	13,014	16,715	24,359
Cash and cash equivalents, end of year	\$ 22,108	\$ 13,014	\$ 16,715

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

(Continued)

Consolidated Statements of Cash Flows

in thousands, except share and per share amounts

Non-cash investing and financing activities:

- A. The Company issued restricted shares valued at \$260 in 2006, \$217 in 2005 and \$271 in 2004, to certain directors in consideration of service rendered. Restricted shares and stock options valued at \$5,430, \$3,422 and \$3,538 in 2006, 2005 and 2004, respectively, were issued to officers and employees and were recorded to additional paid-in capital of which \$168, \$459 and \$138, respectively, was forfeited in 2006, 2005 and 2004. Included in compensation expense for the years ended December 31, 2006, 2005 and 2004 were \$3,568, \$3,210 and \$3,768, respectively, relating to equity awards from the Company's share incentive plans.
- B. During 2006, the Company acquired interests in 37 properties from Corporate Property Associates 12 Incorporated with a fair value of \$126,006 for approximately \$67,289 in cash and the assumption of approximately \$59,741 in limited recourse mortgage notes payable. The fair value of the assumed mortgages was \$58,717.
- C. 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 had been issued and our obligation has been satisfied. Based on the performance criteria 500,000 shares were issued in 2004 for the year ended December 31, 2003 valued at \$13,734. The amounts attributable to the 1,900,000 shares are included in goodwill.
- D. 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.
- E. During 2004, \$7,185 was released from an escrow account from the sale of a property in 2003.

Supplemental cash flows information:

	For the years ended December 31,		
	2006	2005	2004
Interest paid, net of amounts capitalized	\$ 17,206	\$ 15,579	\$ 13,901
Income taxes paid	\$ 20,730	\$ 20,989	\$ 36,944

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

Notes to Consolidated Financial Statements

in thousands, except share and per share amounts

1

Business

W. P. Carey & Co. LLC (the “Company”) is a real estate and advisory company that invests in commercial properties leased to companies domestically and internationally, and earns revenue as the advisor to the following publicly registered affiliated real estate investment trusts (“CPA® REITs”) that each make similar investments: Corporate Property Associates 14 Incorporated (“CPA®:14”), Corporate Property Associates 15 Incorporated (“CPA®:15”) and Corporate Property Associates 16 – Global Incorporated (“CPA®:16 – Global”) and served in this capacity for Corporate Property Associates 12 Incorporated (“CPA®:12”) until its merger with CPA®:14 during 2006 and Carey Institutional Properties Incorporated (“CIP®”) until its merger with CPA®:15 during 2004. As of December 31, 2006, the Company owns and manages over 800 commercial properties domestically and internationally including its own portfolio, which is comprised of 187 commercial properties net leased to 111 tenants and totaling approximately 18 million square feet (on a pro rata basis) and had an occupancy rate of approximately 96% as of December 31, 2006.

The Company’s Primary Business Segments

MANAGEMENT SERVICES — The Company provides services to the CPA® REITs in connection with structuring and negotiating investment and debt placement transactions (structuring revenue) and provides on-going management of the portfolio (asset-based management and performance revenue). Asset-based management and performance revenue for the CPA® REITs are determined based on real estate related assets under management. As funds available to the CPA® REITs are invested, the asset base for which the Company earns revenue increases. The Company may elect to receive revenue in cash or restricted shares of the CPA® REITs. The Company may also earn incentive and disposition revenue and receive termination payments in connection with providing liquidity alternatives to CPA® REIT shareholders.

REAL ESTATE OPERATIONS — The Company invests in commercial properties that are then leased to companies domestically and internationally, primarily on a triple-net leased basis.

Organization

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 LLC (“Carey Management”) from William P. Carey (“Carey”), Chairman and then 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 aggre-

gate 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 and the trade name (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 projected revenue. 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.

In 2006, the Company formed Carey REIT, INC. ("Carey REIT") to hold certain properties, including certain properties acquired from CPA®:12. Carey REIT has issued both common and preferred stock with the later being held entirely by employees of the Company.

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Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include all accounts of the Company and its majority owned and/or controlled subsidiaries. The portion of these entities not owned by the Company is presented as minority interest as of and during the periods consolidated. All material inter-entity transactions have been eliminated.

When the Company obtains an economic interest in an entity, the Company evaluates the entity to determine if the entity is deemed a variable interest entity ("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)"). The Company consolidates (i) entities that are VIEs and of which the Company is deemed to be the primary beneficiary and (ii) entities that are non-VIEs which the Company controls. Entities that the Company accounts for under the equity method (i.e. at cost, increased or decreased by the Company's share of earnings or losses, less distributions) include (i) entities that are VIEs and of which the Company is not deemed to be the primary beneficiary and (ii) entities that are non-VIEs which the Company does not control, but over which the Company has the ability to exercise significant influence. 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.

In determining whether the Company controls a non-VIE, the Company's consideration includes using the Emerging Issues Task Force ("EITF") Consensus on Issue No. 04-05, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights" ("EITF 04-05"). The scope of EITF 04-05 is limited to limited partnerships or similar entities that are not variable interest entities under FIN 46(R). The EITF reached a consensus that the general partners in a lim-

ited partnership (or similar entity) are presumed to control the entity regardless of the level of their ownership and, accordingly, may be required to consolidate the entity. This presumption may be overcome if the agreements provide the limited partners with either (a) the substantive ability to dissolve (liquidate) the limited partnership or otherwise remove the general partners without cause or (b) substantive participating rights. If it is deemed that the limited partners' rights overcome the presumption of control by a general partner of the limited partnership, the general partner shall account for its investment in the limited partnership using the equity method of accounting. As a result of adopting the provisions of EITF 04-05 effective January 1, 2006, the Company now consolidates a limited liability company that leases property to CheckFree Holdings Corporation Inc., that was previously accounted for under the equity method of accounting. The consolidation of this entity did not have a material impact on the Company's financial position or results of operations.

The consolidated financial statements 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. During 2005, CPAI withdrew its registration statement with the SEC for a public offering of its common stock and as a result, the Company wrote off approximately \$811 in organization costs.

The Company has several interests in 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 Staff Position No. 150-3 ("FSP FAS 150-3"). As a result of the deferral provisions of FSP 150-3, these minority interests have been reflected as liabilities.

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 and Revisions

Certain prior year amounts have been reclassified to conform to the current year financial statement presentation. The consolidated financial statements included in this Form 10-K have been adjusted to combine rental income and interest income from direct financing leases as lease revenues, combine other operating income and revenues of other business operations as other income, reflect reimbursed and reimbursable costs as separate components of revenue and operating expenses and reflect the disposition (or planned disposition) of certain properties as discontinued operations for all periods presented.

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 consolidated 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 is 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. If 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 is amortized to expense over the remaining initial term of each lease. The value of tenant relationship intangibles is 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 incidental revenue is recorded as a reduction of capitalized project 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, 2006 and 2005 were held in the custody of two financial institutions and these balances, at times, can exceed federally insurable limits. The Company mitigates this risk by depositing funds only with major financial institutions.

Due to Affiliates

Included in due to affiliates are deferred acquisition revenue and amounts related to issuable shares for meeting the performance criteria in connection with the acquisition of Carey Management. Deferred acquisition revenue is 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. This revenue is payable in eight equal annual installments each January 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, miscellaneous amounts held on behalf of tenants, deferred revenue, including unamortized below-market rent intangibles, construction rent 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 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.

Real Estate Leased to Others

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, 2006, lessees were responsible for the direct payment of real estate taxes of approximately \$8,000.

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. CPI increases are contingent on future events and are therefore not included in straight-line rent calculations.

The leases are accounted for as either direct financing or operating leases. 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 LEASES — 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 using statistical methods. The Company generally

recognizes a provision for uncollected rents and other tenant receivables and measures its allowance against actual arrearages. 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.

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 or (b) the fair value at the date of the subsequent decision not to sell.

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.

Revenue Recognition

The Company earns structuring and asset-based revenue. Structuring and financing revenue 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 the CPA® REITs. Asset-based revenue consists of property management, leasing and advisory revenue and reimbursement of certain expenses in accordance with the separate management agreements with each CPA® REIT for administrative services provided for operation of the CPA® REIT. Receipt of the incentive revenue portion of the management revenue ("performance revenue"), however, is subordinated to the achievement of specified cumulative return requirements by the shareholders of the CPA® REITs. The performance revenue may be collected in cash or shares of the CPA® REIT at the option of the Company. During 2006, 2005 and 2004, the Company elected to receive its earned performance revenue in CPA® REIT shares. Performance revenue of CIP® in the amount of \$1,494 was received in cash in 2004.

All revenue is recognized as earned. Structuring revenue is earned upon the consummation of a transaction and asset management revenue is earned when services are performed. Revenue subject to subordination is recognized only when the contingencies affecting the payment of such revenue are resolved, that is, when the performance criteria of the CPA® REIT is achieved and contractual limitations are not exceeded. As of December 31, 2006, \$800 of structuring revenue from prior year transactions is recorded as deferred revenue in other liabilities, because a limitation which provides that certain structuring revenue 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 performance criterion, as defined in the advisory agreements, and therefore, for the year ended December 31, 2006, performance revenue of \$5,527 and deferred acquisition revenue of \$10,809 have been deferred until the performance criterion is met.

