W. P. Carey Inc.
Form 10-Q
August 07, 2015

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, 2015
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.

Accelerated filer o Non-accelerated filer o

Large accelerated filer þ		Smaller reporting company o
	(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 o No þ

Registrant has 104,398,173 shares of common stock, $0.001 par value, outstanding at July 31, 2015.

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Forward-Looking Statements

This Quarterly Report on Form 10-Q, or this Report, including Management’s Discussion and Analysis of Financial Condition and Results of Operations, 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,” “would,” “will b “will likely result,” and similar expressions. These forward-looking statements include, but are not limited to, statements regarding capital markets, tenant credit quality, general economic overview, our expected range of Adjusted funds from operations, or AFFO, our corporate strategy, our capital structure, our portfolio lease terms, our international exposure and acquisition volume, our expectations about tenant bankruptcies and interest coverage, statements regarding estimated or future economic performance and results, including our underlying assumptions, occupancy rate, credit ratings, and possible new acquisitions by us and our investment management programs, the Managed REITs discussed herein, including their earnings, statements that we make regarding our ability to remain qualified for taxation as a real estate investment trust, or REIT, the amount and timing of any future dividends, our existing or future leverage and debt service obligations, our ability to sell shares under our “at the market” program and the use of any such proceeds from that program, our future prospects for growth, our projected assets under management, our future capital expenditure levels, our historical and anticipated funds from operations, our future financing transactions, our estimates of growth, and our plans to fund our future liquidity needs. These statements are based on the current expectations of our management. It is important to note that our actual results could be materially different from those projected in such forward-looking statements. There are a number of risks and uncertainties that could cause actual results to differ materially from these forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on our business, financial condition, liquidity, results of operations, AFFO, and prospects. 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 that 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, 2014 as filed with the SEC on

March 2, 2015, as amended by a Form 10-K/A filed with the SEC on March 17, 2015, or the 2014 Annual Report, and Part II, Item 1A "Risk Factors" in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 as filed with the SEC on May 18, 2015. Moreover, because we operate in a very competitive and rapidly changing environment, new risks are likely to emerge from time to time. Given these risks and uncertainties, potential investors are cautioned not to place undue reliance on these forward-looking statements as a prediction of future results, which speak only as of the date of this Report, unless noted otherwise. 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, 2015	December 31, 2014
Assets		
Investments in real estate:		
Real estate, at cost (inclusive of $183,810 and $184,417, respectively, attributable to variable interest entities, or VIEs)	$5,296,054	$5,006,682
Operating real estate, at cost (inclusive of $38,714 and $38,714, respectively, attributable to VIEs)	85,237	84,885
Accumulated depreciation (inclusive of $23,552 and $19,982, respectively, attributable to VIEs)	(324,136)	(258,493)
Net investments in properties	5,057,155	4,833,074
Net investments in direct financing leases (inclusive of $59,829 and $61,609, respectively, attributable to VIEs)	783,832	816,226
Assets held for sale	—	7,255
Net investments in real estate	5,840,987	5,656,555
Cash and cash equivalents (inclusive of $1,749 and $2,652, respectively, attributable to VIEs)	233,629	198,683
Equity investments in the Managed Programs and real estate	263,418	249,403
Due from affiliates	176,796	34,477
Goodwill	687,084	692,415
In-place lease and tenant relationship intangible assets, net (inclusive of $19,513 and $21,267, respectively, attributable to VIEs)	948,547	993,819
Above-market rent intangible assets, net (inclusive of $12,784 and $13,767, respectively, attributable to VIEs)	498,746	522,797
Other assets, net (inclusive of $18,775 and $18,603, respectively, attributable to VIEs)	318,397	300,330
Total assets	$8,967,604	$8,648,479
Liabilities and Equity		
Liabilities:		
Non-recourse debt, net (inclusive of $122,712 and $125,226, respectively, attributable to VIEs)	$2,443,212	$2,532,683
Senior Unsecured Credit Facility - Revolver	350,234	807,518
Senior Unsecured Credit Facility - Term Loan	250,000	250,000
Senior Unsecured Notes, net	1,501,061	498,345
Below-market rent and other intangible liabilities, net (inclusive of $8,830 and $9,305, respectively, attributable to VIEs)	171,544	175,070
Accounts payable, accrued expenses and other liabilities (inclusive of $4,012 and $5,573, respectively, attributable to VIEs)	312,521	293,846
Deferred income taxes (inclusive of $535 and $587, respectively, attributable to VIEs)	89,036	94,133
Distributions payable	101,517	100,078
Total liabilities	5,219,125	4,751,673
Redeemable noncontrolling interest	13,374	6,071

