

W. P. Carey Inc.  
Form 10-Q  
August 07, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014  
or

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

(State of incorporation)

45-4549771

(I.R.S. Employer Identification No.)

50 Rockefeller Plaza

New York, New York

(Address of principal executive offices)

10020

(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  No

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  No

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  Accelerated filer  Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Registrant has 99,409,854 shares of common stock, \$0.001 par value, outstanding at July 31, 2014.

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## INDEX

	Page No.
PART I – FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	
<u>Consolidated Balance Sheets</u>	<u>2</u>
<u>Consolidated Statements of Income</u>	<u>3</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>4</u>
<u>Consolidated Statements of Equity</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows</u>	<u>6</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>46</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>67</u>
Item 4. <u>Controls and Procedures</u>	<u>70</u>
PART II – OTHER INFORMATION	
Item 6. <u>Exhibits</u>	<u>71</u>
<u>Signatures</u>	<u>72</u>

## Forward-Looking Statements

This Quarterly Report on Form 10-Q, or the Report, including Management’s Discussion and Analysis of Financial Condition and Results of Operations, or 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,” “plan,” “may,” “should,” “will be,” “will continue,” “will likely result,” and similar expressions. It is important to note that our actual results could be 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, or 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, 2013 as filed with the SEC on March 4, 2014, or the 2013 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.

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).

## PART I

## Item 1. Financial Statements.

## W. P. CAREY INC.

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands, except share and per share amounts)

	June 30, 2014	December 31, 2013
Assets		
Investments in real estate:		
Real estate, at cost (inclusive of \$250,240 and \$78,782, respectively, attributable to variable interest entities, or VIEs)	\$4,497,999	\$2,516,325
Operating real estate, at cost (inclusive of \$38,714 and \$0, respectively, attributable to VIEs)	84,544	6,024
Accumulated depreciation (inclusive of \$21,806 and \$18,238, respectively, attributable to VIEs)	(217,155)	(168,958)
Net investments in properties	4,365,388	2,353,391
Net investments in direct financing leases (inclusive of \$64,716 and \$18,089, respectively, attributable to VIEs)	880,000	363,420
Assets held for sale	—	86,823
Equity investments in real estate and the Managed REITs	211,225	530,020
Net investments in real estate	5,456,613	3,333,654
Cash and cash equivalents (inclusive of \$2,216 and \$37, respectively, attributable to VIEs)	214,971	117,519
Due from affiliates	39,516	32,034
Goodwill	698,891	350,208
In-place lease intangible assets, net (inclusive of \$30,004 and \$3,385, respectively, attributable to VIEs)	966,406	467,127
Above-market rent intangible assets, net (inclusive of \$14,738 and \$2,544, respectively, attributable to VIEs)	570,498	241,975
Other assets, net (inclusive of \$21,144 and \$4,246, respectively, attributable to VIEs)	346,853	136,433
Total assets	\$8,293,748	\$4,678,950
Liabilities and Equity		
Liabilities:		
Non-recourse debt (inclusive of \$150,915 and \$29,042, respectively, attributable to VIEs)	\$2,823,415	\$1,492,410
Senior credit facility and unsecured term loan	476,700	575,000
Senior unsecured notes	498,255	—
Below-market rent and other intangible liabilities, net (inclusive of \$10,656 and \$3,481, respectively, attributable to VIEs)	180,364	128,202
Accounts payable, accrued expenses and other liabilities (inclusive of \$6,676 and \$2,988, respectively, attributable to VIEs)	298,432	166,385
Deferred income taxes (inclusive of \$838 and \$0, respectively, attributable to VIEs)	87,991	39,040
Distributions payable	90,610	67,746
Total liabilities	4,455,767	2,468,783
Redeemable noncontrolling interest	6,418	7,436
Commitments and contingencies (Note 12)		

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Equity:

W. P. Carey stockholders' equity:

Preferred stock, \$0.001 par value, 50,000,000 shares authorized; none issued	—	—
Common stock, \$0.001 par value, 450,000,000 shares authorized; 100,424,204 and 69,299,949 shares issued, respectively; and 99,379,788 and 68,266,570 shares outstanding, respectively	100	69
Additional paid-in capital	4,024,039	2,256,503
Distributions in excess of accumulated earnings	(327,460	) (318,577 )
Deferred compensation obligation	30,624	11,354
Accumulated other comprehensive income	14,215	15,336
Less: treasury stock at cost, 1,044,416 and 1,033,379 shares, respectively	(60,948	) (60,270 )
Total W. P. Carey stockholders' equity	3,680,570	1,904,415
Noncontrolling interests	150,993	298,316
Total equity	3,831,563	2,202,731
Total liabilities and equity	\$8,293,748	\$4,678,950

See Notes to Consolidated Financial Statements.

