

W. P. Carey Inc.
Form 10-K
February 26, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2012

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
(State of incorporation)

50 Rockefeller Plaza
New York, New York
(Address of principal executive offices)

45-4549771
(I.R.S. Employer Identification No.)

10020
(Zip Code)

Investor Relations (212) 492-8920

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(212) 492-1100

(Registrant's telephone numbers, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, \$0.001 Par Value

Name of exchange on which registered
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☐

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 ☐
(Do not check if a smaller reporting company)

Smaller reporting company ☐

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of last business day of the registrant's most

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recently completed second fiscal quarter: \$1.3 billion.

As of January 31, 2013 there were 68,488,740 shares of Common Stock of registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant incorporates by reference its definitive Proxy Statement with respect to its 2013 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of its fiscal year, into Part III of this Annual Report on Form 10-K.

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Forward-Looking Statements

This Annual Report on Form 10-K (the "Report"), including Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of Part II 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, should, will, would, 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 (the "SEC"), including but not limited to those described in Item 1A. Risk Factors of this Report. 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 II, Item 8, Financial Statements and Supplementary Data.

PART I

Item 1. Business.

(a) General Development of Business

Overview

W. P. Carey Inc. ("W. P. Carey" and, together with its consolidated subsidiaries and predecessors, we, us or our) is a real estate investment trust ("REIT") that seeks to achieve superior, risk-adjusted returns by providing long-term net-lease financing via sale-leaseback and build-to-suit transactions for companies worldwide. We manage a global investment portfolio which totaled approximately \$14.1 billion at December 31, 2012. We invest primarily in commercial properties domestically and internationally that are generally triple-net leased to single corporate tenants, which requires each tenant to pay substantially all of the costs associated with operating and maintaining the property. We also earn revenue as the advisor to publicly-owned, non-listed REITs, as further described below.

Since our founding in 1973, we have maintained a singular focus on providing investors with a steady source of income accompanied with capital preservation. Since 1979, we have sponsored a series of sixteen income-generating funds that invest in real estate, under the Corporate Property Associates ("CPA®") brand name (the "CPA® REITs"). We are currently the advisor to Corporate Property Associates 16 Global Incorporated ("CPA@:16 Global") and Corporate Property Associates 17 Global Incorporated ("CPA@:17 Global"). We are also the advisor to Carey Watermark Investors Incorporated ("CWI" and, together with the CPA® REITs, the "Managed REITs"), which invests in lodging and lodging-related properties.

We were formed as a corporation under the laws of Maryland on February 15, 2012. On February 17, 2012, W. P. Carey & Co. LLC (our predecessor), which was formed under the laws of Delaware on July 15, 1996, announced its intention to reorganize in order to qualify as a REIT for federal income tax purposes (the "REIT Reorganization"(Note 1). On September 28, 2012, upon completion of the Merger, as described below, and the REIT Reorganization, the shares of our predecessor were delisted from the New York Stock Exchange ("NYSE") and canceled, and our common stock became listed on the NYSE under the same symbol, "WPC".

Headquartered in New York, we have offices in Dallas, London, Amsterdam and Shanghai. At December 31, 2012, we employed 216 individuals through our wholly-owned subsidiaries.

Significant Developments During 2012

Merger and REIT Reorganization On February 17, 2012, our predecessor and Corporate Property Associates 15 Incorporated ("CPA@:15") entered into a definitive agreement pursuant to which CPA@:15 would merge with and into us (the "Merger"). On September 28, 2012, immediately following the REIT Reorganization, CPA@:15 merged with and into us. We paid total merger consideration of \$1.5 billion,

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including cash of \$152.4 million and the issuance of 28,170,643 shares of our common stock (the *Merger Consideration*) to acquire all of the outstanding shares of CPA@:15.

The Merger and the REIT Reorganization are part of a larger transformation to implement our overall business strategy of expanding real estate assets under ownership, which in turn is expected to provide a platform for future growth. We believe that the increase in our scale and liquidity will provide a basis for an expected continuation of stable dividend growth.

Through the Merger with CPA@:15, we acquired a portfolio of full or partial ownership interests in 305 properties, substantially all of which are triple-net leased to 76 tenants, and totaled approximately 27 million square feet, with an occupancy rate of approximately 99% and average remaining lease lives of 9.7 years. We also assumed the related property debt with an aggregate fair value of \$1.2 billion.

Senior Credit Facility In February 2012, we amended and restated our existing credit agreement (the *Amended and Restated Credit Agreement*) to increase the maximum aggregate principal amount available from \$450.0 million to \$625.0 million, which is comprised of a \$450.0 million unsecured revolving credit facility (the *Revolver*) and a \$175.0 million term loan facility (the *Term Loan Facility* and, together with the Revolver, the *Senior Credit Facility*). The Term Loan Facility was available in a single draw solely to finance a portion of the Merger Consideration and related transaction costs and expenses. We drew down the full amount of the Term Loan Facility on September 28, 2012 in connection with the closing of the Merger.

2012 Distributions Our annualized cash distribution increased to \$2.64 per share for the year ended December 31, 2012, from \$2.25 per share in 2011. The increase primarily reflects earnings generated from growth in our owned real estate portfolio and our increased ownership in, and our participation in the cash flows of, CPA@:16 Global as a result of its merger with Corporate Property

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Associates 14 Incorporated (CPA@:14) in May 2011 (the CPA@:14/16 Merger), as discussed in Note 4 below, as well as the additional income anticipated to result from the properties we acquired in the Merger.

Investor Capital Inflows We raised approximately \$927.3 million on behalf of CPA@:17 Global during 2012. Since beginning fundraising for CPA@:17 Global in December 2007 through the completion of its offering on January 31, 2013, we raised more than \$2.9 billion on its behalf. We also raised approximately \$112.1 million on behalf of CWI during 2012 for a total of approximately \$159.6 million from the beginning of its offering in September 2010 through December 31, 2012. We have filed a registration statement with the SEC for a new net lease-focused REIT offering, Corporate Property Associates 18 Global Incorporated (CPA@:18 Global), but the registration statement has not yet been declared effective, and there can be no assurance as to whether or when any such offering would be commenced.

Acquisition Activity During 2012, we acquired assets for our own portfolio and structured investments on behalf of the Managed REITs totaling approximately \$1.4 billion, including \$736.0 million of investments for the Managed REITs in the fourth quarter.

Financing Activity During 2012, we obtained mortgage financing totaling \$693.3 million on behalf of the Managed REITs and for our owned real estate portfolio.

Transactions with Estate of Wm. Polk Carey On January 2, 2012, Wm Polk Carey, our Chairman and founder, passed away. In July 2012, we entered into a voting agreement with the Estate of Wm. Polk Carey and its affiliated entities (collectively, the Estate) pursuant to which the Estate agreed to vote their shares of our predecessor's stock in favor of the Merger and the REIT Reorganization. Concurrently with the execution of the voting agreement, we entered into a share purchase agreement with the Estate pursuant to which we agreed to purchase up to an aggregate amount of \$85.0 million of our common stock beneficially owned by the Estate, in three transactions between August 6, 2012 and March 31, 2013. To date, we have completed two transactions totaling \$45.0 million. As of December 19, 2012, the Estate reported that it beneficially owned 10,699,484 shares of our common stock, which represent approximately 15.5% of our outstanding common stock as of that date.

Concurrently with the execution of the voting agreement and the share purchase agreement, we and the Estate entered into a registration rights agreement. In general, the registration rights agreement provides the Estate, at any time through September 28, 2015, with three demand registration rights for the registration via an underwritten public offering of, in each instance, between (i) a minimum of (a) \$50.0 million, with respect to one demand registration right, and (b) \$75.0 million, with respect to two demand registration rights, and (ii) a maximum of \$250.0 million worth of our common stock. Additionally, the registration rights agreement provides the Estate with unlimited piggyback registration rights regarding our common stock (Note 3).

Sale of Common Stock On October 19, 2012, we issued 937,500 shares of our common stock to an institutional investor, for a total purchase price of \$45.0 million, pursuant to our existing shelf registration statement.

(b) Financial Information About Reporting Units

Refer to Note 18 for financial information about reporting units.

(c) Narrative Description of Business

Business Objectives and Strategy

Our investment strategy primarily focuses on owning and actively managing a diverse portfolio of mission critical commercial real estate that is net leased to credit worthy companies globally. We believe that many companies prefer to lease, rather than own, their corporate real estate. We structure long-term financing for our corporate tenants in the form of sale-leaseback transactions. Typically, we acquire a company's essential real estate and then lease it back to them on a long-term basis. Our tenants are generally responsible for the ongoing operating costs of real estate ownership, including the real estate taxes, insurance, and maintenance of the facilities. Our leases generally have 10-20 year terms and include a base rent with scheduled rent increases that are either fixed or tied to an inflation index. Properties subject to long-term net leases typically produce a more predictable income stream and require less capital than other types of real estate investments.

We actively manage our real estate portfolio to mitigate risk with respect to fluctuations in tenant credit quality and probability of lease renewal. We believe that diversification with respect to property type, geography and tenant are an important component of portfolio management. We own and manage a variety of property types, including office, industrial, warehouse and distribution, and retail properties, throughout the U.S. and in countries in North America, Europe and Asia, leased to tenants in a variety of industries.

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In addition to corporate net-leased properties, we and the CPA® REITs also have investments in self storage facilities and hotels, which do not have long-term leases and are considered operating properties. We have in-house storage industry expertise and expect to continue invest in storage properties, primarily on behalf of the CPA® REITs. We formed CWI, with an experienced hotel investment partner and separate investment committee, to make investments in lodging-related properties in the U.S. We may sponsor other Managed REITs that do not invest in corporate sale-leasebacks in the future.

In addition to managing our own real estate portfolio, as the advisor to the Managed REITs we invest their funds and manage their assets. We generate substantial fee revenue from our advisory agreements with the Managed REITs. We also own shares of the Managed REITs and co-invest in properties with them. We began the Managed REITs program in 1979 and, through January 31, 2013, have raised and invested over \$6.8 billion of equity capital in 17 different funds since that time. Historically, the Managed REITs program has been our primary source of equity capital.

We believe that our real estate investments provide our stockholders with a stable, growing source of income. We also believe that the fee income that we generate from our advisory contracts with the Managed REITs provides our stockholders with an attractive, albeit more variable, source of additional income.

We have two primary reportable segments, Real Estate Ownership and Investment Management. These segments are each described below. Our objective is to increase stockholder value and earnings through expansion of our owned real estate portfolio and our investment management operations as well as through prudent asset management.

Real Estate Ownership

We own and invest in commercial properties primarily in the U.S. and Europe that are then leased to companies, primarily on a triple-net lease basis, which requires the tenant to pay substantially all of the costs associated with operating and maintaining the property (Note 18). At December 31, 2012, our portfolio was comprised of our full or partial ownership interest in 423 properties. Substantially all of these properties, totaling approximately 38.5 million square feet, were net leased to 124 tenants, with an occupancy rate of approximately 98.7%. Collectively, at December 31, 2012, the Managed REITs owned all or a portion of over 707 properties, including certain properties in which we have an ownership interest. Substantially all of these properties, totaling approximately 83.3 million square feet, were net leased to 216 tenants, with an average occupancy rate of approximately 98.2%.

We earn lease revenues from our wholly-owned and co-owned real estate investments. In addition, we generate equity income through our investments in the shares of the Managed REITs. We often elect to receive our asset management fees from the Managed REITs in shares of those entities (Note 7). In addition, through our special member interests in the operating partnerships of the Managed REITs, we participate in the cash flows of those REITs. Lastly, we earn other real estate revenues through our investments in self-storage facilities and hotels in the U.S.

See Our Portfolio below for an analysis of the properties in our portfolio at December 31, 2012.

Investment Management

We earn revenue as the advisor to the Managed REITs. Under the advisory agreements with the Managed REITs, we perform various services, including but not limited to the day-to-day management of the Managed REITs and transaction-related services. We structure and negotiate investments and debt placement transactions for the Managed REITs, for which we earn structuring revenue, and we manage their portfolios of real estate investments, for which we earn asset-based management revenue.

From time to time, we explore alternatives for expanding our investment management operations beyond advising the 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, like CWI.

We earn ongoing asset management revenue from each Managed REIT, which is based on average invested assets and is calculated according to the advisory agreement for each Managed REIT. We seek to increase our asset management revenue by increasing real estate-related assets under management, both as the Managed REITs make new investments and from sponsoring new investment entities. We generate acquisition revenue when we structure and negotiate investments and related financing for the Managed REITs. We may also be entitled, subject to the approval by the board of directors of the related Managed REITs, to fees for structuring loan refinancings. This loan refinancing revenue, together with the acquisition revenue, is referred to as structuring revenue. We may also earn revenue related to the disposition of properties, subject to subordination provisions, which will only be recognized as the relevant conditions are met. Such revenue may include subordinated disposition revenue when assets are sold as well as a percentage of the net cash proceeds distributable to stockholders from the disposition of properties, after recoupment by stockholders of their initial

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investment plus a specified preferred return. We may earn incentive or termination revenue in connection with providing liquidity to the stockholders of the Managed REITs, although these events do not occur every year. We will not receive a termination payment in circumstances where we receive subordinated incentive revenue.

While we are raising funds for a Managed REIT, the REIT reimburses us for certain costs, primarily broker-dealer commissions paid on its behalf and marketing and personnel costs. The Managed REITs also reimburse us for many of our costs associated with the evaluation of transactions on their behalf that are not completed. These reimbursements, together with asset management revenue payable by a specific Managed REIT, may be subject to deferral or reduction if they exceed a specified percentage of that Managed REIT's income or invested assets.

We also earn wholesaling fees and dealer manager fees in connection with the initial public offerings of the Managed REITs. We reimburse, or re-allow, all or a portion of the dealer manager fees to selected dealers in the offerings. Dealer manager fees that are not re-allowed are classified as wholesaling revenue. Wholesaling revenue earned is generally offset by underwriting costs incurred in connection with the offerings.

Investment Strategies

In analyzing potential investments, we review all aspects of a transaction, including tenant and real estate fundamentals, to determine whether a potential investment and lease can be structured to satisfy our investment criteria. In evaluating net lease transactions, we generally consider, among other things, the following aspects of each transaction:

Tenant/Borrower Evaluation We evaluate each potential tenant or borrower for its creditworthiness, typically considering factors such as management experience, industry position and fundamentals, operating history, and capital structure, as well as other factors that may be relevant to a particular investment. We seek opportunities in which we believe the tenant may have a stable or improving credit profile or credit potential that has not been recognized by the market. Whether a prospective tenant or borrower is creditworthy will be determined by our investment department and the investment committee, as described below. Creditworthy does not mean investment grade, as defined by the credit rating agencies.

Real Estate Evaluation We review and evaluate the physical condition of the property and the market in which it is located. We consider a variety of factors including current market rents, replacement cost, residual valuation, property operating history, demographic characteristics of the location and accessibility, competitive properties, and suitability for re-leasing. We perform third party environmental and engineering reports and market studies, if needed. We will also consider factors particular to the laws of foreign countries, in addition to the risks normally associated with real property investments, when considering an investment outside the U.S.

Properties Critical to Tenant/Borrower Operations We generally will focus on properties that we believe are critical to the ongoing operations of the tenant. We believe that these properties provide better protection generally as well as in the event of a bankruptcy, since a tenant/borrower is less likely to risk the loss of a critically important lease or property in a bankruptcy proceeding or otherwise.

Diversification We attempt to diversify our owned and managed portfolios to avoid dependence on any one particular tenant, borrower, collateral type, geographic location or tenant/borrower industry. By diversifying these portfolios, we seek to reduce the adverse effect of a single

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under-performing investment or a downturn in any particular industry or geographic region. While we have not endeavored to maintain any particular standard of diversity in our owned portfolio, we believe that our owned portfolio is reasonably well diversified (see Our Portfolio below).

Lease Terms Generally, the net leased properties in which we invest will be leased on a full recourse basis to the tenants or their affiliates. In addition, we seek to include a clause in each lease that provides for increases in rent over the term of the lease. These increases are fixed or tied generally to increases in indices such as the Consumer Price Index (CPI) or other similar index in the jurisdiction in which the property is located, but may contain caps or other limitations, either on an annual or overall basis. In the case of retail stores and hotels, the lease may provide for participation in gross revenues of the tenant at the property above a stated level, or percentage rent. Alternatively, a lease may provide for mandated rental increases on specific dates.

Transaction Provisions to Enhance and Protect Value We attempt to include provisions in the leases that we believe may help protect an investment from changes in the operating and financial characteristics of a tenant that may affect its ability to satisfy its obligations to the CPA® REIT or reduce the value of the investment. Such provisions include requiring our consent to specified tenant activity, requiring the tenant to provide indemnification protections, requiring the tenant to provide security deposits, and requiring the tenant to satisfy specific operating tests. We may also seek to enhance the likelihood of a tenant's lease obligations being satisfied through a guaranty of obligations from the tenant's corporate parent or other entity or through a letter of credit. This credit enhancement, if obtained, provides additional financial security. However, in markets where competition for net lease transactions is

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strong, some or all of these provisions may be difficult to negotiate. In addition, in some circumstances, tenants may retain the right to repurchase the property leased by the tenant. The option purchase price is generally the greater of the contract purchase price and the fair market value of the property at the time the option is exercised.

Self-Storage Investments We have a team of professionals dedicated to investments in the self-storage sector. The team, which was formed in 2006, combines a rigorous underwriting process and an active management of property managers with a goal to generate attractive risk adjusted returns. We have made several storage investments with a third party limited partner, which are held, through a subsidiary, in our portfolio. We have also made investments in self-storage properties on behalf of CPA@:17 Global.

Hotel Investments We invest in lodging-related assets primarily through CWI, although we and the CPA® REITs also have investments in hotels. As the operating metrics and property dynamics of lodging-related assets are significantly different from those in our net-leased portfolio, we have partnered with a dedicated team of lodging sector specialists who apply a comprehensive underwriting process and active management that we apply to our other property types. CWI also has a separate investment committee with significant hotel industry experience.

Other Equity Enhancements We may attempt to obtain equity enhancements in connection with transactions. These equity enhancements may involve warrants exercisable at a future time to purchase stock of the tenant or borrower or their parent. If warrants are obtained, and become exercisable, and if the value of the stock subsequently exceeds the exercise price of the warrant, equity enhancements can help achieve the goal of increasing investor returns.

Investment Committee We have an independent investment committee that generally provides services to the CPA® REITs and may provide services to us. Our investment department, under the oversight of our chief investment officer, is primarily responsible for evaluating, negotiating and structuring potential investment opportunities. The investment committee is not directly involved in originating or negotiating potential investments, but instead functions as a separate and final step in the investment process. We place special emphasis on having experienced individuals serve on our investment committee. The investment committee retains the authority to identify other categories of transactions that may be entered into without its prior approval. The investment committee may delegate its authority, such as to investment advisory committees with specialized expertise in the particular geographic market. However, we do not currently expect that the investments delegated to these advisory committees will account for a significant portion of the investments we make in the near term.

The following people currently serve on our investment committee:

- *Nathaniel S. Coolidge*, Chairman Former senior vice president and head of the bond and corporate finance department of John Hancock Mutual Life Insurance (currently known as John Hancock Life Insurance Company). Mr. Coolidge's responsibilities included overseeing its entire portfolio of fixed income investments and private equities.
- *Axel K.A. Hansing* Currently serving as a partner at Collier Capital, Ltd., a global leader in the private equity secondary market.
- *Frank J. Hoenemeyer* Former vice chairman and chief investment officer of the Prudential Insurance Company of America. As chief investment officer, he was responsible for all of Prudential Insurance Company of America's investments including stocks, bonds and real estate.
- *Jean Hoysradt* Currently serving as the chief investment officer of Mousse Partners Limited (Mousse), an investment office based in New York since 2001. Prior to joining Mousse, she served as Senior Vice President and head of Securities Investment and Treasury at New York Life Insurance Company.
- *Richard C. Marston* Currently the James R.F. Guy professor of Finance and Economics at the Wharton School of the University of Pennsylvania.

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- *Nick J.M. van Ommen* Former chief executive officer of the European Public Real Estate Association (EPRA), currently serves on the supervisory boards of several companies, including Babis Vovos International Construction SA, a listed real estate company in Greece, Intervest Retail and Intervest Offices, listed real estate companies in Belgium, and IMMOFINANZ, a listed real estate company in Austria.
- *Dr. Karsten von Köller* Currently chairman of Lone Star Germany GmbH, a U.S. private equity firm (Lone Star), Chairman of the Supervisory Boards of Düsseldorfer Hypothekenbank AG and MHB Bank AG and Vice Chairman of the Supervisory Boards of IKB Deutsche Industriebank AG and Corealcredit Bank AG.

Messrs. Coolidge, Hansing, Marston, van Ommen and von Köller also serve as members of our board of directors.

Financing Strategies

Consistent with our investment policies, we use leverage when available on terms we believe are favorable. All of our mortgage loans, and substantially all of those of the CPA® REITs, are non-recourse and bear interest at fixed rates, or have been converted to fixed

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rates through interest rate caps or swap agreements. We may refinance properties or defease a loan when a decline in interest rates makes it profitable to prepay an existing mortgage loan, when an existing mortgage loan matures or if an attractive investment becomes available and the proceeds from the refinancing can be used to purchase such investment. The benefits of the refinancing may include an increased cash flow resulting from reduced debt service requirements, an increase in distributions from proceeds of the refinancing, if any, and/or an increase in property ownership if some refinancing proceeds are reinvested in real estate. We may be required to pay a yield maintenance premium to the lender in order to pay off a loan prior to its maturity.

We also have an unsecured line of credit, which we refer to as the Revolver that can be used in connection with refinancing existing debt and making new investments, as well as to meet other working capital needs. The Revolver is discussed in detail in the Cash Resources section of Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Financial Condition.

Asset Management

We believe that effective management of our assets is essential to maintain and enhance property values. Important aspects of asset management include restructuring transactions to meet the evolving needs of current tenants, re-leasing properties, refinancing debt, selling properties and knowledge of the bankruptcy process in the jurisdiction where the property is located.

We monitor, on an ongoing basis, compliance by tenants with their lease obligations and other factors that could affect the financial performance of any of our properties. Monitoring involves receiving assurances that each tenant has paid real estate taxes, assessments and other expenses relating to the properties it occupies and confirming that appropriate insurance coverage is being maintained by the tenant. For international compliance, we often engage third-party asset managers. We review financial statements of tenants and undertake regular physical inspections of the condition and maintenance of properties. Additionally, we periodically analyze each tenant's financial condition, the industry in which each tenant operates and each tenant's relative strength in its industry.

