W. P. Carey Inc.
Form 10-Q
August 06, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from__________ to ___________

Commission File Number: 001-13779

W. P. CAREY INC.

(Exact name of registrant as specified in its charter)

Maryland	**45-4549771**
(State of incorporation)	(I.R.S. Employer Identification No.)
50 Rockefeller Plaza **New York, New York**	**10020**
(Address of principal executive offices)	(Zip Code)

Investor Relations (212) 492-8920

(212) 492-1100

(Registrant s telephone numbers, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Registrant has 68,234,044 shares of common stock, $0.001 par value, outstanding at July 31, 2013.

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Forward-Looking Statements

This Quarterly Report on Form 10-Q (the Report), including Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) in Item 2 of Part I of this Report, contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements generally are identified by the words believe, project, expect, anticipate, estimate, intend, strategy, should, will, would, will be, will continue, will likely result, and similar expressions. It is important to note that our actual results could b materially different from those projected in such forward-looking statements. You should exercise caution in relying on forward-looking statements as they involve known and unknown risks, uncertainties and other factors that may materially affect our future results, performance, achievements or transactions. Information on factors which could impact actual results and cause them to differ from what is anticipated in the forward-looking statements contained herein is included in this Report as well as in our other filings with the Securities and Exchange Commission (the SEC), including but not limited to those described in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012 as filed with the SEC on February 26, 2013 (the 2012 Annual Report). Except as required by federal securities laws and the rules and regulations of the SEC, we do not undertake to revise or update any forward-looking statements.

Additionally, a description of our critical accounting estimates is included in the MD&A section of our 2012 Annual Report. There has been no significant change in our critical accounting estimates. All references to Notes throughout the document refer to the footnotes to the consolidated financial statements of the registrant in Part I, Item 1, Financial Statements (Unaudited).

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PART I

Item 1. Financial Statements.

W. P. CAREY INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands, except share and per share amounts)

	June 30, 2013	December 31, 2012
Assets		
Investments in real estate:		
Real estate, at cost (inclusive of amounts attributable to consolidated variable interest entities (VIEs) of $78,745 and $78,745, respectively)	$ 2,450,868	$ 2,334,488
Operating real estate, at cost	98,756	99,703
Accumulated depreciation (inclusive of amounts attributable to consolidated VIEs of $17,181 and $16,110, respectively)	(165,009)	(136,068)
Net investments in properties	2,384,615	2,298,123
Net investments in direct financing leases (inclusive of amounts attributable to consolidated VIEs of $18,026 and $23,921, respectively)	360,701	376,005
Assets held for sale	21,256	1,445
Equity investments in real estate and the Managed REITs	559,361	565,626
Net investments in real estate	3,325,933	3,241,199
Cash and cash equivalents (inclusive of amounts attributable to consolidated VIEs of $37 and $17, respectively)	62,765	123,904
Due from affiliates	28,670	36,002
Goodwill	328,011	329,132
In-place lease intangible assets, net (inclusive of amounts attributable to consolidated VIEs of $3,600 and $3,823, respectively)	465,931	447,278
Above-market rent intangible assets, net (inclusive of amounts attributable to consolidated VIEs of $2,658 and $2,773, respectively)	269,355	279,885
Other intangible assets, net (inclusive of amounts attributable to consolidated VIEs of $279 and $297, respectively)	12,256	10,200
Other assets, net (inclusive of amounts attributable to consolidated VIEs of $4,628 and $4,232, respectively)	142,439	141,442
Total assets	$ 4,635,360	$ 4,609,042
Liabilities and Equity		
Liabilities:		
Non-recourse debt (inclusive of amounts attributable to consolidated VIEs of $29,638 and $30,326, respectively)	$ 1,686,155	$ 1,715,397
Senior credit facility	385,000	253,000
Accounts payable, accrued expenses and other liabilities (inclusive of amounts attributable to consolidated VIEs of $7,172 and $7,659, respectively) (Note 3)	272,595	265,132
Income taxes, net	13,458	24,959
Distributions payable	58,036	45,700
Total liabilities	2,415,244	2,304,188
Redeemable noncontrolling interest	7,082	7,531
Redeemable securities - related party (Note 3)	-	40,000
Commitments and contingencies (Note 11)		
Equity:		
W. P. Carey stockholders equity:		

Common stock, $0.001 par value, 450,000,000 shares authorized; 69,250,568 and 68,901,933 shares issued, respectively; and 68,217,189 and 68,485,525 shares outstanding, respectively		69		69
Preferred stock, $0.001 par value, 50,000,000 shares authorized; none issued		-		-
Additional paid-in capital		2,234,450		2,175,820
Distributions in excess of accumulated earnings		(233,107)		(172,182)
Deferred compensation obligation		13,411		8,358
Accumulated other comprehensive loss		(2,984)		(4,649)
Less, treasury stock at cost, 1,033,379 and 416,408 shares, respectively		(60,270)		(20,270)
Total W. P. Carey stockholders equity		1,951,569		1,987,146
Noncontrolling interests		261,465		270,177
Total equity		2,213,034		2,257,323
Total liabilities and equity	$	4,635,360	$	4,609,042

See Notes to Consolidated Financial Statements.