W. P. Carey 6/30/2014 10-Q – 2

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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,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues				
Real estate revenues:				
Lease revenues	\$148,253	\$73,984	\$271,320	\$146,444
Reimbursable tenant costs	5,749	3,040	11,763	6,157
Operating property revenues	8,251	231	13,244	458
Lease termination income and other	14,481	402	15,479	1,082
	176,734	77,657	311,806	154,141
Revenues from the Managed REITs:				
Reimbursable costs	41,925	15,467	81,657	27,435
Structuring revenue	17,254	6,422	35,005	12,764
Asset management revenue	9,045	10,355	18,822	20,369
Dealer manager fees	7,949	2,320	14,626	3,542
	76,173	34,564	150,110	64,110
	252,907	112,221	461,916	218,251
Operating Expenses				
Depreciation and amortization	63,445	29,772	116,118	59,147
Reimbursable tenant and affiliate costs	47,674	18,507	93,420	33,592
General and administrative	19,133	14,545	41,802	31,596
Property expenses, excluding reimbursable tenant costs	11,209	2,282	19,627	4,047
Stock-based compensation expense	7,957	8,429	15,000	17,578
Dealer manager fees and expenses	6,285	3,163	11,710	5,126
Subadvisor fees	2,451	985	2,469	1,670
Impairment charges	2,066	—	2,066	—
Merger and acquisition expenses	1,137	3,128	30,751	3,249
	161,357	80,811	332,963	156,005
Other Income and Expenses				
Net income from equity investments in real estate and the Managed REITs	9,452	32,541	23,714	43,197
Gain on change in control of interests	—	—	104,645	—
Interest expense	(47,733)	(25,750)	(86,808)	(51,334)
Other income and (expenses)	(883)	2,450	(6,335)	3,849
	(39,164)	9,241	35,216	(4,288)
Income from continuing operations before income taxes	52,386	40,651	164,169	57,958
(Provision for) benefit from income taxes	(8,053)	1,134	(10,293)	2,341
Income from continuing operations before loss on sale of real estate	44,333	41,785	153,876	60,299
Income from discontinued operations, net of tax	26,460	4,364	32,853	1,688
Loss on sale of real estate, net of tax	(3,821)	(333)	(3,742)	(332)
Net Income	66,972	45,816	182,987	61,655
Net income attributable to noncontrolling interests	(2,344)	(2,692)	(3,921)	(4,400)
Net loss (income) attributable to redeemable noncontrolling interest	111	43	(151)	93
Net Income Attributable to W. P. Carey	\$64,739	\$43,167	\$178,915	\$57,348

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Basic Earnings Per Share				
Income from continuing operations attributable to W. P. Carey	\$0.38	\$0.57	\$1.53	\$0.81
Income from discontinued operations attributable to W. P. Carey	0.26	0.06	0.35	0.02
Net Income Attributable to W. P. Carey	\$0.64	\$0.63	\$1.88	\$0.83
Diluted Earnings Per Share				
Income from continuing operations attributable to W. P. Carey	\$0.38	\$0.56	\$1.52	\$0.80
Income from discontinued operations attributable to W. P. Carey	0.26	0.06	0.34	0.01
Net Income Attributable to W. P. Carey	\$0.64	\$0.62	\$1.86	\$0.81
Weighted Average Shares Outstanding				
Basic	100,236,362	68,406,771	94,855,067	68,776,108
Diluted	100,995,225	69,493,902	95,857,916	69,870,849
Amounts Attributable to W. P. Carey				
Income from continuing operations, net of tax	\$38,236	\$39,133	\$145,884	\$56,268
Income from discontinued operations, net of tax	26,503	4,034	33,031	1,080
Net Income	\$64,739	\$43,167	\$178,915	\$57,348
Distributions Declared Per Share	\$0.900	\$0.840	\$1.795	\$1.660

See Notes to Consolidated Financial Statements.

W. P. Carey 6/30/2014 10-Q – 3

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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,		
	2014	2013	2014	2013	
Net Income	\$66,972	\$45,816	\$182,987	\$61,655	
Other Comprehensive (Loss) Income					
Foreign currency translation adjustments	(1,590	) 5,094	2,956	(4,658	)
Realized and unrealized (loss) gain on derivative instruments	(1,767	) 2,080	(4,564	) 5,255	
Change in unrealized (depreciation) appreciation on marketable securities	(5	) —	12	—	
	(3,362	) 7,174	(1,596	) 597	
Comprehensive Income	63,610	52,990	181,391	62,252	
Amounts Attributable to Noncontrolling Interests					
Net income	(2,344	) (2,692	) (3,921	) (4,400	)
Foreign currency translation adjustments	113	(742	) 448	1,047	
Comprehensive income attributable to noncontrolling interests	(2,231	) (3,434	) (3,473	) (3,353	)
Amounts Attributable to Redeemable Noncontrolling Interest					
Net loss (income)	111	43	(151	) 93	
Foreign currency translation adjustments	21	(2	) 27	21	
Comprehensive loss (income) attributable to redeemable noncontrolling interest	132	41	(124	) 114	
Comprehensive Income Attributable to W. P. Carey	\$61,511	\$49,597	\$177,794	\$59,013	

See Notes to Consolidated Financial Statements.