Our Portfolio

At December 31, 2012, we owned and managed 1,007 properties domestically and internationally. Our portfolio was comprised of our full or partial ownership interest in 423 properties, substantially all of which were triple-net leased to 124 tenants, and totaled approximately 38.5 million square feet with an occupancy rate of approximately 98.7% and an average lease term of 8.9 years, which reflects properties acquired by us from CPA®:15 in the Merger. In addition, through certain subsidiaries, we had interests in 21 self-storage properties and a hotel property with an aggregate of approximately 0.8 million square feet at December 31, 2012. Our net lease portfolio, which excludes our operating self-storage properties and our hotel property, has the following property and lease characteristics:

Geographic Diversification

Information regarding the geographic diversification of our properties at December 31, 2012 is set forth below (dollars in thousands):

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Region	Consolidated Investments		Equity Investments in Real Estate	
	Annualized Contractual Minimum Base Rent (a)	% of Annualized Contractual Minimum Base Rent	Annualized Contractual Minimum Base Rent (b)	% of Annualized Contractual Minimum Base Rent
United States				
South	\$ 79,045	24%	\$ 692	2%
West	67,490	21	8,530	21
East	46,955	15	6,611	17
Midwest	37,773	12	1,313	3
Total U.S.	231,263	72	17,146	43
International				
Europe (c)	90,660	28	22,857	57
Asia (d)	-	-	107	-
Total	\$ 321,923	100%	\$ 40,110	100%

(a) Reflects annualized contractual minimum base rent for the fourth quarter of 2012.

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- (b) Reflects our pro rata share of annualized contractual minimum base rent for the fourth quarter of 2012 from equity investments in real estate.
- (c) Represents investments in France, Germany, Poland, Belgium, Finland, the Netherlands, Spain, and the United Kingdom.
- (d) Represents an investment in Japan.

Property Diversification

Information regarding our property diversification at December 31, 2012 is set forth below (dollars in thousands):

Property Type	Consolidated Investments		Equity Investments in Real Estate	
	Annualized Contractual Minimum Base Rent (a)	% of Annualized Contractual Minimum Base Rent	Annualized Contractual Minimum Base Rent (b)	% of Annualized Contractual Minimum Base Rent
Office	\$ 91,619	28%	\$ 7,827	20%
Industrial	61,641	19	12,170	30
Warehouse/Distribution	49,688	16	5,764	14
Retail	45,181	14	14,349	36
Self-Storage	32,486	10	-	-
Hotels and Gaming	17,752	6	-	-
Education	10,108	3	-	-
Other (c)	13,448	4	-	-
Total	\$ 321,923	100%	\$ 40,110	100%

- (a) Reflects annualized contractual minimum base rent for the fourth quarter of 2012.
- (b) Reflects our pro rata share of annualized contractual minimum base rent for the fourth quarter of 2012 from equity investments in real estate.
- (c) Includes annualized contractual minimum base rent from tenants in our consolidated investments in the following property types: childcare and leisure, education, hotels and gaming, fitness and theater.

Tenant Diversification

Information regarding our tenant diversification at December 31, 2012 is set forth below (dollars in thousands):

Tenant Industry (a)	Consolidated Investments		Equity Investments in Real Estate	
	Annualized Contractual Minimum Base Rent (b)	% of Annualized Contractual Minimum Base Rent	Annualized Contractual Minimum Base Rent (c)	% of Annualized Contractual Minimum Base Rent
Retail Stores	\$ 63,764	20 %	\$ 15,224	38%
Electronics	27,880	9	3,981	10
Business and Commercial Services	26,252	8	-	-
Self-storage	21,116	7	-	-
Healthcare, Education and Childcare	20,441	6	-	-
Hotels and Gaming	17,752	6	-	-
Construction and Building	15,370	5	672	2
Chemicals, Plastics, Rubber, and Glass	14,308	4	-	-
Telecommunications	14,224	4	-	-
Transportation - Personal	11,578	4	2,937	7
Leisure, Amusement, Entertainment	11,408	4	-	-
Federal, State and Local Government	10,853	3	-	-
Insurance	9,113	3	-	-
Transportation - Cargo	8,619	3	1,494	4
Beverages, Food, and Tobacco	8,618	3	1,763	4
Automobile	7,640	2	1,496	4
Media: Printing and Publishing	7,068	2	4,489	11
Consumer Goods	6,938	2	-	-
Aerospace and Defense	4,825	2	-	-
Banking	3,939	1	-	-
Forest Products and Paper	3,411	1	-	-
Grocery	2,833	1	2,285	5
Mining, Metals, and Primary Metal Industries	1,402	-	1,042	3
Machinery	1,414	-	4,727	12
Other (d)	1,157	-	-	-
	\$ 321,923	100 %	\$ 40,110	100%

(a) Based on the Moody's industry classification system and information provided by the tenant.

(b) Reflects annualized contractual minimum base rent for the fourth quarter of 2012.

(c) Reflects our pro rata share of annualized contractual minimum base rent for the fourth quarter of 2012 from equity investments in real estate.

(d) Includes revenue from tenants in our consolidated investments in the following industries: office and textiles, leather and apparel.

Lease Expirations

At December 31, 2012, lease expirations of our properties were as follows (dollars in thousands):

Year of Lease Expiration	Consolidated Investments		Equity Investments in Real Estate	
	Annualized Contractual Minimum Base Rent (a)	% of Annualized Contractual Minimum Base Rent	Annualized Contractual Minimum Base Rent (b)	% of Annualized Contractual Minimum Base Rent
2013	\$ 3,018	1 %	\$ -	-%
2014	25,042	8	-	-
2015	20,514	6	-	-
2016	19,266	6	5,372	13
2017	10,655	3	-	-
2018	20,600	6	3,981	10
2019	30,482	10	-	-
2020	12,369	4	-	-
2021 - 2033	179,977	56	30,757	77
Total	\$ 321,923	100 %	\$ 40,110	100%

(a) Reflects annualized contractual minimum base rent for the fourth quarter of 2012.

(b) Reflects our pro rata share of annualized contractual minimum base rent for the fourth quarter of 2012 from equity investments in real estate.

Competition

We face active competition in both our Real Estate Ownership segment and our Investment Management segment from many sources for investment opportunities in commercial properties net leased to tenants both domestically and internationally. In general, we believe that our management's experience in real estate, credit underwriting and transaction structuring should allow us to compete effectively for commercial properties. However, competitors may be willing to accept rates of return, lease terms, other transaction terms or levels of risk that we may find unacceptable.

In our Investment Management segment, we face active competition in raising funds for investment by the Managed REITs, from other funds with similar investment objectives that seek to raise funds from investors through publicly registered, non-traded funds, publicly-traded funds and private funds, such as hedge funds. In addition, we face broad competition from other forms of investment. Currently, we raise substantially all of our funds for investment in the Managed REITs within the U.S.

Environmental Matters

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We and the Managed REITs have invested, and expect to continue to invest, in properties currently or historically used as industrial, manufacturing and commercial properties. Under various federal, state and local environmental laws and regulations, current and former owners and operators of property may have liability for the cost of investigating, cleaning-up or disposing of hazardous materials released at, on, under, in or from the property. These laws typically impose responsibility and liability without regard to whether the owner or operator knew of or was responsible for the presence of hazardous materials or contamination, and liability under these laws is often joint and several. Third parties may also make claims against owners or operators of properties for personal injuries and property damage associated with releases of hazardous materials. As part of our efforts to mitigate these risks, we typically engage third parties to perform assessments of potential environmental risks when evaluating a new acquisition of property and we frequently obtain contractual protection (indemnities, cash reserves, letters of credit or other instruments) from property sellers, tenants, a tenant's parent company or another third party to address known or potential environmental issues.

(d) Financial Information About Geographic Areas

See Our Portfolio above and Note 18 for financial data pertaining to our geographic operations.

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(e) Available Information

All filings we make with the SEC, including this Report, our quarterly reports on Form 10-Q and our current reports on Form 8-K, and any amendments to those reports, are available for free on our website, www.wpcarey.com, as soon as reasonably practicable after they are filed or furnished to the SEC. Our SEC filings are available to be read or copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information regarding the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. Our filings can also be obtained for free on the SEC's Internet site at <http://www.sec.gov>. We are providing our website address solely for the information of investors. We do not intend our website to be an active link or to otherwise incorporate the information contained on our website into this report or other filings with the SEC. We will supply to any stockholder, upon written request and without charge, a copy of this Report as filed with the SEC. Generally, we also post the dates of our upcoming scheduled financial press releases, telephonic investor calls and investor presentations on the Investor Relations portion of our website at least ten days prior to the event. Our investor calls are open to the public and remain available on our website for at least two weeks thereafter.

Item 1A. Risk Factors.

Risks Related to Our Business

The financial and economic crisis in 2008-2009 adversely affected our business, and the continued uncertainty in the global economic environment may adversely affect our business in the future.

We and the Managed REITs are impacted by macro-economic environmental factors, the capital markets, and general conditions in the commercial real estate market, both in the U.S. and globally. To date, the credit and European sovereign debt crises have had a limited impact on our business, primarily in that a number of tenants, particularly in the portfolios of the CPA® REITs, have experienced increased levels of financial distress, with several having filed for bankruptcy protection, although our experience in 2011 and 2012 has reflected an improvement from 2009 and 2010. Over the past few quarters, conditions in the U.S. appear to have stabilized, while the situation in Europe remains uncertain.

If the economic situation worsens, we could in the future experience a number of additional effects on our business, including higher levels of default in the payment of rent by our tenants, additional bankruptcies and impairments in the value of our property investments, as well as difficulties in financing transactions and refinancing existing loans as they come due. Any of these conditions may negatively affect our earnings, as well as our cash flow and, consequently, our ability to sustain the payment of dividends at current levels.

The Managed REITs may also be adversely affected by these conditions, and their earnings or cash flow may also be adversely affected by other events, such as increases in the value of the U.S. dollar relative to other currencies in which the CPA® REITs receive rent, as well as the need to expend cash to fund increased redemptions. Additionally, the ability of CPA®:17 – Global and CWI to make new investments will be affected by the availability of financing as well as, in the case of CWI, its ability to raise new funds. Decreases in the value of the assets held by the Managed REITs will adversely affect the asset management revenues payable to us, as well as the value of the stock we hold in the Managed REITs, and decreases in their earnings or ability to pay distributions may also affect their ability to make the payments due to us, as well as our income and cash flow from the Managed REITs' distribution payments.

Revenue and earnings from our investment management operations are subject to volatility, which may cause our investment management revenue to fluctuate.

Growth in revenue from our investment management operations is dependent in large part on future capital raising in existing or future managed entities, as well as on our ability to make investments that meet the investment criteria of these entities, both of which are subject to uncertainty with respect to capital market and real estate market conditions. This uncertainty creates volatility in our earnings because of the resulting fluctuation in transaction-based revenue. Asset management revenue may be affected by factors that include not only our ability to increase the Managed REITs' portfolio of properties under management, but also changes in valuation of those properties, as well as sales of the Managed REIT properties. In addition, revenue from our investment management operations, including our ability to earn performance revenue, as well as the value of our holdings of the Managed REITs' interests and dividend income from those interests, may be significantly affected by the results of operations of the Managed REITs, in particular, those of CPA®:16 Global, since at December 31, 2012 we owned 18.3% of its outstanding shares. Each of the CPA® REITs has invested the majority of its assets (other than short-term investments) in triple-net leased properties substantially similar to those we hold, and consequently the results of operations of, and cash available for distribution by, each of the CPA® REITs, is likely to be substantially affected by the same market conditions, and subject to the same risk factors, as the properties we own. In our

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history, four of the sixteen CPA® funds temporarily reduced the rate of distributions to their investors as a result of adverse developments involving tenants.

Each of the Managed REITs we currently manage may incur significant debt, which either due to liquidity problems or restrictive covenants contained in their borrowing agreements could restrict their ability to pay revenue owed to us when due. In addition, the revenue payable under each of our current investment advisory agreements is subject to a variable annual cap based on a formula tied to the assets and income of that Managed REIT. This cap may limit the growth of our management revenue. Furthermore, our ability to earn revenue related to the disposition of properties is primarily tied to providing liquidity events for the Managed REIT investors. Our ability to provide such liquidity, and to do so under circumstances that will satisfy the applicable subordination requirements will depend on market conditions at the relevant time, which may vary considerably over a period of years. In any case, liquidity events typically occur several years apart, and income from our investment management operations is likely to be significantly higher in those years in which such events occur.

Because the revenue streams from the investment advisory agreements with the Managed REITs are subject to limitation or cancellation, any such termination could have a material adverse effect on our business, results of operations and financial condition.

The agreements under which we provide investment advisory services are renewable annually in September and may generally be terminated by each Managed REIT upon 60 days' notice, with or without cause, and are currently scheduled to expire on September 30, 2013, unless otherwise renewed. There can be no assurance that these agreements will not expire or be terminated. CPA®:17 Global, CPA®:16 Global and CWI all have the right, but not the obligation, upon certain terminations to repurchase our interests in their operating partnerships at fair market value. If such right is not exercised, we would remain as a limited partner of the operating partnerships. Nonetheless, any such termination could have a material adverse effect on our business, results of operations and financial condition.

Changes in investor preferences or market conditions could limit our ability to raise funds or make new investments.

The majority of our and the CPA® REITs' current investments, as well as the majority of the investments we expect to originate for the CPA® REITs in the near term, are investments in single-tenant commercial properties that are subject to triple-net leases. In addition, we have relied predominantly on raising funds from individual investors through the sale by participating selected dealers to their customers of publicly-registered, non-traded securities of the Managed REITs. Although we have increased the number of broker-dealers we use for fundraising, the majority of our fundraising efforts are through three major selected dealers. If, as a result of changes in market receptivity to investments that are not readily liquid and involve high selected dealer fees, or for other reasons, this capital raising method were to become less available as a source of capital, our ability to raise funds for the Managed REIT programs, and consequently our ability to make investments on their behalf, could be adversely affected. While we are not limited to this particular method of raising funds for investment (and, among other things, the Managed REITs may themselves be able to borrow additional funds to invest), our experience with other means of raising capital is limited. Also, many factors, including changes in tax laws or accounting rules, may make these types of investments less attractive to potential sellers and lessees, which could negatively affect our ability to increase the amount of assets of this type under management.

We face active competition for investments.

We face active competition for our investments from many sources, including insurance companies, credit companies, pension funds, private individuals, financial institutions, finance companies and investment companies, among others. These institutions may accept greater risk or lower returns, allowing them to offer more attractive terms to prospective tenants. In addition, our evaluation of the acceptability of rates of

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return on behalf of the Managed REITs is affected by such factors as the cost of raising capital, the amount of revenue we can earn and the performance hurdle rates of the relevant Managed REITs. Such factors may limit the amount of new investments that we make on behalf of the Managed REITs, which will in turn limit the growth of revenues from our investment management operations. The investment community continues to remain risk averse. We believe that the net lease financing market is perceived as a relatively conservative investment vehicle. Accordingly, we expect increased competition for investments, both domestically and internationally. It is possible that further capital inflows into our marketplace will place additional pressure on the returns that we can generate from our investments as well as our willingness and ability to execute transactions.

A significant amount of our leases will expire within the next five years, and we may have difficulty in re-leasing or selling our properties if tenants do not renew their leases.

Within the next five years, approximately 24% of our leases, based on annualized contractual minimum base rent, are due to expire. If these leases are not renewed, or if the properties cannot be re-leased on terms that yield payments comparable to those currently being received, then our lease revenues could be substantially adversely affected. The terms of any new or renewed leases of these properties

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may depend on market conditions prevailing at the time of lease expiration. In addition, if properties are vacated by the current tenants, we may incur substantial costs in attempting to re-lease such properties. We may also seek to sell these properties, in which event we may incur losses, depending upon market conditions prevailing at the time of sale.

Real estate investments generally lack liquidity compared to other financial assets, and this lack of liquidity may limit our ability to quickly change our portfolio in response to changes in economic or other conditions. Some of our net leases are for properties that are specially suited to the particular needs of the tenant. With these properties, we may be required to renovate the property or to make rent concessions in order to lease the property to another tenant. In addition, if we are forced to sell the property, we may have difficulty selling it to a party other than the tenant due to the special purpose for which the property may have been designed. These and other limitations may affect our ability to re-lease or sell properties without adversely affecting returns to stockholders.

Our portfolio growth is constrained by our policy to offer property transactions to the Managed REITs.

Under our investment policy guidelines concerning the Managed REITs, we must present a continuing and suitable investment program to them during their investment period. In recent years, new property investment opportunities have generally first been made available by us to the Managed REITs. This allocation of new investments to the Managed REITs may restrict the potential growth of our direct real estate ownership and our ability to diversify our portfolio.

Because we invest in properties located outside the U.S., we are exposed to additional risks.

We have invested in and may continue to invest in properties located outside the U.S. At December 31, 2012, our directly-owned real estate properties located outside of the U.S. represented 28% of current annualized contractual minimum base rent. These investments may be affected by factors particular to the laws of the jurisdiction in which the property is located. These investments may expose us to risks that are different from and in addition to those commonly found in the U.S., including:

- changing governmental rules and policies;
- enactment of laws relating to the foreign ownership of property and laws relating to the ability of foreign entities to remove invested capital or profits earned from activities within the country to the U.S.;
- expropriation of investments;
- legal systems under which our ability to enforce contractual rights and remedies may be more limited than would be the case under U.S. law;
- difficulty in conforming obligations in other countries and the burden of complying with a wide variety of foreign laws, which may be more stringent than U.S. laws, including tax requirements and land use, zoning, and environmental laws, as well as changes in such laws;
- adverse market conditions caused by changes in national or local economic or political conditions;

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- tax requirements vary by country and we may be subject to additional taxes as a result of our international investments;
- changes in relative interest rates;
- changes in the availability, cost and terms of mortgage funds resulting from varying national economic policies;
- changes in real estate and other tax rates and other operating expenses in particular countries;
- changes in land use and zoning laws;
- more stringent environmental laws or changes in such laws; and.
- restrictions and/or significant costs in repatriating cash and cash equivalents held in foreign bank accounts.

In addition, the lack of publicly available information in certain jurisdictions in accordance with accounting principles generally accepted in the U.S. (GAAP) could impair our ability to analyze transactions and may cause us to forego an investment opportunity for ourselves or the CPA® REITs. It may also impair our ability to receive timely and accurate financial information from tenants necessary to meet our and the CPA® REITs reporting obligations to financial institutions or governmental or regulatory agencies. Certain of these risks may be greater in emerging markets and less developed countries. Our expertise to date is primarily in the U.S. and Europe, and we have less experience in other international markets. We may not be as familiar with the potential risks to our and the CPA® REITs investments outside the U.S. and Europe and we could incur losses as a result.

Also, we may engage third-party asset managers in international jurisdictions to monitor compliance with legal requirements and lending agreements with respect to properties we own or manage on behalf of the CPA® REITs. Failure to comply with applicable requirements may expose us or our operating subsidiaries to additional liabilities.

Moreover, we are subject to changes in foreign exchange rates due to potential fluctuations in exchange rates between foreign currencies and the U.S. dollar. Our principal currency exposure is to the euro. We attempt to mitigate a portion of the risk of currency fluctuation by financing our properties in the local currency denominations, although there can be no assurance that this will be effective. Because we generally place both our debt obligation to the lender and the tenant's rental obligation to us in the same

currency, our results of foreign operations benefit from a weaker U.S. dollar and are adversely affected by a stronger U.S. dollar relative to foreign currencies; that is, absent other considerations, a weaker U.S. dollar will tend to increase both our revenues and our expenses, while a stronger U.S. dollar will tend to reduce both our revenues and our expenses.

If we recognize substantial impairment charges on our properties or investments, our net income may be reduced.

On a combined basis, we and CPA®:15 have recognized impairment charges totaling \$32.9 million, \$39.5 million and \$42.1 million for the years ended December 31, 2012, 2011 and 2010, respectively. In the future, we may incur substantial impairment charges, which we are required to recognize whenever we sell a property for less than its carrying value or we determine that the carrying amount of the property is not recoverable and exceeds its fair value; for direct financing leases, whenever the unguaranteed residual value of the underlying property has declined or, for equity investments, the estimated fair value of the investment's underlying net assets in comparison with the carrying value of our interest in the investment has declined on an other-than-temporary basis. By their nature, the timing or extent of impairment charges are not predictable. We may incur non-cash impairment charges in the future, which may reduce our net income.

Because we use debt to finance investments, our cash flow could be adversely affected.

Most of our investments are made by borrowing a portion of the total investment and securing the loan with a mortgage on the property. We generally borrow on a non-recourse basis to limit our exposure on any property to the amount of equity invested in the property. If we are unable to make our debt payments as required, a lender could foreclose on the property or properties securing its debt. Additionally, lenders for our international mortgage loan transactions typically incorporate various covenants and other provisions that can cause a technical loan default, including a loan to value ratio, a debt service coverage ratio and a material adverse change in the borrower's or tenant's business. Accordingly, if the real estate value declines or the tenant defaults, the lender would have the right to foreclose on its security. If any of these events were to occur, it could cause us to lose part or all of our investment, which in turn could cause the value of our portfolio, and revenues available for distribution to our stockholders, to be reduced.

Some of our financing may also require us to make a balloon payment at maturity. Our ability to make balloon payments on debt will depend upon our ability either to refinance the obligation when due, invest additional equity in the property or to sell the related property. When a balloon payment is due, we may be unable to refinance the balloon payment on terms as favorable as the original loan or sell the property at a price sufficient to cover the balloon payment. Our ability to accomplish these goals will be affected by various factors existing at the relevant time, such as the state of the national and regional economies, local real estate conditions, available mortgage or interest rates, availability of credit, our equity in the mortgaged properties, our financial condition, the operating history of the mortgaged properties and tax laws. A refinancing or sale could affect the rate of return to stockholders and the projected time of disposition of our assets.

Our leases may permit tenants to purchase a property at a predetermined price, which could limit our realization of any appreciation or result in a loss.

In some circumstances, we may grant tenants a right to repurchase the property they lease from us. The purchase price may be a fixed price or it may be based on a formula or the market value at the time of exercise. If a tenant exercises its right to purchase the property and the property's market value has increased beyond that price, we could be limited in fully realizing the appreciation on that property. Additionally, if the price at which the tenant can purchase the property is less than our carrying value (for example, where the purchase price is based on an appraised value), we may incur a loss.

Our ability to fully control the management of our net-leased properties may be limited.

The tenants or managers of net-leased properties are responsible for maintenance and other day-to-day management of the properties. If a property is not adequately maintained in accordance with the terms of the applicable lease, we may incur expenses for deferred maintenance expenditures or other liabilities once the property becomes free of the lease. While our leases generally provide for recourse against the tenant in these instances, a bankrupt or financially troubled tenant may be more likely to defer maintenance and it may be more difficult to enforce remedies against such a tenant. In addition, to the extent tenants are unable to conduct their operation of the property on a financially successful basis, their ability to pay rent may be adversely affected. Although we endeavor to monitor, on an ongoing basis, compliance by tenants with their lease obligations and other factors that could affect the financial performance of our properties, such monitoring may not in all circumstances ascertain or forestall deterioration either in the condition of a property or the financial circumstances of a tenant.

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The value of our real estate is subject to fluctuation.