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W. P. CAREY INC.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except share and per share amounts)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Revenues				
Lease revenues:				
Rental income	$ 66,498	$ 14,554	$ 131,417	$ 29,188
Interest income from direct financing leases	9,412	1,913	18,924	4,038
Total lease revenues	75,910	16,467	150,341	33,226
Asset management revenue from affiliates	10,355	15,636	20,369	31,238
Structuring revenue from affiliates	6,422	3,622	12,764	11,260
Dealer manager fees	2,320	4,080	3,542	7,867
Reimbursed costs from affiliates	15,467	20,484	27,435	39,221
Other real estate income	8,582	6,810	17,110	12,569
	119,056	67,099	231,561	135,381
Operating Expenses				
General and administrative	30,250	26,581	59,223	53,491
Reimbursable costs	15,467	20,484	27,435	39,221
Depreciation and amortization	30,927	6,424	61,454	12,881
Property expenses	5,531	3,025	10,602	5,055
Other real estate expenses	2,782	2,431	5,515	4,930
Impairment charges	-	-	1,071	-
	84,957	58,945	165,300	115,578
Other Income and Expenses				
Other interest income	316	155	686	658
Net income from equity investments in real estate and the Managed REITs	32,541	28,345	43,197	42,331
Other income and (expenses)	1,877	1,216	2,969	1,524
Interest expense	(26,912)	(7,128)	(53,706)	(14,408)
	7,822	22,588	(6,854)	30,105
Income from continuing operations before income taxes	41,921	30,742	59,407	49,908
Benefit from income taxes	1,122	1,882	2,355	187
Income from continuing operations	43,043	32,624	61,762	50,095
Discontinued Operations				
Income (loss) from operations of discontinued properties	3,118	(93)	3,306	11
Gain (loss) on sale of real estate	1,313	(298)	382	(479)
Gain on extinguishment of debt	13	-	84	-
Impairment charges	(1,671)	(1,003)	(3,879)	(6,728)
Income (loss) from discontinued operations, net of tax	2,773	(1,394)	(107)	(7,196)
Net Income	45,816	31,230	61,655	42,899
Net (income) loss attributable to noncontrolling interests	(2,692)	480	(4,400)	1,058
Add: Net loss attributable to redeemable noncontrolling interest	43	67	93	110
Net Income Attributable to W. P. Carey	$ 43,167	$ 31,777	$ 57,348	$ 44,067
Basic Earnings Per Share				

Income from continuing operations attributable to W. P. Carey	$	0.59	$	0.82	$	0.83	$	1.26
Income (loss) from discontinued operations attributable to W. P. Carey		0.04		(0.04)		-		(0.18)
Net income attributable to W. P. Carey	$	0.63	$	0.78	$	0.83	$	1.08
Diluted Earnings Per Share								
Income from continuing operations attributable to W. P. Carey	$	0.58	$	0.80	$	0.82	$	1.23
Income (loss) from discontinued operations attributable to W. P. Carey		0.04		(0.03)		(0.01)		(0.17)
Net income attributable to W. P. Carey	$	0.62	$	0.77	$	0.81	$	1.06
Weighted Average Shares Outstanding								
Basic		68,406,771		40,047,220		68,776,108		40,218,677
Diluted		69,493,902		40,757,055		69,870,849		40,828,646
Amounts Attributable to W. P. Carey								
Income from continuing operations, net of tax	$	40,419	$	33,171	$	57,506	$	51,263
Income (loss) from discontinued operations, net of tax		2,748		(1,394)		(158)		(7,196)
Net income attributable to W. P. Carey	$	43,167	$	31,777	$	57,348	$	44,067
Distributions Declared Per Share	$	0.840	$	0.567	$	1.660	$	1.132

See Notes to Consolidated Financial Statements.

