CAREY W P & CO LLC
Form 10-Q
May 10, 2007

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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 March 31, 2007

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 & CO. LLC

(Exact name of registrant as specified in its charter)

Delaware	**13-3912578**
(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer o Non-accelerated filer 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 38,492,548 Listed Shares, no par value, outstanding at May 3, 2007.

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* The summarized consolidated financial statements contained herein are unaudited; however, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of such financial statements have been included.

Forward Looking Statements

This quarterly report on Form 10-Q, 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 that involve risks, uncertainties and assumptions. Forward-looking statements discuss matters that are not historical facts. Because they discuss future events or conditions, forward-looking statements may include words such as anticipate, believe, expect, estimate, intend, could, should, would, may, seek, plan or similar expressions. Do not unduly rely on fo statements. They give our expectations about the future and are not guarantees, and speak only as of the date they are made. Such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievement to be materially different from the results of operations or plan expressed or implied by such forward-looking statements. While we cannot predict all of the risks and uncertainties, they include, but are not limited to, those described in Item 1A Risk Factors of our annual report on Form 10-K for the year ended December 31, 2006. Accordingly, such information should not be regarded as representations that the results or conditions described in such statements or that our objectives and plans will be achieved. Additionally, a description of our critical accounting estimates is included in the management s discussion and analysis section in our annual report on Form 10-K for the year ended December 31, 2006. There has been no significant change in our critical accounting estimates.

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

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W. P. CAREY & CO. LLC
PART I
ITEM 1. FINANCIAL STATEMENTS
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(in thousands, except share amounts)

	March 31, 2007	December 31, 2006 (NOTE)
Assets		
Real estate, net	$ 534,159	$ 540,504
Net investment in direct financing leases	108,387	108,581
Equity investments in real estate	175,390	166,147
Operating real estate, net	62,019	33,606
Assets held for sale	4,845	1,269
Cash and cash equivalents	13,300	22,108
Due from affiliates	78,648	88,884
Goodwill	63,607	63,607
Intangible assets, net	41,259	43,742
Other assets, net	25,843	24,562
Total assets	$ 1,107,457	$ 1,093,010
Liabilities and Members Equity		
Liabilities:		
Limited recourse mortgage notes payable	$ 260,891	$ 261,152
Unsecured credit facility	26,000	2,000
Secured credit facility	30,651	15,501
Deferred revenue	45,919	40,490
Accounts payable and accrued expenses	25,701	34,047
Income taxes, net	45,624	63,462
Other liabilities	18,224	19,127
Distributions payable	17,716	17,481
Total liabilities	470,726	453,260
Minority interest in consolidated entities	7,800	7,765
Commitments and contingencies (Note 8)		
Members equity:		
Listed shares, no par value, 100,000,000 shares authorized; 38,442,298 and 38,262,157 shares issued and outstanding, respectively	748,379	745,969
Dividends in excess of accumulated earnings	(119,873)	(114,008)
Accumulated other comprehensive income	425	24
Total members equity	628,931	631,985

Total liabilities and members equity	$	1,107,457	$	1,093,010

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

NOTE: The consolidated balance sheet at December 31, 2006 has been derived from the audited consolidated financial statements at that date.

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W. P. CAREY & CO. LLC
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(in thousands, except share and per share amounts)

	Three months ended March 31, 2007	2006
Revenues		
Asset management revenue	$ 15,034	$ 14,362
Structuring revenue	4,583	9,892
Reimbursed costs from affiliates	3,475	2,998
Lease revenues	19,632	18,127
Other real estate income	3,174	2,383
	45,898	47,762
Operating Expenses		
General and administrative	(12,237)	(11,158)
Reimbursable costs	(3,475)	(2,998)
Depreciation and amortization	(6,944)	(5,970)
Property expenses	(1,420)	(1,668)
Other real estate expenses	(2,524)	(1,567)
	(26,600)	(23,361)
Other Income and Expenses		
Other interest income	598	727
Income from equity investments in real estate	2,438	1,550
Minority interest in income	(331)	(862)
Gain on sale of securities, foreign currency transactions and other gains, net	186	250
Interest expense	(4,863)	(4,388)
	(1,972)	(2,723)
Income from continuing operations before income taxes	17,326	21,678
Provision for income taxes	(6,378)	(6,722)
Income from continuing operations	10,948	14,956
Discontinued Operations		
Loss from operations of discontinued properties	(148)	(534)
Impairment charges on assets held for sale		(3,357)
Loss from discontinued operations	(148)	(3,891)
Net Income	$ 10,800	$ 11,065