We are subject to all of the general risks associated with the ownership of real estate. While the revenues from our leases and those of the CPA® REITs are not directly dependent upon the value of the real estate owned, significant declines in real estate values could adversely affect us in many ways, including a decline in the residual values of properties at lease expiration; possible lease abandonments by tenants; a decline in the attractiveness of Managed REIT investments that may impede our ability to raise new funds for investment by the Managed REITs and a decline in the attractiveness of triple-net lease transactions to potential sellers. We also face the risk that lease revenue will be insufficient to cover all corporate operating expenses and debt service payments on indebtedness we incur. General risks associated with the ownership of real estate include:

- adverse changes in general or local economic conditions;
- changes in the supply of or demand for similar or competing properties;
- changes in interest rates and operating expenses;
- competition for tenants;
- changes in market rental rates;
- inability to lease or sell properties upon termination of existing leases;
- renewal of leases at lower rental rates;
- inability to collect rents from tenants due to financial hardship, including bankruptcy;
- changes in tax, real estate, zoning and environmental laws that may have an adverse impact upon the value of real estate;
- uninsured property liability, property damage or casualty losses;
- unexpected expenditures for capital improvements or to bring properties into compliance with applicable federal, state and local laws;
- exposure to environmental losses;
- changes in foreign exchange rates; and
- acts of God and other factors beyond the control of our management.

Because most of our properties are occupied by a single tenant, our success is materially dependent upon the tenant's financial stability.

Most of our properties are occupied by a single tenant and, therefore, the success of our investments is materially dependent on the financial stability of our tenants. Revenues from several of our tenants/guarantors constitute a significant percentage of its lease revenues. The five largest

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tenants/guarantors represented approximately 25% of total lease revenues for 2012. Lease payment defaults by tenants negatively impact our net income and reduce the amounts available for distributions to stockholders. As some of our tenants may not have a recognized credit rating, these tenants may have a higher risk of lease defaults than if those tenants had a recognized credit rating. In addition, the bankruptcy of a tenant could cause the loss of lease payments as well as an increase in the costs incurred to carry the property until it can be re-leased or sold. We have had, and may have in the future, tenants file for bankruptcy protection. In the event of a default, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting the investment and re-leasing the property. If a lease is terminated, there is no assurance that we will be able to re-lease the property for the rent previously received or sell the property without incurring a loss.

The bankruptcy or insolvency of tenants or borrowers may cause a reduction in our revenue and an increase in our expenses.

Bankruptcy or insolvency of a tenant or borrower could cause:

- the loss of lease or interest and principal payments;
- an increase in the costs incurred to carry the property;
- litigation;
- a reduction in the value of our shares; and
- a decrease in distributions to our stockholders.

Under U.S. bankruptcy law, a tenant who is the subject of bankruptcy proceedings has the option of assuming or rejecting any unexpired lease. If the tenant rejects the lease, any resulting claim we have for breach of the lease (excluding collateral securing the claim) will be treated as a general unsecured claim. The maximum claim will be capped at the amount owed for unpaid rent prior to the bankruptcy unrelated to the termination, plus the greater of one year's lease payments or 15% of the remaining lease payments payable under the lease (but no more than three years' lease payments). In addition, due to the long-term nature of our leases and, in some cases, terms providing for the repurchase of a property by the tenant, a bankruptcy court could recharacterize a net lease transaction as a secured lending transaction. If that were to occur, we would not be treated as the owner of the property, but we might have rights as a secured creditor. Those rights would not include a right to compel the tenant to timely perform its obligations under

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the lease but may instead entitle us to adequate protection, a bankruptcy concept that applies to protect against a decrease in the value of the property if the value of the property is less than the balance owed to us.

Insolvency laws outside of the U.S. may not be as favorable to reorganization or to the protection of a debtor's rights as tenants under a lease as are the laws in the U.S. Our rights to terminate a lease for default may be more likely to be enforceable in countries other than the U.S., in which a debtor/tenant or its insolvency representative may be less likely to have rights to force continuation of a lease without our consent. Nonetheless, such laws may permit a tenant or an appointed insolvency representative to terminate a lease if it so chooses.

However, in circumstances where the bankruptcy laws of the U.S. are considered to be more favorable to debtors and to their reorganization, entities that are not ordinarily perceived as U.S. entities may seek to take advantage of the U.S. bankruptcy laws if they are eligible. An entity would be eligible to be a debtor under the U.S. bankruptcy laws if it had a domicile (state of incorporation or registration), place of business or assets in the U.S. If a tenant became a debtor under the U.S. bankruptcy laws, then it would have the option of assuming or rejecting any unexpired lease. As a general matter, after the commencement of bankruptcy proceedings and prior to assumption or rejection of an expired lease, U.S. bankruptcy laws provide that until an unexpired lease is assumed or rejected, the tenant (or its trustee if one has been appointed) must timely perform obligations of the tenant under the lease. However, under certain circumstances, the time period for performance of such obligations may be extended by an order of the bankruptcy court.

We and certain of the CPA® REITs have had tenants file for bankruptcy protection and have been involved in bankruptcy-related litigation (including several international tenants). Four prior CPA® REITs reduced the rate of distributions to their investors as a result of adverse developments involving tenants.

Similarly, if a borrower under one of our loan transactions declares bankruptcy, there may not be sufficient funds to satisfy its payment obligations to us, which may adversely affect our revenue and distributions to our stockholders. The mortgage loans in which we may invest may be subject to delinquency, foreclosure and loss, which could result in losses to us.

Because we are subject to possible liabilities relating to environmental matters, we could incur unexpected costs and our ability to sell or otherwise dispose of a property may be negatively impacted.

We own commercial properties and are subject to the risk of liabilities under federal, state and local environmental laws. These responsibilities and liabilities also exist for properties owned by the Managed REITs and if they become liable for these costs, their ability to pay for our services could be materially affected. Some of these laws could impose the following on us:

- responsibility and liability for the cost of investigation and removal or remediation of hazardous or toxic substances released on or from our property, generally without regard to our knowledge of, or responsibility for, the presence of these contaminants;
- liability for the costs of investigation and removal or remediation of hazardous substances at disposal facilities for persons who arrange for the disposal or treatment of such substances;
- liability for claims by third parties based on damages to natural resources or property, personal injuries, or costs of removal or remediation of hazardous or toxic substances in, on, or migrating from our property;

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- responsibility for managing asbestos-containing building materials, and third-party claims for exposure to those materials; and
- claims being made against us by the Managed REITs for inadequate due diligence.

Our costs of investigation, remediation or removal of hazardous or toxic substances, or for third-party claims for damages, may be substantial. The presence of hazardous or toxic substances at any of our properties, or the failure to properly remediate a contaminated property, could give rise to a lien in favor of the government for costs it may incur to address the contamination or otherwise adversely affect our ability to sell or lease the property or to borrow using the property as collateral. While we attempt to mitigate identified environmental risks by contractually requiring tenants to acknowledge their responsibility for complying with environmental laws and to assume liability for environmental matters, circumstances may arise in which a tenant fails, or is unable, to fulfill its contractual obligations. In addition, environmental liabilities, or costs or operating limitations imposed on a tenant to comply with environmental laws, could affect its ability to make rental payments to us. Also, and although we endeavor to avoid doing so, we may be required, in connection with any future divestitures of property, to provide buyers with indemnification against potential environmental liabilities.

A potential change in U.S. accounting standards regarding operating leases may make the leasing of facilities less attractive to our potential domestic tenants, which could reduce overall demand for our leasing services.

A lease is classified by a tenant as a capital lease if the significant risks and rewards of ownership are considered to reside with the tenant. This situation is considered to be met if, among other things, the non-cancelable lease term is more than 75% of the useful life

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of the asset or if the present value of the minimum lease payments equals 90% or more of the leased property's fair value. Under capital lease accounting for a tenant, both the leased asset and liability are reflected on their balance sheet. If the lease does not meet any of the criteria for a capital lease, the lease is considered an operating lease by the tenant and the obligation does not appear on the tenant's balance sheet; rather, the contractual future minimum payment obligations are only disclosed in the footnotes thereto. Thus, entering into an operating lease can appear to enhance a tenant's balance sheet in comparison to direct ownership. In response to concerns caused by a 2005 SEC study that the current model does not have sufficient transparency, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) issued an Exposure Draft on a joint proposal that would dramatically transform lease accounting from the existing model. The FASB and IASB met during the third quarter of 2012 and voted to re-expose the proposed standard. A revised exposure draft for public comment is currently expected to be issued in 2013, with a final standard expected to be issued during 2014. As of the date of this Report, the proposed guidance has not yet been finalized. Changes to the accounting guidance could affect both our and the CPA® REITs' accounting for leases as well as that of our and the CPA® REITs' tenants. These changes would impact most companies but are particularly applicable to those that are significant users of real estate. The proposal outlines a completely new model for accounting by lessees, whereby their rights and obligations under all leases, existing and new, would be capitalized and recorded on the balance sheet. For some companies, the new accounting guidance may influence whether or not, or the extent to which, they may enter into the type of sale-leaseback transactions in which we specialize.

We depend on key personnel for our future success, and the loss of key personnel or inability to attract and retain personnel could harm our business.

Our future success depends in large part on our ability to hire and retain a sufficient number of qualified personnel. Our future success also depends upon the continued service of our executive officers: Trevor P. Bond, our President and Chief Executive Officer; Catherine D. Rice, who is expected to succeed Mark J. DeCesaris as our Chief Financial Officer in the first quarter of 2013; Thomas E. Zacharias, our Chief Operating Officer and the head of our Asset Management Department; John D. Miller, our Chief Investment Officer; and Mark Goldberg, President of Carey Financial, LLC. The loss of the services of any of these officers could have a material adverse effect on our operations.

Our accounting policies and methods are fundamental to how we record and report our financial position and results of operations, and they require management to make estimates, judgments and assumptions about matters that are inherently uncertain.

Our accounting policies and methods are fundamental to how we record and report our financial position and results of operations. We have identified several accounting policies as being critical to the presentation of our financial position and results of operations because they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be recorded under different conditions or using different assumptions. Because of the inherent uncertainty of the estimates, judgments and assumptions associated with these critical accounting policies, we cannot provide any assurance that we will not make subsequent significant adjustments to our consolidated financial statements. If our judgments, assumptions and allocations prove to be incorrect, or if circumstances change, our business, financial condition, revenues, operating expense, results of operations, liquidity, ability to pay dividends or stock price may be materially adversely affected.

Our charter and Maryland law contain provisions that may delay or prevent a change of control transaction.

Our charter contains 7.9% ownership limits. Our charter, subject to certain exceptions, authorizes our directors to take such actions as are necessary and desirable to limit any person to beneficial or constructive ownership of either (i) owning more than 7.9% in value or in number of shares, whichever is more restrictive, of the aggregate outstanding shares of our stock excluding any outstanding shares of our stock not treated as outstanding for federal income tax purposes or (ii) owning more than 7.9% in value or in number of shares, whichever is more restrictive, of our aggregate outstanding shares of common stock excluding any of our outstanding shares of common stock not treated as outstanding for federal income tax purposes. Our board of directors, in its sole discretion, may exempt a person from the ownership limits and our board of

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directors has granted the Estate an exemption to own up to 18.0% of our aggregate outstanding shares of common stock or any other outstanding class or series of our stock. However, our board of directors may not grant an exemption from the ownership limits to any person unless our board of directors obtains such representations, covenants and undertakings as our board of directors may deem appropriate in order to determine that granting the exemption would not result in losing our status as a REIT. Our board of directors may also increase or decrease the common stock ownership limit and/or the aggregate stock ownership limit so long as the change would not result in five or fewer persons beneficially owning more than 49.9% in value of our outstanding stock. The ownership limits and the other restrictions on ownership of our stock contained in our charter may delay or prevent a transaction or a change of control that might involve a premium price for our common stock or otherwise be in the best interests of our stockholders.

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Our board of directors may modify our authorized shares of stock of any class or series and may create and issue a class or series of common stock or preferred stock without stockholder approval.

Our board of directors is empowered under our charter from time to time to amend our charter to increase or decrease the aggregate number of shares of our stock or the number of shares of stock of any class or series that we have authority to issue, and from time to time to classify any unissued shares of common stock or preferred stock and to or reclassify any previously classified, but unissued, shares of common stock or preferred stock into one or more classes or series of stock and to issue such shares of stock so classified or reclassified, without stockholder approval. Our board of directors may determine the relative rights, preferences and privileges of any class or series of common stock or preferred stock issued. As a result, we may issue series or classes of common stock or preferred stock with preferences, dividends, powers and rights, voting or otherwise, senior to the rights of holders of our common stock. The issuance of any such classes or series of common stock or preferred stock could also have the effect of delaying or preventing a change of control transaction that might otherwise be in the best interests of our stockholders.

Certain provisions of Maryland law could inhibit changes in control.

Certain provisions of the Maryland General Corporation Law (MGCL) may have the effect of inhibiting a third party from making a proposal to acquire us or impeding a change of control under circumstances that otherwise could provide our stockholders with the opportunity to realize a premium over the then-prevailing market price of our common stock, including:

- business combination provisions that, subject to limitations, prohibit certain business combinations between us and an interested stockholder (defined generally as any person who beneficially owns 10% or more of the voting power of our outstanding voting stock), or an affiliate thereof for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter impose special appraisal rights and supermajority voting requirements on these combinations; and
- control share provisions that provide that holders of control shares of our company (defined as voting shares which, when aggregated with all other shares owned or controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a control share acquisition (defined as the direct or indirect acquisition of ownership or control of issued and outstanding control shares) have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by a board of directors prior to the time that the interested stockholder becomes an interested stockholder. Our board of directors has, by resolution, exempted any business combination between us and any person who is an existing, or becomes in the future, an interested stockholder. Consequently, the five-year prohibition and the supermajority vote requirements will not apply to business combinations between us and any such person. As a result, such person may be able to enter into business combinations with us that may not be in the best interest of our stockholders, without compliance with the super-majority vote requirements and the other provisions of the statute. Additionally, this resolution may be altered, revoked or repealed in whole or in part at any time and we may opt back into the business combination provisions of the MGCL. If this resolution is revoked or repealed, the statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer. In the case of the control share provisions of the MGCL, we have elected to opt out of these provisions of the MGCL pursuant to a provision in our bylaws.

Additionally, Title 3, Subtitle 8 of the MGCL, permits our board of directors, without stockholder approval and regardless of what is currently provided in our charter or our bylaws, to implement certain governance provisions, some of which (for example, a classified board) we do not

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currently have. These provisions may have the effect of inhibiting a third party from making an acquisition proposal for our company or of delaying, deferring or preventing a change in control of our company under circumstances that otherwise could provide the holders of our common stock with the opportunity to realize a premium over the then-current market price. Our charter, our Bylaws and Maryland law also contain other provisions that may delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or otherwise be in the best interests of our stockholders.

Future issuances of equity securities could dilute the interest of our stockholders.

Our future growth will depend, in part, upon our ability to raise additional capital. If we were to raise additional capital through the issuance of equity securities, we could dilute the interests of our stockholders. The interests of our stockholders could also be diluted by the issuance of shares of common stock upon the exercise of outstanding options or pursuant to stock incentive plans. Likewise, our board of directors is empowered under our charter from time to time to amend our charter to increase or decrease the aggregate number of shares of our stock or the number of shares of stock of any class or series that we have authority to issue, and from time to time to classify any unissued shares of common stock or preferred stock and to or reclassify any previously classified, but unissued, shares of common stock or preferred stock into one or more classes or series of stock and to issue such shares of stock so classified or

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reclassified, without stockholder approval. See the section below titled "Our board of directors may modify our authorized shares of stock of any class or series and may create and issue a class or series of common stock or preferred stock without stockholder approval."

Compliance or failure to comply with the Americans with Disabilities Act and other similar regulations could result in substantial costs.

Under the Americans with Disabilities Act, places of public accommodation must meet certain federal requirements related to access and use by disabled persons. Noncompliance could result in the imposition of fines by the federal government or the award of damages to private litigants. If we are required to make unanticipated expenditures to one or more of our properties in order to comply with the Americans with Disabilities Act, then our cash flow and the amounts available to make distributions and payments to our stockholders may be adversely affected. We have not conducted an audit or investigation of all of our properties to determine our compliance and we cannot predict the ultimate cost of compliance with the ADA or other legislation.

Our properties are also subject to various federal, state and local regulatory requirements, such as state and local fire and life-safety requirements. We could incur fines or private damage awards if we fail to comply with these requirements. While we believe that our properties are currently in material compliance with these regulatory requirements, the requirements may change or new requirements may be imposed that could require significant unanticipated expenditures by us that will affect our cash flow and results of operations.

The occurrence of cyber incidents, or a deficiency in our cyber security, could negatively impact our business by causing a disruption to our operations, a compromise or corruption of our confidential information, and/or damage to our business relationships, all of which could negatively impact our financial results.

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity, or availability of our information resources. More specifically, a cyber incident is an intentional attack or an unintentional event that can include gaining unauthorized access to systems to disrupt operations, corrupt data, or steal confidential information. As our reliance on technology has increased, so have the risks posed to our systems, both internal and those we have outsourced. Our three primary risks that could directly result from the occurrence of a cyber incident include operational interruption, damage to our relationship with our tenants, and private data exposure. We have implemented processes, procedures and controls to help mitigate these risks, but these measures, as well as our increased awareness of a risk of a cyber incident, do not guarantee that our financial results will not be negatively impacted by such an incident.

Goodwill resulting from the consummation of the Merger may adversely affect our results of operations.

Potential impairment of goodwill resulting from the Merger could adversely affect our financial condition and results of operations. We assess our goodwill and other intangible assets and long-lived assets for impairment annually and more frequently when required by GAAP. We are required to record an impairment charge if circumstances indicate that the asset carrying values exceed their fair values. Our assessment of goodwill, other intangible assets, or long-lived assets could indicate that an impairment of the carrying value of such assets may have occurred that could result in a material, non-cash write-down of such assets, which could have a material adverse effect on our results of operations and future earnings. We are also required to write off a portion of goodwill whenever we dispose of a property that constitutes a business under GAAP from a reporting unit with goodwill. We allocate a portion of the reporting unit's goodwill to that business in determining the gain loss on the disposal of the business. The amount of goodwill allocated to the business is based on the relative fair value of the business for the reporting unit.

Risks Related to REIT Structure

While we believe that we are properly organized as a REIT in accordance with applicable law, we cannot guarantee that the IRS will find that we have qualified as a REIT.

We believe that we are organized in conformity with the requirements for qualification as a REIT under the Internal Revenue Code (the "Code") beginning with our 2012 taxable year (we expect the REIT election to be effective from February 15, 2012, the date of our incorporation), and that our current and anticipated investments and plan of operation will enable us to meet and continue to meet the requirements for qualification and taxation as a REIT under the Code. Investors should be aware, however, that the IRS or any court could take a position different from our own. Given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, and the possibility of future changes in our circumstances, no assurance can be given that we will so qualify for any particular year.

Furthermore, our qualification and taxation as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. Our ability to satisfy the quarterly asset tests under applicable Code provisions and Treasury Regulations will depend in part upon the our board of directors' good faith analysis of the fair market values of our assets, some of which are not susceptible to a precise determination. Our compliance with the REIT income and quarterly asset requirements also depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis. While we believe that we will satisfy these tests, we cannot guarantee that this will be the case on a continuing basis.

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If we fail to qualify as a REIT or fail to remain qualified as a REIT, we would be subject to federal income tax at corporate income tax rates and would not be able to deduct distributions to stockholders when computing our taxable income.

Prior to the consummation of the Merger and REIT Conversion, we were not treated as a REIT for federal income tax purposes. Following the consummation of the Merger and REIT Conversion, we believe that we are organized in conformity with the requirements for qualification as a REIT under the Code beginning with our 2012 taxable year. We expect the REIT election to be effective from February 15, 2012, the date of our incorporation. In order to qualify as a REIT, we plan to hold our non-qualifying REIT assets and conduct our non-qualifying REIT income activities in or through one or more taxable real estate investment trust subsidiaries (TRSs).

If, in any taxable year, we fail to qualify for taxation as a REIT, and are not entitled to relief under the Code:

- we will not be allowed a deduction for distributions to stockholders in computing our taxable income;
- we will be subject to federal and state income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates; and
- we would not be eligible to qualify as a REIT for the four taxable years following the year during which we were so disqualified.

Any such corporate tax liability could be substantial and would reduce the amount of cash available for distributions to our stockholders, which in turn could have an adverse impact on the value of our common stock. This adverse impact could last for five or more years because, unless we are entitled to relief under certain statutory provisions, we will be taxed as a corporation, beginning in the year in which the failure occurs, and we will not be allowed to re-elect to be taxed as a REIT for the following four years.

If we fail to qualify for taxation as a REIT, we may need to borrow funds or liquidate some investments to pay the additional tax liability. Were this to occur, funds available for investment would be reduced. REIT qualification involves the application of highly technical and complex provisions of the Code to our operations, as well as various factual determinations concerning matters and circumstances not entirely within our control. There are limited judicial or administrative interpretations of these provisions. Although we plan to continue to operate in a manner consistent with the REIT qualification rules, we cannot assure you that we will so qualify or remain so qualified.

If we fail to make required distributions, we may be subject to federal corporate income tax.

We intend to declare regular quarterly distributions, the amount of which will be determined, and is subject to adjustment, by our board of directors. To continue to qualify and be taxed as a REIT, we will generally be required to distribute at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and excluding net capital gain) each year to our stockholders. Generally, we expect to distribute all or substantially all of our REIT taxable income. If our cash available for distribution falls short of our estimates, we may be unable to maintain the proposed quarterly distributions that approximate our taxable income, and we may fail to qualify for taxation as a REIT. In addition, our cash flows from operations may be insufficient to fund required distributions as a result of differences in timing between the actual receipt of income and the recognition of income for federal income tax purposes, or the effect of nondeductible expenditures, such as capital expenditures, payments of compensation for which Section 162(m) of the Code denies a deduction, the creation of reserves or required debt service or amortization payments.

To the extent that we satisfy the 90% distribution requirement, but distribute less than 100% of our REIT taxable income, we will be subject to federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders for a calendar year is less than a minimum amount specified under the Code.

In addition, in order to continue to qualify as a REIT, any C-corporation earnings and profits to which we succeed (such as by a deemed liquidation of a taxable corporate subsidiary) must be distributed as of the close of the taxable year in which the REIT accumulates or acquires such C-corporation's earnings and profits.

Because certain covenants in our debt instruments may limit our ability to make required REIT distributions, we could be subject to taxation.

Our existing Senior Credit Facility includes, and our future debt instruments may include, covenants that limit our ability to make required REIT distributions. If the limits set forth in these covenants prevent us from satisfying our REIT distribution requirements, we could fail to qualify for federal income tax purposes as a REIT. If the limits set forth in these covenants do not jeopardize our

qualification for taxation as a REIT but do nevertheless prevent us from distributing 100% of our REIT taxable income, we will be subject to federal corporate income tax, and potentially a nondeductible excise tax, on the retained amounts.