W. P. Carey 6/30/2014 10-Q – 4



## W. P. CAREY INC.

## CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

Six Months Ended June 30, 2014 and Year Ended December 31, 2013

(in thousands, except share and per share amounts)

	W. P. Carey Stockholders			Distributions in Excess of Accumulated Earnings	Deferred Compensation Obligation	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total W. P. Carey Stockholders	Noncontrol Interests
	\$0.001 Par Value Shares	Amount Paid-in Capital	Additional Paid-in Capital						
Balance at January 1, 2013	68,485,525	\$69	\$2,175,820	\$(172,182)	\$8,358	\$(4,649)	\$(20,270)	\$1,987,146	\$270,177
Reclassification of Estate Shareholders' shares from temporary equity to permanent equity			40,000					40,000	
Exercise of stock options and employee purchase under the employee share purchase plan	55,423		2,312					2,312	
Grants issued in connection with services rendered	295,304							—	
Shares issued under share incentive plans	47,289		(9,183)					(9,183)	
Contributions from noncontrolling interests								—	65,145
Windfall tax benefits - share incentive plans			12,817					12,817	
Amortization of stock-based compensation expense			34,737		2,459			37,196	
Distributions to noncontrolling interests								—	(71,820)
Distributions declared (\$3.39 per share)				(245,271)	537			(244,734)	
Purchase of treasury stock from related party	(616,971)						(40,000)	(40,000)	
Foreign currency translation								—	(5)
Net income				98,876				98,876	32,936
Other comprehensive income (loss):									
Foreign currency translation adjustments						19,965		19,965	1,883
Realized and unrealized gain on derivative						20		20	

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instruments									
Balance at December 31, 2013	68,266,570	69	2,256,503	(318,577 )	11,354	15,336	(60,270 )	1,904,415	298,316
Shares issued to stockholders of CPA®:16 – Global in connection with the CPA®:16 Merger	30,729,878	31	1,815,490					1,815,521	
Purchase of the remaining interests in less-than-wholly-owned investments that we already consolidate in connection with the CPA®:16 Merger			(41,374 )					(41,374 )	(239,562 )
Purchase of noncontrolling interests in connection with the CPA®:16 Merger								—	99,947
Exercise of stock options and employee purchase under the employee share purchase plan	23,506		1,184					1,184	
Grants issued in connection with services rendered	352,188		(15,736 )					(15,736 )	
Shares issued under share incentive plans	18,683		(534 )					(534 )	
Deferral of vested shares			(15,428 )		15,428			—	
Windfall tax benefits - share incentive plans			5,449					5,449	
Amortization of stock-based compensation expense			15,000					15,000	
Redemption value adjustment			306					306	
Distributions to noncontrolling interests								—	(11,185 )
Distributions declared (\$1.795 per share)			3,179	(187,798 )	3,842			(180,777 )	
Purchase of treasury stock from related party	(11,037 )						(678 )	(678 )	
Foreign currency translation								—	4
Net income				178,915				178,915	3,921
Other comprehensive income (loss):									
Foreign currency translation adjustments						3,431		3,431	(448 )
						(4,564 )		(4,564 )	

Realized and unrealized loss on derivative instruments										
Change in unrealized appreciation on marketable securities					12			12		
Balance at June 30, 2014	99,379,788	\$100	\$4,024,039	\$(327,460)	\$30,624	\$14,215	\$(60,948)	\$3,680,570	\$150,993	

See Notes to Consolidated Financial Statements.