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W. P. CAREY INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net Income	$ 45,816	$ 31,230	$ 61,655	$ 42,899
Other Comprehensive Income (Loss)				
Foreign currency translation adjustments	5,094	(4,823)	(4,658)	(2,305)
Realized and unrealized gain (loss) on derivative instruments	2,080	(937)	5,255	(581)
Change in unrealized depreciation on marketable securities	-	(2)	-	(5)
	7,174	(5,762)	597	(2,891)
Comprehensive Income	52,990	25,468	62,252	40,008
Amounts Attributable to Noncontrolling Interests				
Net (income) loss	(2,692)	480	(4,400)	1,058
Foreign currency translation adjustments	(742)	628	1,047	297
Comprehensive (income) loss attributable to noncontrolling interests	(3,434)	1,108	(3,353)	1,355
Amounts Attributable to Redeemable Noncontrolling Interest				
Net loss	43	67	93	110
Foreign currency translation adjustments	(2)	14	21	5
Comprehensive loss attributable to redeemable noncontrolling interest	41	81	114	115
Comprehensive Income Attributable to W. P. Carey	$ 49,597	$ 26,657	$ 59,013	$ 41,478

See Notes to Consolidated Financial Statements.

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W. P. CAREY INC.

CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

For the Six Months Ended June 30, 2013 and the Year Ended December 31, 2012

(in thousands, except share and per share amounts)

	W. P. Carey Stockholders										
	Common Stock			Additional	Distributions in Excess of	Deferred	Accumulated Other		Total		
	No Par Value Shares	$0.001 Par Value Shares	Amount	Paid-in Capital	Accumulated Earnings	Compensation Obligation	Comprehensive Loss	Treasury Stock	W. P. Carey Stockholders	Noncontrolling Interests	Total
Balance at January 1, 2012	39,729,018	-	$ -	$ 779,071	$ (95,046)	$ 7,063	$ (8,507)	$ -	$ 682,581	$ 33,821	$ 716,402
Exchange of shares of W. P. Carey & Co. LLC for shares of W. P. Carey Inc. in connection with the CPA®:15 Merger	(39,834,827)	39,834,827	40	(40)	-	-	-	-	-	-	-
Shares issued to stockholders of CPA®:15 in connection with the CPA®:15 Merger	-	28,170,643	28	1,380,333	-	-	-	-	1,380,361	-	1,380,361
Purchase of noncontrolling interests in connection with the CPA®:15 Merger	-	-	-	(154)	-	-	-	-	(154)	237,513	237,359
Reclassification of Estate shareholders shares	-	-	-	(40,000)	-	-	-	-	(40,000)	-	(40,000)
Exercise of stock options and employee purchase under the employee share purchase plan	30,993	13,768	-	1,553	-	-	-	-	1,553	-	1,553
Cash proceeds on issuance of shares to third party, net	-	937,500	1	44,999	-	-	-	-	45,000	-	45,000
Grants issued in connection with services rendered	427,425	3,822	-	-	-	-	-	-	-	-	-
Shares issued under share	238,728	27,044	-	646	-	-	-	-	646	-	646

incentive plans											
Contributions from noncontrolling interests	-	-	-	-	-	-	-	-	-	3,291	3,291
Forfeitures of shares	(29,919)	-	-	-	-	-	-	-	-	-	-
Windfall tax benefits - share incentive plans	-	-	-	10,185	-	-	-	-	10,185	-	10,185
Stock-based compensation expense	-	-	-	25,067	-	971	-	-	26,038	-	26,038
Redemption value adjustment	-	-	-	(840)	-	-	-	-	(840)	-	(840)
Distributions to noncontrolling interests	-	-	-	-	-	-	-	-	-	(6,649)	(6,649)
Distributions declared ($2.44 per share)	-	-	-	-	(139,268)	324	-	-	(138,944)	-	(138,944)
Purchase of treasury stock from related parties (Note 3)	(561,418)	(416,408)	-	-	-	-	-	(45,270)	(45,270)	-	(45,270)
Cancelation of shares	-	(85,671)	-	(25,000)	-	-	-	25,000	-	-	-
Net income	-	-	-	-	62,132	-	-	-	62,132	607	62,739
Other comprehensive income:											
Foreign currency translation adjustments	-	-	-	-	-	-	6,127	-	6,127	1,594	7,721
Unrealized loss on derivative instruments	-	-	-	-	-	-	(2,262)	-	(2,262)	-	(2,262)
Change in unrealized appreciation on marketable securities	-	-	-	-	-	-	(7)	-	(7)	-	(7)
Balance at December 31, 2012	-	68,485,525	69	2,175,820	(172,182)	8,358	(4,649)	(20,270)	1,987,146	270,177	2,257,323
Reclassification of Estate shareholders shares	-	-		40,000	-	-	-	-	40,000	-	40,000
Exercise of stock options and employee purchase under the employee share purchase plan	-	49,054	-	1,970	-	-	-	-	1,970	-	1,970
Shares issued under share incentive plans	-	299,581	-	(7,958)	-	-	-	-	(7,958)	-	(7,958)
Contributions from noncontrolling interests	-	-	-	-	-	-	-	-	-	2,830	2,830
Windfall tax benefits - share incentive plans	-	-	-	11,556	-	-	-	-	11,556	-	11,556
Stock-based compensation expense	-	-	-	13,062	-	4,516	-	-	17,578	-	17,578
Distributions to noncontrolling interests	-	-	-	-	-	-	-	-	-	(14,913)	(14,913)
	-	-	-	-	(118,273)	537	-	-	(117,736)	-	(117,736)