Because we will be required to satisfy numerous requirements imposed upon REITs, we may be required to borrow funds, sell assets, or raise equity on terms that are not favorable to us.

In order to meet the REIT distribution requirements and maintain our qualification and taxation as a REIT, we may need to borrow funds, sell assets or raise equity, even if the then-prevailing market conditions are not favorable for these borrowings, sales or offerings. Any insufficiency of our cash flows to cover our REIT distribution requirements could adversely impact our ability to raise short and long term debt, to sell assets, or to offer equity securities in order to fund distributions required to maintain our qualification and taxation as a REIT. Furthermore, the REIT distribution requirements may increase the financing we need to fund capital expenditures, future growth and expansion initiatives. This would increase our total leverage.

In addition, if we fail to comply with certain asset ownership tests at the end of any calendar quarter, we must generally correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification. As a result, we may be required to liquidate otherwise attractive investments. These actions may reduce our income and amounts available for distribution to our stockholders.

Because the REIT rules require us to satisfy certain rules on an ongoing basis, our flexibility or ability to pursue otherwise attractive opportunities may be limited.

To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our common stock. Thus, compliance with these tests will require us to refrain from certain activities and may hinder our ability to make certain attractive investments, including the purchase of non-qualifying assets, the expansion of non-real estate activities, and investments in the businesses to be conducted by our TRSs, and to that extent limit our opportunities and our flexibility to change our business strategy. Furthermore, acquisition opportunities in domestic and international markets may be adversely affected if we need or require the target company to comply with some REIT requirements prior to closing. In addition, our conversion to a REIT may result in investor pressures not to pursue growth opportunities that are not immediately accretive.

To meet our annual distribution requirements, we may be required to distribute amounts that may otherwise be used for our operations, including amounts that may otherwise be invested in future acquisitions, capital expenditures or repayment of debt and it is possible that we might be required to borrow funds, sell assets or raise equity to fund these distributions, even if the then-prevailing market conditions are not favorable for these borrowings, sales or offerings.

Because the REIT provisions of the Code limit our ability to hedge effectively, the cost of our hedging may increase, and we may incur tax liabilities.

The REIT provisions of the Code limit our ability to hedge assets as well as liabilities that are not incurred to acquire or carry real estate. Generally, income from hedging transactions that have been properly identified for tax purposes, and that we enter into to manage risk of interest rate changes with respect to borrowings made or to be made to acquire or carry real estate assets and income from certain currency hedging transactions related to our non-U.S. operations, does not constitute gross income for purposes of the REIT gross income tests. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of the REIT gross income tests. As a result of these rules, we may need to limit our use of advantageous hedging techniques or implement those hedges through a TRS. This could increase the cost of our hedging activities because our TRSs could be subject to tax on income or gains resulting from hedges entered into by them or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in any of our TRSs generally will not provide any tax benefit, except for being carried forward for use against future taxable income in the TRSs.

Because the REIT rules limit our ability to receive distributions from TRSs, our ability to fund distribution payments using cash generated through our TRSs may be limited.

Our ability to receive distributions from our TRSs is limited by the rules with which we must comply to maintain our status as a REIT. In particular, at least 75% of our gross income for each taxable year as a REIT must be derived from real estate-related sources, which principally includes gross income from the leasing of our properties. Consequently, no more than 25% of our gross income may consist of dividend income from our TRSs and other non-qualifying types of income. Thus, our ability to receive distributions from our TRSs may be limited and may impact our ability to fund distributions to our stockholders using cash flows from our TRSs. Specifically, if our TRSs became highly profitable, we might become limited in our ability to receive net income from our TRSs in an amount required to fund distributions to our stockholders commensurate with that profitability.

We intend to use TRSs, which may cause us to fail to qualify as a REIT.

The net income of our TRSs is not required to be distributed to us, and income that is not distributed to us generally will not be subject to the REIT income distribution requirement. However, there may be limitations on our ability to accumulate earnings in our TRSs and the accumulation or reinvestment of significant earnings in our TRSs could result in adverse tax treatment. In particular, if the accumulation of cash in our TRSs causes the fair market value of our securities in our TRSs and certain other non-qualifying assets to exceed 25% of the fair market value of our assets, we would fail to qualify as a REIT or not be as tax efficient.

Our ownership of our TRSs will be subject to limitations that could prevent us from growing our investment management business and our transactions with our TRSs could cause us to be subject to a 100% penalty tax on certain income or deductions if those transactions are not conducted on an arm's-length basis.

Overall, no more than 25% of the value of a REIT's assets may consist of stock or securities of one or more TRSs, and compliance with this limitation could limit our ability to grow our investment management business. In addition, the Code limits the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The Code also imposes a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis. We will monitor the value of our respective investments in our TRSs for the purpose of ensuring compliance with TRS ownership limitations and will structure our transactions with our TRSs on terms that we believe are arm's-length to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with the 25% TRS limitation or to avoid application of the 100% excise tax.

Because our board of directors determines in its sole discretion our dividend rate on a quarterly basis, our cash distributions are not guaranteed and may fluctuate.

Our board of directors, in its sole discretion, will determine on a quarterly basis the amount of cash to be distributed to our stockholders based on a number of factors including, but not limited to, our results of operations, cash flow and capital requirements, economic conditions, tax considerations, borrowing capacity, applicable provisions of the MGCL and other factors, including debt covenant restrictions that may impose limitations on cash payments, and future acquisitions and divestitures. Consequently, our distribution levels may fluctuate.

Because distributions payable by REITs generally do not qualify for reduced tax rates, the value of our common stock could be adversely affected.

Certain distributions payable by domestic or qualified foreign corporations to individuals, trusts and estates that are U.S. stockholders are currently eligible for federal income tax at a maximum rate of 20%. Distributions payable by REITs, in contrast, generally are not eligible for the current reduced rates unless the distributions are attributable to dividends received by the REIT from other corporations that would be eligible for the reduced rates. The more favorable rates applicable to regular corporate distributions could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stock of non-REIT corporations that pay distributions, which could adversely affect the value of the stock of REITs, including our common stock.

Even if we continue to qualify as a REIT, certain of our business activities will be subject to corporate level income tax and foreign taxes, which will continue to reduce our cash flows, and we will have potential deferred and contingent tax liabilities.

Even if we qualify for taxation as a REIT, we may be subject to certain federal, state, local and foreign taxes on our income and assets, including alternative minimum taxes, taxes on any undistributed income, and state, local or foreign income, franchise, property and transfer taxes. In addition, we could in certain circumstances be required to pay an excise or penalty tax, which could be significant in amount, in order to utilize one or more relief provisions under the Code to maintain qualification for taxation as a REIT.

Any TRS assets and operations would continue to be subject, as applicable, to federal and state corporate income taxes and to foreign taxes in the jurisdictions in which those assets and operations are located. Any of these taxes would decrease our earnings and our cash available for distributions to stockholders.

We will also be subject to a federal corporate level tax at the highest regular corporate rate (35% for year 2012) on all or a portion of the gain recognized from a sale of assets formerly held by any C-corporation that we acquire in a carry-over basis transaction occurring within a specified period (generally, ten years) after we acquire such assets, to the extent the built-in gain based on the fair market value of those assets on the effective date of the REIT election is in excess of our then tax basis. The tax on subsequently sold assets will be based on the fair market value and built-in gain of those assets as of the beginning of our holding period. Gains from a

sale of an asset occurring after the specified period ends will not be subject to this corporate level tax. We expect to have only a de minimis amount of assets subject to these corporate tax rules and do not expect to dispose of any significant assets subject to these corporate tax rules.

Because dividends received by non-U.S. stockholders are generally taxable, we may be required to withhold a portion of our distributions to such persons.

Ordinary dividends received by non-U.S. stockholders that are not effectively connected with the conduct of a U.S. trade or business generally are subject to United States withholding tax at a rate of 30%, unless reduced by an applicable income tax treaty. Additional rules will apply to any non-U.S. stockholders that will own more than 5% of our common stock with respect to certain capital gain distributions.

The ability of our board of directors to revoke our REIT qualification, without stockholder approval, may cause adverse consequences to our stockholders.

Our charter provides that the board of directors may revoke or otherwise terminate the REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interest to continue to qualify as a REIT. If we cease to be a REIT, we will not be allowed a deduction for dividends paid to stockholders in computing our taxable income, and we will be subject to federal income tax at regular corporate rates and state and local taxes, which may have adverse consequences on the total return to our stockholders.

Federal income tax laws governing REITs and related interpretations may change at any time, and any such legislative or other actions affecting REITs could have a negative effect on us and our stockholders.

At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. Federal and state tax laws are constantly under review by persons involved in the legislative process, the IRS, the United States Department of the Treasury, and state taxing authorities. Changes to the tax laws, regulations and administrative interpretations, which may have retroactive application, could adversely affect us or our stockholders. We cannot predict with certainty whether, when, in what forms, or with what effective dates, the tax laws, regulations and administrative interpretations applicable to us or our stockholders may be changed. Accordingly, we cannot assure you that any such change will not significantly affect our ability to qualify for taxation as a REIT or the federal income tax consequences to you or us of such qualification.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

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Our principal corporate offices are located at 50 Rockefeller Plaza, New York, NY 10020, and our primary international investment offices are located in London and Amsterdam. We also have office space domestically in Dallas, Texas and internationally in Shanghai. We lease all of these offices and believe these leases are suitable for our operations for the foreseeable future.

See Item 1, Business – Our Portfolio for a discussion of the properties we hold for rental operations and Part II, Item 8, Financial Statements and Supplemental Data – Schedule III – Real Estate and Accumulated Depreciation for a detailed listing of such properties.

Item 3. Legal Proceedings.

At December 31, 2012, we were not involved in any material litigation.

Various claims and lawsuits arising in the normal course of business are pending against us. The results of these proceedings are not expected to have a material adverse effect on our consolidated financial position or results of operations.

Item 4. Mine Safety Disclosures.

Not applicable.

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PART II**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***Common Stock and Distributions*

Our common stock is listed on the New York Stock Exchange under the ticker symbol WPC. At December 31, 2012 there were approximately 11,246 holders of record of our common stock. The following table shows the high and low prices per share and quarterly cash distributions declared for the past two fiscal years:

Period	2012 (a)			2011 (a)		
	High	Low	Cash Distributions Declared	High	Low	Cash Distributions Declared
First quarter	\$ 49.70	\$ 41.28	\$ 0.565	\$ 38.00	\$ 29.75	\$ 0.512
Second quarter	48.39	39.66	0.567	41.82	34.75	0.550
Third quarter	53.85	43.25	0.650	42.72	32.76	0.560
Fourth quarter	54.70	45.94	0.660	44.71	34.50	0.563

As described in Note 12, our Senior Credit Facility contains covenants that restrict the amount of distributions that we can pay.

Stock Price Performance Graph

The graph below provides an indicator of cumulative total stockholder returns for our common stock for the period December 31, 2007 to December 31, 2012 compared with the S&P 500 Index and the FTSE NAREIT Equity REITs Index. The graph assumes a \$100 investment on December 31, 2007, together with the reinvestment of all dividends.

(a) Prices in the tables above relate to the prices of the Listed Shares of our predecessor through the date of the Merger and those of our common stock thereafter.

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	2007		2008		At December 31, 2009		2010		2011		2012	
W. P. Carey Inc. (a)	\$	100.00	\$	75.89	\$	97.86	\$	118.50	\$	163.92	\$	219.58
S&P 500 Index		100.00		63.00		79.68		91.68		93.61		108.59
FTSE NAREIT Equity REITs Index		100.00		62.27		79.70		101.99		110.45		130.39

(a) Prices in the table above relate to the prices of the Listed Shares of our predecessor through the date of the Merger and those of our common stock thereafter.

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Securities Authorized for Issuance Under Equity Compensation Plans

This information will be contained in our definitive proxy statement for the 2013 Annual Meeting of Stockholders, to be filed within 120 days following the end of our fiscal year, and is incorporated by reference.

Issuer Purchases of Equity Securities

The following table provides information with respect to repurchases of our common stock during the three months ended December 31, 2012:

2012 Period	Total number of shares purchased (a)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or program (a)	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or program (a)
October	410,964	\$ 48.67	N/A	N/A
November	-	-	N/A	N/A
December	-	-	N/A	N/A
Total	410,964			

(a) These shares were repurchased pursuant to the share purchase agreement that our predecessor entered into with the Estate shareholders on July 23, 2012 (Note 4).

Item 6. Selected Financial Data.

The following selected financial data should be read in conjunction with the consolidated financial statements and related notes in Item 8 (in thousands, except per share data):

	Years Ended December 31,				
	2012	2011	2010	2009	2008
Operating Data (a)					
Revenues from continuing operations (b) (c)	\$ 373,995	\$ 327,784	\$ 260,645	\$ 217,190	\$ 219,525
Income from continuing operations (b) (c)	79,371	151,993	83,835	59,830	63,527
Net income	62,779	139,138	74,951	70,568	78,605
Add: Net (income) loss attributable to noncontrolling interests	(607)	1,864	314	713	950
Add: Net income attributable to redeemable noncontrolling interests	(40)	(1,923)	(1,293)	(2,258)	(1,508)
Net income attributable to W. P. Carey	62,132	139,079	73,972	69,023	78,047
Basic Earnings Per Share:					
Income from continuing operations attributable to W. P. Carey	1.65	3.76	2.08	1.46	1.60
Net income attributable to W. P. Carey	1.30	3.44	1.86	1.74	1.98
Diluted Earnings Per Share:					
Income from continuing operations attributable to W. P. Carey	1.62	3.74	2.08	1.47	1.58
Net income attributable to W. P. Carey	1.28	3.42	1.86	1.74	1.95
Cash distributions declared per share (d)	2.44	2.19	2.03	2.00	1.96
Balance Sheet Data					
Net investments in real estate (e)	\$ 3,241,199	\$ 1,217,931	\$ 946,975	\$ 884,460	\$ 918,741
Total assets	4,609,042	1,462,623	1,172,326	1,093,336	1,111,136
Long-term obligations (f)	1,968,397	589,369	396,982	326,330	326,874
Other Information					
Net cash provided by operating activities	\$ 80,643	\$ 80,116	\$ 86,417	\$ 74,544	\$ 63,247
Cash distributions paid	113,867	85,814	92,591	78,618	87,700
Payments of mortgage principal (g)	54,964	25,327	14,324	9,534	9,678

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

(b) The year ended December 31, 2012 includes the impact of the Merger, which was completed on September 28, 2012 (Note 3).

(c) The year ended December 31, 2011 includes \$52.5 million of incentive, termination and subordinated disposition revenue recognized in connection with the CPA@:14/16 Merger.

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- (d) The year ended December 31, 2009 excludes a special distribution of \$0.30 per share paid in January 2010 to shareholders of record at December 31, 2009.
- (e) Net investments in real estate consists of Net investments in properties, Net investments in direct financing leases, Equity investments in real estate and the Managed REITs, Real estate under construction and Assets held for sale, as applicable.
- (f) Represents non-recourse mortgages and note obligations. The year ended December 31, 2012 includes the \$175.0 million Term Loan Facility (Note 12), which was drawn down in full in connection with the Merger (Note 3).
- (g) Represents scheduled mortgage principal payments.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis of financial condition and results of operations (MD&A) is intended to provide the reader with information that will assist in understanding our financial statements and the reasons for changes in certain key components of our financial statements from period to period. MD&A also provides the reader with our perspective on our financial position and liquidity, as well as certain other factors that may affect our future results. The discussion also provides information about the financial results of the segments of our business to provide a better understanding of how these segments and their results affect our financial condition and results of operations.

Business Overview

We provide long-term financing via sale-leaseback and build-to-suit transactions for companies worldwide and manage a global investment portfolio of 1,007 properties, including our owned portfolio. Our business operates in two segments Real Estate Ownership and Investment Management, as described below. On September 28, 2012, as part of a plan to reorganize the business operations of W. P. Carey & Co. LLC in order to qualify as a REIT for U. S. federal income tax purposes, W. P. Carey & Co. LLC merged with and into W. P. Carey Inc., with W. P. Carey Inc. as the surviving corporation, which we refer to as the Merger. Additionally, on September 28, 2012, CPA@:15 merged with our subsidiary, with CPA@:15 surviving as our indirect wholly-owned subsidiary. As a result of both transactions, we succeeded to all of the businesses, assets and liabilities of each of W. P. Carey & Co. LLC and CPA@:15, and own all the assets previously held by, and carry on the business of each of, W. P. Carey & Co. LLC and CPA@:15. We now hold substantially all of our real estate assets, including the assets acquired from CPA@:15, in our Real Estate Ownership segment, while the activities conducted by our Investment Management segment subsidiaries are organized under TRSs (Note 3).

Real Estate Ownership We own and invest in commercial properties in the U.S. and Europe that are then leased to companies, primarily on a triple-net lease basis, which requires the tenant to pay substantially all of the costs associated with operating and maintaining the property

We earn lease revenues from our wholly-owned and co-owned real estate investments. In addition, we generate equity income through our investments in the shares of the Managed REITs. In addition, through our special member interests in the operating partnerships of the Managed REITs, we participate in the cash flows of those REITs. Lastly, we earn other real estate revenues through our investments in self-storage facilities and hotels in the U.S.

Investment Management We earn revenue as the advisor to the Managed REITs. For the periods presented, we acted as advisor to the following affiliated, publicly-owned, non-listed Managed REITs: CPA@:14 (through the date of the CPA@:14/16 Merger), CPA@:15 (through the date of the Merger), CPA@: 16 Global, CPA@: 17 Global, and CWI. Under the advisory agreements with the Managed REITs, we perform various services, including but not limited to the day-to-day management of the Managed REITs and transaction-related services. We structure and negotiate investments and debt placement transactions for the Managed REITs, for which we earn structuring revenue, and we manage their portfolios of real estate investments, for which we earn asset-based management revenue.

While we are raising funds for a Managed REIT, the REIT reimburses us for certain costs, primarily broker-dealer commissions paid on its behalf and marketing and personnel costs. The Managed REITs also reimburse us for many of our costs associated with the evaluation of transactions on their behalf that are not completed.

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We also earn wholesaling fees and dealer manager fees in connection with the initial public offerings of the Managed REITs. We reimburse, or re-allow, all or a portion of the dealer manager fees to selected dealers in the offerings. Dealer manager fees that are not re-allowed are classified as wholesaling revenue. Wholesaling revenue earned is generally offset by underwriting costs incurred in connection with the offerings.

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Financial Highlights

Our results for the years ended December 31, 2012 and 2011 included the following significant unusual items:

- Increased lease revenue of \$61.9 million for the year ended December 31, 2012 as compared to 2011 primarily due to income generated from properties acquired in the Merger;
- Costs incurred in connection with the Merger of \$31.7 million in 2012; and
- Non-recurring revenues of \$52.5 million earned in 2011 in connection with providing a liquidity event for CPA@:14 stockholders, through the CPA@:14/16 Merger, in May 2011.
- Share dilution created by the issuance of 28,170,643 shares on September 28, 2012 to stockholders of CPA@: 15 in connection with the Merger.

(In thousands)

	Years Ended December 31,		
	2012	2011	2010
Total revenues (excluding reimbursed costs from affiliates)	\$ 275,750	\$ 262,955	\$ 200,622
Net income attributable to W. P. Carey	62,132	139,079	73,972
Net cash provided by operating activities	80,643	80,116	86,417
Net cash provided by (used in) investing activities	126,466	(126,084)	(37,843)
Net cash (used in) provided by financing activities	(113,292)	10,502	(1,548)
Cash distributions paid	113,867	85,814	92,591
Supplemental financial measure:			
Funds from operations - as adjusted (AFFO)	180,631	188,853	130,870

We consider the performance measures listed above, including Funds from operations as adjusted (AFFO), a supplemental measure that is not defined by GAAP (non-GAAP), to be important measures in the evaluation of our results of operations and capital resources. We evaluate our results of operations with a primary focus on increasing and enhancing the value, quality and amount of assets under management by our Investment Management segment and the ability to generate the cash flow necessary to meet our objectives in our Real Estate Ownership segment. Results of operations by reportable segment are described below in Results of Operations. See Supplemental Financial Measures below for our definition of AFFO and a reconciliation to its most directly comparable GAAP measure.

Total revenues increased in 2012 as compared to 2011. The increase in revenues from our Real Estate Ownership segment was primarily due to revenues from the properties we acquired in the Merger in September 2012 and, to a lesser extent, from properties we purchased in May 2011 from CPA@:14 in connection with the CPA@:14/16 Merger. Revenues from our Investment Management segment decreased during the year primarily due to the incentive, termination and subordinated disposition revenue recognized in connection with providing a liquidity event for CPA@:14 stockholders through the CPA@:14/16 Merger in May 2011, while in 2012 we waived the subordinated disposition and termination fees we would have been entitled to receive from CPA@:15 upon its liquidation through the Merger pursuant to the terms of our advisory

agreement with CPA®:15.

Net income attributable to W. P. Carey decreased in 2012 as compared to 2011. Results from operations in our Real Estate Ownership segment were lower during the current year as compared to 2011, primarily due to costs incurred in connection with the Merger. Results from operations in our Investment Management segment decreased during the current year primarily due to the incentive, termination and subordinated disposition revenue recognized in connection with the CPA®:14/16 Merger in 2011 that we did not receive in connection with the Merger in 2012.

Cash flow from operating activities increased slightly during 2012 as compared to 2011. Operating cash flows generated by the properties acquired in the Merger was substantially offset by the subordinated disposition revenue received from CPA®:14 upon completion of the CPA®:14/16 Merger in May 2011 that we did not receive in connection with the Merger in 2012.

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Our annualized cash distribution increased to \$2.64 per share for the year ended December 31, 2012, from \$2.25 per share in 2011. The increase primarily reflects earnings generated from growth in our owned real estate portfolio and our increased ownership in, and our participation in the cash flows of, CPA@:16 Global as a result of the CPA@:14/16 Merger, as well as the additional income anticipated to result from the Merger.

Our AFFO supplemental measure decreased in 2012 as compared to 2011, primarily due to the incentive, termination and subordinated disposition income recognized in connection with the CPA@:14/16 Merger in 2011 that we did not receive in connection with the Merger in 2012. Asset Management revenue decreased in 2012 because performance fees were no longer received from CPA@:14 after the CPA@:14/16 Merger, or from CPA@:16 Global after the CPA@:16 Global UPREIT Reorganization, both of which occurred in May 2011 (Note 4), and because asset management fees and performance fees are no longer being received from CPA@:15 after the Merger in September 2012. These decreases were partially offset by an increase in AFFO in our Real Estate Ownership segment in 2012 primarily as a result of income earned from the properties we purchased from CPA@:14 in 2011 in connection with the CPA@:14/16 Merger and those we acquired from CPA@:15 in the Merger as well as income generated from our equity interests in the Managed REITs, including our \$121.0 million incremental investment in CPA@:16 Global in connection with the CPA@:14/16 Merger.