Commitments and contingencies (Note 13)		
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; 105,421,626 and 105,085,069 shares issued, respectively; and 104,377,210 and 104,040,653 shares outstanding, respectively	105	105
Additional paid-in capital	4,298,574	4,322,273
Distributions in excess of accumulated earnings	(575,404)	(465,606)
Deferred compensation obligation	57,395	30,624
Accumulated other comprehensive loss	(120,777)	(75,559)
Less: treasury stock at cost, 1,044,416 shares	(60,948)	(60,948)
Total W. P. Carey stockholders' equity	3,598,945	3,750,889
Noncontrolling interests	136,160	139,846
Total equity	3,735,105	3,890,735
Total liabilities and equity	$8,967,604	$8,648,479

See Notes to Consolidated Financial Statements.

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,	
	2015	2014	2015	2014
Revenues				
Real estate revenues:				
Lease revenues	$162,574	$148,253	$322,739	$271,320
Operating property revenues	8,426	8,251	15,538	13,244
Reimbursable tenant costs	6,130	5,749	12,069	11,763
Lease termination income and other	3,122	14,988	6,331	16,175
	180,252	177,241	356,677	312,502
Revenues from the Managed Programs:				
Structuring revenue	37,808	17,254	59,528	35,005
Asset management revenue	12,073	9,045	23,232	18,822
Reimbursable costs	7,639	41,925	17,246	81,657
Dealer manager fees	307	7,949	1,581	14,626
Incentive, termination and subordinated disposition revenue	—	—	203	—
	57,827	76,173	101,790	150,110
	238,079	253,414	458,467	462,612
Operating Expenses				
Depreciation and amortization	65,166	63,445	130,566	116,118
General and administrative	26,376	19,134	56,144	41,804
Reimbursable tenant and affiliate costs	13,769	47,674	29,315	93,420
Property expenses, excluding reimbursable tenant costs	11,020	11,211	20,384	19,630
Stock-based compensation expense	5,089	7,957	12,098	15,000
Subadvisor fees	4,147	2,451	6,808	2,469
Dealer manager fees and expenses	2,327	6,285	4,699	11,710
Merger and property acquisition expenses	1,897	1,137	7,573	30,751
Impairment charges	591	2,066	3,274	2,066
	130,382	161,360	270,861	332,968
Other Income and Expenses				
Interest expense	(47,693)	(47,733)	(95,642)	(86,808)
Equity in earnings of equity method investments in the Managed Programs and real estate	14,272	9,452	25,995	23,714
Other income and (expenses)	7,641	(1,378)	3,335	(7,019)
Gain on change in control of interests	—	—	—	105,947
	(25,780)	(39,659)	(66,312)	35,834
Income from continuing operations before income taxes and gain (loss) on sale of real estate	81,917	52,395	121,294	165,478
Provision for income taxes	(15,010)	(8,021)	(16,990)	(10,274)
Income from continuing operations before gain (loss) on sale of real estate	66,907	44,374	104,304	155,204
Income from discontinued operations, net of tax	—	26,421	—	32,828
Gain (loss) on sale of real estate, net of tax	16	(3,823)	1,201	(3,743)
Net Income	66,923	66,972	105,505	184,289
Net income attributable to noncontrolling interests	(3,575)	(2,344)	(6,041)	(3,921)
	—	111	—	(151)

Net loss (income) attributable to redeemable noncontrolling interest				
Net Income Attributable to W. P. Carey	$63,348	$64,739	$99,464	$180,217
Basic Earnings Per Share				
Income from continuing operations attributable to W. P. Carey	$0.60	$0.38	$0.94	$1.55
Income from discontinued operations attributable to W. P. Carey	—	0.26	—	0.34
Net Income Attributable to W. P. Carey	$0.60	$0.64	$0.94	$1.89
Diluted Earnings Per Share				
Income from continuing operations attributable to W. P. Carey	$0.59	$0.38	$0.93	$1.53
Income from discontinued operations attributable to W. P. Carey	—	0.26	—	0.34
Net Income Attributable to W. P. Carey	$0.59	$0.64	$0.93	$1.87
Weighted-Average Shares Outstanding				
Basic	105,764,032	100,236,362	105,532,976	94,855,067
Diluted	106,281,983	100,995,225	106,355,402	95,857,916
Amounts Attributable to W. P. Carey				
Income from continuing operations, net of tax	$63,348	$38,275	$99,464	$147,211
Income from discontinued operations, net of tax	—	26,464	—	33,006
Net Income	$63,348	$64,739	$99,464	$180,217
Distributions Declared Per Share	$0.9540	$0.9000	$1.9065	$1.7950

See Notes to Consolidated Financial Statements.