The Company is also reimbursed for certain costs incurred in providing services, including broker-dealer commissions paid on behalf of the CPA® REITs, marketing costs and the cost of personnel provided for the administration

of the CPA® REITs. Reimbursement income is recorded as the expenses are incurred, subject to limitations on a CPA® REIT's ability to incur offering costs. Prior to 2006, broker-dealer commissions were paid directly by the CPA® REITs.

Depreciation

Depreciation is computed using the straight-line method over the estimated useful lives of the properties (generally 40 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 these 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 not considered to be 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 compares the implied fair value of the goodwill with its carrying amount and records an impairment charge for the excess of the carrying amount over the fair value. The implied fair value of the goodwill is determined by allocating the estimated fair value of the management services segment to its assets and liabilities. The excess of the estimated fair value of the management services segment over the amounts assigned to its assets and liabilities is the implied fair value of the goodwill. In accordance with the requirements of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangibles," the Company performed its annual tests for impairment of its management services segment, the reportable unit of measurement, and concluded that the goodwill is not impaired.

Investments in unconsolidated joint ventures are accounted for under the equity method and are recorded initially at cost, and subsequently adjusted for the Company's proportionate share of earnings and cash contributions and distributions. On a periodic basis, the Company assesses whether there are any indicators that the value of equity investments in real estate may be impaired and whether or not that impairment is other than temporary. To the extent impairment has occurred, the charge is 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 makes 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.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"), using the modified prospective transition method and therefore has not restated results for prior periods. Under this transition method, stock-based compensation expense in 2006 included stock-based compensation expense for all share-based payment awards granted prior to, but not yet vested, as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Stock-based compensation expense for all share-based payment awards granted after January 1, 2006 is based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). The Company recognizes these compensation costs for only those shares expected to vest on a straight-line basis over the requisite service period of the award. Prior to the adoption of SFAS 123(R), the Company accounted 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 was 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. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB 107") regarding the SEC's interpretation of SFAS 123(R) and the valuation of share-based payments for public companies. The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

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 were presented as a separate component of members' equity through January 1, 2006. Since adoption of SFAS 123(R), stock-based compensation has been included within the additional paid-in capital caption of members' equity. Compensation cost for stock options and restricted stock, if any, is recognized over the applicable 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.

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 this translation are reported as a component of other comprehensive income as part of members' equity. The cumulative translation adjustment as of December 31, 2006 and 2005 was a loss of \$36 and \$835, 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 cur-

rency 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 in real estate 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, 2006 and 2005, the Company recognized an unrealized gain of \$1,003 and unrealized loss of \$830, respectively, from such transactions. In 2006 and 2005, the Company recognized a realized gain of \$488 and realized a loss of \$19, 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 U.S. 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 U.S. 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 consolidated 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 assets and liabilities for the expected future tax consequences of temporary differences between tax bases and financial bases of assets and liabilities (see Note 15).

In 2006, the Company formed Carey REIT to hold certain properties, including certain properties acquired from CPA[®]:12. Carey REIT has issued both common and preferred stock with the later being held entirely by employees of the Company. Carey REIT will elect to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code") with the filing of its 2007 return. In order to maintain its qualification as a REIT, Carey REIT is required to, among other things, distribute at least 90% of its net taxable income to its shareholders (excluding net capital gains) and meet certain tests regarding the nature of its income and assets. As a REIT, Carey REIT is not subject to U.S. federal income tax to the extent it distributes its net taxable income

annually to its shareholders. Accordingly, no provision for U.S. federal income taxes is included in the accompanying consolidated financial statements. The Company has and intends to continue to operate so that it meets the requirements for taxation as a REIT. Many of these requirements, however, are highly technical and complex. If the Company were to fail to meet these requirements, the Company would be subject to U.S. federal income tax.

Recent Accounting Pronouncements

SFAS 123(R)

In December 2004, the FASB issued Statement No. 123(R). The Company adopted SFAS 123(R) on January 1, 2006 using the modified prospective application method. The Company's stock based compensation accounting policy and transition method are discussed in detail under the heading "Stock Based Compensation" above. The impact of adopting SFAS 123(R) in 2006 is discussed in Note 14. Results for fiscal years 2005 and prior have not been restated.

FIN 47

In March 2005, the FASB issued Interpretation No. 47 "Accounting for Conditional Asset Retirement Obligations" ("FIN 47"). FIN 47 requires an entity to recognize a liability for a conditional asset retirement obligation when incurred if the liability can be reasonably estimated. FIN 47 clarifies that the term "Conditional Asset Retirement Obligation" refers to a legal obligation (pursuant to existing laws or by contract) to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The Company adopted FIN 47 as required effective December 31, 2005 and the initial application of this Interpretation did not have a material effect on its financial position or results of operations.

EITF 04-05

In June 2005, the Emerging Issues Task Force ("EITF") issued its Consensus on Issue No. 04-05, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights" ("EITF 04-05"). The scope of EITF 04-05 is limited to limited partnerships or similar entities that are not variable interest entities under FIN 46(R). The Task Force reached a consensus that the general partners in a limited partnership (or similar entity) are presumed to control the entity regardless of the level of their ownership and, accordingly, may be required to consolidate the entity. This presumption may be overcome if the agreements provide the limited partners with either (a) the substantive ability to dissolve (liquidate) the limited partnership or otherwise remove the general partners without cause or (b) substantive participating rights. If it is deemed that the limited partners' rights overcome the presumption of control by a general partner of the limited partnership, the general partner shall account for its investment in the limited partnership using the equity method of accounting. EITF 04-05 was effective immediately for all arrangements created or modified after June 29, 2005. For all other arrangements, the Company adopted EITF 04-05 effective January 1, 2006. As a result of adopting EITF 04-05, the Company now consolidates a limited liability company that leases property to CheckFree Holdings Corporation Inc., which was previously accounted for under the equity method of accounting.

FSP FAS 13-1

In October 2005, the FASB issued FSP No. 13-1 “Accounting for Rental Costs Incurred during a Construction Period” (“FSP FAS 13-1”). FSP FAS 13-1 addresses the accounting for rental costs associated with operating leases that are incurred during the construction period. FSP FAS 13-1 makes no distinction between the right to use a leased asset during the construction period and the right to use that asset after the construction period. Therefore, rental costs associated with ground or building operating leases that are incurred during a construction period shall be recognized as rental expense, allocated over the lease term in accordance with SFAS No. 13 and Technical Bulletin 85-3. The Company adopted FSP FAS 13-1 as required on January 1, 2006 and the initial application of this Staff Position did not have a material impact on its financial position or results of operations.

SFAS 155

In February 2006, the FASB issued Statement No. 155, “Accounting for Certain Hybrid Financial Instruments an Amendment of FASB No. 133 and 140” (“SFAS 155”). The purpose of SFAS 155 is to simplify the accounting for certain hybrid financial instruments by permitting fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS 155 also eliminates the restriction on passive derivative instruments that a qualifying special-purpose entity may hold. The Company must adopt SFAS 155 effective January 1, 2007 and does not believe that this adoption will have a material impact on its financial position or results of operations.

FIN 48

In July 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109” (“FIN 48”), which clarifies the accounting for uncertainty in income tax positions. This Interpretation requires that the Company not recognize in its consolidated financial statements the impact of a tax position that fails to meet the more likely than not recognition threshold based on the technical merits of the position. The Company must adopt FIN 48 effective January 1, 2007. The Company is currently evaluating the impact of adopting FIN 48 on its consolidated financial statements.

SAB 108

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.” SAB 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements.

Traditionally, there have been two widely-recognized methods for quantifying the effects of financial statement misstatements: the “rollover” method and the “iron curtain” method. The rollover method focuses primarily on the impact of a misstatement on the income statement – including the reversing effect of prior year misstatements – but its use can lead to the accumulation of misstatements in the balance sheet. The iron curtain method, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. The Company currently uses the iron curtain method for quantifying identified financial statement misstatements.

In SAB 108, the SEC staff established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the Company’s financial statements and the related financial statement disclosures. This model is commonly referred to as a “dual approach” because it requires quantification of errors under both the iron curtain and rollover methods. SAB 108 permits existing public companies to initially apply its provisions either by (i) restating prior financial statements as if the “dual approach” had always

been used or (ii) recording the cumulative effect of initially applying the “dual approach” as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings. Use of the “cumulative effect” transition method requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose. The Company adopted SAB 108 effective December 31, 2006 using the cumulative effect transition method. The adoption of SAB 108 had no impact on the Company’s financial position or results of operations.

SFAS 157

In September 2006, the FASB issued Statement No. 157, “Fair Value Measurements” (“SFAS 157”). SFAS 157 provides guidance for using fair value to measure assets and liabilities. This statement clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability. SFAS 157 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data. SFAS 157 applies whenever other standards require assets or liabilities to be measured at fair value. This statement is effective for the Company’s 2008 fiscal year, although early adoption is permitted. The Company believes that the adoption of SFAS 157 will not have a material effect on its financial position or results of operations.