How We Evaluate Results of Operations

We evaluate our results of operations with a primary focus on increasing and enhancing the value, quality and amount of assets under management by our Investment Management segment and seeking to increase value in our Real Estate Ownership segment. We focus our efforts on improving underperforming assets through re-leasing efforts, including negotiation of lease renewals, or selectively selling assets in order to increase value in our real estate portfolio. The ability to increase assets under management by structuring investments on behalf of the Managed REITs is affected, among other things, by the Managed REITs' ability to raise capital and our ability to identify and enter into appropriate investments and financing.

Our evaluation of operating results includes our ability to generate necessary cash flow in order to fund distributions to our stockholders. As a result, our assessment of operating results gives less emphasis to the effects of unrealized gains and losses, which may cause fluctuations in net income for comparable periods but have no impact on cash flows, and to other non-cash charges such as depreciation and impairment charges. We do not consider unrealized gains and losses resulting from short-term foreign currency fluctuations when evaluating our ability to fund distributions. Our evaluation of our potential for generating cash flow includes an assessment of the long-term sustainability of both our real estate portfolio and the assets we manage on behalf of the Managed REITs.

We consider cash flows from operating activities, cash flows from investing activities, cash flows from financing activities and certain non-GAAP performance metrics to be important measures in the evaluation of our results of operations, liquidity and capital resources. Cash flows from operating activities are sourced primarily by revenues earned from structuring investments and providing asset-based management services on behalf of the Managed REITs and long-term lease contracts from our real estate ownership. Our evaluation of the amount and expected fluctuation of cash flows from operating activities is essential in evaluating our ability to fund operating expenses, service debt and fund distributions to stockholders.

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

Results of Operations

We evaluate our results of operations by our two primary reportable segments Real Estate Ownership and Investment Management. Effective January 1, 2011, we include our equity investments in the Managed REITs in our Real Estate Ownership segment. The equity income or loss from the Managed REITs that is now included in our Real Estate Ownership segment represents our proportionate share of the revenue less expenses of the net-leased properties held by the Managed REITs. This treatment is consistent with that of our directly-owned properties. Results for 2010 have been reclassified to conform to the current period presentation.

Effective April 1, 2012, we include cash distributions and deferred revenue received and earned from the operating partnerships of CPA@:16 Global, CPA@:17 Global and CWI in our Real Estate Ownership segment. Results for 2011 and 2010 have been reclassified to conform to the current period presentation. A summary of comparative results of these business segments is as follows:

Real Estate Ownership (in thousands)

	2012		2011		Years Ended December 31, Change		2011	2010	Change			
Revenues												
Lease revenues:												
Rental income	\$	108,707	\$	52,360	\$	56,347	\$	52,360	\$	41,940	\$	10,420
Interest income from direct financing leases		15,796		10,278		5,518		10,278		9,542		736
Total lease revenues		124,503		62,638		61,865		62,638		51,482		11,156
Other real estate income		26,312		22,499		3,813		22,499		17,273		5,226
		150,815		85,137		65,678		85,137		68,755		16,382
Operating Expenses												
Depreciation and amortization		(45,046)		(20,883)		(24,163)		(20,883)		(13,657)		(7,226)
Property expenses		(13,041)		(10,145)		(2,896)		(10,145)		(8,009)		(2,136)
General and administrative		(39,748)		(4,454)		(35,294)		(4,454)		(4,419)		(35)
Other real estate expenses		(9,850)		(10,784)		934		(10,784)		(8,121)		(2,663)
Impairment charges		(10,467)		1,365		(11,832)		1,365		(1,140)		2,505
		(118,152)		(44,901)		(73,251)		(44,901)		(35,346)		(9,555)
Other Income and Expenses												
Other interest income		311		91		220		91		124		(33)
Income from equity investments in real estate and the Managed REITs		62,392		51,228		11,164		51,228		30,992		20,236
Gain on change in control of interests		20,744		27,859		(7,115)		27,859		781		27,078
Other income and (expenses)		3,207		4,412		(1,205)		4,412		292		4,120
Interest expense		(50,573)		(21,770)		(28,803)		(21,770)		(15,636)		(6,134)
		36,081		61,820		(25,739)		61,820		16,553		45,267
Income from continuing operations before income taxes		68,744		102,056		(33,312)		102,056		49,962		52,094
Provision for income taxes		(4,012)		(2,243)		(1,769)		(2,243)		(2,154)		(89)
Income from continuing operations		64,732		99,813		(35,081)		99,813		47,808		52,005
Loss from discontinued operations		(16,592)		(12,855)		(3,737)		(12,855)		(8,884)		(3,971)
Net income from real estate ownership		48,140		86,958		(38,818)		86,958		38,924		48,034
Less: Net income attributable to noncontrolling interests		(3,245)		(678)		(2,567)		(678)		(2,058)		1,380
Net income from real estate ownership attributable to W. P. Carey	\$	44,895	\$	86,280	\$	(41,385)	\$	86,280	\$	36,866	\$	49,414

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The following tables present other operating data that management finds useful in evaluating results of operations:

	2012	As of December 31, 2011	2010
Occupancy - WPC (a)	98.7%	93.0%	89.0%
Total net-leased properties - WPC (a)	423	157	163
Total operating properties - WPC (b)	22	22	22
Total net-leased properties - Managed REITs	705	816	827
Total operating properties - Managed REITs (b)	69	49	3

	2012	For the Years Ended December 31, 2011	2010
Financings structured - WPC (\$ millions) (c)	198.8	469.8	70.3
New investments - WPC - consolidated (\$ millions) (d)	24.6	-	88.6
New investments - WPC - equity investments (\$ millions)	1.3	-	-
Investments structured - Managed REITs (\$ millions) (e)	1,207.6	1,229.5	1,048.1
Average U. S. dollar/euro exchange rate (f)	1.2861	1.3926	1.3279
U.S. Consumer Price Index (g)	229.6	225.7	219.2

(a) Amounts as of December 31, 2012 reflect 305 properties acquired from CPA@:15 in the Merger in 2012 with a total fair value of approximately \$1.8 billion (Note 3). Amounts as of December 31, 2011 reflect the acquisition of the remaining interests in three properties from CPA@:14 in connection with the CPA@:14/16 Merger in May 2011 for approximately \$119.4 million (Note 4).

(b) Operating properties comprise self-storage properties and hotels that are managed by third parties. WPC's operating properties are all self-storage properties with the exception of one hotel for all periods presented.

(c) The year ended December 31, 2012 includes the \$175.0 million Term Loan Facility obtained in connection with the Merger (Note 3). The year ended December 31, 2011 includes a \$200.0 million increase in borrowing capacity obtained on our then-existing unsecured Line of Credit.

(d) Amount for the year ended December 31, 2012 does not include our acquisition of 52.63% ownership interest in Marcourt Investments Inc.

(e) Includes properties owned by CPA@:16 Global and CPA@:17 Global for all periods. Includes properties owned by CPA@:14 through the date of the CPA@:14/16 Merger in May 2011. Includes properties owned by CPA@:15 through the date of the Merger on September 28, 2012. Includes properties owned by CWI from the date of its first investment in May 2011. For loans, amount includes funding through December 31, 2012.

(f) The average conversion rate for the U.S. dollar in relation to the euro decreased during the year ended December 31, 2012 as compared to 2011 and increased during the year ended December 31, 2011 as compared to 2010, resulting in a negative impact on earnings in 2012 and a positive impact on earnings in 2011 from our euro-denominated investments.

(g) Many of our domestic lease agreements and those of the Managed REITs include contractual increases indexed to the change in the U. S. CPI.

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The following table sets forth the net lease revenues (i.e., rental income and interest income from direct financing leases) that we earned from lease obligations through our consolidated real estate investments (in thousands):

Lessee	Years Ended December 31,		
	2012	2011	2010
U-Haul Moving Partners Inc. (a) (b)	\$ 8,152	\$ -	\$ -
Federal Express Corporation (c)	7,289	4,922	275
CheckFree Holdings, Inc. (b)	5,342	5,216	5,103
OBI Group (a) (b) (d) (e)	4,925	1,050	979
Marcourt Investments Inc. (a)	4,878	-	-
The American Bottling Company (f)	4,488	4,943	4,390
Amylin Pharmaceuticals, Inc. (c)	4,361	2,908	-
Bouygues Telecom, S.A. (b) (d)	4,090	4,002	3,852
Carrefour France, SAS (d) (g)	3,961	-	-
JP Morgan Chase Bank, N.A. (h)	3,926	3,862	3,448
Google, Inc. (formerly leased to Omnicom Group Inc.) (i)	3,887	2,173	1,518
Hellweg Die Profi-Baumarkte GmbH & Co KG (Hellweg 1) (a) (d)	3,813	-	-
Orbital Sciences Corporation (j)	3,312	3,312	3,611
True Value Company (a) (b)	3,234	-	-
Eroski Sociedad Cooperativa (b) (d) (k)	2,989	3,235	1,710
AutoZone, Inc. (f)	2,332	2,818	2,241
Quebecor Printing, Inc.	1,986	1,936	1,916
Sybron Dental Specialties Inc.	1,979	1,596	1,816
Unisource Worldwide, Inc.	1,926	1,926	1,923
Pohjola Non-Life Insurance Company LTD (a) (d)	1,885	-	-
TietoEnator Plc (a) (b) (d)	1,858	-	-
Jarden Corp.	1,720	1,614	1,614
Eagle Hardware & Garden, a subsidiary of Lowe's Companies	1,587	1,492	1,568
Sprint Spectrum, L.P.	1,555	1,486	1,425
BE Aerospace, Inc.	1,534	1,580	1,580
Police Prefecture, French Government (a) (b) (d)	1,405	-	-
Foster Wheeler AG (a)	1,244	-	-
Enviro Works, Inc.	1,203	1,216	1,255
Other (b) (d) (l)	33,642	11,351	11,258
	\$ 124,503	\$ 62,638	\$ 51,482

(a) We acquired this investment from CPA@:15 in the Merger (Note 3).

(b) These revenues are generated in consolidated investments, generally with our affiliates, and on a combined basis include lease revenues applicable to noncontrolling interests totaling \$11.6 million, \$2.6 million and \$3.8 million for the years ended December 31, 2012, 2011 and 2010, respectively.

(c) In connection with the CPA@:14/16 Merger, we purchased the remaining interest in this investment from CPA@:14 in May 2011 (Note 4). Subsequent to the acquisition, we consolidate this investment. We had previously accounted for this investment under the equity method.

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- (d) We acquired an additional interest in this investment from CPA@:15 in the Merger.
- (e) Amounts are subject to fluctuations in foreign currency exchange rates. The average conversion rate for the U.S. dollar in relation to the euro during the year ended December 31, 2012 decreased by approximately 7.6% in comparison to 2011 and increased by approximately 4.9% during the year ended December 31, 2011 as compared to 2010, resulting in a negative impact on lease revenues in 2012 and a positive impact on lease revenues in 2011 for our euro-denominated investments. The increase was due to a lease restructuring in the second quarter of 2012.
- (f) The increase in 2011 was due to an out-of-period adjustment (Note 2).
- (g) In the Merger, we acquired the remaining interest in this investment from CPA@:15. Subsequent to the acquisition, we consolidated this investment. We had previously accounted for this investment under the equity method.

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(h) We acquired this investment in February 2010.

(i) In November 2011, we and the tenant completed the renovation at this facility, at which time we started to recognize deferred rental income on the tenant-funded portion of the renovation.

(j) We completed an expansion at this facility in January 2010, at which time we recognized deferred rental income of \$0.3 million.

(k) We acquired this investment in June 2010.

(l) The increase in 2012 primarily relates to the investments obtained in the CPA®:15 Merger, which accounts for \$21.6 million of the 2012 total.

We recognize income from equity investments in real estate, of which lease revenues are a significant component. The following table sets forth the net lease revenues earned by these investments from both continuing and discontinued operations. Amounts provided are the total amounts attributable to the investments and do not represent our proportionate share (dollars in thousands):

Lessee	Ownership Interest at December 31, 2012	2012	Years Ended December 31, 2011	2010
Hellweg Die Profi-Baumarkte GmbH & Co. KG				
(Hellweg 2(a) (b)	45%	\$ 34,518	\$ -	\$ -
The New York Times Company	18%	27,588	27,796	26,768
Carrefour France, SAS (a) (c)	100%	13,359	20,228	19,618
Schuler A.G. (a)	67%	6,288	6,555	6,208
U. S. Airways Group, Inc.	75%	4,400	4,421	4,421
C1000 Logistiek Vastgoed B. V. (a) (b)	15%	3,640	-	-
Advanced Micro Devices (b)	33%	2,986	-	-
Hologic, Inc.	(c)	2,862	3,623	3,528
Consolidated Systems, Inc.	60%	1,847	1,933	1,831
Médica France, S.A(a)	(d)	1,753	6,789	6,447
Symphony IRI Group, Inc. (e)	(c)	1,632	2,182	4,164
The Talaria Company (Hinckley) (b)	30%	1,278	-	-
Childtime Childcare, Inc.	(c)	931	1,258	1,303
Del Monte Corporation (b)	50%	882	-	-
Waldaschaff Automotive GmbH and Wagon				
Automotive Nagold GmbH (a) (b)	33%	808	-	-
PETsMart, Inc. (b)	30%	563	-	-
SaarOTEC (a) (b)	50%	536	-	-
Builders FirstSource, Inc. (b)	40%	341	-	-
Wanbishi Archives Co. Ltd (f) (g)	3%	279		
The Upper Deck Company (b)	50%	-	-	-
Federal Express Corporation	(h)	-	2,391	7,121
Amylin Pharmaceuticals, Inc.	(h)	-	1,342	4,027
The Retail Distribution Group	(i)	-	-	206
		\$ 106,491	\$ 78,518	\$ 85,642

- (a) Amounts are subject to fluctuations in foreign currency exchange rates. The average conversion rate for the U.S. dollar in relation to the euro during the year ended December 31, 2012 decreased by approximately 7.6% in comparison to 2011 and increased by approximately 4.9% during the year ended December 31, 2011 as compared to 2010, resulting in a negative impact on lease revenues in 2012 and a positive impact on lease revenues in 2011 for our euro-denominated investments.
- (b) We acquired our interest in this investment from CPA@:15 in the Merger (Note 3).
- (c) In connection with the Merger, we purchased the remaining interest in this investment from CPA@:15. Subsequent to the Merger, we own 100% and consolidate this investment (Note 3).
- (d) In April 2012, this jointly-owned entity sold its interests in the investment. Results of operations for this investment were classified as a discontinued operation by the entity that holds the controlling interest for all periods presented.
- (e) In June 2011, this jointly-owned entity sold one of its properties and distributed the proceeds to the investment's partners.
- (f) Dollar amounts shown are based on the exchange rate of the Japanese yen at December 31, 2012.
- (g) We acquired our interest in this investment in December 2012.

(h) In the CPA@:14/16 Merger, we acquired the remaining interest in this investment from CPA@:14 (Note 4). Subsequent to the acquisition, we consolidate this investment.

(i) In March 2010, the jointly-owned entity completed the sale of this property, and as a result, we have no further economic interest in this venture.

Lease Revenues

As of December 31, 2012, 70% of our net leases, based on annualized contractual minimum base rent, provide for adjustments based on formulas indexed to changes in the CPI, or other similar indices for the jurisdiction in which the property is located, some of which have caps and/or floors. In addition, 23% of our net leases on that same basis have fixed rent adjustments, which contractual minimum base rent is scheduled to increase by an average of 4% in the next 12 months. We own international investments and, therefore, lease revenues from these investments are subject to fluctuations in exchange rate movements in foreign currencies.

During the year ended December 31, 2012, we signed 22 leases totaling approximately 2.0 million square feet of leased space. Of these leases, three were with new tenants and 19 were lease renewals or extensions with existing tenants. The average new rent for these leases was \$7.37 per square foot and the average former rent was \$8.80 per square foot, reflecting current market conditions. We provided tenant improvement allowances and other incentives totaling \$3.0 million on two of these leases. In addition, through the Merger, we acquired properties with 76 tenants with an average remaining lease term of 9.7 years. In 2011, CPA@:15 recorded lease revenues of \$242.2 million.

During the year ended December 31, 2011, we signed 20 leases, totaling approximately 0.9 million square feet of leased space. Of these leases, there were two new tenants and there were 18 lease renewals or short-term extensions with existing tenants. Under the 20 leases, the average new rent was \$9.75 per square foot, and the average former rent was \$9.06 per square foot. Five of the 22 tenants had tenant improvement allowances or concessions totaling approximately \$6.9 million, of which \$6.4 million related to a lease of a repositioned asset to a tenant.

2012 vs. 2011 For the year ended December 31, 2012 as compared to 2011, lease revenues increased by \$61.9 million, primarily due to the properties we acquired from CPA@:15 in the Merger in 2012 and from CPA@:14 in connection with the CPA@:14/16 Merger, which contributed to increases in lease revenues of \$57.3 million and \$3.8 million, respectively, in 2012.

2011 vs. 2010 For the year ended December 31, 2011 as compared to 2010, lease revenues increased by \$11.2 million, primarily due to \$9.4 million of lease revenues generated from new investments we entered into during 2010 and 2011, including the properties we purchased in May 2011 from CPA@:14 in connection with the CPA@:14/16 Merger (Note 4). In addition, lease revenues increased by \$0.9 million as a result of an out-of-period adjustment recorded in the fourth quarter of 2011 (Note 2) and \$0.8 million as a result of scheduled rent increases at several properties. These increases were partially offset by the impact of tenant activity, including lease restructurings, lease expirations and property sales, which resulted in a reduction to lease revenues of \$1.0 million.

Other Real Estate Income

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Other real estate income generally consists of revenue from Carey Storage Management LLC (Carey Storage), a subsidiary that holds investments in domestic self-storage properties, and Livho Inc. (Livho), a subsidiary that operates a hotel under a franchise agreement in Livonia, Michigan. Other real estate income also includes lease termination payments and other non-rent related revenues from real estate ownership.

2012 vs. 2011 For the year ended December 31, 2012 as compared to 2011, other real estate income increased by \$3.8 million primarily due to \$1.8 million of income related to certain properties we acquired from CPA@:15 in the Merger, bankruptcy and easement proceeds of \$0.8 million related to two of our tenants and increased revenue from our Livho and Carey Storage subsidiaries totaling \$1.4 million. The increase in income from Carey Storage was primarily a result of higher rental income and the increase in income from Livho was primarily due to increased occupancy rates in 2012.

2011 vs. 2010 For the year ended December 31, 2011 as compared to 2010, other real estate income increased by \$5.2 million, primarily due to an increase of \$3.2 million in income generated from the eight self-storage properties acquired during the third quarter of 2010 and an increase in reimbursable tenant costs of \$1.9 million. Reimbursable tenant costs are recorded as both revenue and expenses and therefore have no net impact on our results of operations.

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Depreciation and Amortization

2012 vs. 2011 For the year ended December 31, 2012 as compared to 2011, depreciation and amortization increased by \$24.2 million primarily due to increases totaling \$22.8 million related to the properties we acquired in the Merger.

2011 vs. 2010 For the year ended December 31, 2011 as compared to 2010, depreciation and amortization increased by \$7.2 million. Depreciation and amortization increased by \$5.6 million as a result of our 2011 and 2010 investment activity, including \$4.7 million attributable to the properties we purchased from CPA@:14 in May 2011 (Note 5). In addition, depreciation and amortization increased by \$2.2 million as a result of an out-of-period adjustment recorded in the fourth quarter of 2011 (Note 2). These increases were partially offset by a decrease in amortization of \$0.6 million as a result of certain lease intangible assets becoming fully amortized in 2010.

Property Expenses

2012 vs. 2011 For the year ended December 31, 2012 as compared to 2011, property expenses increased by \$2.9 million, of which \$2.8 million related to properties we acquired in the Merger from CPA@:15.

2011 vs. 2010 For the year ended December 31, 2011 as compared to 2010, property expenses increased by \$2.1 million, primarily due to an increase in reimbursable tenant costs of \$1.9 million and a \$0.6 million performance fee paid to a third-party manager on a foreign property as a result of meeting its performance criteria.

General and Administrative

2012 vs. 2011 For the year ended December 31, 2012 as compared to 2011, general and administrative expenses increased by \$35.3 million primarily due to costs incurred in connection with the Merger of \$31.7 million.

Other Real Estate Expenses

Other real estate expenses generally consist of operating expenses related to Carey Storage and Livho as described in Other Real Estate Income above.

2012 vs. 2011 For the year ended December 31, 2012 as compared to 2011, other real estate expenses decreased by \$0.9 million, due to a \$0.9 million overall decrease in general operating expenses in Livho and our self-storage properties.

2011 vs. 2010 For the year ended December 31, 2011 as compared to 2010, other real estate expenses increased by \$2.7 million, primarily due to an increase of \$1.8 million in operating expenses as a result of the acquisition of eight self-storage properties during 2010. In addition, operating expenses from Livho increased by \$0.9 million in 2011 as compared to 2010.

Impairment Charges

Our impairment charges are more fully described in Note 11. Impairment charges related to our continuing real estate ownership operations were as follows (in thousands):

Lessee	Years Ended December 31,			Triggering Event
	2012	2011	2010	
Livho	\$ 10,467	\$ -	\$ -	Decrease in fair value and estimated holding period
The American Bottling Company	-	(868)	-	Decline in unguaranteed residual value of properties
Others	-	(497)	1,140	Tenants not renewing leases or vacated; anticipated sales; and decline in unguaranteed residual value of properties
Total	\$ 10,467	\$ (1,365)	\$ 1,140	

See Income from Equity Investments in Real Estate and the Managed REITs and Loss from Discontinued Operations below for additional impairment charges incurred.

Income from Equity Investments in Real Estate and the Managed REITs

Income from equity investments in real estate and the Managed REITs represents our proportionate share of net income or loss (revenue less expenses) from our interests in unconsolidated real estate investments and our investments in the Managed REITs. In addition, we are entitled to receive distributions of Available Cash from the operating partnerships of CPA@:17 Global, CWI and, subsequent to the CPA@:14/16 Merger and related CPA@:16 Global UPREIT Reorganization (Note 4), CPA@:16 Global. Subsequent to the CPA@:16 Global UPREIT Reorganization, we also recognize amortization of deferred revenue related to our special member interest in CPA@:16 Global's operating partnership. The net income of the Managed REITs fluctuates based on the timing of transactions, such as new leases and property sales, as well as the level of impairment charges.