Basic Earnings (Loss) Per Share				
Income from continuing operations	$	0.28	$	0.40
Loss from discontinued operations				(0.10)
Net income	$	0.28	$	0.30
Diluted Earnings (Loss) Per Share				
Income from continuing operations	$	0.27	$	0.39
Loss from discontinued operations				(0.10)
Net income	$	0.27	$	0.29
Distributions Declared Per Share	$	0.462	$	0.452
Weighted Average Shares Outstanding				
Basic		37,930,777		37,727,782
Diluted		39,851,353		38,627,267

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

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W. P. CAREY & CO. LLC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(in thousands)

	Three months ended March 31,	
	2007	**2006**
Net Income	$ 10,800	$ 11,065
Other Comprehensive Income		
Change in unrealized appreciation on marketable securities	18	771
Foreign currency translation adjustment	383	(282)
	401	489
Comprehensive Income	$ 11,201	$ 11,554

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

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W. P. CAREY & CO. LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

	Three months ended March 31,	
	2007	**2006**
Cash Flows Operating Activities		
Net income	$ 10,800	$ 11,065
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization including intangible assets and deferred financing costs	7,308	6,229
Income from equity investments in real estate in excess of distributions received	(32)	(247)
Minority interest in income	331	862
Straight-line rent adjustments	850	732
Management income received in shares of affiliates	(8,467)	(7,892)
Unrealized gain on foreign currency transactions, warrants and securities	(160)	(165)
Impairment charges		3,357
(Decrease) increase in income taxes, net	(17,786)	4,329
Realized gain on foreign currency transactions	(26)	(85)
Stock-based compensation expense	923	719
Deferred acquisition revenue received	13,882	12,543
Increase in structuring revenue receivable	(158)	(3,039)
Net changes in other operating assets and liabilities	(7,744)	(3,061)
Net cash (used in) provided by operating activities	(279)	25,347
Cash Flows Investing Activities		
Distributions received from equity investments in real estate in excess of equity income	1,093	1,400
Purchases of real estate and equity investments in real estate	(27,710)	
Capital expenditures	(3,881)	(674)
Release of funds from escrow in connection with the sale of property	465	
Payment of deferred acquisition revenue to affiliate	(536)	(524)
Net cash (used in) provided by investing activities	(30,569)	202
Cash Flows Financing Activities		
Distributions paid	(17,484)	(16,965)
Contributions from minority interests	206	506
Distributions to minority interests	(577)	(136)
Scheduled payments of mortgage principal	(2,618)	(2,916)
Proceeds from mortgages and credit facilities	54,059	10,000
Prepayments of mortgage principal and credit facilities	(13,000)	(19,000)
Release of funds from escrow in connection with the financing of properties		4,031

Payment of financing costs	(69)	(217)
Proceeds from issuance of shares	1,000	1,323
Excess tax benefits associated with stock based compensation awards	487	77
Repurchase and retirement of shares		(482)
Net cash provided by (used in) financing activities	22,004	(23,779)
Change in Cash and Cash Equivalents During the Period		
Effect of exchange rate changes on cash	36	49
Net (decrease) increase in cash and cash equivalents	(8,808)	1,819
Cash and cash equivalents, beginning of period	22,108	13,014
Cash and cash equivalents, end of period	$ 13,300	$ 14,833

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

Note 1. Business

W. P. Carey & Co. LLC is a real estate and advisory company that invests in commercial properties leased to companies domestically and internationally, and earns revenue as the advisor to the following publicly registered affiliated real estate investment trusts (CPA® REITs) that each make similar investments: Corporate Property Associates 14 Incorporated (CPA®:14), Corporate Property Associates 15 Incorporated (CPA®:15) and Corporate Property Associates 16 Global Incorporated (CPA®:16 Global) and served in this capacity for Corporate Property Associates 12 Incorporated (CPA®:12) until its merger with CPA®:14 in December 2006. As of March 31, 2007, we own and manage over 800 commercial properties domestically and internationally including our own portfolio, which is comprised of our full or partial ownership interest in 183 commercial properties net leased to 109 tenants and totaling approximately 18 million square feet (on a pro rata basis), with an occupancy rate of 95.3%. We also own 11 domestic self-storage properties totaling approximately 0.8 million square feet.