3

Transactions with Related Parties

Advisory Services

Directly and through one of its wholly-owned subsidiaries, the Company earns revenue as the advisor (“advisor”) to the CPA®REITS. 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 asset management revenue totaling 1% per annum of average invested assets, as calculated pursuant to the advisory agreements for each CPA® REIT, of which 1/2 of 1% (“performance revenue”) is contingent upon specific performance criteria for each CPA® REIT, and is reimbursed for certain costs, primarily broker-dealer commissions paid on behalf of the CPA® REITs and marketing and personnel costs. Effective in 2005, the advisory agreements were amended to allow the Company to elect to receive restricted stock for any revenue due from each CPA® REIT. For the years ended December 31, 2006, 2005 and 2004, total asset-based revenue earned was \$57,633, \$52,332 and \$45,806, respectively, while reimbursed costs totaled \$63,630, \$9,962 and \$15,388, respectively. As of December 31, 2006, CPA®:16 - Global did not meet its performance criterion (a non-compounded cumulative distribution return of 6% per annum), as defined in its advisory agreement, and since CPA®:16 - Global’s inception, the Company has deferred cumulative performance revenue of \$10,045 that will be recognized if the performance criterion is met. In 2006, the Company elected to continue to receive all performance revenue from the CPA® REITs as well as the asset management revenue payable by CPA®:16 - Global in restricted shares. In 2005, the Company elected to receive all performance revenue from the CPA® REITs as well as the asset management revenue payable by CPA®:12 and CPA®:16 - Global in restricted shares.

In connection with structuring and negotiating investments and related mortgage financing for the CPA® REITs, the advisory agreements provide for structuring revenue based on the cost of investments. Under each of the advisory agreements, the Company may receive acquisition revenue of up to an average of 4.5% of the total cost of all

investments made by each CPA® REIT. A portion of this revenue (generally 2.5%) is paid when the transaction is completed while the remainder (generally 2%) is payable in equal annual installments ranging from three to eight years, subject to the relevant CPA® REIT meeting its performance criterion. Unpaid installments bear interest at annual rates ranging from 5% to 6%. The Company may be entitled to loan refinancing revenue of up to 1% of the principal amount refinanced in connection with structuring and negotiating investments. This loan refinancing revenue, together with the acquisition revenue, is referred to as structuring revenue.

For the years ended December 31, 2006, 2005 and 2004, the Company earned structuring revenue of \$22,506, \$28,197 and \$33,675, respectively. CPA®:16 - Global has not met its performance criterion and since its inception, cumulative deferred structuring revenue of \$28,517 and interest thereon of \$1,928 have been deferred, and will be recognized by the Company if CPA®:16 - Global meets the performance criterion. In addition, the Company may also earn revenue related to the disposition of properties, subject to subordination provisions, and will only recognize such revenue as the subordination provisions are achieved.

Included in due from affiliates and deferred revenue in the accompanying consolidated balance sheets as of December 31, 2006 and 2005, is \$40,490 and \$23,085, respectively, of deferred revenue related to providing services to CPA®:16 - Global (as described above). Recognition and ultimate collection of these amounts is subject to CPA®:16 - Global meeting its performance criterion. If the performance criterion is achieved, deferred incentive and commission compensation related to achievement of the performance criterion, in the amount of approximately \$5,900 (exclusive of interest) as of December 31, 2006, would become payable by the Company to certain employees.

Merger of CPA®:12 and CPA®:14

In June 2006, the boards of directors of CPA®:12 and CPA®:14 each approved a definitive agreement under which CPA®:14 would acquire CPA®:12's business for a combination of cash and stock (the "CPA®:12/14 Merger"). The CPA®:12/14 Merger was approved by the shareholders of CPA®:12 and CPA®:14 in November 2006, and completed on December 1, 2006. In connection with providing a liquidity event for CPA®:12 shareholders, CPA®:12 paid the Company termination revenue of \$25,379 and subordinated disposition revenue of \$24,418. Included in subordinated disposition revenue is \$3,779 payable by CPA®:12 related to properties the Company acquired from CPA®:12 that was not recognized as income for financial reporting purposes but reduced the cost of the properties acquired.

Prior to the CPA®:12/14 Merger, the Company acquired interests in 37 properties from CPA®:12 (the "CPA®:12 Acquisition") with a fair value of \$126,006 for \$67,289 in cash and the assumption of limited recourse mortgage notes payable with a fair value of \$58,717. The amounts are inclusive of the Company's pro rata share of equity interests acquired in the transaction. In addition, the Company made a payment to CPA®:12 of \$534 in respect of one of the properties which had been sold at a price below its previously appraised value. The purchase price of the properties was based on a third party valuation of each of CPA®:12's properties. The properties are primarily single tenant net-leased properties, with remaining lease terms ranging from three to seven years. The majority of the properties are encumbered with limited recourse mortgage financing with fixed annual interest rates ranging from 5.5% to 8.5% and maturity dates ranging from 2009 to 2017. At the time of the merger the Company owned 2,134,140 shares of CPA®:12 and received \$6,808 as a result of the special cash distribution of \$3.19 per share, and elected to receive \$9,861 in cash and 1,022,800 shares of CPA®:14 stock in the merger and recorded a gain of \$6,521 in accordance with SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities".

In connection with the CPA®:12 Acquisition, the Company has agreed that if it enters into a definitive agreement to sell any of the acquired properties within six months after the closing of the CPA®:12 Acquisition at a price

that is higher than the price paid to CPA[®]:12, the Company will pay to former CPA[®]:12 shareholders an amount equal to 85% of the excess (net of selling expenses and fees) on any such sale.

A subsidiary of the Company has agreed to indemnify CPA[®]:14 if CPA[®]:14 suffers certain losses arising out of a breach by CPA[®]:12 of its representations and warranties under the merger agreement and having a material adverse effect on CPA[®]:14 after the CPA[®]:12/14 Merger, up to the amount of fees received by such subsidiary of the Company in connection with the CPA[®]:12/14 Merger. The Company has evaluated the exposure related to this indemnification and has determined the exposure to be minimal. The Company has also agreed to waive any acquisition fees payable by CPA[®]:14 under its advisory agreement with the Company in respect of the properties being acquired in the CPA[®]:12/14 Merger and has also agreed to waive any disposition fees that may subsequently be payable by CPA[®]:14 to the Company upon a sale of such assets.

Merger of CIP[®] and CPA[®]:15

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 "CIP[®]/CPA[®]:15 Merger"). The CIP[®]/CPA[®]:15 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 revenue of \$23,681 and disposition revenue of \$22,679. Disposition revenues relating to the interests in the properties acquired by the Company of \$4,265 were not earned and were applied, for financial reporting purposes, as a reduction in the cost basis of such interests. The Company also recognized structuring revenue of \$11,493 in connection with CPA[®]:15's acquisition of properties in connection with the CIP[®]/CPA[®]:15 Merger.

Prior to the CIP[®]/CPA[®]:15 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 "CIP[®] 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 at the date of acquisition. 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.

Self-Storage Investments

In November 2006, the Company formed a subsidiary ("Carey Storage"), for the purpose of investing in self-storage real estate properties and their related businesses within the United States. In December 2006, the Company contributed \$5,012 in cash for equity interests in Carey Storage and loaned Carey Storage \$5,900. Carey Storage used a portion of the proceeds from the Company's contribution and loan along with borrowings totaling \$15,501 under its \$105,000 credit facility to acquire six domestic self-storage properties totaling \$24,800. The borrowings have an annual fixed interest rate and term of 7.6% and 2 years, respectively. The Company has acquired, and expect to continue to acquire, additional self-storage properties during 2007. The Company is evaluating raising third party capital in connection with these investments. Carey Storage's results of operations are included in other real estate income and other real estate expenses in the accompanying consolidated financial statements. See Note 10 for further discussion of the Company's self-storage investments.

Carey Storage has an investment committee that will evaluate and approve all new transactions. This committee is currently comprised of John Miller, the Company's chief investment officer, and Reginald Winssinger, an independent director. If the Company raises third party capital for Carey Storage, the results of operations of Carey

Storage may be reclassified from its real estate operations to its management services operations. The Company expects that it would then seek to liquidate the self-storage investments as a whole within five to seven years thereafter.

General Transactions

The Company owns interests in entities which range from 33% to 60%, 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 owns equity interests as a limited partner in several limited partnerships, limited liability companies and jointly-controlled tenancies-in-common subject to master leases with the remaining interests owned by affiliates and all of which net lease real estate on a single-tenant basis.

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. During the fourth quarter of 2005, the Company began consolidating the results of operations of this limited partnership. As a result, during the year ended December 31, 2006 the Company recorded income from minority interest partners of \$1,924 related to reimbursements from these affiliates. During the years ended December 31, 2005 and 2004 (prior to consolidation) the Company's share of rental expenses under this agreement was \$826 and \$531, respectively. The Company's estimated minimum annual lease payments on the office lease, inclusive of minority interest, as of December 31, 2006 approximate \$2,814 through 2016.