2012 vs. 2011 For the year ended December 31, 2012 as compared to 2011, income from equity investments in real estate increased by \$11.2 million, primarily due to (i) a \$14.5 million increase in distributions of Available Cash received and earned and a \$2.8 million increase in deferred revenue earned, from the operating partnership of CPA@:17 Global as a result of new investments CPA@:17 Global entered into during 2012 and 2011, and the operating partnership of CPA@:16 Global due to the new fee arrangement with CPA@:16 Global resulting from the CPA@:16 Global UPREIT Reorganization in May 2011 (Note 4); (ii) our \$15.1 million share of the net gain recognized by a jointly-owned entity upon selling its equity shares in the Médica investment in the second quarter of 2012; and (iii) a \$1.2 million increase in equity income as a result of new equity investments we acquired from CPA@:15 through the Merger. These increases were partially offset by (i) other-than-temporary impairment charges of \$9.9 million recorded during 2012 on our special membership interest in CPA@:16 Global's operating partnership to reduce the carrying value of our interest in the operating partnership to its estimated fair value (Note 7), (ii) our \$7.4 million share of the net gains recognized in the second quarter of 2011 by CPA@:14 related to the sale of certain of its assets to us, CPA@:17 Global and third parties in connection with the CPA@:14/16 Merger (Note 4); and (iii) our \$5.0 million share of a bargain purchase gain recognized by CPA@:16 Global during the 2011 period because the fair value of CPA@:14 exceeded the consideration paid in the CPA@:14/16 Merger;.

2011 vs. 2010 For the year ended December 31, 2011 as compared to 2010, income from equity investments in real estate increased by \$20.2 million, primarily due to a \$11.1 million increase in distributions of Available Cash received and earned and a \$5.7 million increase in deferred revenue earned, from the operating partnership CPA@:17 Global as a result of new investments CPA@:17 Global entered into during 2011 and the operating partnership of CPA@:16 Global due to the new fee arrangement with CPA@:16 Global resulting from the CPA@:16 Global UPREIT Reorganization in May 2011 (Note 4); and an increase in equity income from the Managed REITs totaling \$6.4 million. Results of operations from the Managed REITs during 2011 included the following gains and expenses: net gains of \$78.8 million from the CPA@:14/16 Merger, of which our share was approximately \$7.4 million; a bargain purchase gain for CPA@:16 Global of \$28.7 million because the fair value of CPA@:14 exceeded the CPA@:14/16 Merger consideration, of which our share was approximately \$5.0 million; a net gain of \$33.5 million on the sales of several properties and the extinguishment of several related mortgage loans, of which our share was approximately \$3.7 million; impairment charges totaling \$61.7 million, of which our share was approximately \$7.8 million; and \$13.6 million of expenses incurred in connection with the CPA@:14/16 Merger, of which our share was approximately \$2.4 million. Equity income from the Managed REITs also increased by approximately \$4.1 million in 2011 as a result of our \$121.0 million incremental investment in CPA@:16 Global in connection with the CPA@:14/16 Merger. Results of operations for the Managed REITs during 2010 included the following gains and charges: net gains on extinguishment of a mortgage loan and deconsolidation of three subsidiaries totaling \$44.0 million, of which our share was approximately \$5.6 million; and impairment charges totaling \$40.7 million, of which our share was approximately \$3.0 million. In addition, we recognized an other-than-temporary impairment charge of \$1.4 million on the Schuler investment in 2010. These increases in equity income were partially offset by decreases of \$2.5 million as a result of the net gains recognized by the Retail Distribution investment in connection with the sale of its property in March 2010 and \$1.7 million related to the Symphony IRI investment reflecting our share of its \$8.6 million impairment charge and an other-than-temporary impairment charge recognized by us in 2011 to reflect the decline in fair value of our interest in the investment.

Gain on Change in Control of Interests

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In connection with the Merger in September 2012, we acquired additional interests in five investments from CPA®:15, which we had previously accounted for under the equity method, and we adjusted the carrying value of our previously held interest in shares of CPA®:15 common stock to its estimated fair market value. In connection with our acquisition of these investments, we recognized a net gain of \$20.7 million during the year ended December 31, 2012 in order to adjust the carrying value of previously-held equity interests in these investments to their estimated fair values (Note 3).

In May 2011, we purchased the remaining interests in the Federal Express and Amylin investments from CPA®:14, which we had previously accounted for under the equity method. In connection with our purchase of these properties, we recognized a net gain of \$27.9 million during the year ended December 31, 2011 to adjust the carrying value of our existing interests in these investments to their estimated fair values.

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Other Income and (Expenses)

Other income and (expenses) consists primarily of gains and losses on foreign currency transactions and derivative instruments, and prior to September 2010 also included the third party's profit-sharing interest in income or losses from Carey Storage. We and certain of our foreign consolidated subsidiaries have intercompany debt and/or advances that are not denominated in the functional currency of those subsidiaries. When the intercompany debt or accrued interest thereon is remeasured against the functional currency of the respective subsidiaries, an unrealized gain or loss on foreign currency translation may result. For intercompany transactions that are of a long-term investment nature, the gain or loss is recognized as a cumulative translation adjustment in other comprehensive income. We also recognize gains or losses on foreign currency transactions when we repatriate cash from our foreign investments.

2012 For the year ended December 31, 2012, other income was \$3.2 million, comprised of a net gain of \$2.5 million recorded on the disposals of three parcels of land, a net realized and unrealized gain of \$0.5 million on foreign currency transactions and a \$0.4 million gain on derivatives acquired in the Merger in 2012.

2011 For the year ended December 31, 2011, other income was \$4.4 million. In connection with the CPA@:14/16 Merger, we agreed to receive shares of CPA@:16 Global in respect of our shares of CPA@:14. As a result, during 2011, we recognized a gain of \$2.8 million on the conversion of our shares of CPA@:14 to shares of CPA@:16 Global to reflect the carrying value of our investment at its estimated fair value. In addition, we recognized a gain of \$1.0 million on the conversion of our termination revenue to shares of CPA@:14 because the fair value of the shares received exceeded the termination revenue. Other income during 2011 also included a net gain of \$0.6 million as a result of exercising certain warrants granted to us by lessees.

2010 For the year ended December 31, 2010, other income was \$0.3 million, primarily due to a net loss of \$0.8 million attributable to the noncontrolling interest in Carey Storage, partially offset by net realized and unrealized foreign currency transaction losses of \$0.5 million.

Interest Expense

2012 vs. 2011 For the year ended December 31, 2012 as compared to 2011, interest expense increased by \$28.8 million. Interest expense increased by \$21.0 million and \$1.7 million as a result of mortgages assumed in our acquisition of properties from CPA@:15 and from CPA@:14 in connection with the Merger in and the CPA@:14/16 Merger, respectively. In addition, interest expense on our Senior Credit Facility increased by \$5.5 million as a result of the amortization of financing costs incurred in connection with obtaining the facility in December 2011, as well as a higher average outstanding balance and a higher average interest rate on the Revolver in 2012, compared to those under our prior lines of credit in 2011 (Note 12).

2011 vs. 2010 For the year ended December 31, 2011 as compared to 2010, interest expense increased by \$6.1 million, primarily as a result of mortgages assumed in connection with the acquisition of properties from CPA@:14 in May 2011 (Note 5) and mortgage financing obtained in connection with our investment activities during 2011 and 2010, which resulted in increases to interest expense of \$3.6 million and \$1.8 million, respectively. Additionally, interest expense on our then-existing lines of credit increased by \$1.0 million as a result of higher average outstanding balances in 2011 as compared to the prior year.

Loss from Discontinued Operations

Loss from discontinued operations represents the net income or loss (revenue less expenses) from the operations of properties that were sold or held for sale and a subsidiary that we deconsolidated (Note 17).

2012 For the year ended December 31, 2012, loss from discontinued operations was \$16.6 million, primarily due to impairment charges of \$12.5 million recorded on seven properties to reduce their carrying values to their expected selling prices (Note 11). In addition, the loss recognized during the year ended December 31, 2012 included a goodwill write-off of \$3.2 million (Note 8) in connection with the sale of the properties we acquired in the Merger, a net loss on the sale of 14 other properties of \$1.9 million which was offset by net gains generated from the operations of discontinued properties of \$0.9 million.

2011 For the year ended December 31, 2011, loss from discontinued operations was \$12.9 million, primarily due to impairment charges of \$11.8 million recorded on seven properties to reduce their carrying values to their expected selling prices and a net loss on the sale of seven properties totaling \$3.4 million. This loss was partially offset by a \$1.0 million gain recognized during the third quarter of 2011 on the deconsolidation of a subsidiary because we ceased to exercise control over the activities that most significantly

impact its economic performance when a receiver took possession of the property and income generated from the operations of discontinued properties of \$1.4 million.

2010 For the year ended December 31, 2010, loss from discontinued operations was \$8.9 million, primarily due to impairment charges recognized of \$14.2 million. These charges were partially offset by income generated from the operations of these properties of \$4.9 million and a net gain on the sales of these properties of \$0.5 million.

Net Income from Real Estate Ownership Attributable to W. P. Carey

2012 vs. 2011 For the year ended December 31, 2012 as compared to 2011, the resulting net income from real estate ownership attributable to W. P. Carey decreased by \$41.4 million.

2011 vs. 2010 For the year ended December 31, 2011 as compared to 2010, the resulting net income from real estate ownership attributable to W. P. Carey common stockholders increased by \$49.4 million.

Funds from Operations as Adjusted (AFFO)

2012 vs. 2011 For the year ended December 31, 2012 as compared to 2011, AFFO from Real Estate Ownership increased by \$56.8 million, primarily as a result of income earned from the properties we purchased from CPA@:14 in May 2011 in connection with the CPA@:14/16 Merger and those we acquired in the Merger, as well as income generated from our equity interests in the Managed REITs, primarily as a result of our \$121.0 million incremental investment in CPA@:16 Global in connection with the CPA@:14/16 Merger. AFFO is a non-GAAP measure that we use to evaluate our business. For a definition of AFFO and reconciliation to net income attributable to W. P. Carey, see Supplemental Financial Measures below.

2011 vs. 2010 For the year ended December 31, 2011 as compared to 2010, AFFO from Real Estate Ownership increased by \$17.7 million, primarily as a result of the new investments that we entered into during 2011 and 2010, including the properties we purchased from CPA@:14 in May 2011 in connection with the CPA@:14/16 Merger, as well as increased income generated from our equity interests in the Managed REITs primarily due to our incremental investment in CPA@:16 Global in connection with the CPA@:14/16 Merger.

Investment Management (in thousands)

	2012	2011	Years Ended December 31, Change	2011	2010	Change
Revenues						
Asset management revenue	\$ 56,666	\$ 66,808	\$ (10,142)	\$ 66,808	\$ 76,246	\$ (9,438)
Structuring revenue	48,355	46,831	1,524	46,831	44,525	2,306
Incentive, termination and subordinated disposition revenue	-	52,515	(52,515)	52,515	-	52,515
Wholesaling revenue	19,914	11,664	8,250	11,664	11,096	568
Reimbursed costs from affiliates	98,245	64,829	33,416	64,829	60,023	4,806
	223,180	242,647	(19,467)	242,647	191,890	50,757
Operating Expenses						
General and administrative	(105,061)	(89,279)	(15,782)	(89,279)	(69,008)	(20,271)
Reimbursable costs	(98,245)	(64,829)	(33,416)	(64,829)	(60,023)	(4,806)
Depreciation and amortization	(3,744)	(3,464)	(280)	(3,464)	(4,652)	1,188
	(207,050)	(157,572)	(49,478)	(157,572)	(133,683)	(23,889)
Other Income and Expenses						
Other interest income	1,085	1,910	(825)	1,910	1,145	765
Other income and (expenses)	195	166	29	166	335	(169)
	1,280	2,076	(796)	2,076	1,480	596
Income from continuing operations before income taxes	17,410	87,151	(69,741)	87,151	59,687	27,464
Provision for income taxes	(2,771)	(34,971)	32,200	(34,971)	(23,660)	(11,311)
Net income from investment management	14,639	52,180	(37,541)	52,180	36,027	16,153
Add: Net loss attributable to noncontrolling interests	2,638	2,542	96	2,542	2,372	170
Less: Net income attributable to redeemable noncontrolling interest	(40)	(1,923)	1,883	(1,923)	(1,293)	(630)
Net income from investment management attributable to W. P. Carey	\$ 17,237	\$ 52,799	\$ (35,562)	\$ 52,799	\$ 37,106	\$ 15,693

The following tables present other operating data that management finds useful in evaluating results of operations:

	2012	As of December 31, 2011	2010
Total properties - Managed REITs (a)	774	865	830
Assets under management (\$ millions) (a)	7,870.8	9,486.1	8,624.4
Cumulative funds raised - CPA®:17 Global offerings (\$ millions)(b)	2,883.1	1,955.9	1,389.3
Cumulative funds raised - CWI offering (\$ millions) (c)	159.6	47.5	-

	2012	For the Years Ended December 31, 2011	2010
Financings structured - Managed REITs (\$ millions)	669.5	387.8	647.7
Consolidated investments structured - Managed REITs (\$ millions)	1,240.3	944.9	1,039.7
Equity investments structured - Managed REITs (\$ millions)	32.6	284.6	8.4
Funds raised - CPA®:17 Global offerings (\$ millions)(b)	927.3	584.5	591.8
Funds raised - CWI offering (\$ millions) (c)	112.1	47.5	-

-
- (a) Includes properties owned by CPA@:16 Global and CPA@:17 Global for all periods. Includes properties owned by CPA@:14 through the CPA@:14/16 Merger on May 2, 2011. Includes properties owned by CPA@:15 through the date of the Merger on September 28, 2012. Includes properties owned by CWI from the date of its first investment in May 2011.
 - (b) Reflects funds raised in the initial offering (commenced in late December 2007) and the follow-on offering (commenced April 7, 2011).
 - (c) Reflects funds raised in the initial offering. The initial offering commenced on March 3, 2011 once the minimum funds were raised.

Asset Management Revenue

We earn asset management revenue from the Managed REITs and, until the Merger, performance revenue from CPA@:15, based on the value of their real estate-related and lodging-related assets under management. This asset management revenue may increase or decrease depending upon (i) increases in the Managed REITs' asset bases as a result of new investments and; (ii) decreases in the Managed REITs' asset bases as a result of sales of investments; and (iii) increases or decreases in the appraised value of the real estate-related and lodging-related assets in the Managed REIT investment portfolios. We previously earned performance revenue from CPA@:14 and CPA@:16 Global through the date of the CPA@:14/16 Merger and the related CPA@:16 Global UPREIT Reorganization. Each CPA@ REIT, as applicable, met its performance criteria for all periods presented. The availability of funds for new investments is substantially dependent on our ability to raise funds for investment by the Managed REITs.

2012 vs. 2011 For the year ended December 31, 2012 as compared to 2011, asset management revenue decreased by \$10.1 million. Combined asset management revenue from CPA@:14 and CPA@:16 Global decreased by \$8.5 million, primarily due to a change in our fee arrangement with CPA@:16 Global under its umbrella partnership real estate investment trust (UPREIT) structure in connection with the CPA@:14/16 Merger. As discussed in Note 4, immediately after the CPA@:14/16 Merger in May 2011, our asset management revenue from CPA@:16 Global was reduced from 1% to 0.5% of the property value of the assets under management and instead we now receive a distribution of 10% of the Available Cash of CPA@:16 Global's operating partnership, which we record as Income from equity investments in the Managed REITs within the Real Estate Ownership segment. Asset management revenue from CPA@:15 also decreased by \$7.5 million during the year ended December 31, 2012 as a result of the Merger on September 28, 2012 and prior property sales. These decreases were partially offset by an increase in revenue of \$5.5 million during the year ended December 31, 2012 from CPA@:17 Global as a result of new investments that it entered into during 2011 and 2012.

2011 vs. 2010 For the year ended December 31, 2011 as compared to 2010, asset management revenue decreased by \$9.4 million. Asset management decreased by \$18.0 million, primarily due to recent property sales by the CPA@ REITs and the change in our fee arrangement with CPA@:16 Global under its new UPREIT structure after the CPA@:14/16 Merger. This decrease was partially offset by an increase in revenue of \$8.4 million during 2011 from CPA@:17 Global as a result of new investments that it entered into during 2010 and 2011.

Structuring Revenue

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We earn structuring revenue when we structure investments and debt placement transactions for the Managed REITs. Structuring revenue is dependent on investment activity, which is subject to significant period-to-period variation.

2012 vs. 2011 For the year ended December 31, 2012 as compared to 2011, structuring revenue increased by \$1.5 million. We structured real estate investments on behalf of the Managed REITs totaling approximately \$1.2 billion during 2012. The increase was due to the fee rates applicable to the types of transactions structured.

2011 vs. 2010 For the year ended December 31, 2011 as compared to 2010, structuring revenue increased by \$2.3 million, primarily due to higher investment volume in 2011, partially offset by the lower rate of structuring revenue earned on the self-storage and hotel properties acquired on behalf of the Managed REITs in 2011 as compared to the rate for long-term net lease investments as described below. Structuring revenue for 2011 included \$17.7 million related to a \$395.5 million transaction in Italy on behalf of CPA@:17 Global with a capitalization rate of approximately 8.0%. Also included in the 2011 investment activity were \$169.3 million of self-storage properties acquired on behalf of CPA@:17 Global, for which we earned structuring revenue of 1.75% of total equity invested and \$75.9 million of hotel properties acquired on behalf of CWI, for which we earned structuring revenue of 2.5% of the total investment cost of the properties, compared to an average of 4.5% that we generally earn for structuring long-term net lease investments on behalf of the CPA@ REITs. We also waived any structuring revenue due from CPA@:16 Global under its advisory agreement with us in connection with its acquisition of assets from CPA@:14 in the CPA@:14/16 Merger.

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Incentive, Termination and Subordinated Disposition Revenue

Incentive, termination and subordinated disposition revenue is generally earned in connection with events in which we provide liquidity or alternatives to the Managed REITs' stockholders. These events do not occur every year, although one occurred in each of 2011 and 2012. As described in Note 4, we waived the subordinated disposition fees that we would have been entitled to receive from CPA@:15 upon its liquidity event through the Merger pursuant to the terms of our advisory agreement with CPA@:15.

In connection with providing a liquidity event for CPA@:14 shareholders through the CPA@:14/16 Merger in May 2011, we earned termination revenue of \$31.2 million and subordinated disposition revenue of \$21.3 million, which we received in shares of CPA@:14 and cash, respectively. These CPA@:14 shares were subsequently converted to shares of CPA@:16 Global in connection with the CPA@:14/16 Merger.

Wholesaling Revenue

We also earned a wholesaling fee of \$0.15 per share sold in connection with CPA@:17 Global's initial public offering through the termination of that offering on April 7, 2011. As discussed in Note 4, we earned a dealer manager fee of up to \$0.35 per share sold in connection with CPA@:17 Global's follow-on offering, which commenced on April 7, 2011 and terminated on January 31, 2013. We also earn a \$0.30 dealer manager fee per share sold in connection with CWI's ongoing initial public offering. We also re-allow all or a portion of the dealer manager fees to selected dealers in the offerings. Dealer manager fees that are not re-allowed are classified as wholesaling revenue. Wholesaling revenue earned is generally offset by underwriting costs incurred in connection with the offerings, which are included in General and administrative expenses.

2012 vs. 2011 For the year ended December 31, 2012 as compared to 2011, wholesaling revenue increased by \$8.3 million, primarily due to increases in shares sold in connection with CPA@:17 Global and CWI offerings in 2012 compared to the prior year.

2011 vs. 2010 For the year ended December 31, 2011 as compared to 2010, wholesaling revenue increased by \$0.6 million, primarily due to shares sold in connection with CWI's initial public offering, for which the issuance of shares commenced on March 3, 2011, partially offset by a decrease in the number of shares sold related to CPA@:17 Global's offerings.

Reimbursed and Reimbursable Costs

Reimbursed costs (revenue) from affiliates and reimbursable costs (expenses) represent costs incurred by us on behalf of the Managed REITs, consisting primarily of broker-dealer commissions and marketing and personnel costs, which are reimbursed by the Managed REITs. Revenue from reimbursed costs from affiliates is offset by corresponding charges to reimbursable costs.

2012 vs. 2011 For the year ended December 31, 2012 as compared to 2011, reimbursed and reimbursable costs increased by \$33.4 million, primarily due to an increase of \$30.1 million in commissions paid to broker-dealers related to the CPA@:17 Global and CWI offerings as a

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result of corresponding increases in funds raised. In addition, personnel costs reimbursed by the Managed REITs increased by \$3.3 million, primarily as a result of an increase in CPA@:17 Global's allocation base during 2012.

2011 vs. 2010 For the year ended December 31, 2011 as compared to 2010, reimbursed and reimbursable costs increased by \$4.8 million, primarily due to \$3.9 million of commissions paid to broker-dealers related to CWI's initial public offering and a \$1.7 million increase in personnel costs reimbursed by the Managed REITs primarily as a result of increased headcount in 2011.

General and Administrative

2012 vs. 2011 For the year ended December 31, 2012 as compared to 2011, general and administrative expenses increased by \$15.8 million primarily due to an increase in compensation expense of \$14.7 million and an increase of \$5.4 million in underwriting costs related to the CPA@:17 Global and CWI offerings. These increases were partially offset by a \$5.8 million increase in cost reimbursements from the Managed REITs. Compensation costs increased \$8.1 million due to an increase in stock-based compensation expense, which was primarily the result of awards issued during 2012 with higher fair values, and \$4.1 million due to an increase in the number of personnel during 2012.

2011 vs. 2010 For the year ended December 31, 2011 as compared to 2010, general and administrative expenses increased by \$20.3 million primarily due to increases in compensation-related costs of \$15.0 million and professional fees of \$2.9 million. Compensation-related costs were higher in 2011 due to several factors, including: an increase of \$10.4 million in the amortization of stock-based compensation and an increase of \$2.2 million in our expected bonus payout as a result of higher investment volumes in 2011. Stock-based compensation increased in 2011 as a result of changes in the expected vesting of performance share units (PSUs) granted in

2009 and 2010 and an increase in the number of restricted share units (RSUs) and PSUs awards issued to employees in 2011 in connection with entering into employment agreements with certain key employees during the year. Professional fees increased in 2011 primarily due to costs incurred in connection with exploring liquidity alternatives for certain of the CPA® REITs, including the CPA®:14/16 Merger.

Provision for Income Taxes

2012 vs. 2011 For the year ended December 31, 2012 as compared to 2011, provision for income taxes decreased by \$32.2 million, primarily due to (i) a deferred tax benefit of \$4.0 recorded in 2012 as a result of expenses incurred in connection with the Merger; (ii) a deferred tax benefit of \$3.8 million as a result of an increase in stock-based compensation expenses; (iii) a tax saving of \$2.8 as a result of eliminating asset management revenue and performance revenue received from CPA®:15 in the fourth quarter of 2012; (iv) a tax saving of \$2.4 as a result of replacing the performance revenue from CPA®:16 Global with the distribution of Available Cash in the second quarter of 2011; (v) a tax saving of \$1.1 million as a result of an increase in interest expense incurred on our credit facility; and (vi) \$9.3 million of income taxes incurred during 2011 as a result of the \$52.5 million incentive, termination and subordinated disposition income that we recognized in connection with the CPA®:14/16 Merger.