Primary Business Segments

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

Real Estate Operations We invest in commercial properties that are then leased to companies domestically and internationally, primarily on a triple net leased basis. We also invest in domestic self-storage real estate properties and operate a hotel franchise at a domestic property.

Note 2. Basis of Presentation

Our unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the United States Securities and Exchange Commission (SEC). Accordingly, they do not include all information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement of the results of the interim periods presented have been included. The results of operations for the interim periods are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2006.

Basis of Consolidation

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

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

In determining whether we control a non-VIE, our consideration includes using the Emerging Issues Task Force (EITF) Consensus on Issue No. 04-05, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights (EITF 04-05). The scope of EITF 04-05 is limited to limited partnerships or similar entities that are not variable interest entities under FIN 46R. The EITF reached a consensus that the general partners in a limited partnership (or similar entity) are presumed to control the entity regardless of the level of their ownership and, accordingly, may be required to consolidate the entity. This presumption may be overcome if the agreements provide the limited

Notes to Consolidated Financial Statements

partners with either (a) the substantive ability to dissolve (liquidate) the limited partnership or otherwise remove the general partners without cause or (b) substantive participating rights. If it is deemed that the limited partners rights overcome the presumption of control by a general partner of the limited partnership, the general partner shall account for its investment in the limited partnership using the equity method of accounting. As a result of adopting the provisions of EITF 04-05 effective January 1, 2006, we now consolidate a limited liability company that leases property to CheckFree Holdings Corporation Inc., that was previously accounted for under the equity method of accounting. The consolidation of this entity did not have a material impact on our financial position or results of operations.

We have several interests in joint ventures that are consolidated and have minority interests that have finite lives and were considered mandatorily redeemable non-controlling interests prior to the issuance of Staff Position No. 150-3 (FSP FAS 150-3). As a result of the deferral provisions of FSP 150-3, these minority interests have been reflected as liabilities.

We formed Corporate Property Associates 17 Global Incorporated (CPA®:17) in February 2007 for the purpose of investing in a diversified portfolio of income-producing commercial properties and other real estate related assets, both domestically and outside the United States. We filed a registration statement on Form S-11 with the SEC during February 2007 to raise up to $2,500,000 of common stock of CPA®:17 (including amounts under a dividend reinvestment plan) and expect to commence fundraising during 2007. As of and during the three months ended March 31, 2007, the financial statements of CPA®:17, which had no operations during this period, were included in our consolidated financial statements, as we owned all of CPA®:17 s outstanding common stock.

Reclassifications and Revisions

Certain prior period amounts have been reclassified to conform to the current period financial statement presentation. The financial statements included in this Form 10-Q have been adjusted to reflect the disposition (or planned disposition) of certain properties as discontinued operations for all periods presented.

Recent Accounting Pronouncements

SFAS 155

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

FIN 48

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in income tax positions. This Interpretation requires that we not recognize in our consolidated financial statements the impact of a tax position that fails to meet the more likely than not recognition threshold based on the technical merits of the position. We adopted FIN 48 as required on January 1, 2007 (Note 11).

SFAS 157

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

SFAS 159

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159), which gives entities the option to measure eligible financial assets, financial liabilities and firm commitments at fair value on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes (i.e., unrealized gains and losses) in fair value must be recorded in earnings. Additionally, SFAS 159 allows for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning retained earnings. This statement is effective for our 2008 fiscal year. We are currently assessing the potential impact that the adoption of SFAS 159 will have on our financial position and results of operations.

Notes to Consolidated Financial Statements

Note 3. Transactions with Related Parties

Advisory Services

Directly and through a wholly-owned subsidiary, we earn revenue as the advisor (advisor) to the CPA® REITs. Under the advisory agreements with the CPA® REITs, we perform various services, including but not limited to the day-to-day management of the CPA® REITs and transaction-related services. We earn asset management revenue totaling 1% per annum of average invested assets, as calculated pursuant to the advisory agreements for each CPA® REIT, of which 1/2 of 1% (performance revenue) is contingent upon specific performance criteria for each CPA® REIT. We are also reimbursed for certain costs, primarily broker/dealer commissions paid on behalf of the CPA® REITs and marketing and personnel costs. The advisory agreements allow us to elect to receive restricted stock for any revenue due from each CPA® REIT. For the three months ended March 31, 2007 and 2006, total asset-based revenue earned was $15,034 and $14,362, respectively, while reimbursed costs totaled $3,475 and $2,998, respectively. As of March 31, 2007, CPA®:16 Global did not meet its performance criterion (a non-compounded cumulative distribution return of 6% per annum), as defined in its advisory agreement, and since CPA®:16 Global s inception, we have deferred cumulative performance revenue of $11,945 that will be recognized if the performance criterion is met. In 2007 and 2006, we elected to receive all performance revenue from the CPA® REITs as well as the asset management revenue payable by CPA®:16 Global in restricted shares.