In June 2000, the Company acquired Carey Management. Prior to its acquisition by the Company, Carey Management performed certain services for the Company and earned structuring revenue in connection with the purchase and disposition of properties. The Company is obligated to pay deferred acquisition compensation in equal annual installments over a period of no less than eight years. As of December 31, 2006 and 2005, unpaid deferred acquisition compensation was \$661 and \$1,185, respectively, and bore interest at an annual rate of 6%. Installments of \$524 were paid in 2006, 2005 and 2004.

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. The Company consolidates the accounts of Livho in its consolidated financial statements in accordance with FIN 46(R) as it is a VIE where the Company is the primary beneficiary.

A 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.

Two employees of the Company own a minority interest in W. P. Carey International LLC ("WPCI"), a subsidiary company that structures net lease transactions on behalf of the CPA® REITs outside of the United States of America.

The Company has the right to loan funds under its credit facility to its affiliates. Such loans bear interest at comparable rates to the Company's rate under the credit facility. During the year ended December 31, 2006, the Company loaned \$84,000 to CPA®:15 to facilitate the early repayment of a mortgage obligation in connection with the sale of one of its properties. The loan was repaid within the next few business days. In connection with the CPA®:12/14 Merger, the Company loaned CPA®:14 \$24,000 to fund this transaction. The loan was repaid within the next few business days. There were no such loans to affiliates during the comparable years ended December 31, 2005 and 2004.

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Real Estate

Real estate, which consists of land and buildings leased to others, at cost, and accounted for as operating leases, is summarized as follows:

	2006	December 31, 2005
Cost	\$ 620,472	\$ 515,275
Less: Accumulated depreciation	(79,968)	(60,797)
	<u>\$ 540,504</u>	<u>\$ 454,478</u>

Operating real estate, which consists of the Company's hotel operations and self-storage facilities, at cost, is summarized as follows:

	2006	December 31, 2005
Cost ⁽¹⁾	\$ 41,275	\$ 15,108
Less: Accumulated depreciation	(7,669)	(7,243)
	<u>\$ 33,606</u>	<u>\$ 7,865</u>

(1) Includes \$1,049 of costs in connection with renovations to the hotel facility which is scheduled for completion in 2008.

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

Year ended December 31,	
2007	\$ 58,502
2008	54,843
2009	51,481
2010	40,944
2011	30,951
Thereafter through 2026	123,345

Percentage rent revenue was \$262, \$369 and \$17 in 2006, 2005 and 2004, respectively.

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Net Investment in Direct Financing Leases

Net investment in direct financing leases is summarized as follows:

	2006	December 31, 2005
Minimum lease payments receivable	\$ 69,137	\$ 83,047
Unguaranteed residual value	102,881	123,812
	172,018	206,859
Less: unearned income	(63,437)	(74,884)
	<u>\$ 108,581</u>	<u>\$ 131,975</u>

Scheduled future minimum rents, exclusive of renewals and expenses paid by tenants and future CPI-based increases, under non-cancelable direct financing leases are as follows:

Year ended December 31,	
2007	\$ 12,040
2008	10,166
2009	9,403
2010	7,378
2011	5,988
Thereafter through 2022	24,162

Percentage rent revenue was approximately \$103 in 2006 and \$110 in 2005. There was no percentage rent revenue in 2004.

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Equity Investments in Real Estate

The Company owns interests in three CPA[®] REITs with which it has advisory agreements. The Company's 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 file financial statements with the SEC. In connection with earning asset management and performance revenue, the Company has elected, in certain cases, to receive restricted shares of common stock in the CPA[®] REITs rather than cash in consideration for such revenue (see Note 3). In connection with the CPA[®]:12/14 Merger, the Company elected to receive 1,022,800 shares of common stock in CPA[®]:14, in exchange for its CPA[®]:12 shares, all of which are restricted.

As of December 31, 2006, the Company's ownership in the CPA[®] REITs is as follows:

	Shares	% of outstanding shares
CPA [®] :14	4,948,043	5.65%
CPA [®] :15	4,528,437	3.53%
CPA [®] :16 — Global	887,426	0.78%

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

In October 2006, the Company, together with an affiliate, through a venture in which the Company and the affiliate own 60% and 40% tenancy-in-common interests, respectively, acquired property in South Carolina for approximately \$17,881. In connection with this acquisition, the venture obtained limited recourse mortgage financing of \$12,000 at a fixed interest rate of 5.87% for a 10-year term. The Company's proportionate share of cost in this investment and financing obtained is approximately \$10,530 and \$7,200, respectively.

In connection with the CPA[®]:12 Acquisition, the Company increased its existing 22.5% interest in a limited partnership, which leases property to Carrefour France SA, to 49.7% and continues to account for its interest in Carrefour as an equity investment in real estate. The Company also acquired CPA[®]:12's non-controlling interests in two limited partnerships that lease property to Medica-France (35% interest) and The Retail Distribution Group (40% interest) and is accounting for these interests under the equity method of accounting.

In connection with the CIP[®] 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 in real estate, 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% non-controlling interest in a limited partnership, which leases property to Sicor, Inc., and is accounting for this interest under the equity method of accounting.

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

	2006	December 31, 2005
Assets (primarily real estate)	\$ 6,849,781	\$ 5,593,102
Liabilities (primarily mortgage notes payable)	(3,695,811)	(2,992,146)
Owner's equity	3,153,970	2,600,956
Company's share of equity investees' net assets	166,147	134,567

	Years ended December 31,		
	2006	2005	2004
Revenue (primarily rental income and interest income from direct financing leases)	\$ 524,886	\$ 440,245	\$ 319,758
Expenses (primarily depreciation and property expenses)	(274,784)	(182,972)	(132,718)
Other interest income	23,677	13,597	7,928
Income from equity investments in real estate	50,353	48,857	38,438
Minority interest in income	(22,834)	(16,316)	(10,282)
Gain (loss) on sales of real estate, derivatives and foreign currency transactions, net	29,651	(1,105)	7,453
Interest expense	(210,134)	(165,590)	(120,094)
Income from continuing operations	120,815	136,716	110,483
(Loss) income from discontinued operations	(17,912)	5,949	6,109
Minority interest in income of discontinued properties	—	(2,899)	(2,704)
Impairment charge on properties held for sale	(6,700)	(4,505)	(5,150)
Gain on sale of real estate, net	100,168	825	2,232
Net income	<u>\$ 196,371</u>	<u>\$ 136,086</u>	<u>\$ 110,970</u>
Company's share of net income from equity investments in real estate	<u>\$ 7,608</u>	<u>\$ 5,182</u>	<u>\$ 5,308</u>

7

Assets Held for Sale and Discontinued Operations

Tenants from time to time may vacate space due to lease buy-outs, elections not to renew, company insolvencies or lease rejections in the bankruptcy process. In such cases, the Company assesses whether the highest value is obtained from re-leasing or selling the property. When it is determined that the most likely outcome will be a sale, the asset is reclassified as an asset held for sale.

Assets Held for Sale

In March 2005, the Company entered into a contract to sell its property in Travelers Rest, South Carolina to a third party for \$2,500. The Company currently expects to complete this transaction during 2007. Impairment charges totaling \$2,507 were recognized in prior years to write down the property value to the estimated net sales proceeds.

Discontinued Operations

During 2006, the Company sold several domestic properties to third parties for combined sales proceeds of \$32,038, net of closing costs and recognized a combined net gain on sale of \$3,452, exclusive of combined impairment charges of \$3,357 recognized during the current year. The Company previously recognized combined impairment charges of \$18,662 related to these properties.

During 2005, the Company sold several domestic properties to third parties for combined sales proceeds of \$45,404, net of closing costs and recognized a combined net gain on sale of \$10,474. In 2005, impairment charges of \$5,241 were recorded against these properties. Prior to 2005, impairment charges totaling \$4,621 were recorded against these properties to reduce their property values to the estimated net sales proceeds.

During 2004, the Company sold several domestic properties to third parties for combined sales proceeds of \$6,547 and recognized a net gain of \$89. Prior to 2004, impairment charges of \$9,225 were recorded against these properties.

Other Information

In accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the results of operations, impairment charges and gain or loss on sale of real estate for properties held for sale are reflected in the accompanying consolidated financial statements as discontinued operations for all periods presented and are summarized as follows:

	Years ended December 31,		
	2006	2005	2004
Revenues (primarily rental revenues and other operating income)	1,191	8,926	12,286
Expenses (primarily interest on mortgages, depreciation and property expenses)	(2,537)	(1,975)	(2,927)
Gain on sales of real estate, net	3,452	10,474	89
Impairment charges on assets held for sale	(3,357)	(16,066)	(9,199)
(Loss) income from discontinued operations	<u>\$ (1,251)</u>	<u>\$ 1,359</u>	<u>\$ 249</u>

8

Intangibles

In connection with its acquisition of properties, the Company has recorded net lease intangibles of \$34,826. These intangibles are being amortized over periods ranging from 19 months to 31 years. Amortization of below-market and above-market rent intangibles are recorded as an adjustment to revenue.