Distributions declared ($1.66 per share)											
Purchase of treasury stock from related party (Note 3)	-	(616,971)	-	-	-	-	-	(40,000)	(40,000)	-	(40,000)
Foreign currency translation	-	-	-	-	-	-	-	-	-	18	18
Net income	-	-	-	-	57,348	-	-	-	57,348	4,400	61,748
Other comprehensive income:											
Foreign currency translation adjustments	-	-	-	-	-	-	(3,590)	-	(3,590)	(1,047)	(4,637)
Unrealized gain on derivative instruments	-	-	-	-	-	-	5,255	-	5,255	-	5,255
Balance at June 30, 2013	-	68,217,189	$ 69	$ 2,234,450	$ (233,107)	$ 13,411	$ (2,984)	$ (60,270)	$ 1,951,569	$ 261,465	$2,213,034

See Notes to Consolidated Financial Statements.

W. P. CAREY INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Six Months Ended June 30,	
	2013	**2012**
Cash Flows Operating Activities		
Net income	$ 61,655	$ 42,899
Adjustments to net income:		
Depreciation and amortization, including intangible assets and deferred financing costs	67,658	15,054
Income from equity investments in real estate and the Managed REITs in excess of distributions received	(22,338)	(17,013)
Straight-line rent and amortization of rent-related intangibles	9,646	(2,016)
Amortization of deferred revenue	(4,718)	(4,718)
Gain on sale of real estate	(50)	(1,505)
Unrealized (gain) loss on foreign currency transactions and others	(3,220)	23
Realized loss on foreign currency transactions and other	181	535
Management income received in shares of Managed REITs	(20,215)	(14,005)
Impairment charges	4,950	6,728
Stock-based compensation expense	17,578	9,755
Deferred acquisition revenue received	12,402	13,322
Increase in structuring revenue receivable	(2,285)	(4,906)
Decrease in income taxes, net	(11,507)	(7,186)
Increase in prepaid taxes	(16,143)	(5,020)
Payments for withholding taxes upon delivery of equity-based awards and exercises of stock options	(10,435)	(4,396)
Net changes in other operating assets and liabilities	(11,706)	(15,746)
Net Cash Provided by Operating Activities	71,453	11,805
Cash Flows Investing Activities		
Distributions received from equity investments in real estate and the Managed REITs in excess of equity income	21,907	15,909
Capital contributions to equity investments	(1,455)	(180)
Purchases of real estate	(183,554)	-
Capital expenditures	(5,806)	(1,812)
Proceeds from sale of real estate and equity investments	48,902	25,195
Funds placed in escrow	(73,993)	(5,577)
Funds released from escrow	95,536	7,647
Other investing activities, net	(176)	198
Net Cash (Used in) Provided by Investing Activities	(98,639)	41,380
Cash Flows Financing Activities		
Distributions paid	(102,923)	(46,013)
Contributions from noncontrolling interests	2,830	1,480
Distributions paid to noncontrolling interests	(15,228)	(1,165)
Purchase of treasury stock from related party (Note 3)	(40,000)	-
Scheduled payments of mortgage principal	(121,836)	(10,262)
Proceeds from mortgage financing	99,000	1,250
Proceeds from senior credit facility	230,000	15,000
Repayments of senior credit facility	(98,000)	(15,000)
Funds released from escrow	(463)	-
Payment of financing costs and mortgage deposits, net of deposits refunded	(305)	(123)
Proceeds from exercise of stock options and employee purchase under the employee share purchase plan	1,970	5,692
Windfall tax benefit associated with stock-based compensation awards	11,556	6,607
Net Cash Used in Financing Activities	(33,399)	(42,534)
Change in Cash and Cash Equivalents During the Period		

Effect of exchange rate changes on cash		(554)		(148)
Net (decrease) increase in cash and cash equivalents		(61,139)		10,503
Cash and cash equivalents, beginning of period		123,904		29,297
Cash and cash equivalents, end of period	$	62,765	$	39,800

(Continued)

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W. P. CAREY INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Continued)

Supplemental non-cash investing and financing activities:

During the six months ended June 30, 2013, we reclassified $5.6 million of properties from Net investment in direct financing leases to Real estate in connection with the restructuring of two leases (Note 4).