W. P. Carey 6/30/2014 10-Q – 5

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## W. P. CAREY INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Six Months Ended June 30,	
	2014	2013
Cash Flows — Operating Activities		
Net income	\$ 182,987	\$ 61,655
Adjustments to net income:		
Depreciation and amortization, including intangible assets and deferred financing costs	123,908	67,658
Gain on change in control of interests	(104,645	) —
Gain on sale of real estate	(23,930	) (50 )
Straight-line rent and amortization of rent-related intangibles	23,350	9,646
Management income received in shares of Managed REITs and other	(18,045	) (20,215 )
Stock-based compensation expense	15,000	17,578
Impairment charges	2,066	4,950
Income from equity investments in real estate and the Managed REITs in excess of distributions received	(1,815	) (22,338 )
Unrealized gain on foreign currency transactions and other	(1,412	) (3,220 )
Amortization of deferred revenue	(786	) (4,718 )
Realized (gain) loss on extinguishment of debt and other	(344	) 181
Changes in assets and liabilities:		
Payments for withholding taxes upon delivery of equity-based awards and exercises of stock options	(16,271	) (10,435 )
Increase in income taxes, net	(12,538	) (11,507 )
Deferred acquisition revenue received	11,153	12,402
Increase in structuring revenue receivable	(10,842	) (2,285 )
Decrease (increase) in prepaid taxes	5,721	(16,143 )
Net changes in other operating assets and liabilities	(4,920	) (11,706 )
Net Cash Provided by Operating Activities	168,637	71,453
Cash Flows — Investing Activities		
Proceeds from sale of real estate and equity investments	280,795	48,902
Funds placed in escrow	(242,370	) (73,993 )
Funds released from escrow	139,254	95,536
Purchases of real estate	(88,334	) (183,554 )
Cash acquired in connection with the CPA®:16 Merger	65,429	—
Capital expenditures	(13,477	) (5,806 )
Loan to affiliate	(11,000	) —
Distributions received from equity investments in real estate and the Managed REITs in excess of equity income	8,889	21,907
Purchase of securities for the defeasance of debt	(7,664	) —
Cash paid to stockholders of CPA®:16 – Global in the CPA®:16 Merger	(1,338	) —
Proceeds from repayment of short-term loans	1,155	—
Other investing activities, net	740	(176 )
Capital contributions to equity investments	(459	) (1,455 )
Net Cash Provided by (Used in) Investing Activities	131,620	(98,639 )
Cash Flows — Financing Activities		
Repayments of senior credit facility	(1,310,000	) (98,000 )
Proceeds from senior credit facility and unsecured term loan	1,042,627	230,000
Proceeds from issuance of senior unsecured notes	498,195	—

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Prepayments of mortgage principal	(201,820	) (40,492	)
Distributions paid	(158,312	) (102,923	)
Scheduled payments of mortgage principal	(61,608	) (81,344	)
Payment of financing costs and mortgage deposits, net of deposits refunded	(12,192	) (305	)
Distributions paid to noncontrolling interests	(12,026	) (15,228	)
Proceeds from mortgage financing	6,550	99,000	
Windfall tax benefit associated with stock-based compensation awards	5,449	11,556	
Proceeds from exercise of stock options	1,184	1,970	
Purchase of treasury stock from related party	(677	) (40,000	)
Funds placed in escrow	(588	) (463	)
Contributions from noncontrolling interests	314	2,830	
Net Cash Used in Financing Activities	(202,904	) (33,399	)
Change in Cash and Cash Equivalents During the Period			
Effect of exchange rate changes on cash	99	(554	)
Net increase (decrease) in cash and cash equivalents	97,452	(61,139	)
Cash and cash equivalents, beginning of period	117,519	123,904	
Cash and cash equivalents, end of period	\$214,971	\$62,765	

(Continued)

W. P. Carey 6/30/2014 10-Q – 6

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W. P. CAREY INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
(Continued)

Supplemental Non-cash Investing and Financing Activities:

2014 — On January 31, 2014, CPA<sup>®</sup>16 – Global merged with and into us in the CPA<sup>®</sup>:16 Merger (Note 3). The following table summarizes estimated fair values of the assets acquired and liabilities assumed in the CPA<sup>®</sup>:16 Merger (in thousands):

Total Consideration	
Fair value of W. P. Carey shares of common shares issued	\$1,815,521
Cash consideration for fractional shares	1,338
Fair value of our equity interest in CPA <sup>®</sup> :16 – Global prior to the CPA <sup>®</sup> :16 Merger	348,448
Fair value of our equity interest in jointly-owned investments with CPA <sup>®</sup> :16 – Global prior to the CPA <sup>®</sup> :16 Merger	172,720
Fair value of noncontrolling interests acquired	(278,187 )
	2,059,840
Assets Acquired at Fair Value	
Net investments in real estate	1,970,175
Net investments in direct financing leases	538,225
Equity investments in real estate	74,367
Assets held for sale	133,415
Goodwill	348,876
In-place lease intangible assets	553,723
Above-market rent intangible assets	395,824
Other assets	82,032
Liabilities Assumed at Fair Value	
Non-recourse debt and line of credit	(1,768,288 )
Accounts payable, accrued expenses and other liabilities	(118,389 )
Below-market rent and other intangible liabilities	(57,569 )
Deferred tax liability	(58,347 )
Amounts attributable to noncontrolling interests	(99,633 )
Net assets acquired excluding cash	1,994,411
Cash acquired on acquisition of subsidiaries	\$65,429

See Notes to Consolidated Financial Statements.

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NOTES TO CO