Intangibles are summarized as follows:

	Years ended December 31,	
	2006	2005
Amortized Intangibles:		
Management contracts	\$ 32,765	\$ 46,348
Less: accumulated amortization	(17,943)	(25,206)
	<u>14,822</u>	<u>21,142</u>
Lease Intangibles:		
In-place lease	18,345	13,630
Tenant relationship	8,783	4,863
Above-market rent	9,707	3,828
Less: accumulated amortization	(11,890)	(6,738)
	<u>24,945</u>	<u>15,583</u>
Unamortized Goodwill and Indefinite-Lived Intangible Assets:		
Goodwill	63,607	63,607
Trade name	3,975	3,975
	<u>67,582</u>	<u>67,582</u>
Below-market rent	(2,009)	(2,009)
Less: accumulated amortization	325	197
	<u>(1,684)</u>	<u>(1,812)</u>

Net amortization of intangibles was \$11,344, \$9,649 and \$10,304 for the years ended December 31, 2006, 2005 and 2004, respectively. The amortization of the remaining unamortized management contract for CPA[®]:12 of \$3,547 was accelerated as a result of its merger with CPA[®]:14 in 2006. The amortization of the remaining unamortized management contract for CIP[®] was accelerated as a result of its merger with CPA[®]:15 in 2004.

Based on the intangible assets as of December 31, 2006, annual net amortization of intangibles for each of the next five years is as follows: 2007 – \$7,993; 2008 – \$6,644; 2009 – \$6,617; 2010 – \$5,716 and 2011 – \$2,696.

9

Disclosures About Fair Value of Financial Instruments

The Company estimates that the fair value of mortgage notes payable and other notes payable was \$274,625 and \$245,187 at December 31, 2006 and 2005, 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 \$278,653 and \$246,113 at December 31, 2006 and 2005, respectively. The fair value of the notes payable from the secured and unsecured credit facilities approximates their carrying value as each is a variable rate obligation with an interest rate indexed to market rates.

Marketable securities had a carrying value of \$545 and \$3,716 as of December 31, 2006 and 2005, respectively, and a fair value of \$602 and \$7,723 as of December 31, 2006 and 2005, respectively. The Company's other assets and liabilities had fair values that approximated their carrying values at December 31, 2006 and 2005, respectively.

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Mortgage Notes Payable and Credit Facilities

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 \$388,287 at December 31, 2006. In addition, self storage real estate assets with a carrying value of \$25,084 have been used to collateralize the secured credit facility.

The interest rates on the variable rate debt as of December 31, 2006 ranged from 3.86% to 7.57% and mature from 2007 to 2040. The interest rates on the fixed rate debt as of December 31, 2006 ranged from 4.87% to 10.13% and mature from 2007 to 2032.

Scheduled principal payments for the mortgage notes and notes payable during each of the next five years following December 31, 2006 and thereafter are as follows:

Years ended December 31,	Total Debt	Fixed Rate Debt	Variable Rate Debt
2007 ^(a)	\$ 28,274	\$ 23,340	\$ 4,934
2008 ^(b)	32,133	8,390	23,743
2009	38,928	35,473	3,455
2010	16,728	13,175	3,553
2011	29,424	25,712	3,711
Thereafter through 2017	133,166	102,575	30,592
Total	\$ 278,653	\$ 208,665	\$ 69,988

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

(b) Includes maturity of secured credit facility in December 2008.

Unsecured credit facility

The Company has an unsecured credit facility for a \$175,000 line of credit with JP Morgan Chase Bank and eight other banks. As of December 31, 2006, the Company had \$2,000 drawn from the credit facility. The line of credit matures in May 2007. The Company is currently negotiating a renewal or replacement of this facility.

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 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 not less than \$550,000 plus 85% of fair market value, as defined, 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, 2006.

At December 31, 2006, the average interest rate on advances on the line of credit was 6.475%. At December 31, 2005, the average interest rate on advances on the line of credit was 4.975%. 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 ratio, if no minimum credit rating for the Company is in effect or (b) ranging between 0.15% and 0.25% of the total commitment amount, depending on the Company's credit rating.

Secured credit facility

In December 2006, Carey Storage, a wholly owned subsidiary, entered into a credit facility for up to \$105,000 with Morgan Stanley Mortgage Capital Inc. that matures in December 2008. The facility is collateralized by any self-storage real estate assets acquired with proceeds from the facility. Advances from this facility bear interest at an annual rate of the one-month LIBOR, plus a spread that ranges from 1.75% to 2.35% depending on the aggregate debt yield for the collateralized asset pool. Advances can be prepaid at any time, however advances prepaid prior to March 8, 2008 are subject to a prepayment penalty of 1.25% of the principal amount of the loan being prepaid. This facility has financial covenants requiring Carey Storage, among other things, to meet or exceed certain operating and coverage ratios. For 2006, Carey Storage has received a covenant compliance waiver from the lender due to its limited operating history as of December 31, 2006. At December 31, 2006 the average interest rate on advances on the secured line of credit was 7.6%.

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Commitments and Contingencies

In March 2004, following a broker-dealer examination of Carey Financial, LLC ("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 Carey Financial, the Company 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 (“CPA[®]:10”), Carey Institutional Properties Incorporated (“CIP[®]”), CPA[®]:12, CPA[®]:14 and CPA[®]:15), in addition to selling commissions and selected dealer fees.

Among the payments reflected on documents produced to the Staff were certain payments, aggregating in excess of \$9,600, made to a broker-dealer which distributed shares of the REITs. The expenses associated with these payments, which were made during the period from early 2000 through the end of 2003, were borne by and accounted for on the books and records of the REITs. Of these payments, CPA[®]:10 paid in excess of \$40; CIP[®] paid in excess of \$875; CPA[®]:12 paid in excess of \$2,455; CPA[®]:14 paid in excess of \$4,990; and CPA[®]:15 paid in excess of \$1,240. In addition, other smaller payments by the REITs to the same and other broker-dealers have been identified aggregating less than \$1,000.

The Company and Carey Financial are cooperating fully with this investigation and have provided information to the Enforcement Staff in response to the subpoenas and requests. Although no formal regulatory action has been initiated against the Company or Carey Financial in connection with the matters being investigated, the Company expects that the SEC may pursue such an action against either or both of them. 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, and the magnitude of that effect would not necessarily be limited to the payments described above but could include other payments and civil monetary penalties.

Several state securities regulators have sought information from Carey Financial and CPA[®]:15 relating to the matters described above. While one or more states may commence proceedings against Carey Financial in connection with these inquiries, the Company does not currently expect that these inquiries and proceedings will have a material effect on it incremental to that caused by any SEC action.

In October 2006, a revised complaint was filed in the Los Angeles Superior Court in an action that had named a wholly-owned indirect subsidiary, and other unrelated parties, in a state court action by a private plaintiff alleging various claims under the California False Claims Act that focus on alleged conduct by the Los Angeles Unified School District in connection with its direct application and invoicing for school development and construction funding for a new high school, for which the Company's subsidiary acted as the development manager. The Company and another of its subsidiaries were named for the first time in the revised complaint, by virtue of an alleged relationship to the subsidiary that was a party to the development agreement, but were not served. In February 2007, the judge dismissed the action against the Company's wholly-owned indirect subsidiary, as well as other defendants, following various substantive and procedural motions. However, the plaintiff may appeal the dismissal and may still seek to serve the Company and its other subsidiary in this action. Although no assurance can be given that the dismissal will be sustained if appealed, or that the claims alleged by plaintiff against the Company and its subsidiaries, if proven, would not have a material effect on the Company, the Company believes, based on the information currently available to it, that itself and its subsidiaries have meritorious defences to such claims.

The Company has provided indemnification in connection with divestitures. These indemnities address a variety of matters including environmental liabilities. The Company's maximum obligations under such indemnification cannot be reasonably estimated. The Company is not aware of any claims or other information that would give rise to material payments under such indemnifications.

12

Impairment Charges and Loan Losses

The Company recorded impairment charges of \$4,504, \$21,770 and \$22,098 for the years ended December 31, 2006, 2005 and 2004, respectively, of which \$3,357, \$16,066 and \$9,199 are included in discontinued operations for each respective year.

Impairment Charges on Direct Finance Leases

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 changes in estimates resulted in the recognition of impairment charges totaling \$1,147, \$2,774 and \$5,248 in 2006, 2005 and 2004, respectively.

Impairment Charges on Operating Assets

In connection with entering into a commitment to sell a property in Livonia, Michigan, the Company recognized impairment charges of \$1,130 during 2005 as the property's estimated fair value was lower than its carrying value. In the fourth quarter of 2005, the Company terminated its plan to sell the property and entered into an agreement with the proposed buyer to upgrade and manage the facility on a fee basis. The Company had previously recorded

an impairment charge of \$7,500 during 2004 as the result of an impairment valuation, which revealed that the property had experienced an other than temporary decline in value.