2011 vs. 2010 For the year ended December 31, 2011 as compared to 2010, provision for income taxes increased by \$11.3 million, primarily due to \$9.3 million of income taxes incurred during 2011 described above. Provision for income taxes also increased in 2011 as a result of increased volume of investments structured on behalf of the Managed REITs.

Net Income from Investment Management Attributable to W. P. Carey

2012 vs. 2011 For the year ended December 31, 2012 as compared to 2011, the resulting net income from investment management attributable to W. P. Carey decreased by \$35.6 million.

2011 vs. 2010 For the year ended December 31, 2011 as compared to 2010, the resulting net income from investment management attributable to W. P. Carey increased by \$15.7 million.

Funds from Operations as Adjusted (AFFO)

2012 vs. 2011 For the year ended December 31, 2012 as compared to 2011, AFFO from our Investment Management segment decreased by \$65.0 million, primarily as a result of the \$52.5 million incentive, termination and subordinated disposition income recognized in connection with the CPA®:14/16 Merger in 2011, as well as performance fees for CPA®:14 and CPA®:16 Global that were no longer received from CPA®:14 after the CPA®:14/16 Merger, or from CPA®:16 Global after the CPA®:16 Global UPREIT Reorganization, both of which occurred in May 2011 (Note 4), as this was replaced by the 10% distribution of Available Cash of CPA®:16 Global's operating partnership, which is now recorded in the Real Estate Ownership segment, and the end of asset management fees and performance fees received from CPA®:15 after the Merger in September 2012. AFFO is a non-GAAP measure that we use to evaluate our business. For a definition of AFFO and reconciliation to net income attributable to W. P. Carey, see Supplemental Financial Measures below.

2011 vs. 2010 For the year ended December 31, 2011 as compared to 2010, AFFO from our Investment Management segment increased by \$40.3 million, primarily as a result of the incentive, termination and subordinated disposition revenue that we recognized in connection with the CPA®:14/16 Merger in 2011.

Financial Condition

Sources and Uses of Cash During the Year

Our cash flows fluctuate period to period due to a number of factors, which may include, among other things, the nature and timing of receipts of transaction-related revenue, the timing of purchases and sales of real estate, the timing of the receipt of proceeds from, and the repayment of, non-recourse mortgage loans and receipt of lease revenue, the timing and characterization of distributions received from equity investments in real estate and the Managed REITs, the timing of certain payments, the receipt of the annual installment of deferred acquisition revenue and interest thereon in the first quarter from certain of the CPA® REITs, and changes in foreign currency exchange rates. Despite these fluctuations, we believe that we will generate sufficient cash from operations and from equity distributions in excess of equity income in real estate to meet our normal recurring short-term and long-term liquidity needs. We may also use existing cash resources, the proceeds of mortgage loans, unused capacity on our Revolver and the issuance of additional

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equity securities to meet these needs. We assess our ability to access capital on an ongoing basis. Our sources and uses of cash during the year are described below.

Operating Activities

Cash flow from operating activities increased by \$0.5 million during 2012 as compared to 2011. Operating cash flow generated from the properties acquired from CPA@:15 was substantially offset by Merger-related expenses paid during 2012. Also contributing to a decrease in 2012 cash flow from operating activities as compared to 2011 was the subordinated disposition revenue from CPA@:14 upon completion of the CPA@:14/16 Merger received in cash in May 2011. Additionally, increases in cash distributions received from the operating partnerships of CPA@:16 Global and CPA@:17 Global were substantially offset by increases in the cash portion of general and administrative expenses.

In addition to cash flow from operating activities, we may use the following sources to fund distributions to stockholders: distributions received from equity investments in excess of equity income, net contributions from noncontrolling interests, borrowings under our Senior Credit Facility and existing cash resources.

Investing Activities

Our investing activities are generally comprised of real estate-related transactions (purchases and sales) and capitalized property-related costs. During 2012, we paid \$152.4 million, representing the cash portion of the Merger Consideration, to CPA@:15 stockholders and acquired \$178.9 million of cash in the Merger. We also made other investments and capital expenditures of \$10.1 million, including the Walgreens transaction (Note 5). Cash inflows during 2012 included \$46.3 million in distributions from equity investments in real estate and the Managed REITs in excess of cumulative equity income. We also received cash proceeds of \$73.2 million from the sale of 15 properties. Funds totaling \$47.0 million and \$37.8 million were invested in and released from, respectively, lender-held investment accounts.

Financing Activities

We repaid \$30.0 million on our Revolver prior to the Merger, and we then drew down \$175.0 million on our Term Loan Facility and \$40.0 million on our Revolver to fund the cash portion of the Merger Consideration and Merger-related costs. After the Merger, we repaid \$250.2 million on our Revolver and drew down \$85.0 million. We received \$45.0 million in exchange for the issuance of shares of our common stock to an institutional investor. We received \$6.6 million in connection with the issuance of stock to our employees pursuant to our share incentive plan and the Employee Share Purchase Plan (ESPP). We paid distributions to stockholders of \$113.9 million and paid distributions of \$7.3 million to, offset by contributions of \$3.3 million from, affiliates who hold noncontrolling interests in various entities with us. We made scheduled mortgage principal payments of \$55.0 million, offset by mortgage financing proceeds of \$23.8 million. We also used \$45.3 million to purchase shares of our common stock from the Estate Shareholders. We recognized windfall tax benefits of \$10.2 million in connection with certain employees exercising their stock options and the vesting of PSUs and RSUs during 2012, which reduced our tax liability due to taxing authorities.

Summary of Financing

The table below summarizes our non-recourse debt and Senior Credit Facility (dollars in thousands):

	December 31,	
	2012	2011
Balance (a)		
Fixed rate	\$ 1,322,168	\$ 258,886
Variable rate (b)	646,229	330,483
Total	\$ 1,968,397	\$ 589,369
Percent of Total Debt		
Fixed rate	67%	44%
Variable rate (b)	33%	56%
	100%	100%
Weighted-Average Interest Rate at End of Year		
Fixed rate	5.6%	5.6%
Variable rate (b) (c)	3.4%	4.6%

(a) The increase relates primarily to \$1.4 billion of non-recourse mortgage debt related to properties acquired in the Merger and borrowings of \$175.0 million on our Term Loan Facility.

(b) Variable-rate debt at December 31, 2012 included (i) \$253.0 million outstanding under our Senior Credit Facility, which includes the \$175.0 million outstanding under the Term Loan Facility, (ii) \$251.5 million that has been effectively converted to fixed rates through interest rate swap and cap derivative instruments and (iii) \$44.5 million in mortgage loan obligations that bore interest at fixed rates but have interest rate reset features that may change the interest rates to then-prevailing market fixed rates (subject to specified caps) at certain points during their term.

(c) The decrease was primarily due to a lower interest rate on our Senior Credit Facility, which was London inter-bank offered rate (LIBOR) plus 2.0%, or 2.2%, at December 31, 2012, compared to a rate of 4.0% at December 31, 2011.

Cash Resources

At December 31, 2012, our cash resources consisted of the following:

- Cash and cash equivalents totaling \$123.9 million. Of this amount, \$61.8 million, at then-current exchange rates, was held by foreign subsidiaries, but we could be subject to restrictions or significant costs should we decide to repatriate these amounts;

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- Our Revolver, with unused capacity of \$365.2 million, excluding amounts reserved for outstanding letters of credit. Our lender has issued letters of credit totaling \$5.4 million on our behalf in connection with certain contractual obligations, which reduce amounts that may be drawn under the facility; and
- We also had unleveraged properties that had an aggregate carrying value of \$55.4 million at December 31, 2012, although there can be no assurance that we would be able to obtain financing for these properties.

Our cash resources can be used for working capital needs and other commitments and may be used for future investments. We continue to evaluate fixed-rate financing options, such as obtaining non-recourse financing on our unleveraged properties. Any financing obtained may be used for working capital objectives and/or may be used to pay down existing debt balances.

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Senior Credit Facility

Our Senior Credit Facility is more fully described in Note 12. A summary of our Senior Credit Facility is provided below (in thousands):

	December 31, 2012		December 31, 2011	
	Outstanding Balance	Maximum Available	Outstanding Balance	Maximum Available
Revolver	\$ 78,000	\$ 450,000	\$ 233,160	\$ 450,000
Term Loan Facility	175,000	175,000	-	-

In February 2012, we amended and restated our existing credit agreement to increase the maximum aggregate principal amount from \$450.0 million to \$625.0 million, which is comprised of a \$450.0 million Revolver and a \$175.0 million Term Loan Facility and, together with the Revolver, the Senior Credit Facility. The Term Loan Facility was available in a single draw for use solely to finance a portion of the Merger Consideration and related transaction costs and expenses. We drew down the full amount of the Term Loan Facility on September 28, 2012 in connection with the closing of the Merger. The Senior Credit Facility matures in December 2014, but may be extended by one year at our option, subject to the conditions provided in the Amended and Restated Credit Agreement. At our election, the principal amount available under the Senior Credit Facility may be increased by up to an additional \$125.0 million, subject to the conditions provided in the Amended and Restated Credit Agreement. The Senior Credit Facility also permits (i) up to \$150.0 million to be borrowed in certain currencies other than the U.S. dollar, (ii) swing line loans of up to \$35.0 million, and (iii) the issuance of letters of credit in an aggregate amount not to exceed \$50.0 million.

The Senior Credit Facility provides for an annual interest rate, at our election, of either (i) the Eurocurrency Rate or (ii) the Base Rate, in each case plus the Applicable Rate (each as defined in the Amended and Restated Credit Agreement). Prior to us obtaining an Investment Grade Debt Rating (as defined in the Amended and Restated Credit Agreement), the Applicable Rate on Eurocurrency Rate loans and letters of credit ranges from 1.75% to 2.50% (based on LIBOR) and the Applicable Rate on Base Rate loans ranges from 0.75% to 1.50% (based on the prime rate, defined in the Amended and Restated Credit Agreement as a rate of interest set by the Bank of America based upon various factors including Bank of America's costs and desired returns). After an Investment Grade Debt Rating has been obtained, the Applicable Rate on Eurocurrency Rate loans and letters of credit ranges from 1.10% to 2.00% and the Applicable Rate on Base Rate loans ranges from 0.10% to 1.00%. Swing line loans will bear interest at the Base Rate plus the Applicable Rate then in effect. In addition, prior to obtaining an Investment Grade Debt Rating, we pay a quarterly fee ranging from 0.3% to 0.4% of the unused portion of the line of credit, depending on our leverage ratio. After an Investment Grade Debt Rating has been obtained, we will pay a facility fee ranging from 0.2% to 0.4% of the total commitment. In connection with the amendments of the credit agreement, we incurred costs of \$7.0 million, which are being amortized over the remaining term of the facility.

Availability under the Senior Credit Facility is dependent upon a number of factors, including the Unencumbered Property NOI, the Unencumbered Management EBITDA and the Total Unsecured Outstanding Indebtedness (each as defined in the Amended and Restated Credit Agreement). At December 31, 2012, availability under the Senior Credit Facility was \$625.0 million, of which we had drawn \$253.0 million, including \$175.0 million under the Term Loan which we used to pay for the cash portion of the Merger Consideration (Note 3). At December 31, 2012, we paid interest on the Senior Credit Facility at an annual interest rate consisting of LIBOR plus 2.00%. In addition, as of December 31, 2012, our lenders had issued letters of credit totaling \$5.4 million on our behalf in connection with certain contractual obligations, which reduce amounts that may be drawn under the Senior Credit Facility. The Revolver is currently expected to be utilized primarily for potential new investments; repayment of existing debt and general corporate purposes as well as for repurchases of our common stock from the Estate Shareholders (Note 4).

We are required to ensure that the total Restricted Payments (as defined in the Amended and Restated Credit Agreement) made in the current quarter, when added to the total for the three preceding fiscal quarters, does not exceed the greater of (i) 95% of Adjusted Funds from Operations

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(as defined in the Amended and Restated Credit Agreement) and (ii) the amount of Restricted Payments required in order for us to maintain our REIT status. Restricted Payments include quarterly dividends and the total amount of shares repurchased by us, if any, in excess of \$50.0 million per year. In addition to placing limitations on dividend distributions and share repurchases, the Amended and Restated Credit Agreement stipulates six financial covenants that require us to maintain certain ratios and benchmarks at the end of each quarter.

We were in compliance with all of these covenants at December 31, 2012.

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Cash Requirements

During the next 12 months, we expect that cash payments will include paying distributions to our stockholders and to our affiliates who hold noncontrolling interests in entities we control and making scheduled mortgage loan principal payments, including mortgage balloon payments totaling \$137.6 million, as well as other normal recurring operating expenses.

We expect to fund future investments, any capital expenditures on existing properties and scheduled debt maturities on non-recourse mortgage loans through cash generated from operations, the use of our cash reserves or unused amounts on our Revolver and equity or debt offerings.

On July 23, 2012, we entered into certain agreements with the Estate, as described in Note 4, including the Share Purchase Agreement, pursuant to which we remain conditionally obligated, through March 31, 2013, to purchase up to an aggregate amount of \$40.0 million of our common stock pursuant to the Third Sale Option. We currently intend to draw on our Revolver to finance this Sale Option if the Estate decides to exercise it.

Off-Balance Sheet Arrangements and Contractual Obligations

The table below summarizes our debt, off-balance sheet arrangements and other contractual obligations at December 31, 2012 and the effect that these arrangements and obligations are expected to have on our liquidity and cash flow in the specified future periods (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Non-recourse debt Principal(a)	\$ 1,732,154	\$ 174,648	\$ 619,026	\$ 213,222	\$ 725,258
Senior Credit Facility Principal(b)	253,000	-	253,000	-	-
Interest on borrowings (c)	426,133	92,915	136,385	85,867	110,966
Share Repurchase (d)	40,000	40,000	-	-	-
Operating and other lease commitments (e)	23,839	2,541	5,058	3,750	12,490
Property improvement commitments	7,491	7,491	-	-	-
	\$ 2,482,617	\$ 317,595	\$ 1,013,469	\$ 302,839	\$ 848,714

(a) Excludes an unamortized discount of \$16.8 million (Note 12).

(b) Our \$625.0 million Senior Credit Facility is scheduled to mature in December 2014, unless extended pursuant to its terms. Amount in the table includes borrowings under our Revolver and \$175.0 million outstanding under the Term Loan Facility.

(c) Interest on unhedged variable-rate debt obligations was calculated using the applicable annual variable interest rates and balances outstanding at December 31, 2012.

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- (d) Represents remaining commitment to repurchase our shares from the Estate at December 31, 2012 (Note 4).
- (e) Operating and other lease commitments consist primarily of the future minimum rents payable on the lease for our principal offices. We are reimbursed by the Managed REITs for their share of the future minimum rents pursuant to their respective advisory agreements with us. These amounts are allocated among the entities based on gross revenues and are adjusted quarterly.

Amounts in the table above related to our foreign operations are based on the exchange rate of the local currencies at December 31, 2012, which consisted primarily of the euro. At December 31, 2012, we had no material capital lease obligations for which we were the lessee, either individually or in the aggregate.

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Equity Method Investments

We have investments in unconsolidated investments that own single-tenant properties net leased to companies. Generally, the underlying investments are jointly-owned with our affiliates. Summarized financial information for these investments and our ownership interest in the investments at December 31, 2012 is presented below. Cash requirements with respect to our share of these debt obligations are discussed above under Cash Requirements. Summarized financial information provided represents the total amounts attributable to the investments and does not represent our proportionate share (dollars in thousands):

Lessee	Ownership Interest at December 31, 2012	Total Assets	Total Third- Party Debt	Maturity Date
C1000 Logistiek Vastgoed B. V. (a) (b)	15%	\$ 191,368	\$ 93,187	3/2013
U. S. Airways Group, Inc.	75%	29,793	17,275	4/2014
The New York Times Company	18%	248,316	119,185	9/2014
Waldaschaff Automotive GmbH and Wagon				
Automotive Nagold GmbH (a) (b)	33%	42,953	19,415	8/2015
Del Monte Corporation (a)	50%	12,791	10,896	8/2016
Consolidated Systems, Inc.	60%	16,292	11,001	11/2016
SaarOTEC (a) (b)	50%	6,270	9,027	12/2016 & 1/2017
Hellweg Die Profi-Baumarkte GmbH & Co. KG				
(Hellweg 2) (a) (b)	45%	425,913	328,737	4/2017
Advanced Micro Devices (a)	67%	84,146	55,154	1/2019
PETsMart, Inc. (a)	30%	25,988	19,585	9/2021
Wanbishi Archives Co. Ltd (c)(d)	3%	50,942	30,264	3/2022
The Talaria Company (Hinckley) (a)	30%	49,976	26,870	6/2025
Builders FirstSource, Inc. (a)	40%	13,076	-	N/A
The Upper Deck Company (a)	50%	21,693	-	N/A
Schuler A.G. (b)	67%	67,058	-	N/A
		\$ 1,286,575	\$ 740,596	

(a) We acquired our interest in this investment in connection with the Merger (Note 3).

(b) Dollar amounts shown are based on the exchange rate of the euro at December 31, 2012.

(c) We acquired our interest in this investment in December 2012.

(d) Dollar amounts shown are based on the exchange rate of the Japanese yen at December 31, 2012.

Environmental Obligations

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In connection with the purchase of many of our properties, we required the sellers to perform environmental reviews. We believe, based on the results of these reviews, that our properties were in substantial compliance with Federal, state, and foreign environmental statutes at the time the properties were acquired. However, portions of certain properties have been subject to some degree of contamination, principally in connection with leakage from underground storage tanks, surface spills or other on-site activities. In most instances where contamination has been identified, tenants are actively engaged in the remediation process and addressing identified conditions. Tenants are generally subject to environmental statutes and regulations regarding the discharge of hazardous materials and any related remediation obligations. In addition, our leases generally require tenants to indemnify us from all liabilities and losses related to the leased properties and the provisions of such indemnifications specifically address environmental matters. The leases generally include provisions that allow for periodic environmental assessments, paid for by the tenant, and allow us to extend leases until such time as a tenant has satisfied its environmental obligations. Certain of our leases allow us to require financial assurances from tenants, such as performance bonds or letters of credit, if the costs of remediating environmental conditions are, in our estimation, in excess of specified amounts. Accordingly, we believe that the ultimate resolution of environmental matters should not have a material adverse effect on our financial condition, liquidity or results of operations.

Critical Accounting Estimates

Our significant accounting policies are described in Note 2. Many of these accounting policies require judgment and the use of estimates and assumptions when applying these policies in the preparation of our consolidated financial statements. On a quarterly

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basis, we evaluate these estimates and judgments based on historical experience as well as other factors that we believe to be reasonable under the circumstances. These estimates are subject to change in the future if underlying assumptions or factors change. Certain accounting policies, while significant, may not require the use of estimates. Those accounting policies that require significant estimation and/or judgment are listed below.

Purchase Price Allocation

In connection with our acquisition of properties, we allocate the purchase price to tangible and intangible assets and liabilities acquired based on their estimated fair values. We determine the value of tangible assets, consisting of land and buildings, as if vacant, and record intangible assets, including the above- and below-market value of leases, and the value of in-place leases, at their relative estimated fair values.

Tangible Assets

We determine the value attributed to tangible assets and additional investments in equity interests by applying a discounted cash flow model that is intended to approximate both what a third party would pay to purchase the vacant property and rent at current estimated market rates at a selected capitalization rate. In applying the model, we assume that the disinterested party would sell the property at the end of an estimated market lease term. Assumptions used in the model are property-specific where this information is available; however, when certain necessary information is not available, we use available regional and property-type information. Assumptions and estimates include the following:

- a discount rate or internal rate of return;
- the marketing period necessary to put a lease in place;
- carrying costs during the marketing period;
- leasing commissions and tenant improvement allowances;
- market rents and growth factors of these rents; and
- a market lease term and a cap rate to be applied to an estimate of market rent at the end of the market lease term.

The discount rates and residual capitalization rates used to value the properties are selected based on several factors, including:

- the creditworthiness of the lessees;
- industry surveys;
- property type;

- location and age;
- current lease rates relative to market lease rates; and
- anticipated lease duration.

In the case where a tenant has a purchase option deemed to be favorable to the tenant, or the tenant has long-term renewal options at rental rates below estimated market rental rates, the appraisal assumes the exercise of such purchase option or long-term renewal options in its determination of residual value.

Where a property is deemed to have excess land, the discounted cash flow analysis includes the estimated excess land value at the assumed expiration of the lease, based upon an analysis of comparable land sales or listings in the general market area of the property grown at estimated market growth rates through the year of lease expiration.

The remaining economic life of leased assets is estimated by relying in part upon third-party appraisals of the leased assets, industry standards and based on our experience. Different estimates of remaining economic life will affect the depreciation expense that is recorded.

Intangible Assets

When we acquire properties subject to net leases, we determine the value of above-market and below-market lease intangibles based on the difference between (i) the contractual rents to be paid pursuant to the leases negotiated and in place at the time of acquisition of the properties and (ii) our estimate of fair market lease rates for the property or a similar property, both of which are measured over a period equal to the estimated lease term, which includes any renewal options with rental rates below estimated market rental rates. We discount the difference between the estimated market rent and contractual rent to a present value using an interest rate reflecting our

current assessment of the risk associated with the lease acquired, which includes a consideration of the credit of the lessee. Estimates of market rent are generally determined by us relying in part upon a third-party appraisal obtained in connection with the property acquisition and can include estimates of market rent increase factors, which are generally provided in the appraisal or by local real estate brokers. We measure the fair value of below-market purchase option liabilities we acquire as the excess of the present value of the fair value of the real estate over the present value of the tenant's exercise price.

We evaluate the specific characteristics of each tenant's lease and any pre-existing relationship with each tenant in determining the value of in-place lease intangibles. To determine the value of in-place lease intangibles, we consider the following:

- estimated market rent;
- estimated lease term including renewal options at rental rates below estimated market rental rates;
- estimated carrying costs of the property during a hypothetical expected lease-up period; and
- current market conditions and costs to execute similar leases.

Estimated carrying costs of the property include real estate taxes, insurance, other property operating costs, and estimates of lost rentals at market rates during the market participants' expected lease-up periods, based on assessments of specific market conditions.

We determine these values using our estimates or by relying in part upon third-party appraisals conducted by independent appraisal firms.

Goodwill

In the case of a business combination, after identifying all tangible and intangible assets and liabilities, the excess consideration paid over the fair value of the assets and liabilities acquired and assumed, respectively, represents goodwill. We allocate goodwill to the respective reporting units in which such goodwill arose.

We evaluate goodwill on an annual basis. The goodwill recorded in our Investment reporting unit is evaluated in the fourth quarter of every year. In connection with the Merger, we recorded goodwill in our Real Estate Ownership reporting unit. Prior to the Merger, there was no goodwill recorded in our Real Estate Ownership reporting unit. We will evaluate the goodwill recorded in our Real Estate Ownership reporting unit in the second quarter of every year.