During the six months ended June 30, 2013, we reclassified $20.0 million of Real estate, net and $1.3 million of net lease intangible assets to Assets held for sale in connection with anticipated sales of properties (Note 4).

During the second quarter of 2013 and 2012, we declared distributions totaling $58.0 million and $23.0 million, respectively, which were paid on July 15, 2013 and July 16, 2012, respectively.

See Notes to Consolidated Financial Statements.

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W. P. CAREY INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Business and Organization

W. P. Carey Inc. (W. P. Carey and, together with its consolidated subsidiaries and predecessors, we , us or our) is a real estate investment trust (REIT) that seeks to achieve superior, risk-adjusted returns by providing long-term net-lease financing via sale-leaseback and build-to-suit transactions for companies worldwide. We invest primarily in commercial properties domestically and internationally. We earn revenue principally by leasing the properties we own to single corporate tenants, primarily on a triple-net leased basis, which requires each tenant to pay substantially all of the costs associated with operating and maintaining the property. We also earn revenue as the advisor to publicly-owned, non-listed REITs.

We have sponsored a series of sixteen income-generating funds that invest in commercial real estate, under the Corporate Property Associates brand name (the CPA® REITs). We are currently the advisor to Corporate Property Associates 16 Global Incorporated (CPA®:16 Global), Corporate Property Associates 17 Global Incorporated (CPA®:17 Global) and Corporate Property Associates 18 Global Incorporated (CPA®:18 Global). We are also the advisor to Carey Watermark Investors Incorporated (CWI and, together with CPA®:16 Global and CPA®:17 Global, the Managed REITs), which invests in lodging and lodging-related properties.

We were formed as a corporation under the laws of Maryland on February 15, 2012. On September 28, 2012, Corporate Property Associates 15 Incorporated (CPA®:15) merged with and into us, with CPA®:15 surviving as an indirect, wholly-owned subsidiary of ours (the CPA®:15 Merger). In connection with the CPA®:15 Merger, W. P. Carey & Co. LLC, our predecessor, which was formed under the laws of Delaware on July 15, 1996, completed an internal reorganization whereby our predecessor and its subsidiaries merged with and into us with W. P. Carey as the surviving corporation, succeeding to and continuing to operate the existing business of our predecessor (REIT Reorganization). Upon completion of the CPA®:15 Merger and the REIT Reorganization, the shares of our predecessor were delisted from the New York Stock Exchange (NYSE) and canceled, and our common stock became listed on the NYSE under the same symbol, WPC.

Primary Reportable Segments

Real Estate Ownership We own and invest in commercial properties primarily in the United States (U.S.) and Europe that are leased to companies, primarily on a triple-net lease basis. At June 30, 2013, our portfolio was comprised of our full or partial ownership interest in 423 properties. Substantially all of these properties, totaling approximately 39.5 million square feet, were net leased to 123 tenants, with an occupancy rate of approximately 98.9%. Collectively, at June 30, 2013, the Managed REITs owned all or a portion of over 700 properties, including certain properties in which we have an ownership interest. Substantially all of these properties, totaling approximately 77.3 million square feet, were net leased to 216 tenants, with an average occupancy rate of approximately 98.8%.

We earn lease revenues from our wholly-owned and co-owned real estate investments. In addition, we generate equity income through our investments in the shares of the Managed REITs (Note 6). Through our special member interests in the operating partnerships of the Managed REITs, we also participate in their cash flows (Note 3). Lastly, we earn other real estate revenues through our investments in self-storage facilities and a hotel in the U.S.

Investment Management We earn revenue as the advisor to the Managed REITs. Under the respective advisory agreements with each of the Managed REITs, we perform various services, including the day-to-day management of the Managed REITs and transaction-related services. We structure and negotiate investments and debt placement transactions for the Managed REITs, for which we earn structuring revenue, and manage their portfolios of real estate investments, for which we earn asset management revenue.