During the years ended December 31, 2005 and 2004, the Company recognized impairment charges on other properties, totaling \$1,800 and \$1,250, respectively. The 2005 impairment charges were primarily related to a decline in property values and the 2004 impairment charge resulted from a loan loss on the sale of a property.

Impairment Charges on Assets Held for Sale

During the years ended December 31, 2006, 2005 and 2004, the Company recognized impairment charges on properties classified as held for sale or sold totaling \$3,357, \$16,066 and \$9,199, respectively. These impairment charges, which are included in discontinued operations, were primarily the result of reducing these properties carrying values to their estimated fair values (see Note 7).

13

Risk Management and Use of Financial Instruments

Risk Management

In the normal course of its on-going business operations, the Company encounters economic risk. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk on its interest-bearing liabilities. Credit risk is the risk of default on the Company's operations and tenants' inability or unwillingness to make contractually required payments. Market risk includes changes in the value of the properties and related loans held by the Company due to changes in interest rates or other market factors. In addition, the Company transacts business in France and is also subject to the risks associated with changing exchange rates.

Use of Derivative Financial Instruments

The Company does not generally use derivative financial instruments to manage interest rate risk or foreign exchange rate risk exposure and does not use derivative instruments to hedge credit/market risks or for speculative purposes.

The Company is exposed to the impact of interest rate changes primarily through its borrowing activities. The Company attempts to obtain mortgage financing on a long-term, fixed-rate basis to mitigate this exposure. The Company is also exposed to foreign exchange rate movements in the Euro. The Company manages foreign exchange rate movements by generally placing both its debt obligation to the lender and the tenant's rental obligation to the Company in the local currency.

Concentration of Credit Risk

Concentrations of credit risk arise when a number of tenants are engaged in similar business activities, or conduct business in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations, including those to the Company, to be similarly affected by changes in economic conditions. The Company regularly monitors its portfolio to assess potential concentrations of credit risk. The Company believes its portfolio is reasonably well diversified and does not contain any unusual concentration of credit risks.

The majority of the Company's real estate properties and related loans are located in the United States, with Texas (14%) and California (11%) representing the only significant geographic concentration (greater than 10% of annualized lease revenue). The Company's real estate properties in France accounted for 10% of annualized lease revenue in 2006. No individual tenant accounted for more than 7% of annualized lease revenue for the year ended December 31, 2006. The Company's real estate properties contain significant concentrations in the following asset types as of December 31, 2006: industrial (38%), office (36%) and warehouse/distribution (14%) and the following tenant industries as of December 31, 2006: business and commercial services (13%) and telecommunications (13%).

14

Members' Equity and Stock-Based and Other Compensation

Distributions Payable

The Company declared a quarterly distribution of \$.458 per share in December 2006, which was paid in January 2007 to shareholders of record as of December 31, 2006.

Accumulated Other Comprehensive Income

As of December 31, 2006 and 2005, accumulated other comprehensive income reflected in the members' equity, net of tax, is comprised of the following:

	2006	December 31, 2005
Unrealized gains on marketable securities	\$ 60	\$ 4,007
Foreign currency translation adjustment	(36)	(835)
Accumulated other comprehensive income	<u>\$ 24</u>	<u>\$ 3,172</u>

Stock-Based Compensation

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123(R) using the modified prospective application method and therefore has not restated prior periods' results. Under this transition method, stock-based compensation expense for the year ended December 31, 2006 included compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123. Stock-based compensation expense for all stock-based compensation awards granted subsequent to January 1, 2006 is based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). The Company recognizes these compensation costs for only those shares expected to vest on a straight-line basis over the requisite service period of the award.

As a result of adopting SFAS 123(R), income from continuing operations before income taxes was \$248 higher and net income was \$2 lower for the year ended December 31, 2006, than if the Company had continued to account for stock-based compensation awards under APB 25. There was no impact on either basic or diluted earnings per share for the year ended December 31, 2006 as a result of the adoption of SFAS 123(R). In addition, prior to the adoption of SFAS 123(R), the Company presented the tax benefit of stock option exercises and the vesting of restricted stock as operating cash flows. Upon the adoption of SFAS 123(R), tax benefits resulting from the tax deductions in excess of the compensation cost recognized for those options totaling \$626 for the year ended

December 31, 2006 are classified as financing cash flow inflows with a corresponding decrease included within operating cash flows.

The pro forma table below reflects net income and basic and diluted earnings per share for the years ended December 31, 2005 and 2004, had the Company applied the fair value recognition provisions of SFAS 123, as follows:

	Years ended December 31,	
	2005	2004
Net income as reported	\$ 48,604	\$ 65,841
Add: Stock-based compensation included in net income as reported, net of related tax effects	2,727	2,264
Less: Stock-based compensation determined under fair value based methods for all awards, net of related tax effects	(3,166)	(2,853)
Pro forma net income	<u>\$ 48,165</u>	<u>\$ 65,252</u>
Earnings per share as reported:		
Basic	<u>\$ 1.29</u>	<u>\$ 1.76</u>
Diluted	<u>\$ 1.25</u>	<u>\$ 1.69</u>
Pro forma earnings per share:		
Basic	<u>\$ 1.28</u>	<u>\$ 1.74</u>
Diluted	<u>\$ 1.23</u>	<u>\$ 1.67</u>

At December 31, 2006, the Company had the following stock-based compensation plans as described below. The total compensation expense (net of forfeitures) for these plans was \$3,453, \$3,368 and \$3,936 for the years ended December 31, 2006, 2005 and 2004, respectively. The tax benefit recognized in the years ended December 31, 2006, 2005 and 2004 related to stock-based compensation plans totaled \$1,640, \$1,671 and \$1,858, respectively. Prior to January 1, 2006, the Company accounted for these plans under the provisions of APB 25.

1997 Share Incentive Plan

The Company maintains the 1997 Share Incentive Plan (the "Incentive Plan"), as amended, which authorizes the issuance of up to 6,200,000 shares, of which 4,574,455 have been issued or are currently reserved for issuance upon exercise of outstanding options as of December 31, 2006. 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. Options granted under the Incentive Plan generally have a 10-year term and generally 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.

Non-Employee Directors' Plan

The Company maintains the Non-Employee Directors' Plan (the "Directors' Plan"), which authorizes the issuance of up to 300,000 shares, of which 100,072 have been granted as of December 31, 2006. The Directors' 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. Options granted under the Directors' Plan have a 10-year term and vest over three years from the date of grant.

Employee Share Purchase Plan

The Company sponsors the Carey Diversified LLC Employee Share Purchase Plan ("ESPP"), pursuant to which eligible employees may contribute up to 10% of compensation, subject to certain limits, to purchase the Company's common stock. Employees can purchase stock semi-annually at a price equal to 85% of the fair market value at certain plan defined dates. The ESPP is not material to the Company's results of operations. Compensation expense under this plan for the year ended December 31, 2006 was \$164. There was no corresponding compensation expense for the years ended December 31, 2005 and 2004.

Carey Management Warrants

In January 1998, the predecessor of Carey Management was granted warrants to purchase 2,284,800 shares of the Company's common stock 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. As of December 31, 2006, warrants totaling 100,000 have been exercised at \$21 per share. There have been no exercises of the \$23 warrants. The warrants are exercisable until January 2009. These warrants and shares were fully vested prior to January 1, 2006.

Partnership Equity Plan Unit

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. The PEP plan is a deferred compensation plan and is therefore considered to be outside the scope of SFAS 123(R). Compensation expense under this plan for the years ended December 31, 2006, 2005 and 2004 was \$1,979, \$2,412 and \$2,826, respectively.

Profit-Sharing Plan

The Company sponsors a qualified profit-sharing plan and trust covering substantially all of its full-time employees who have attained age 21, 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 \$33 annually per participant. For the years ended December 31, 2006, 2005 and 2004, amounts expensed by the Company for contributions to the trust were \$2,440, \$2,108 and \$1,988, respectively. The profit-sharing plan is a deferred compensation plan and is therefore considered to be outside the scope of SFAS 123(R).

WPCI Stock Option Plan

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 December 31, 2012 and thereafter solely in exchange for shares of the Company. Any redemption will be subject to a third party valuation of WPCI.

Company Options and Grants

Option and warrant activity as of December 31, 2006 and changes during the year ended December 31, 2006 were as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (in 000's)
Outstanding at beginning of year	5,360,967	\$ 22.64		
Granted	621,828	26.76		
Exercised	(319,988)	20.57		
Forfeited / Expired	(62,738)	28.89		
Outstanding at end of year	5,600,069	\$ 23.14	4.23	\$ 39,858
Vested and expected to vest at end of year	5,534,790	\$ 23.08	4.18	\$ 39,717
Exercisable at end of year	4,133,782	\$ 21.08	2.81	\$ 36,766

Option and warrant activity for 2005 and 2004 was as follows:

	Years ended December 31,					
	2005			2004		
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Outstanding at beginning of year	5,165,617	\$ 22.05		4,812,902	\$ 20.95	
Granted	365,277	31.79		525,171	29.68	
Exercised	(86,558)	18.26		(146,121)	21.09	
Forfeited / Expired	(83,369)	25.24		(26,335)	24.18	
Outstanding at end of year	5,360,967	\$ 22.68	4.62	5,165,617	\$ 22.05	5.41
Exercisable at end of year	4,394,887	\$ 21.15		4,287,999	\$ 20.97	

The weighted average grant date fair value of options granted during the years ended December 31, 2006, 2005 and 2004 was \$2.15, \$1.94 and \$2.01, respectively. The total intrinsic value of options exercised during the years ended December 31, 2006, 2005 and 2004 was \$2,066, \$888 and \$1,619, respectively.