Impairments

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We periodically assess whether there are any indicators that the value of our long-lived assets, including goodwill, may be impaired or that their carrying value may not be recoverable. These impairment indicators include, but are not limited to, the vacancy of a property that is not subject to a lease; a lease default by a tenant that is experiencing financial difficulty; the termination of a lease by a tenant; or the rejection of a lease in a bankruptcy proceeding. We may incur impairment charges on long-lived assets, including real estate, direct financing leases, assets held for sale and equity investments in real estate. We may also incur impairment charges on marketable securities and goodwill. Estimates and judgments used when evaluating whether these assets are impaired are presented below.

Real Estate

For real estate assets that we intend to hold and use in which an impairment indicator is identified, we follow a two-step process to determine whether an asset is impaired and to determine the amount of the charge. First, we compare the carrying value of the property's asset group to the future net undiscounted cash flow that we expect the property's asset group will generate, including any estimated proceeds from the eventual sale of the property's asset group. The undiscounted cash flow analysis requires us to make our best estimate of market rents, residual values and holding periods. We estimate market rents and residual values using market information from outside sources such as broker quotes or recent comparable sales. In cases where the available market information is not deemed appropriate, we perform a future net cash flow analysis discounted for inherent risk associated with each asset to determine an estimated fair value. As our investment objective is to hold properties on a long-term basis, holding periods used in the undiscounted cash flow analysis generally range from five to ten years. Depending on the assumptions made and estimates used, the future cash flow projected in the evaluation of long-lived assets can vary within a range of outcomes. We consider the likelihood of possible outcomes in determining our estimate of future cash flows. If the future net undiscounted cash flow of the property's asset group is less than the carrying value, the carrying value of the property's asset group is considered not recoverable. We then measure the impairment loss as the excess of the carrying value of the property's asset group over its estimated fair value. The property asset group's estimated fair value is primarily determined using market information from outside sources such as broker quotes or recent comparable sales.

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Assets Held for Sale

We classify real estate assets that are accounted for as operating leases as held for sale when we have entered into a contract to sell the property, all material due diligence requirements have been satisfied and we believe it is probable that the disposition will occur within one year. When we classify an asset as held for sale, we carry the investment at the lower of its current carrying value or as the expected sale price, less expected selling costs. We base the expected sale price on the contract and the expected selling costs on information provided by brokers and legal counsel. We then compare the asset's expected sales price, less expected selling costs to its carrying value, and if the expected sales price, less expected selling costs is less than the property's carrying value, we reduce the carrying value to the expected sales price, less expected selling costs. We will continue to review the initial impairment for subsequent changes in the expected sales price, and may recognize an additional impairment charge if warranted.

Direct Financing Leases

We review our direct financing leases at least annually to determine whether there has been an other-than-temporary decline in the current estimate of residual value of the property. The residual value is our estimate of what we could realize upon the sale of the property at the end of the lease term, based on market information and third-party estimates where available. If this review indicates that a decline in residual value has occurred that is other-than-temporary, we recognize an impairment charge and revise the accounting for the direct financing lease to reflect a portion of the future cash flow from the lessee as a return of principal rather than as revenue.

When we enter into a contract to sell the real estate assets that are recorded as direct financing leases, we evaluate whether we believe it is probable that the disposition will occur. If we determine that the disposition is probable and therefore the asset's holding period is reduced, we record an allowance for credit losses to reflect the change in the estimate of the undiscounted future rents. Accordingly, the net investment balance is written down to fair value.

Equity Investments in Real Estate and the Managed REITs

We evaluate our equity investments in real estate and in the Managed REITs on a periodic basis to determine if there are any indicators that the value of our equity investment may be impaired and to establish whether or not that impairment is other-than-temporary. To the extent impairment has occurred, we measure the charge as the excess of the carrying value of our investment over its estimated fair value, which is determined by multiplying the estimated fair value of the underlying investment's net assets by our ownership interest percentage. For our unconsolidated jointly-owned investments in real estate, we calculate the estimated fair value of the underlying investment's real estate or net investment in direct financing lease as described in Real Estate and Direct Financing Leases above. The fair value of the underlying investment's debt, if any, is calculated based on market interest rates and other market information. The fair value of the underlying investment's other financial assets and liabilities (excluding net investment in direct financing leases) have fair values that approximate their carrying values. For our investments in certain Managed REITs, we calculate the estimated fair value of our investment using the most recently published net asset value per share (NAV) of each Managed REIT, which for CPA®:17 Global and CWI, is deemed to be their initial public offering prices.

Goodwill

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We evaluate goodwill for possible impairment at least annually or upon the occurrence of a triggering event using a two-step process. To identify any impairment, we first compare the estimated fair value of each of our reporting units with their respective carrying amount, including goodwill. We calculate the estimated fair value of the Investment Management reporting unit by applying a multiple, based on comparable companies, to earnings. For the Real Estate Ownership reporting unit, we calculate its estimated fair value by applying a multiple common to the real estate industry. The selection of the comparable companies and transactions to be used in our evaluation process could have a significant impact on the fair value of our reporting units and possible impairments. If the fair value of the reporting unit exceeds its carrying amount, we do not consider goodwill to be impaired and no further analysis is required. If the carrying amount of the reporting unit exceeds its estimated fair value, we then perform the second step to determine and measure the amount of the potential impairment charge.

For the second step, we compare the implied fair value of the goodwill for each reporting unit with its respective carrying amount and record an impairment charge equal to the excess of the carrying amount over the implied fair value. We determine the implied fair value of the goodwill by allocating the estimated fair value of the reporting unit to its assets and liabilities. The excess of the estimated fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of the goodwill.

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We evaluate goodwill on an annual basis or upon the occurrence of a triggering event. Our annual impairment test for the goodwill recorded in our Investment reporting unit is evaluated in the fourth quarter of every year. As discussed in Note 3 in the accompanying consolidated financial statements, in connection with the Merger we recorded goodwill in our Real Estate Ownership reporting unit. Prior to the Merger, there was no goodwill recorded in our Real Estate Ownership reporting unit. We will evaluate the goodwill recorded in our Real Estate Ownership reporting unit in the second quarter of every year.

Proposed Accounting Changes

The following proposed accounting changes may potentially impact our Real Estate Ownership and Investment Management segments if the outcome has a significant influence on sale-leaseback demand in the marketplace:

The IASB and FASB have issued an Exposure Draft on a joint proposal that would dramatically transform lease accounting from the existing model. These changes would impact most companies but are particularly applicable to those that are significant users of real estate. The proposal outlines a completely new model for accounting by lessees, whereby their rights and obligations under substantially all leases, existing and new, would be capitalized and recorded on the balance sheet. For some companies, the new accounting guidance may influence whether or not, or the extent to which, they may enter into the type of sale-leaseback transactions in which we specialize. The FASB and IASB met during the third quarter of 2012 and voted to re-expose the proposed standard. A revised exposure draft for public comment is currently expected to be issued in 2013, with a final standard expected to be issued during 2014. The boards also reached decisions, which are tentative and subject to change, on a single lessor accounting model and the accounting for variable lease payments, along with several presentation and disclosure issues. As of the date of this Report, the proposed guidance has not yet been finalized, and as such we are unable to determine whether this proposal will have a material impact on our business.

Supplemental Financial Measures

In the real estate industry, analysts and investors employ certain non-GAAP supplemental financial measures in order to facilitate meaningful comparisons between periods and among peer companies. Additionally, in the formulation of our goals and in the evaluation of the effectiveness of our strategies, we employ the use of supplemental non-GAAP measures, which are uniquely defined by our management. We believe that these measures are useful to investors to consider because they may assist them to better understand and measure the performance of our business over time and against similar companies. A description of these non-GAAP financial measures and reconciliations to the most directly comparable GAAP measures are provided below.

Funds from Operations as Adjusted

Funds from Operations (FFO) is a non-GAAP measure defined by the National Association of Real Estate Investment Trusts (NAREIT). NAREIT defines FFO as net income or loss (as computed in accordance with GAAP) excluding: depreciation and amortization expense from real estate assets, impairment charges on real estate, gains or losses from sales of depreciated real estate assets and extraordinary items; however, FFO related to assets held for sale, sold or otherwise transferred and included in the results of discontinued operations are included. These adjustments also incorporate the pro rata share of unconsolidated subsidiaries. FFO is used by management, investors and analysts to facilitate meaningful comparisons of operating performance between periods and among our peers. Although NAREIT has published this definition of FFO, companies often modify this definition as they seek to provide financial measures that meaningfully reflect their distinctive operations.

We modify the NAREIT computation of FFO to include other adjustments to GAAP net income to adjust for certain non-cash charges such as amortization of real estate-related intangibles, deferred income tax benefits and expenses, straight-line rents, stock compensation, gains or losses from extinguishment of debt and deconsolidation of subsidiaries and unrealized foreign currency exchange gains and losses. Additionally, we exclude expenses related to the Merger which are considered non-recurring, and realized gains/losses on foreign exchange and derivatives, which are not considered fundamental attributes of our business plan and do not affect our overall long-term operating performance. We refer to our modified definition of FFO as AFFO. We exclude these items from GAAP net income as they are not the primary drivers in our decision making process. Our assessment of our operations is focused on long-term sustainability and not on such non-cash items, which may cause short-term fluctuations in net income but have no impact on cash flows, and we therefore use AFFO as one measure of our operating performance when we formulate corporate goals, evaluate the effectiveness of our strategies, and determine executive compensation.

We believe that AFFO is a useful supplemental measure for investors to consider because it will help them to better assess the sustainability of our operating performance without the potentially distorting impact of these short-term fluctuations. However, there are limits on the usefulness of AFFO to investors. For example, impairment charges and unrealized foreign currency losses that we

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exclude may become actual realized losses upon the ultimate disposition of the properties in the form of lower cash proceeds or other considerations. We use our FFO and AFFO measures as supplemental financial measures of operating performance. We do not use our FFO and AFFO measures as, nor should they be considered to be, alternatives to net earnings computed under GAAP or as alternatives to cash from operating activities computed under GAAP or as indicators of our ability to fund our cash needs.

FFO and AFFO were as follows (in thousands):

	Years Ended December 31,		
	2012	2011	2010
Real Estate Ownership			
Net income from real estate ownership attributable to W. P. Carey (a)	\$ 44,895	\$ 86,280	\$ 36,866
Adjustments:			
Depreciation and amortization of real property	45,982	25,324	19,022
Impairment charges	22,962	10,473	15,381
Loss (gain) on sale of real estate, net	2,676	3,391	(460)
Proportionate share of adjustments to equity in net income of partially-owned entities to arrive at FFO:			
Depreciation and amortization of real property	5,545	5,257	6,477
Impairment charges	-	1,090	1,394
(Gain) loss on sale of real estate, net	(15,233)	34	(38)
Proportionate share of adjustments for noncontrolling interests to arrive at FFO	(5,504)	(1,984)	(727)
Total adjustments	56,428	43,585	41,049
FFO - as defined by NAREIT	101,323	129,865	77,915
Adjustments:			
Gain on change in control of interests (b)(c)	(20,734)	(27,859)	-
Gain on deconsolidation of a subsidiary	-	(1,008)	-
Other (gains) losses, net	(2)	25	(755)
Other depreciation, amortization and non-cash charges	(1,662)	176	(1,027)
Stock-based compensation	211	220	93
Deferred tax expense	(2,745)	(3,184)	-
Realized losses on foreign currency, derivatives and other (d)	828	-	-
Amortization of deferred financing costs	1,843	-	-
Straight-line and other rent adjustments	(4,446)	(4,255)	295
Above-market rent intangible lease amortization, net (d)	7,696	-	-
Merger expenses (e)	41,338	-	-
Proportionate share of adjustments to equity in net income of partially-owned entities to arrive at AFFO:			
Other depreciation, amortization and non-cash charges	624	-	25
Straight-line rent and other rent adjustments	(1,468)	(1,641)	(2,260)
Above-market rent intangible lease amortization, net	163	-	-
AFFO adjustments to equity earnings from equity investments	37,234	10,137	10,696
Proportionate share of adjustments for noncontrolling interests to arrive at AFFO	(692)	272	116
Total adjustments	58,188	(27,117)	7,183
AFFO - Real Estate Ownership	\$ 159,511	\$ 102,748	\$ 85,098
Investment Management			
Net income from investment management attributable to W. P. Carey (a)	\$ 17,237	\$ 52,799	\$ 37,106
FFO - as defined by NAREIT	17,237	52,799	37,106
Adjustments:			
Other depreciation, amortization and other non-cash charges	961	3,791	6,389
Stock-based compensation	25,841	17,496	6,989
Deferred tax expense	(24,055)	12,019	(4,712)
Realized gains on foreign currency, derivatives and other (d)	(61)	-	-
Amortization of deferred financing costs (d)	1,197	-	-
Total adjustments	3,883	33,306	8,666
AFFO - Investment Management	\$ 21,120	\$ 86,105	\$ 45,772
Total Company			
FFO - as defined by NAREIT	\$ 118,560	\$ 182,664	\$ 115,021

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AFFO	\$	180,631	\$	188,853	\$	130,870
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(a) Effective April 1, 2012, we include cash distributions and deferred revenue received and earned from the operating partnerships of CPA@:16 Global, CPA@:17 Global and CWI in our Real Estate Ownership segment. Results of operations for the prior year periods have been reclassified to conform to the current period presentation.

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- (b) Gain on change in control of interests for the year ended December 31, 2011 represents gain recognized on purchase of the remaining interests in two investments from CPA@:14 (Note 4), which we had previously accounted for under the equity method. In connection with purchasing these properties, we recognized a net gain of \$27.9 million during the year ended December 31, 2011 to adjust the carrying value of our existing interests in these investments to their estimated fair values.
- (c) Gain on change in control of interests for the year ended December 31, 2012 represents a gain of \$14.6 million recognized on our previously held interest in shares of CPA@:15 common stock, and a gain of \$6.1 million recognized on the purchase of the remaining interests in five investments from CPA@:15, which we had previously accounted for under the equity method. We recognized a net gain of \$20.7 million to adjust the carrying value of our existing interests in these investments to their estimated fair values.
- (d) These adjustments were not significant prior to the Merger, therefore, they were not included in the calculation of AFFO in 2011 and 2010.
- (e) Amount included \$31.7 million of general and administrative expenses and \$9.6 million of income tax expenses incurred in connection with the Merger.

While we believe that FFO and AFFO are important supplemental measures, they should not be considered as alternatives to net income as an indication of a company's operating performance. These non-GAAP measures should be used in conjunction with net income as defined by GAAP. FFO and AFFO, or similarly titled measures disclosed by other real estate investment trusts, may not be comparable to our FFO and AFFO measures.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates and equity prices. The primary risks to which we are exposed are interest rate risk and foreign currency exchange risk. We are also exposed to further market risk as a result of concentrations of tenants in certain industries and/or geographic regions. Adverse market factors can affect the ability of tenants in a particular industry/region to meet their respective lease obligations. In order to manage this risk, we view our collective tenant roster as a portfolio, and in our investment decisions we attempt to diversify our portfolio so that we are not overexposed to a particular industry or geographic region.

Generally, we do not use derivative instruments to hedge credit/market risks or for speculative purposes. However, from time to time, we may enter into foreign currency forward contracts to hedge our foreign currency cash flow exposures.

Interest Rate Risk

The value of our real estate and related fixed rate debt obligations is subject to fluctuations based on changes in interest rates. The value of our real estate is also subject to fluctuations based on local and regional economic conditions and changes in the creditworthiness of lessees, all of which may affect our ability to refinance property-level mortgage debt when balloon payments are scheduled. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions, and other factors beyond our control. An increase in interest rates would likely cause the value of our owned and managed assets to decrease, which would create lower revenues from managed assets and lower investment performance for the managed funds. Increases in interest rates may also have an impact on the credit profile of certain tenants.

We are exposed to the impact of interest rate changes primarily through our borrowing activities. To limit this exposure, we attempt to obtain non-recourse mortgage financing on a long-term, fixed-rate basis. However, from time to time, we or our joint investment partners may obtain variable-rate non-recourse mortgage loans and, as a result, may enter into interest rate swap agreements or interest rate cap agreements with lenders that effectively convert the variable-rate debt service obligations of the loan to a fixed rate or limit the underlying interest rate from exceeding a specified strike rate, respectively. Interest rate swaps are agreements in which one party exchanges a stream of interest payments for a counterparty's stream of cash flow over a specific period, and interest rate caps limit the effective borrowing rate of variable-rate debt obligations while allowing participants to share in downward shifts in interest rates. These interest rate swaps and caps are derivative instruments designated as cash flow hedges on the forecasted interest payments on the debt obligation. The notional, or face, amount on which the swaps or caps are based is not exchanged. Our objective in using these derivatives is to limit our exposure to interest rate movements. At December 31, 2012, we estimate that the net fair value of our interest rate swaps and caps, which are included in Other assets, net and Accounts payable, accrued expenses and other liabilities in the consolidated financial statements, was in a liability position of \$22.5 million.

At December 31, 2012, a significant portion (approximately 87%) of our long-term debt either bore interest at fixed rates, was swapped or capped to a fixed rate, or bore interest at fixed rates that were scheduled to convert to then-prevailing market fixed rates at certain future points during their term. The annual interest rates on our fixed-rate debt at December 31, 2012 ranged from 2.7% to 10.0%. The annual interest rates on our variable-rate debt at December 31, 2012 ranged from 1.2% to 7.6%. Our debt obligations are more fully described under Financial Condition in Item 7 above. The following table presents principal cash flows based upon expected maturity dates of our debt obligations outstanding at December 31, 2012 (in thousands):

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	2013	2014	2015	2016	2017	Thereafter	Total	Fair value
Fixed-rate debt	\$ 138,988	\$ 286,304	\$ 229,751	\$ 80,194	\$ 116,453	\$ 470,478	\$ 1,322,168	\$ 1,332,881
Variable-rate debt	\$ 35,659	\$ 345,042	\$ 10,929	\$ 7,029	\$ 9,547	\$ 238,023	\$ 646,229	\$ 648,104

The estimated fair value of our fixed-rate debt and our variable-rate debt that currently bears interest at fixed rates or has effectively been converted to a fixed rate through the use of interest rate swaps or that has been subject to interest rate caps is affected by changes in interest rates. A decrease or increase in interest rates of 1% would change the estimated fair value of this debt at December 31, 2012 by an aggregate increase of \$50.9 million or an aggregate decrease of \$53.5 million, respectively. Annual interest expense on our unhedged variable-rate debt that does not bear interest at fixed-rates at December 31, 2012 would increase or decrease by \$2.6 million for each respective 1% change in annual interest rates. As more fully described under Financial Condition Summary of Financing in Item 7 above, a portion of the debt classified as variable-rate debt in the tables above bore interest at fixed rates at December 31,

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2012 but has interest rate reset features that will change the fixed interest rates to then-prevailing market fixed rates at certain points during their term. Such debt is generally not subject to short-term fluctuations in interest rates.

Foreign Currency Exchange Rate Risk

We own investments in the European Union and as a result are subject to risk from the effects of exchange rate movements in various foreign currencies, primarily the euro, which may affect future costs and cash flows. We manage foreign currency exchange rate movements by generally placing both our debt obligation to the lender and the tenant's rental obligation to us in the same currency. This reduces our overall exposure to the equity that we have invested and the equity portion of our cash flow. We are generally a net receiver of these currencies (we receive more cash than we pay out), and therefore our foreign operations benefit from a weaker U.S. dollar, and are adversely affected by a stronger U.S. dollar, relative to the foreign currency. For the year ended December 31, 2012, we recognized net realized loss and unrealized foreign currency transaction gain of \$0.6 million and \$1.2 million, respectively. These losses are included in Other income and (expenses) in the consolidated financial statements and were primarily due to changes in the value of the euro on accrued interest receivable on notes receivable from consolidated subsidiaries.

We enter into foreign currency forward contracts to hedge certain of our foreign currency cash flow exposures. A foreign currency forward contract is a commitment to deliver a certain amount of foreign currency at a certain price on a specific date in the future. The net estimated fair value of our foreign currency forward contracts, which are included in Accounts payable, accrued expenses and other liabilities in the consolidated financial statements, was in a net liability position of \$2.1 million at December 31, 2012. We obtain non-recourse mortgage financing in the local currency in order to mitigate our exposure to changes in foreign currency exchange rates. To the extent that currency fluctuations increase or decrease rental revenues as translated to U.S. dollars, the change in debt service, as translated to U.S. dollars, will partially offset the effect of fluctuations in revenue and, to some extent, mitigate the risk from changes in foreign currency exchange rates.

Scheduled future minimum rents, exclusive of renewals, under non-cancelable operating leases, for our consolidated foreign operations as of December 31, 2012, during each of the next five years and thereafter, are as follows (in thousands):

Lease Revenues (a)	2013	2014	2015	2016	2017	Thereafter	Total
Euro	\$ 83,329	\$ 83,379	\$ 70,642	\$ 58,139	\$ 48,726	\$ 367,485	\$ 711,700
British pound sterling	1,440	1,575	1,575	1,575	1,575	31,794	39,534
	\$ 84,769	\$ 84,954	\$ 72,217	\$ 59,714	\$ 50,301	\$ 399,279	\$ 751,234

Scheduled debt service payments (principal and interest) for mortgage notes payable for our consolidated foreign operations as of December 31, 2012 during each of the next five years and thereafter, are as follows (in thousands):

Debt service (a) (b)	2013	2014	2015	2016	2017	Thereafter	Total
Euro (c)	\$ 72,065	\$ 191,167	\$ 177,617	\$ 27,715	\$ 13,699	\$ 221,847	\$ 704,110
British pound sterling (d)	752	824	11,065	-	-	-	12,641
	\$ 72,817	\$ 191,991	\$ 188,682	\$ 27,715	\$ 13,699	\$ 221,847	\$ 716,751

- (a) Amounts are based on the applicable exchange rates at December 31, 2012. Contractual rents and debt obligations are denominated in the functional currency of the country of each property.
- (b) Interest on unhedged variable-rate debt obligations was calculated using the applicable annual interest rates and balances outstanding at December 31, 2012.
- (c) We estimate that for a 1% increase or decrease in the exchange rate between the euro and the U.S. dollar, there would be a corresponding change in the projected property level cash flow at December 31, 2012 of \$0.1 million.
- (d) We estimate that for a 1% increase or decrease in the exchange rate between the British pound sterling and the U.S. dollar, there would be a corresponding change the projected property level cash flow at December 31, 2012 of \$0.3 million.

As a result of scheduled balloon payments on our international non-recourse mortgage loans, projected debt service obligations exceed projected lease revenues in 2014 and 2015. In 2014 and 2015, balloon payments totaling \$147.8 million and \$164.1 million, respectively, are due in each year on five non-recourse mortgage loans that are collateralized by properties that we own with affiliates. We currently anticipate that, by their respective due dates, we will have refinanced certain of these loans, but there can be no assurance that we will be able to do so on favorable terms, if at all. If that has not occurred, we would expect to use our cash resources, including unused capacity on our Revolver, to make these payments, if necessary.