We generate acquisition revenue when we structure and negotiate investments and related financing for the Managed REITs. We may also be entitled, subject to the approval by the boards of directors of certain of the Managed REITs, to fees for structuring loan refinancings. This loan refinancing revenue, together with the acquisition revenue, is referred to as structuring revenue. We earn ongoing asset management revenue from each Managed REIT, which is based on average invested assets and is calculated according to the advisory agreement for each Managed REIT. We may also earn revenue related to the disposition of properties, subject to subordination provisions, which will only be recognized as the relevant conditions are met. Such revenue may include subordinated disposition revenue when assets are sold as well as a percentage of the net cash proceeds distributable to stockholders from the disposition of properties, after recoupment by stockholders of their initial investment plus a specified preferred return. We may earn incentive or termination revenue in connection with providing liquidity to the stockholders of the Managed REITs, although these events do not occur every year. However, in the event they do occur, we may waive the incentive or termination fee we would have been entitled to receive from the Managed REITs pursuant to the terms of our advisory agreements with the Managed REITs, which was the case in the CPA®:15 Merger and will be the case under the terms of the merger agreement between us and CPA®:16 Global (Note 15). We will not receive a termination payment in circumstances where we receive incentive revenue.

Note 2. Basis of Presentation

Our interim consolidated financial statements have been prepared, without audit, in accordance with the instructions to Form 10-Q and, therefore, do not necessarily include all information and footnotes necessary for a fair statement of our consolidated financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the U.S. (GAAP).

In the opinion of management, the unaudited financial information for the interim periods presented in this Report reflects all normal and recurring adjustments necessary for a fair statement of results of operations, financial position and cash flows. Our interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements and accompanying notes for the year ended December 31, 2012, which are included in the 2012 Annual Report, as certain disclosures that would substantially duplicate those contained in the audited consolidated financial statements have not been included in this Report. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in our consolidated financial statements and the accompanying notes. Actual results could differ from those estimates. The unaudited consolidated financial statements included in this Report have been retrospectively adjusted to reflect the disposition (or planned disposition) of certain properties as discontinued operations for all periods presented. Certain prior period amounts have been reclassified to conform to the current period presentation.

Basis of Consolidation

The consolidated financial statements reflect all of our accounts, including those of our controlled subsidiaries and our tenancy-in-common interests as described below. The portion of equity in a consolidated subsidiary that is not attributable, directly or indirectly, to us is presented as noncontrolling interests. All significant intercompany accounts and transactions have been eliminated.

We have investments in tenancy-in-common interests in various domestic and international properties. Consolidation of these investments is not required as such interests do not qualify as VIEs and do not meet the control requirement required for consolidation. Accordingly, we account for these investments using the equity method of accounting. We use the equity method of accounting because the shared decision-making involved in a tenancy-in-common interest investment provides us with significant influence on the operating and financial decisions of these investments.

We apply accounting guidance for consolidation of VIEs to certain entities in which the equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Fixed price purchase and renewal options within a lease as well as certain decision-making rights within a loan can cause us to consider an entity a VIE. During the six months ended June 30, 2013, we did not identify any new VIEs.

Additionally, we own interests in single-tenant net leased properties leased to companies through noncontrolling interests in partnerships and limited liability companies that we do not control but over which we exercise significant influence. We account for these investments under the equity method of accounting. At times, the carrying value of our equity investments may fall below zero for certain investments. We intend to fund our share of the investments future operating deficits should the need arise. However, we have no legal obligation to pay for any of the liabilities of such investments nor do we have any legal obligation to fund operating deficits.

In November 2012, we filed a registration statement with the SEC to sell up to $1.0 billion of common stock of CPA®:18 Global in an initial public offering plus up to an additional $400.0 million of its common stock under a dividend reinvestment plan. This registration statement was declared effective by the SEC on May 7, 2013. Through June 30, 2013, the financial activity of CPA®:18 Global, which had no significant assets, liabilities or operations, was included in our consolidated financial statements. On July 25, 2013, upon CPA®:18 Global reaching its minimum offering proceeds and admitting new stockholders, we deconsolidated CPA®:18 Global and began to account for our interests in it under the equity method (Note 15).

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Accounting Policy

Internal-Use Software Development Costs-In accordance with Accounting Standards Codification 350-40-25, we expense costs associated with the assessment stage of software development projects. Upon completion of the preliminary project assessment stage, we capitalize internal and external costs associated with the application development stage, including the costs associated with software that allows for the conversion of our old data to our new system. We expense the costs of training and data conversion. We also expense costs associated with the post-implementation and operation stage, including maintenance and specified upgrades; however, we capitalize internal and external costs associated with significant upgrades to existing systems that result in additional functionality. Capitalized costs are amortized on a straight-line basis over the software s estimated useful life, which is three to five years. Periodically, we reassess the useful life considering technology, obsolescence and other factors.

Out-of-Period Adjustment

During the second quarter of 2012, we identified an error in the consolidated financial statements related to the misapplication of accounting guidance on the expropriation of land related to two investments. We concluded that this adjustment was not material, individually or in the aggregate, to our results for this or any of the prior periods, and as such, we recorded an out-of-period adjustment to increase our income from operations by $1.8 million within continuing operations primarily attributable to an increase in Other income and (expenses) of $2.0 million in the consolidated statements of income for the three and six months ended June 30, 2012.