Nonvested restricted stock awards as of December 31, 2006 and changes during the year ended December 31, 2006 were as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2006	253,587	\$ 29.75
Granted	159,704	27.25
Vested	(83,667)	28.16
Forfeited	(26,263)	26.02
Nonvested at December 31, 2006	<u>303,361</u>	<u>\$ 29.20</u>

The total fair value of shares vested during the years ended December 31, 2006, 2005 and 2004 was \$2,356, \$1,960 and \$5,716, respectively.

The fair value of share-based payment awards is estimated using the Black-Scholes option pricing formula (options and warrants) which involves the use of assumptions which are used in estimating the fair value of share based payment awards. The risk-free interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield is based upon the trailing quarterly distribution for the four quarters prior to December 31, 2006 expressed as a percentage of the Company's stock price. Expected volatilities are based on a review of the five and ten-year historical volatility of the Company's stock as well as the historical volatilities and implied volatilities of common stock and exchange traded options of selected comparable companies. The expected term of awards granted is derived from an analysis of the remaining life of the Company's awards giving consideration to their maturity dates and remaining time to vest. The Company uses historical data to estimate option exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. For the years ended December 31, 2006, 2005 and 2004, the following assumptions and weighted average fair values were used:

	Years ended December 31,		
	2006	2005	2004
Risk-free interest rates	4.61 – 5.07%	3.94 – 4.56%	3.63 – 3.92%
Dividend yields	6.27 – 7.08%	7.7 – 7.8%	7.79 – 8.19%
Expected volatility	17 – 17.5%	20%	20.66 – 21.56%
Expected term in years	6.22 – 8.5	10	7 – 7.13

As of December 31, 2006, approximately \$9,000 of total unrecognized compensation expense related to non-vested stock-based compensation awards is expected to be recognized over a weighted-average period of approximately 3.7 years.

The Company has the ability and intent to issue shares upon stock option exercises. Historically, the Company has issued new common stock to satisfy such exercises. Cash received from stock option exercises and purchases under the ESPP during the year ended December 31, 2006 was \$7,181.

Earnings Per Share

Basic and diluted earnings per share were calculated as follows:

	Years ended December 31,		
	2006	2005	2004
Net income – basic	\$ 86,303	\$ 48,604	\$ 65,841
Income effect of dilutive securities, net of taxes	574	—	—
Net income – diluted	\$ 86,877	\$ 48,604	\$ 65,841
Weighted average shares – basic	37,668,920	37,688,835	37,417,918
Effect of dilutive securities: stock options and warrants	1,424,977	1,331,966	1,543,830
Weighted average shares – diluted	39,093,897	39,020,801	38,961,748

Securities totaling 261,691 for the year ended December 31, 2006 were excluded from the earnings per share computations above as their effect would have been anti-dilutive. There were no such anti-dilutive securities for the years ended December 31, 2005 and 2004.

Share Repurchase Program

In December 2005, the board of directors approved a \$20,000 share repurchase program. Under this program, the Company could repurchase up to \$20,000 of its common stock in the open market during the twelve-month period beginning December 16, 2005 as conditions warranted. During the term of this program, which ended December 15, 2006, the Company repurchased and retired 166,800 shares totaling \$4,138.

Other

During 2006, the Company recognized severance costs totaling approximately \$2,100 related to several former employees. Such costs are included in general and administrative expenses in the accompanying consolidated financial statements.

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Income Taxes

The components of the Company's provision for income taxes for the years ended December 31, 2006, 2005 and 2004 are as follows:

	Years ended December 31,		
	2006	2005	2004
Federal:			
Current	\$ 29,029	\$ 11,761	\$ 26,330
Deferred	1,079	1,222	6,118
	<u>30,108</u>	<u>12,983</u>	<u>32,448</u>
State, local and foreign:			
Current	14,842	6,080	15,826
Deferred	541	327	2,709
	<u>15,383</u>	<u>6,407</u>	<u>18,535</u>
Total provision	<u>\$ 45,491</u>	<u>\$ 19,390</u>	<u>\$ 50,983</u>

Deferred income taxes as of December 31, 2006 and 2005 consist of the following:

	December 31,	
	2006	2005
Deferred tax assets:		
Unearned and deferred compensation	\$ 4,955	\$ 4,479
Other	136	649
	<u>5,091</u>	<u>5,128</u>
Deferred tax liabilities:		
Receivables from affiliates	15,925	24,658
Investments	30,474	20,378
Other	219	—
	<u>46,618</u>	<u>45,036</u>
Net deferred tax liability	<u>\$ 41,527</u>	<u>\$ 39,908</u>

The difference between the tax provision and the tax benefit recorded at the statutory rate at December 31, 2006, 2005 and 2004 is as follows:

	Years ended December 31,		
	2006	2005	2004
Pre-tax income from taxable subsidiaries	\$ 90,303	\$ 38,680	\$ 98,707
Federal provision at statutory tax rate (35%)	31,606	13,538	34,547
State and local taxes, net of federal benefit	8,949	3,566	11,695
Amortization of intangible assets	1,629	1,245	2,210
Other	2,494	313	1,225
Tax provision – taxable subsidiaries	44,678	18,662	49,677
Other state, local and foreign taxes	813	728	1,306
Total tax provision	<u>\$ 45,491</u>	<u>\$ 19,390</u>	<u>\$ 50,983</u>

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Segment Reporting

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

Management Services Operations

This business segment includes management services operations performed for the CPA® REITs pursuant to the advisory agreements. This business line also includes interest on deferred revenue and earnings from unconsolidated investments in the CPA® REITs accounted for under the equity method which were received in lieu of cash for certain payments due under the advisory agreements. In connection with maintaining the Company's status as a publicly traded partnership, this business segment is carried out largely by corporate subsidiaries that 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.

Real Estate Operations

This business segment includes the operations of properties under operating leases, properties under direct financing leases, real estate under construction and development, operating real estate, assets held for sale and equity investments in real estate in ventures accounted for under the equity method which are engaged in these activities.

Because of the Company's legal structure, these operations are generally not subject to federal income taxes; however, they may be subject to certain state, local and foreign taxes.

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

	Years ended December 31,		
	2006	2005	2004
Management Services			
Revenues	\$ 189,787	\$ 90,863	\$ 147,154
Operating expenses	(107,015)	(55,022)	(54,861)
Other, net ⁽¹⁾	15,268	7,503	3,455
Provision for income taxes	(44,710)	(18,662)	(49,546)
Income from continuing operations	\$ 53,330	\$ 24,682	\$ 46,202
Real Estate			
Revenues	83,471	77,921	72,398
Operating expenses	(38,231)	(40,074)	(41,786)
Interest expense	(18,139)	(16,787)	(14,453)
Other, net ⁽¹⁾	7,904	2,231	4,668
Provision for income taxes	(781)	(728)	(1,437)
Income from continuing operations	\$ 34,224	\$ 22,563	\$ 19,390
Total Company			
Revenues	273,258	168,784	219,552
Operating expenses	(145,246)	(95,096)	(96,647)
Interest expense	(18,139)	(16,787)	(14,453)
Other, net ⁽¹⁾	23,172	9,734	8,123
Provision for income taxes	(45,491)	(19,390)	(50,983)
Income from continuing operations	\$ 87,554	\$ 47,245	\$ 65,592

	Equity Investments in Real Estate		Total Long-Lived Assets ⁽¹⁾		Total Assets	
	As of December 31,		As of December 31		As of December 31	
	2006	2005	2006	2005	2006	2005
Management Services	\$ 107,391	\$ 90,411	\$ 122,828	\$ 109,204	\$ 299,036	\$ 288,926
Real Estate	58,756	44,156	765,777	656,406	793,974	694,336
Total Company	\$ 166,147	\$ 134,567	\$ 888,605	\$ 765,610	\$ 1,093,010	\$ 983,262

(1) Includes interest income, minority interest, income from equity investments in real estate and gains and losses on sales and foreign currency transactions.

(2) Includes real estate, net investment in direct financing leases, equity investments in real estate, operating real estate and intangible assets related to management contracts.