W. P. CAREY INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net Income	$66,923	$66,972	$105,505	$184,289
Other Comprehensive Income (Loss)				
Foreign currency translation adjustments	48,090	(1,590)	(65,989)	2,956
Realized and unrealized (loss) gain on derivative instruments	(9,619)	(1,767)	17,199	(4,564)
Change in unrealized (loss) gain on marketable securities	—	(5)	14	12
	38,471	(3,362)	(48,776)	(1,596)
Comprehensive Income	105,394	63,610	56,729	182,693
Amounts Attributable to Noncontrolling Interests				
Net income	(3,575)	(2,344)	(6,041)	(3,921)
Foreign currency translation adjustments	(1,585)	113	3,558	448
Comprehensive income attributable to noncontrolling interests	(5,160)	(2,231)	(2,483)	(3,473)
Amounts Attributable to Redeemable Noncontrolling Interest				
Net loss (income)	—	111	—	(151)
Foreign currency translation adjustments	—	21	—	27
Comprehensive loss (income) attributable to redeemable noncontrolling interest	—	132	—	(124)
Comprehensive Income Attributable to W. P. Carey	$100,234	$61,511	$54,246	$179,096

See Notes to Consolidated Financial Statements.

W. P. CAREY INC.
CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)
Six Months Ended June 30, 2015
(in thousands, except share and per share amounts)

	W. P. Carey Stockholders									
	Common Stock $0.001 Par Value		Additional Paid-in	Distributions in Excess of Accumulated	Deferred Compensation	Accumulated Other Comprehensive	Treasury	Total W. P. Carey	Noncontrolling	
	Shares	Amount	Capital	Earnings	Obligation	Income (Loss)	Stock	Stockholders	Interests	Total
Balance at January 1, 2015	104,040,653	$105	$4,322,273	$(465,606)	$30,624	$(75,559)	$(60,948)	$3,750,889	$139,846	$3,89
Contributions from noncontrolling interests								—	483	483
Exercise of stock options and employee purchases under the employee share purchase plan	4,738	—	256					256		256
Grants issued in connection with services rendered	288,142	—	(14,533)					(14,533)		(14,53
Shares issued under share incentive plans	43,677	—	(870)					(870)		(870
Deferral of vested shares			(24,935)		24,935			—		—
Windfall tax benefits - share incentive plans			6,524					6,524		6,524
Amortization of stock-based compensation expense			12,098					12,098		12,098
Redemption value adjustment			(7,303)					(7,303)		(7,303
Distributions to noncontrolling interests								—	(6,652)	(6,652
Distributions declared ($1.9065 per			5,064	(209,262)	1,836			(202,362)		(202,3

share)										
Net income				99,464				99,464	6,041	105,50
Other comprehensive income (loss):										
Foreign currency translation adjustments						(62,431)		(62,431)	(3,558)	(65,98
Realized and unrealized gain on derivative instruments						17,199		17,199		17,199
Change in unrealized gain on marketable securities						14		14		14
Balance at June 30, 2015	104,377,210	$105	$4,298,574	$(575,404)	$57,395	$(120,777)	$(60,948)	$3,598,945	$136,160	$3,73

W. P. CAREY INC.
CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)
(Continued)
Six Months Ended June 30, 2014
(in thousands, except share and per share amounts)

	W. P. Carey Stockholders								
	Common Stock $0.001 Par Value		Additional Paid-in	Distributions in Excess of Accumulated	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Treasury	Total W. P. Carey	Noncontrol
	Shares	Amount	Capital	Earnings	Obligation		Stock	Stockholders	Interests
Balance at January 1, 2014	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 purchases 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	
								—	(11,185)

Distributions to noncontrolling interests									
Distributions declared ($1.7950 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				180,217				180,217	3,921
Other comprehensive income (loss):									
Foreign currency translation adjustments						3,431		3,431	(448)
Realized and unrealized loss on derivative instruments						(4,564)		(4,564)	
Change in unrealized gain on marketable securities						12		12	
Balance at June 30, 2014	99,379,788	$100	$4,024,039	$(326,158)	$30,624	$14,215	$(60,948)	$3,681,872	$150,993

See Notes to Consolidated Financial Statements.