New Accounting Requirements

The following Accounting Standards Updates (ASUs) promulgated by the Financial Accounting Standards Board (FASB) are applicable to us as indicated:

ASU 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities In January 2013, the FASB issued an update to ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. ASU 2013-01 clarifies that the scope of ASU 2011-11 applies to derivatives accounted for in accordance with Topic 815, *Derivatives and Hedging*, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting or similar arrangement. These amendments did not have a significant impact on our financial position or results of operations and are applicable to us for our interim and annual reports beginning in 2013 and has been applied retrospectively.

ASU 2013-02, Other Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income In February 2013, the FASB issued ASU 2013-02 requiring entities to disclose additional information about items reclassified out of accumulated other comprehensive income. This ASU impacts the form of our disclosures only, is applicable to us for our interim and annual reports beginning in 2013 and has been applied retrospectively. The related additional disclosures are located in Note 12.

ASU 2013-04, Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date, a Consensus of the FASB Emerging Issues Task Force In February 2013, the FASB issued ASU 2013-04, which requires entities to measure obligations resulting from joint and several liability arrangements (in our case, tenancy-in-common arrangements, Note 6) for which the total amount of the obligation is fixed as the sum of the amount the entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. This ASU is applicable to us for our interim and annual reports beginning in 2014 and shall be applied retrospectively; however, we elected to adopt this ASU early in 2013 and it did not have a significant impact on our financial position or results of operations for any of the periods presented.

ASU 2013-05, Foreign Currency Matters (Topic 830): Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity In March 2013, the FASB issued ASU 2013-05, which indicates that a cumulative translation adjustment (CTA) is attached to the parent s investment in a foreign entity and should be released in a manner consistent with the derecognition guidance on investments in entities. Therefore, the entire amount of the CTA associated with the foreign entity would be released into earnings when there has been a sale of a foreign subsidiary or group of assets within a foreign subsidiary, a loss of a controlling financial interest upon deconsolidation of an investment in a foreign entity or a step acquisition in a foreign entity. This ASU will be applicable to us for derecognition transactions after December 31, 2013.

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Notes to Consolidated Financial Statements

ASU 2013-10, Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes, a Consensus of the FASB Emerging Issues Task Force In July 2013, the FASB issued ASU 2013-10, which permits the Fed Funds Effective Swap Rate, also referred to as the Overnight Index Swap Rate, to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to the U.S. government and London Interbank Offered Rate (LIBOR) swap rate. The update also removes the restriction on the use of different benchmark rates for similar hedges. This ASU will be applicable to us for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013.

Note 3. Agreements and Transactions with Related Parties

Advisory Agreements with the Managed REITs

We have advisory agreements with each of the Managed REITs pursuant to which we earn fees and are entitled to receive cash distributions. These agreements are scheduled to expire on September 30, 2013 unless otherwise renewed pursuant to their terms. The following tables present a summary of revenue earned and/or cash received from the Managed REITs included in the consolidated statements of income (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
Asset management revenue (a)	$ 10,335	$ 15,611	$ 20,328	$ 31,192
Structuring revenue	6,422	3,622	12,764	11,260
Dealer manager fees	2,320	4,080	3,542	7,867
Reimbursed costs from affiliates (a)	15,467	20,300	27,435	38,817
Distributions of Available Cash	8,677	7,463	16,568	14,437
Deferred revenue earned	2,123	2,123	4,246	4,246
	$ 45,344	$ 53,199	$ 84,883	$ 107,819

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
CPA®:15	$ -	$ 7,049	$ -	$ 14,417
CPA®:16 Global	12,667	12,424	26,591	25,548
CPA®:17 Global	13,858	30,439	28,613	63,421
CWI	18,819	3,287	29,679	4,433
	$ 45,344	$ 53,199	$ 84,883	$ 107,819

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(a) Excludes amounts received from third-parties.