Geographic information for the real estate operations segment is as follows:

2006	Domestic	Foreign ⁽¹⁾	Total Company
Revenues	\$ 75,149	\$ 8,322	\$ 83,471
Operating expenses	(34,688)	(3,543)	(38,231)
Interest expense	(15,179)	(2,960)	(18,139)
Other, net ⁽²⁾	5,417	2,487	7,904
Provision for income taxes	(580)	(201)	(781)
Income from continuing operations	\$ 30,119	\$ 4,105	\$ 34,224
Total assets	729,649	64,325	793,974
Total long-lived assets	705,662	60,115	765,777
2005	Domestic	Foreign ⁽¹⁾	Total Company
Revenues	\$ 69,865	\$ 8,056	\$ 77,921
Operating expenses	(36,779)	(3,295)	(40,074)
Interest expense	(13,567)	(3,220)	(16,787)
Other, net ⁽²⁾	1,605	626	2,231
Provision for income taxes	(520)	(208)	(728)
Income from continuing operations	\$ 20,604	\$ 1,959	\$ 22,563
Total assets	638,130	56,206	694,336
Total long-lived assets	601,193	55,213	656,406
2004	Domestic	Foreign ⁽¹⁾	Total Company
Revenues	\$ 64,717	\$ 7,681	\$ 72,398
Operating expenses	(38,802)	(2,984)	(41,786)
Interest expense	(10,886)	(3,567)	(14,453)
Other, net ⁽²⁾	2,324	2,344	4,668
Provision for income taxes	(806)	(631)	(1,437)
Income from continuing operations	\$ 16,547	\$ 2,843	\$ 19,390
Total assets	705,444	70,206	775,650
Total long-lived assets	685,332	64,703	750,035

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

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

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Selected Quarterly Financial Data (unaudited)

	March 31, 2006	June 30, 2006	September 30, 2006	Three months ended December 31, 2006
Revenues ⁽¹⁾	\$ 47,878	\$ 57,660	\$ 52,603	\$ 115,117
Expenses ⁽¹⁾	23,387	38,609	32,267	50,983
Net income	11,065	17,304	14,305	43,629
Earnings per share –				
Basic	0.30	0.46	0.38	1.15
Diluted	0.29	0.44	0.37	1.12
Distributions declared per share	0.452	0.454	0.456	0.458

	March 31, 2005	June 30, 2005	September 30, 2005	Three months ended December 31, 2005
Revenues ⁽¹⁾	\$ 45,162	\$ 43,948	\$ 41,448	\$ 38,226
Expenses ⁽¹⁾	(23,105)	(22,759)	(20,702)	(28,530)
Net income	5,855	16,933	14,328	11,488
Earnings per share –				
Basic	0.16	0.45	0.38	0.30
Diluted	0.15	0.43	0.37	0.30
Distributions declared per share	0.444	0.446	0.448	0.450

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

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Subsequent Events

In January and February 2007, Carey Storage acquired three domestic self-storage properties for approximately \$19,600. In connection with these acquisitions, Carey Storage drew down \$11,580 from its secured credit facility. Carey Storage incurs a fixed annual interest rate equal to the one-month LIBOR plus a spread which ranges from 1.75% to 2.35% on all borrowings under this facility. All amounts drawn under this facility are due in December 2008.

The Company formed Corporate Property Associates 17 – Global Incorporated (“CPA[®]:17”) in February 2007 for the purpose of investing in a diversified portfolio of income-producing commercial properties and other real estate related assets, both domestically and outside the United States. The Company filed a registration statement on Form S-11 with the SEC during February 2007 to raise up to \$2,500,000 of common stock of CPA[®]:17 (including amounts under its dividend reinvestment plans) and expects to commence fundraising during 2007.

Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Listed Shares and Distributions

Our common stock is listed on the New York Stock Exchange under the ticker symbol "WPC". As of December 31, 2006 there were 26,816 holders of record of our common stock. The following table shows the high and low prices per share and quarterly cash distributions declared for the past two fiscal years:

	2006			2005		
	High	Low	Cash Distributions Declared	High	Low	Cash Distributions Declared
First quarter	\$ 27.59	\$ 25.29	\$ 0.452	\$ 35.94	\$ 29.05	\$ 0.444
Second quarter	28.18	24.60	0.454	30.95	26.35	0.446
Third quarter	27.98	24.10	0.456	29.85	25.90	0.448
Fourth quarter	31.00	27.50	0.458	27.87	23.85	0.450

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

Issuer Purchases of Equity Securities

(In thousands except per share amounts)

2006 Period	Total number of shares purchased ⁽¹⁾	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs ⁽¹⁾	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs ⁽¹⁾
October	—	\$ —	—	\$ 15,862
November	—	—	—	15,862
December	—	—	—	—
Total	—	—	—	—

(1) In December 2005, our board of directors approved a share repurchase program that gave us authorization to repurchase up to \$20,000 of our common stock in the open market beginning December 16, 2005 and ending December 15, 2006 as conditions warranted. During the term of this program, which ended December 15, 2006, we repurchased and retired 166,800 shares totaling \$4,138.

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, 2006 as filed with the SEC. The 10-K may also be obtained through the SEC's EDGAR database at www.sec.gov.

Corporate Information

Board of Directors

Wm. Polk Carey

Chairman of the Board

Gordon F. DuGan

Chief Executive Officer and President

Francis J. Carey

Chairman of the Executive Committee

Eberhard Faber, IV

Lead Director of the Board and Chairman of the Nominating and Corporate Governance Committee; Former Director of the Federal Reserve Bank of Philadelphia

Trevor P. Bond

Managing member of Maidstone Investment Co., LLC

Nathaniel S. Coolidge

Chairman of the Investment Committee; Former Head of Bond and Corporate Finance Department, John Hancock Mutual Life Insurance Company

Benjamin H. Griswold, IV

Chairman of the Compensation Committee; Partner and Chairman of Brown Advisory

Dr. Lawrence R. Klein

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

Karsten von Köller

Chairman, Lone Star Germany GmbH

Charles E. Parente

Chairman of the Audit Committee; Former Chief Executive Officer and Managing Partner of Parente Randolph, PC

George E. Stoddard

Former Chairman of the Investment Committee and Former Head of the Direct Placement Department, The Equitable Life Assurance Society of The United States

Reginald Winsinger

Chairman of Horizon New America National Portfolio

Investment Committee of Carey Asset Management Corp.

Nathaniel S. Coolidge

Member

Dr. Lawrence R. Klein

Member

Frank J. Hoenemeyer

Member

Karsten von Köller

Member

George E. Stoddard

Member

Senior Officers

Wm. Polk Carey

Chairman of the Board

Gordon F. DuGan

Chief Executive Officer and President

Mark J. DeCesaris

Managing Director, Acting Chief Financial Officer and Chief Administrative Officer

Claude Fernandez

Managing Director and Chief Accounting Officer

Benjamin P. Harris

Managing Director – Investments

Susan C. Hyde

Managing Director and Director of Investor Relations

Jan F. Kärst

Managing Director – Investments

Edward V. LaPuma

Managing Director – Investments

John D. Miller

Chief Investment Officer

John J. Park

Managing Director – Strategic Planning

Anne Coolidge Taylor

Managing Director – Investments

Thomas E. Zacharias

Managing Director and Chief Operating Officer

Douglas E. Barzelay

General Counsel

Jason E. Fox

Executive Director – Investments

Jeffrey S. Lefleur

Executive Director – Investments

Thomas Ridings

Executive Director – Accounting

Michael D. Roberts

Executive Director – Accounting

Gino M. Sabatini

Executive Director – Investments

Kristin Chung

Senior Vice President and Controller

Christopher Franklin

Senior Vice President

Donna M. Neiley

Senior Vice President – Asset Management

Richard J. Paley

Senior Vice President and Associate General Counsel

Gagan S. Singh

Senior Vice President – Finance

Yvonne Cheng

First Vice President – Asset Management

L. Janusz Hooker

First Vice President – Investments

Robert C. Kehoe

First Vice President and Treasurer

Leonard Law

First Vice President and Chief Information Officer

David G. Termine

First Vice President – Accounting

Sheena R. Laughlin

Director of Human Resources

Corporate Information

Auditors

PricewaterhouseCoopers LLP

Executive Offices

W. P. Carey & Co. LLC
50 Rockefeller Plaza
New York, NY
212-492-1100
1-800-WP CAREY

Transfer Agent

Mellon Investor Services LLC
480 Washington Boulevard
Jersey City, NJ 07310
1-888-200-8690

Annual Meeting

June 14, 2007 at 2:00 p.m.
The Rainbow Room
Pegasus Suite
30 Rockefeller Plaza
New York, New York

Form 10-K

A Copy of our 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

E-Delivery

To receive future investor-related correspondence electronically go to www.wpcarey.com/edelivery

Trading Information

Shares of W. P. Carey & Co. LLC trade on the New York Stock Exchange under the symbol “WPC”.

Distribution Information

The following table sets forth, for the period indicated, the per share distributions 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
June 30, 2005	0.4460
September 30, 2005	0.4480
December 31, 2005	0.4500
March 31, 2006	0.4520
June 30, 2006	0.4540
September 30, 2006	0.4560
December 31, 2006	0.4580
March 31, 2007	0.4620

W. P. CAREY

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NYSE: WPC