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

	Six Months Ended June 30, 2015	2014
Cash Flows — Operating Activities		
Net income	$105,505	$184,289
Adjustments to net income:		
Depreciation and amortization, including intangible assets and deferred financing costs	134,129	123,908
Straight-line rent and amortization of rent-related intangibles	19,793	23,350
Stock-based compensation expense	12,098	15,000
Management income received in shares of Managed REITs and other	(10,699)	(18,045)
Impairment charges	3,274	2,066
Realized and unrealized loss (gain) on foreign currency transactions, derivatives, extinguishment of debt and other	1,452	(1,756)
Equity in earnings of equity method investments in the Managed Programs and real estate in excess of distributions received	(1,417)	(1,815)
Gain on sale of real estate	(1,201)	(23,930)
Gain on change in control of interests	—	(105,947)
Amortization of deferred revenue	—	(786)
Changes in assets and liabilities:		
Increase in structuring revenue receivable	(17,896)	(10,842)
Payments for withholding taxes upon delivery of equity-based awards and exercises of stock options	(15,402)	(16,271)
Deferred acquisition revenue received	14,084	11,153
Net changes in other operating assets and liabilities	(27,668)	(11,737)
Net Cash Provided by Operating Activities	216,052	168,637
Cash Flows — Investing Activities		
Purchases of real estate	(435,915)	(88,334)
Funding of loans to affiliates	(122,447)	(11,000)
Change in investing restricted cash	31,692	(103,116)
Proceeds from sale of real estate	24,016	280,795
Investment in real estate under construction	(21,638)	(2,835)
Proceeds from repayment of note receivable	9,964	—
Capital contribution to equity investments in real estate	(8,643)	(459)
Distributions received from equity investments in the Managed Programs and real estate in excess of equity income	3,383	8,889
Capital expenditures on corporate assets	(2,312)	(8,637)
Capital expenditures on owned real estate	(2,026)	(2,005)
Other investing activities, net	977	740
Cash acquired in connection with the CPA®:16 Merger	—	65,429
Purchase of securities	—	(7,664)
Cash paid to stockholders of CPA®:16 – Global in the CPA®:16 Merger	—	(1,338)
Proceeds from repayment of short-term loan to affiliate	—	1,155
Net Cash (Used in) Provided by Investing Activities	(522,949)	131,620
Cash Flows — Financing Activities		

Proceeds from issuance of Senior Unsecured Notes	1,022,303	498,195
Repayments of Senior Unsecured Credit Facility	(913,868)	(1,310,000)
Proceeds from Senior Unsecured Credit Facility	484,122	1,042,627
Distributions paid	(200,915)	(158,312)
Scheduled payments of mortgage principal	(36,095)	(61,608)
Proceeds from mortgage financing	17,778	6,550
Payment of financing costs	(10,886)	(12,192)
Distributions paid to noncontrolling interests	(6,652)	(12,026)
Windfall tax benefit associated with stock-based compensation awards	6,524	5,449
Contributions from noncontrolling interests	483	314
Change in financing restricted cash	(342)	(588)
Proceeds from exercise of stock options and employee purchases under the employee share purchase plan	256	1,184
Prepayments of mortgage principal	—	(201,820)
Purchase of treasury stock from related party	—	(677)
Net Cash Provided by (Used in) Financing Activities	362,708	(202,904)
Change in Cash and Cash Equivalents During the Period		
Effect of exchange rate changes on cash	(20,865)	99
Net increase in cash and cash equivalents	34,946	97,452
Cash and cash equivalents, beginning of period	198,683	117,519
Cash and cash equivalents, end of period	$233,629	$214,971

See Notes to Consolidated Financial Statements.