In connection with structuring and negotiating investments and related mortgage financing for the CPA® REITs, the advisory agreements provide for structuring revenue based on the cost of investments. Under each of the advisory agreements, we may receive acquisition revenue of up to an average of 4.5% of the total cost of all investments made by each CPA® REIT. A portion of this revenue (generally 2.5%) is paid when the transaction is completed while the remainder (generally 2%) is payable in equal annual installments ranging from three to eight years, subject to the relevant CPA® REIT meeting its performance criterion. Unpaid installments bear interest at annual rates ranging from 5% to 7%. We may be entitled to loan refinancing revenue of up to 1% of the principal amount refinanced in connection with structuring and negotiating investments. This loan refinancing revenue, together with the acquisition revenue, is referred to as structuring revenue.

For the three months ended March 31, 2007 and 2006, we earned structuring revenue of $4,583 and $9,892, respectively. CPA®:16 Global has not met its performance criterion and since its inception, cumulative deferred structuring revenue of $31,674 and interest thereon of $2,300 have been deferred, and will be recognized by us if CPA®:16 Global meets the performance criterion. In addition, we may also earn revenue related to the disposition of properties, subject to subordination provisions, and will only recognize such revenue as the subordination provisions are achieved.

Deferred revenue related to providing services to CPA®:16 Global (as described above) totaled $45,919 and $40,490 at March 31, 2007 and December 31, 2006, respectively, and is included in deferred revenue in the consolidated balance sheets. Recognition and ultimate collection of these amounts is subject to CPA®:16 Global meeting its performance criterion. Based on our current assessment, CPA®:16 Global is expected to meet its cumulative performance criterion during the second quarter of 2007, at which time we would recognize the cumulative deferred revenue. There is no assurance that the performance criterion will be achieved as projected as it is dependent on, among other factors, the performance of properties that CPA®:16 Global invests in generating income in excess of the performance criterion as well as on the distribution rates that may be set by CPA®:16 Global s board of directors. If the performance criterion is achieved, deferred incentive and commission compensation related to achievement of the performance criterion, in the amount of approximately $6,182 (exclusive of interest) as of March 31, 2007, would become payable by us to certain employees.

Merger of CPA®:12 and CPA®:14

In connection with the acquisition of interests in 37 properties from CPA®:12 (the CPA®:12 Acquisition), we have agreed that if we enter into a definitive agreement to sell any of the acquired properties within six months after the closing of the CPA®:12 Acquisition at a price that is higher than the price paid to CPA®:12, we will pay to former CPA®:12 shareholders an amount equal to 85% of the excess (net of selling expenses and fees) on any such sale.

One of our subsidiaries has agreed to indemnify CPA®:14 if CPA®:14 suffers certain losses arising out of a breach by CPA®:12 of its representations and warranties under the merger agreement and having a material adverse effect on CPA®:14 after the CPA®:12 and CPA®:14 merger (the CPA®:12/14 Merger), up to the amount of fees received by our subsidiary in connection with the CPA®:12/14 Merger. We have evaluated the exposure related to this indemnification and have determined the exposure to be minimal.

Self-Storage Investments

In November 2006, we formed a subsidiary (Carey Storage) for the purpose of investing in self-storage real estate properties and their related businesses within the United States. During the three months ended March 31, 2007, Carey Storage used a portion of the proceeds from our initial contribution and loans along with borrowings totaling $15,150 under its $105,000 credit facility to acquire

Notes to Consolidated Financial Statements

five self-storage properties in several states totaling $26,000. Borrowings under the credit facility are fixed at an annual fixed interest rate of 7.6% for the first month of borrowing and at an annual variable interest rate equal to the one-month LIBOR plus a spread which ranges from 175 to 235 basis points thereafter depending on the aggregate debt yield for the collateralized asset pool. As of March 31, 2007, borrowings under the credit facility bore interest at a variable rate of 7.57% and mature in December 2008.