The following table presents a summary of Due from affiliates (in thousands):

	June 30, 2013	December 31, 2012
Deferred acquisition fees receivable	$ 18,537	$ 28,654
Reimbursable costs	905	1,457
Organization and offering costs	6,721	4,920
Accounts receivable	2,459	182
Asset management fee receivable	48	789
	$ 28,670	$ 36,002

Asset Management Revenue

We earn asset management revenue from each Managed REIT, which is based on average invested assets and is calculated according to the advisory agreement for each Managed REIT. For CPA®:15 prior to the CPA®:15 Merger, this revenue generally totaled 1% per annum, with a portion of this revenue, or 0.5%, contingent upon the achievement of specific performance criteria. For CPA®:16 Global, we earn asset management revenue of 0.5% of average invested assets. For CPA®:17 Global, we earn asset management revenue ranging from 0.5% of the average market value for long-term net leases and certain other types of real estate investments up to 1.75% of average equity value for certain types of securities. For CWI, we earn asset management revenue of 0.5% of the average market value of lodging-related investments. We also receive up to 10% of distributions of Available Cash, as defined in the respective advisory agreements, from the operating partnerships of each of the Managed REITs.

Under the terms of the advisory agreements, we may elect to receive cash or shares of stock for asset management revenue due from each Managed REIT. In 2013, we elected to receive all asset management revenue from each Managed REIT in its respective shares. For 2012, we elected to receive all asset management revenue from CPA®:15 prior to the CPA®:15 Merger in cash, 50% of asset management revenue from CPA®:16 Global in its shares with the remaining 50% payable in cash and all asset management revenue from CPA®:17 Global and CWI in their respective shares.

Structuring Revenue

Under the terms of the advisory agreements, we earn revenue in connection with structuring and negotiating investments and related financing for the Managed REITs, which we call acquisition revenue. We may receive acquisition revenue of 4.5% of the total aggregate cost of long-term net lease 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 annual installments ranging from three to eight years, provided the relevant CPA® REIT meets its performance criterion. For certain types of non-long term net lease investments acquired on behalf of CPA®:17 Global, initial acquisition revenue may range from 0% to 1.75% of the equity invested plus the related acquisition revenue, with no deferred acquisition revenue being earned. For CWI, we earn initial acquisition revenue of 2.5% of the total investment cost of the properties acquired and loans originated by us not to exceed 6% of the aggregate contract purchase price of all investments and loans with no deferred acquisition revenue being earned. We may also be entitled to fees for structuring loan refinancings of up to 1% of the principal amount. This loan refinancing revenue, together with the acquisition revenue, is referred to as structuring revenue.

Unpaid transaction fees, including accrued interest, are included in Due from affiliates in the consolidated financial statements. Unpaid transaction fees bear interest at annual rates ranging from 5% to 7%.

Reimbursed Costs from Affiliates and Dealer Manager Fees

The Managed REITs reimburse us for certain costs, primarily broker/dealer commissions paid on behalf of the Managed REITs and marketing and personnel costs. Since October 1, 2012, when advisory agreements with CPA®:16 Global and CPA®:17 Global were amended, personnel costs are allocated based on the revenues of each of the Managed REITs rather than the method utilized before that date, which involved an allocation of time charges incurred by our personnel for such CPA® REIT. In addition, we earned a selling commission of up to $0.65 per share sold and a dealer manager fee of up to $0.35 per share sold from CPA®:17 Global through its public offering, which was terminated in January 2013. We also receive a selling commission of up to $0.70 per share sold and a dealer manager fee of up to $0.30 per share sold from CWI. We re-allow all or a portion of the dealer manager fees to selected dealers in the offerings. Dealer manager fees that are not re-allowed are classified as Dealer manager fees.

Pursuant to its advisory agreement, CWI is obligated to reimburse us for all organization costs and a portion of offering costs incurred in connection with its offering, up to a maximum amount (excluding selling commissions and the dealer manager fee) of 2% of the gross proceeds of its offering and distribution reinvestment plan. Through June 30, 2013, we have incurred organization and offering costs on behalf of CWI of approximately $8.8 million. However, at June 30, 2013, CWI was only obligated to reimburse us $7.3 million of these costs because of the 2% limitation described above, and $5.5 million had been reimbursed as of that date.

Distributions of Available Cash and Deferred Revenue Earned

We are entitled to receive distributions of our proportionate share of earnings up to 10% of the Available Cash from the Managed REITs, as defined in the respective advisory agreements, from their operating partnerships. In connection with the merger in the second quarter of 2011 between Corporate Property Associates 14 Incorporated (CPA®:14) and CPA®:16 Global, we acquired a special member interest (Special Member Interest) in CPA®:16 Global s operating partnership. We initially recorded this Special Member Interest at its fair value, which is amortized into earnings over the expected period of performance considering the estimated life of the entity. Cash distributions of our proportionate share of earnings from the CPA®:16 Global and CPA®:17 Global operating partnerships as well as deferred revenue earned from our Special Member Interest in CPA®:16 Global s operating partnership are recorded as Income from equity investments in real estate and the Managed REITs within the Real Estate Ownership segment. We have not yet earned or received any distributions of our proportionate share of earnings from CWI s operating partnership.