W. P. CAREY INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Business and Organization

W. P. Carey Inc., or W. P. Carey, is, together with its consolidated subsidiaries and predecessors, a REIT that provides long-term financing via sale-leaseback and build-to-suit transactions for companies worldwide and manages a global investment portfolio. 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 lease basis, which generally requires each tenant to pay substantially all of the costs associated with operating and maintaining the property. Through our taxable REIT subsidiaries, or TRSs, we also earn revenue as the advisor to publicly-owned, non-listed REITs, which are sponsored by us under the Corporate Property Associates, or CPA®, brand name that invest in similar properties. At June 30, 2015, we were the advisor to Corporate Property Associates 17 – Global Incorporated, or CPA®:17 – Global, and Corporate Property Associates 18 – Global Incorporated, or CPA®:18 – Global. We were also the advisor to Corporate Property Associates 16 – Global Incorporated, or CPA®:16 – Global, until its merger with us on January 31, 2014. We refer to CPA®:16 – Global, CPA®:17 – Global, and CPA®:18 – Global together as the CPA® REITs. At June 30, 2015, we were also the advisor to Carey Watermark Investors Incorporated, or CWI (which we also refer to as CWI 1), and Carey Watermark Investors 2 Incorporated, or CWI 2, two publicly-owned, non-listed REITs that invest in lodging and lodging-related properties. We refer to CWI and CWI 2 as the CWI REITs, and, together with the CPA® REITs, as the Managed REITs (Note 5). We have also invested in Carey Credit Income Fund, or CCIF, a newly formed business development company, or BDC (Note 8), with a third-party investment partner, that is the master fund in a master/feeder fund structure.

In September 2014, we filed two registration statements on Form N-2, as amended, with the SEC regarding the organization of two feeder funds that are affiliated with CCIF. The registration statements enable each of the newly organized feeder funds to sell common shares up to $1.0 billion each and to invest that equity capital into CCIF. The advisor to CCIF is wholly owned by us. We refer to CCIF and the two feeder funds collectively as the Managed BDCs and, together with the Managed REITs, as the Managed Programs. The registration statements were declared effective by the SEC in July 2015.

Originally founded in 1973, we reorganized as a REIT in September 2012 in connection with our merger with Corporate Property Associates 15 Incorporated. We refer to that merger as the CPA®:15 Merger. Our shares of common stock are listed on the New York Stock Exchange under the symbol “WPC.”

On January 31, 2014, CPA®:16 – Global merged with and into us based on a merger agreement, dated as of July 25, 2013 (Note 4), which we refer to as the CPA®:16 Merger.

We have elected to be taxed as a REIT under Section 856 through 860 of the Internal Revenue Code. As a REIT, we are not generally subject to United States federal income taxation other than from our TRSs as long as we satisfy certain requirements, principally relating to the nature of our income and the level of our distributions, as well as other factors. We hold all of our real estate assets attributable to our Real Estate Ownership segment under the REIT structure, while the activities conducted by our Investment Management segment subsidiaries have been organized under TRSs.

Reportable Segments

Real Estate Ownership — We own and invest in commercial properties principally in the United States, Europe, and Asia that are then leased to companies, primarily on a triple-net lease basis. We have also invested in several operating properties, such as lodging and self-storage properties. We earn lease revenues from our wholly-owned and co-owned real estate investments that we control. In addition, we generate equity income through co-owned real estate investments that we do not control and through our ownership of shares of the Managed REITs (Note 8). Through our special member interests in the operating partnerships of the Managed REITs, we also participate in their cash flows (Note 5). At June 30, 2015, our owned portfolio was comprised of our full or partial ownership interests in 852 properties, substantially all of which were net leased to 217 tenants, with an occupancy rate of 98.6%, and totaled approximately 89.3 million square feet.

Investment Management — Through our TRSs, 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-based management revenue. We earn disposition revenue when we negotiate and structure the sale of properties on behalf of the Managed REITs, and we may also earn incentive revenue and receive other compensation in connection with providing liquidity events for the Managed REITs' stockholders. At June 30, 2015, CPA®:17 – Global and CPA®:18 – Global collectively owned all or a portion of 422 properties, including certain properties in which we have an ownership interest.

Notes to Consolidated Financial Statements (Unaudited)

Substantially all of these properties, totaling approximately 47.3 million square feet, were net leased to 192 tenants, with an average occupancy rate of approximately 99.9%. The Managed REITs also had interests in 149 operating properties for an aggregate of approximately 17.1 million square feet at June 30, 2015. We have begun to explore alternatives for expanding our investment management operations by raising funds beyond advising the existing Managed REITs. Any such expansion could involve the purchase of properties or other investments as principal, either for our owned portfolio or with the intention of transferring such investments to a newly-created fund, as well as the sponsorship of one or more funds to make investments other than primarily net lease investments, such as the CWI REITs and the Managed BDCs. These new funds could invest primarily in assets other than net-lease real estate and could include funds raised through private placements or publicly-traded vehicles, either in the United States or internationally.