We expect to continue to acquire additional self-storage properties during 2007 (Note 13). We are evaluating raising third party capital in connection with these investments. Carey Storage s results of operations are included in other real estate income and other real estate expenses in the consolidated financial statements.

General Transactions

We own interests in entities which range from 33% to 60%, with the remaining interests held by affiliates and own common stock in each of the CPA® REITs. We have a significant influence in these investments, which are accounted for under the equity method of accounting.

We are the general partner in a limited partnership that leases our home office spaces and participates in an agreement with certain affiliates, including the CPA® REITs for the purpose of leasing office space used for the administration of our operations, the operations of our affiliates and for sharing the associated costs. During the three months ended March 31, 2007 and 2006, we recorded income from minority interest partners of $248 and $407, respectively, related to reimbursements from these affiliates. Our estimated minimum annual lease payments on the office lease, inclusive of minority interest, as of March 31, 2007 approximates $2,863 through 2016.

Included in other liabilities in the consolidated balance sheets at March 31, 2007 and December 31, 2006 are amounts due to affiliates totaling $1,109 and $1,239, respectively, comprised primarily of amounts due in connection with the office sharing agreement and deferred acquisition fees.

One of our directors and officers is the sole shareholder of Livho, Inc. (Livho), one of our lessees. We consolidate the accounts of Livho in our consolidated financial statements in accordance with FIN 46R as it is a VIE where we are the primary beneficiary.

One of our directors has an ownership interest in certain companies that own the minority interest in our French majority-owned subsidiaries. The director s ownership interest is subject to the same terms as all other ownership interests in the subsidiary companies.

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

We have the right to loan funds under our unsecured credit facility to affiliates. Such loans bear interest at comparable rates to our rate under the unsecured credit facility. There were no loans to affiliates during the comparable periods ended March 31, 2007 and 2006.

Note 4. Real Estate

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

	March 31, 2007	December 31, 2006
Cost	$ 617,116	$ 620,472
Less: Accumulated depreciation	(82,957)	(79,968)
	$ 534,159	$ 540,504

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Notes to Consolidated Financial Statements

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

	March 31, 2007	December 31, 2006
Cost [(1)]	$ 69,090	$ 41,275
Less: Accumulated depreciation	(7,071)	(7,669)
	$ 62,019	$ 33,606

(1) Includes $3,007 of costs incurred through March 31, 2007 in connection with renovations to the hotel facility, which is scheduled for completion in 2008.

Note 5. Equity Investments in Real Estate

We own interests in three CPA® REITs with which we have advisory agreements. Our interests in the CPA® REITs are accounted for under the equity method due to our ability to exercise significant influence as the advisor to the CPA® REITs. The CPA® REITs are publicly registered and file financial statements with the SEC. In connection with earning asset management and performance revenue, we have elected, in certain cases, to receive restricted shares of common stock in the CPA® REITs rather than cash in consideration for such revenue (Note 3).

As of March 31, 2007, our ownership in the CPA® REITs is as follows:

	Shares	% of Outstanding Shares
CPA®:14	5,120,021	5.85%
CPA®:15	4,832,275	3.75%
CPA®:16 - Global	1,067,133	0.93%

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

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

	March 31, 2007	December 31, 2006
Assets (primarily real estate)	$ 6,990,003	$ 6,849,781
Liabilities (primarily mortgage notes payable)	(3,857,155)	(3,695,811)
Owner s equity	$ 3,132,848	$ 3,153,970

Our share of equity investees net assets	$ 175,390	$ 166,147

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Notes to Consolidated Financial Statements

	Three months ended March 31,	
	2007	**2006**
Revenue (primarily rental income and interest income from direct financing leases)	138,385	$ 122,936
Expenses (primarily depreciation and property expenses)	(59,292)	(48,995)
Income from equity investments in real estate	6,363	11,601
Other interest income	9,063	3,610
Minority interest in income	(6,801)	(7,949)
Gain on sales of real estate, derivatives and foreign currency transactions, net	1,339	1,150
Interest expense	(54,422)	(47,298)
Income from continuing operations	34,635	35,055
Income from discontinued operations	183	1,888
Gain on sale of real estate, net		2,846
Impairment charge on assets held for sale		(400)
Minority interest in income of discontinued operations		