Note 2. Revisions of Previously-Issued Financial Statements

During the second quarter of 2015, we identified errors in the March 31, 2015 interim consolidated financial statements related to the calculation of foreign currency translation of the assets and liabilities of a foreign investment acquired in January 2015 and the presentation of certain foreign currency losses within the consolidated statement of cash flows for the three months ended March 31, 2015. We evaluated the impact on the previously issued financial statements and concluded that these errors were not material to our consolidated financial statements as of and for the three months ended March 31, 2015. However, in order to correctly present such foreign currency translation and certain foreign currency losses, we will revise the consolidated statements of comprehensive (loss) income, equity, and cash flows for the three months ended March 31, 2015 when such statements are presented in our future public filings. The interim consolidated financial statements as of and for the three months ended June 30, 2015, are not impacted by these adjustments.

If the correct foreign currency translation adjustments had been recorded during the three months ended March 31, 2015, Total assets and Total liabilities and equity each would have been higher by $17.6 million, comprised of increases in Real estate, at cost of $14.8 million and In-place lease intangibles of $2.8 million with a corresponding increase of $0.3 million in Below-market rent and other intangible liabilities, net and a $17.3 million decrease in Accumulated other comprehensive loss on the consolidated balance sheet and consolidated statement of equity as of and for the three months ended March 31, 2015. Additionally, Other comprehensive loss, Comprehensive loss and Comprehensive loss attributable to W. P. Carey within the consolidated statement of comprehensive loss each would have been reduced by $17.3 million for the three months ended March 31, 2015.

In addition, if foreign currency losses had been properly presented within the consolidated statement of cash flows for the three months ended March 31, 2015, Net cash provided by operating activities for that period would have increased by $13.6 million with a corresponding decrease to the Effect of exchange rate changes on cash.

The revisions described above had no effect on our cash balances or liquidity as of March 31, 2015, the consolidated statements of income or basic and diluted earnings per common share for the three months ended March 31, 2015.

Note 3. Basis of Presentation

Basis of Presentation

Our interim consolidated financial statements have been prepared 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 United States, or 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 financial position, results of operations, 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, 2014, which are included in the 2014 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 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.

Notes to Consolidated Financial Statements (Unaudited)

Basis of Consolidation

Our 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 an investment in a tenancy-in-common interest in various underlying international properties. Consolidation of this investment is not required as such interest does not qualify as a VIE and does not meet the control requirement for consolidation. Accordingly, we account for this investment 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 this investment. We also have certain investments in wholly-owned tenancy-in-common interests, which we now consolidate after we obtained the remaining interests in the CPA®:16 Merger.

At June 30, 2015, we had 18 VIEs. 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.

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. At June 30, 2015, none of our equity investments had carrying values below zero.

In June 2014, CWI 2 filed a registration statement on Form S-11 with the SEC to sell up to $1.0 billion of common stock in an initial public offering plus up to an additional $400.0 million of its common stock under a distribution reinvestment plan. In January 2015, CWI 2 amended the registration statement to increase the offering size to $1.4 billion of its class A common stock plus up to an additional $600.0 million of its class A common stock through its distribution reinvestment plan. The registration statement was declared effective by the SEC on February 9, 2015. An amended registration statement adding the class T common stock was declared effective by the SEC on April 13, 2015, so that the offering amounts noted can be in any combination of class A or class T shares. Through May 15, 2015, the financial activity of CWI 2 was included in our consolidated financial statements. On May 15, 2015, upon CWI 2 reaching its minimum offering proceeds and admitting new stockholders, we deconsolidated CWI 2 and began to account for our interest in it under the equity method. The deconsolidation did not have a material impact on our financial position or results of operations.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation. The consolidated financial statements included in this Report have been retrospectively adjusted to reflect the disposition of certain properties as discontinued operations and certain measurement period adjustments related to purchase accounting for all periods presented.

Recent Accounting Requirements

The following Accounting Standards Updates, or ASUs, promulgated by the Financial Accounting Standards Board are applicable to us:

ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30) — ASU 2015-03 changes the presentation of debt issuance costs, which are currently recognized as a deferred charge (that is, an asset) and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 does not affect the recognition and measurement guidance for debt issuance costs. ASU 2015-03 is effective for periods beginning after December 15, 2015, early adoption is permitted and retrospective application is required. We are currently evaluating the impact of ASU 2015-03 on our consolidated financial statements.

Notes to Consolidated Financial Statements (Unaudited)

ASU 2014-09, Revenue from Contracts with Customers (Topic 606) — ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 does not apply to our lease revenues, but will apply to reimbursed tenant costs and revenues generated from our operating properties and our Investment Management business. Additionally, this guidance modifies disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In April 2015, the Financial Accounting Standards Board issued a proposed ASU to defer the effective date of ASU 2014-09 by one year. In July 2015, the Financial Accounting Standards Board affirmed its proposal to defer the effective date of the new revenue standard for all entities by one year and directed the staff to draft a final ASU for vote by written ballot. Upon issuance of the final ASU deferring the effective date, ASU 2014-09 will be effective beginning in 2018, and early adoption is permitted but not before 2017, the original public company effective date. We are currently evaluating the impact of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard.

Note 4. Merger with CPA®:16 – Global

On July 25, 2013, we and CPA®:16 – Global entered into a definitive agreement pursuant to which CPA®:16 – Global would merge with and into one of our wholly-owned subsidiaries, subject to the approval of our stockholders and the stockholders of CPA®:16 – Global. On January 24, 2014, our stockholders and the stockholders of CPA®:16 – Global each approved the CPA®:16 Merger, and the CPA®:16 Merger closed on January 31, 2014.

In the CPA®:16 Merger, CPA®:16 – Global stockholders received 0.1830 shares of our common stock in exchange for each share of CPA®:16 – Global stock owned, pursuant to an exchange ratio based upon a value of $11.25 per share of CPA®:16 – Global and the volume weighted-average trading price of our common stock for the five consecutive trading days ending on the third trading day preceding the closing of the transaction on January 31, 2014. CPA®:16 – Global stockholders received cash in lieu of any fractional shares in the CPA®:16 Merger. We paid total merger consideration of approximately $1.8 billion, including the issuance of 30,729,878 shares of our common stock with a fair value of $1.8 billion based on the closing price of our common stock on January 31, 2014, of $59.08 per share, to the stockholders of CPA®:16 – Global in exchange for the 168,041,772 shares of CPA®:16 – Global common stock that we and our affiliates did not previously own, and cash of $1.3 million paid in lieu of issuing any fractional shares, or collectively, the Merger Consideration. As a condition of the CPA®:16 Merger, we waived the subordinated disposition and termination fees that we would have been entitled to receive from CPA®:16 – Global upon its liquidation pursuant to the terms of our advisory agreement with CPA®:16 – Global (Note 5).

Immediately prior to the CPA®:16 Merger, CPA®:16 – Global's portfolio was comprised of the consolidated full or partial interests in 325 leased properties, substantially all of which were triple-net leased with an average remaining life of 10.4 years and an estimated contractual minimum annualized base rent, or ABR, totaling $300.1 million, and two hotel properties. The related property-level debt was comprised of 92 fixed-rate and 18 variable-rate non-recourse mortgage loans with an aggregate fair value of approximately $1.8 billion and a weighted-average annual interest rate of 5.6% at that date. Additionally, CPA®:16 – Global had a line of credit with an outstanding balance of $170.0 million on the date of the closing of the CPA®:16 Merger. In addition, CPA®:16 – Global had equity interests in 18 unconsolidated investments, 11 of which were consolidated by us prior to the CPA®:16 Merger, five of which were consolidated by us subsequent to the CPA®:16 Merger, and two of which were jointly-owned with CPA®:17 – Global. These investments owned 140 properties, substantially all of which were triple-net leased with an average remaining life of 8.6 years and an estimated ABR totaling $63.9 million, as of January 31, 2014. The debt related to these equity investments was comprised of 17 fixed-rate and five variable-rate non-recourse mortgage loans with an aggregate fair value of approximately $0.3 billion and a weighted-average annual interest rate of 4.8% on January 31, 2014. The lease revenues and income from continuing operations from the properties acquired from the date of the CPA®:16

Merger through June 30, 2014 were $115.9 million and $35.2 million (inclusive of $1.8 million attributable to noncontrolling interests), respectively.

During 2014, we sold all ten of the properties that were classified as held-for-sale upon acquisition in connection with the CPA®:16 Merger (Note 16). The results of operations for all ten of these properties have been included in Income from discontinued operations, net of tax in the consolidated financial statements. In addition, we sold one property subject to a direct financing lease that we acquired in the CPA®:16 Merger. The results of operations for this property have been included in Income from continuing operations before income taxes in the consolidated financial statements.

Notes to Consolidated Financial Statements (Unaudited)

Purchase Price Allocation

We accounted for the CPA®:16 Merger as a business combination under the acquisition method of accounting. After consideration of all applicable factors pursuant to the business combination accounting rules, we were considered the "accounting acquirer" due to various factors, including the fact that our stockholders held the largest portion of the voting rights in us upon completion of the CPA®:16 Merger. Costs of $30.5 million related to the CPA®:16 Merger were incurred in 2014, of which $30.4 million were incurred and expensed during the six months ended June 30, 2014 and classified within Merger and property acquisition expenses in the consolidated financial statements. In addition, CPA®:16 – Global incurred a total of $10.6 million of merger expenses prior to January 31, 2014.

Equity Investments and Noncontrolling Interests

During the first quarter of 2014, we recognized a gain on change in control of interests of approximately $73.1 million, which was the difference between the carrying value of approximately $274.1 million and the preliminary estimated fair value of approximately $347.2 million of our previously-held equity interest in 38,229,294 shares of CPA®:16 – Global's common stock. During 2014, we identified certain measurement period adjustments that impacted the provisional accounting, which increased the estimated fair value of our previously-held equity interest in shares of CPA®:16 – Global's common stock by $2.6 million, resulting in an increase of $2.6 million in Gain on change in control of interests. In accordance with Accounting Standards Codification, or ASC, 805-10-25, we did not record the measurement period adjustments during the periods they occurred. Rather, such amounts are reflected in the financial statements for the three months ended March 31, 2014.

The CPA®:16 Merger also resulted in our acquisition of the remaining interests in nine investments in which we already had a joint interest and accounted for under the equity method. Upon acquiring the remaining interests in these investments, we owned 100% of these investments and thus accounted for the acquisitions of these interests utilizing the purchase method of accounting. Due to the change in control of the nine jointly-owned investments that occurred, we recorded a gain on change in control of interests of approximately $30.2 million during the first quarter of 2014, which was the difference between our carrying values and the estimated fair values of our previously-held equity interests on the acquisition date of approximately $142.5 million and approximately $172.7 million, respectively. Subsequent to the CPA®:16 Merger, we consolidate these wholly-owned investments.

In connection with the CPA®:16 Merger, we also acquired the remaining interests in 12 less-than-wholly-owned investments that we already consolidate and recorded an adjustment to additional paid-in-capital of approximately $42.0 million during the first quarter of 2014 related to the difference between our carrying values and the preliminary estimated fair values of our previously-held noncontrolling interests on the acquisition date of approximately $236.8 million and $278.2 million, respectively. During 2014, we identified certain measurement period adjustments that impacted the provisional accounting, which increased the fair value of our previously-held noncontrolling interests on the acquisition date by $0.6 million, resulting in a reduction of $0.6 million to additional paid-in-capital.

Pro Forma Financial Information (Unaudited)

The following unaudited consolidated pro forma financial information has been presented as if the CPA®:16 Merger had occurred on January 1, 2013 for the three and six months ended June 30, 2014. The pro forma financial information is not necessarily indicative of what the actual results would have been had the CPA®:16 Merger occurred on that date, nor does it purport to represent the results of operations for future periods.

Notes to Consolidated Financial Statements (Unaudited)

(in thousands, except share and per share amounts):

	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
Pro forma total revenues	$252,907	$487,032
Pro forma net income from continuing operations, net of tax	$40,469	$78,409
Pro forma net income attributable to noncontrolling interests	(2,344)	(2,916)
Pro forma net loss (income) attributable to redeemable noncontrolling interest	111	(151)
Pro forma net income from continuing operations, net of tax attributable to W. P. Carey [(a)]	$38,236	$75,342
Pro forma earnings per share: [(a)]		
Basic	$0.38	$0.75
Diluted	$0.38	$0.75
Pro forma weighted-average shares: [(b)]		
Basic	100,236,362	99,976,714
Diluted	100,995,225	100,875,283

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(a) The pro forma income attributable to W. P. Carey for the three and six months ended June 30, 2014 reflects the following income and expenses recognized related to the CPA®:16 Merger as if the CPA®:16 Merger had taken place on January 1, 2013: (i) combined merger expenses through December 31, 2014; (ii) an aggregate gain on change in control of interests; and (iii) an income tax expense from a permanent difference upon recognition of deferred revenue associated with accelerated vesting of shares previously issued by CPA®:16 – Global for asset management and performance fees in connection with the CPA®:16 Merger.

(b) The pro forma weighted-average shares outstanding for the three and six months ended June 30, 2014 were determined as if the 30,729,878 shares of our common stock issued to CPA®:16 – Global stockholders in the CPA®:16 Merger were issued on January 1, 2013.

Note 5. 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. The following tables present a summary of revenue earned and/or cash received from the Managed REITs for the periods indicated, included in the consolidated financial statements (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Structuring revenue	$37,808	$17,254	$59,528	$35,005
Asset management revenue				